SHOP DIRECT

Littlewoods VERY EXCLUSIVE

Annual Report and Group Financial Statements 2017 / 2018

Delivering the goods

Building a world class digital retailer

6 Group chief executive's review

9 Key performance indicators

16 Finance review

With annual sales of nearly £2.0bn, Shop Direct is the UK's second largest pureplay digital retailer. Our digital multi-category stores Very.co.uk, VeryExclusive.co.uk, Littlewoods.com and LittlewoodsIreland.ie sell over 1,800 famous brands and receive over 1.4 million website visits a day, with 74% 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.**

STRATEGIC REPORT

Operating and financial highlights	01
Our business at a glance	02
Our timeline	04
Group Chief Executive's review	06
Key performance indicators	09
Our strategy	10
Finance review	16
Risk management and principal risks	21
Corporate responsibility	23

GOVERNANCE

Directors' report	25
Statement of directors' responsibilities	26
Independent auditor's report	27

FINANCIAL STATEMENTS

Financial statements and notes to the financial statements	29

OUR PURPOSE

Make good things

Easily accessible

To more people

OUR AMBITION

Become a world class digital retailer

Find out more:
www.shopdirect.com

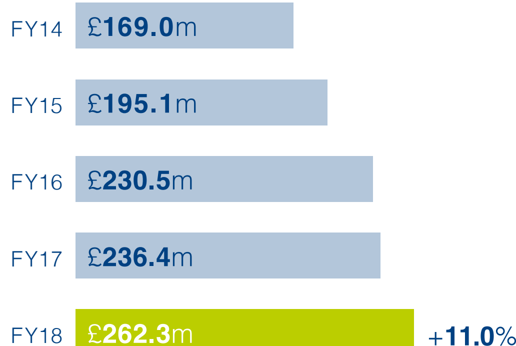
OPERATING AND FINANCIAL HIGHLIGHTS

- Group sales up 1.5% to £1,958.8m
- Very sales up 9.9% to £1,389.1m
- Littlewoods controlled decline maintained – sales down 14.5% to £569.7m
- Group gross margin down 0.9%pts to 39.9% (FY17: 40.8%)
- EBITDA[1] up 11.0% to £262.3m (FY17: £236.4m)
- Operating profit[2] (pre-exceptional) up 9.5% to £224.6m (FY17: £205.2m)
- Loss before tax £(24.7)m (FY17 profit before tax: £24.9m) driven by exceptional items of £164.8m including a £128.0m increase in regulatory provision to cover customer redress payments for historical shopping insurance sales. Further charges of £36.8m cover costs for restructuring (including the new distribution and returns centre), re-financing and corporate projects.
- Appetite for mobile grown by +5%pts – now 74% of online sales (FY17: 69%)
- Very customers increased 8.5% to 2.82m, boosting total Group customers by 2.2% to 4.02m

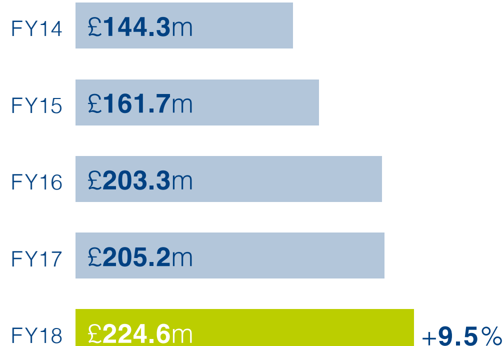
1 EBITDA is defined in note 5 to the Financial Statements (Pre-exceptional EBITDA)
2 Operating profit calculated as profit before tax, exceptional items and net finance costs.

GROUP SALES

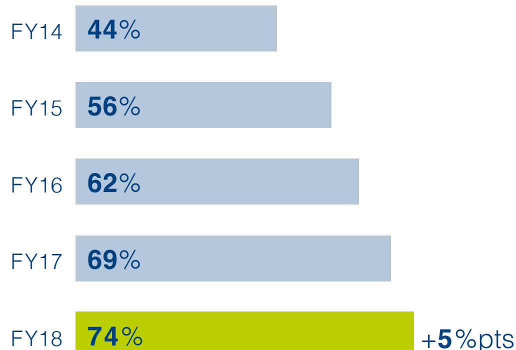
EBITDA[1]



OPERATING PROFIT[2]



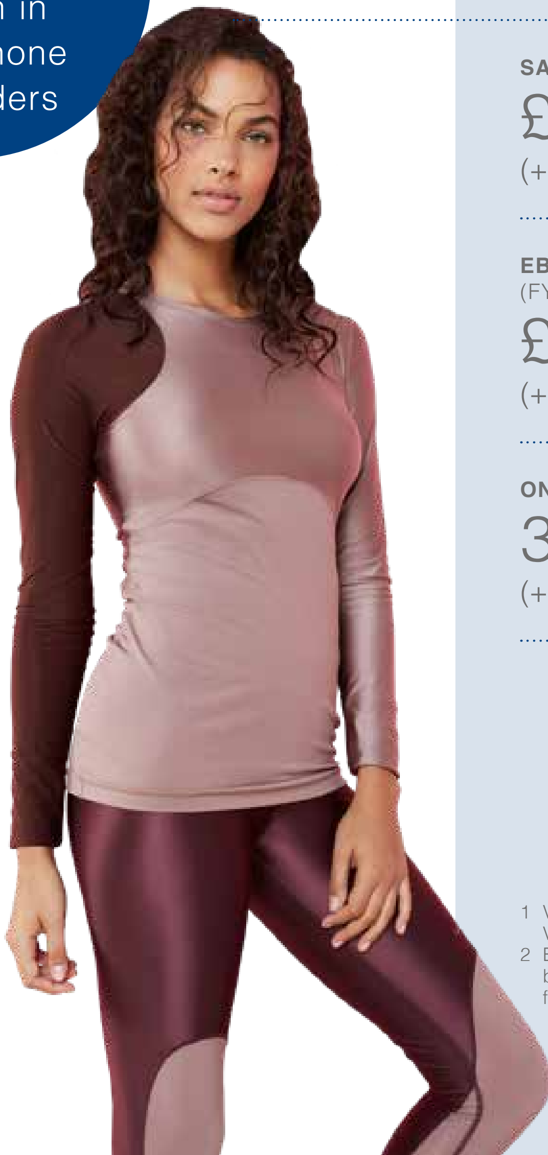
MOBILE SALES MIX %
(AS % OF TOTAL ONLINE SALES)



OUR BUSINESS AT A GLANCE

A unique digital business with an integrated retail and financial services model – bringing desirable brands within reach of more customers

39.5%
Growth in smartphone app orders



VERY.CO.UK

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

VERY SALES

SALES[1] (FY18)
£1,389.1m
(+9.9%)

EBITDA CONTRIBUTION[2] (FY18)
£325.0m
(+12.0%)

ONLINE VISITS (FY18)
374.4m
(+11.6%)

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 5 for more details.

Littlewoods.com

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

LITTLEWOODS SALES

SALES[3] (FY18)
£569.7m
(-14.5%)

EBITDA CONTRIBUTION[2] (FY18)
£142.4m
(-10.4%)

ONLINE VISITS (FY18)
146.5m
(-6.6%)

Offers the big brands our customers desire, for themselves and all the family

Servicing 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

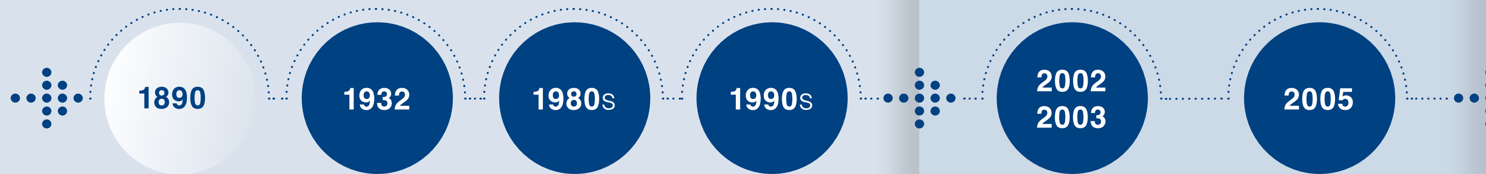
50.1%
Credit customers retained for 5+ years

3 Littlewoods sales include Littlewoods.com and LittlewoodsIreland.ie.

OUR TIMELINE

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

SHOP DIRECT



1890 Kay & Company founded

1932 Littlewoods home shopping founded

1980s Telephone ordering launched

1990s eCommerce launched

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

25M Littlewoods catalogues printed annually, at peak

Our heritage dates back to Kay & Co mail-order catalogues, launched in Worcester, 1890.

ESTABLISHING THE BRANDS

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

MERGING THE BRANDS

Read more:
www.shopdirect.com

2009

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

2014 2015

Very overtakes Littlewoods to become our largest brand

2015 2018

Catalogue distribution ends after 80 years

Own brands simplified with launch of V by Very

Focus on two retail power brands

Future

Create winning Customer Experience

Build customer centric digital business

New customer experience

Fast Forward Fulfilment

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

FOCUSSED EXPANSION GROWTH OF ECOMMERCE

Our home shopping and financial services expertise gives us an edge as we become a pure-play digital retailer.

ACCELERATED TRANSFORMATION

GROUP CHIEF EXECUTIVE'S REVIEW

Four months into my role, I am hugely excited to be at the helm of a company with real scale, ambition and, above all else, potential for significant growth.

We remain very much a growing and resilient business

Four months into my role, I am hugely excited to be at the helm of a company with real scale, ambition and, above all else, potential for significant growth. From my first day, I've observed an unerring commitment from our colleagues to fulfil the purpose at the heart of our company – to make good things easily accessible to more people, which both differentiates us competitively and influences our strategy.

That commitment has driven results which show a good underlying performance in a challenging external market, with both sales and EBITDA growth. We have undergone a significant transformation in the last five years from a catalogue to a digital retailer and can report continued progress on a number of fronts in the last 12 months. This progress has been backed by ongoing investment, and we have clear plans in place to continue our transformation and growth.

We face a competitive and changing marketplace, but with our integrated retail and credit model we have a differentiated and market-leading offer that plays an important part in the lives of our four million customers.

We remain very much a growing and resilient business: mobile-first, multi-category, and both a retailer and a credit provider.

PERFORMANCE

Group sales grew 1.5% to £1,958.8m, underpinned by Very's performance and new customer acquisition.

Very sales continued to outperform the online non-food retail market, climbing 9.9% to £1,389.1m, driven by a particularly strong performance in Electricals.

This performance was helped further by customer acquisition. Very customers increased 8.5% to 2.82m, boosting total Group customers by 2.2% to 4.02m.

Very's outperformance was partially offset by Littlewoods, with sales down 14.5% to £569.7m, impacted by the annualisation of the closure of its commission scheme in the prior year.

Our strength in mobile was evident. Orders from our Very smartphone app increased 39.5% year-on-year to represent 25.4% of total orders

+11.0%

Growth in EBITDA

across all devices (FY17: 19.5%). Total sales via mobile devices increased 5%pts year-on-year to 74% of total online sales.

Group EBITDA increased 11.0% to £262.3m, highlighting our strong fundamental operational performance in the face of sector headwinds.

We made a statutory loss before tax of £(24.7)m (FY17: profit before tax of £24.9m) driven by the further provision of £128.0m to cover additional customer redress and a provision of £22.5m to cover restructuring costs associated with the new fulfilment centre.

Confidence in our business and its model was reaffirmed in November 2017 when we raised £550m to repay existing term debt.

FY18 PROGRESS

In FY18, we continued to achieve against our stated ambition of transforming into a world class digital retailer, as well as laying foundations for the future.

Our focus on a seamless customer journey, both through online experience and customer service, helped us increase Net Promoter Score (NPS), our measure of customer advocacy, by 4 points, to secure our record annual score. This improvement was driven by changing the way our teams work together within our retail and operations functions to become even more customer-centric.

Our investment in colleagues was also rewarded in FY18. Through attracting early digital talent, empowering our people to progress their careers, investing in colleague wellbeing and opening our new London hub, we won Employer of the Year at the Retail Week Awards in March 2018.

We have strengthened our senior team, with Derek Harding joining as Group Finance Director from Senior plc in July 2017 and Sam Perkins being promoted to Group Product Director in March 2018.

In April 2018, we announced one of the most potentially transformative but difficult decisions Shop Direct has ever made: the construction of

Henry Birch

our new 850,000 square foot, state-of-the-art distribution and returns centre at the East Midlands Gateway development. Operational by 2021, the site will let us extend our cut-off time for next day delivery to midnight from 7pm, and explore same day delivery in future. We're now committed to supporting our colleagues at our existing fulfilment sites in Greater Manchester, which will begin to close from mid-2020.

THE FUTURE

Shop Direct has been through a ground-breaking transformation founded in our purpose to make good things easily accessible to more people. We had hundreds of UK stores just 15 years ago and were a catalogue retailer just 6 years ago. Today, we're a successful digital business. However, we know that we can't stand still, and we have a clear set of strategic priorities for the year ahead.

Key amongst those priorities is a focus on attracting and retaining more of our target customers – those who most value our combined retail and credit offering. We will do it by further developing our acquisition marketing and using our unique data asset to more accurately understand and target customers.

We see opportunities across all of our categories and particularly in key emerging categories like sports, which we will focus on. At a brand level, Littlewoods remains an important and profitable part of our business. We'll make sure it gets due attention by placing greater investment in targeted marketing and customer retention.

To create a winning customer experience, we'll continue to make investments in our end to end customer journey, including the successful delivery of our new fulfilment centre.

We'll provide more ways for our customers to spread the cost of their purchases. The first phase of our New Customer Experience (NCE) programme will be delivered in FY19 and offer more affordable payment terms across Very and Littlewoods, as well as personalised, affordable credit offers.

To build a truly customer-centric business, we'll further integrate our product and retail teams, and place even greater focus on technology. In July 2018 we aligned product and retail under one executive board director in Sam Perkins, and we're also recruiting the new executive board role of chief technology officer

41

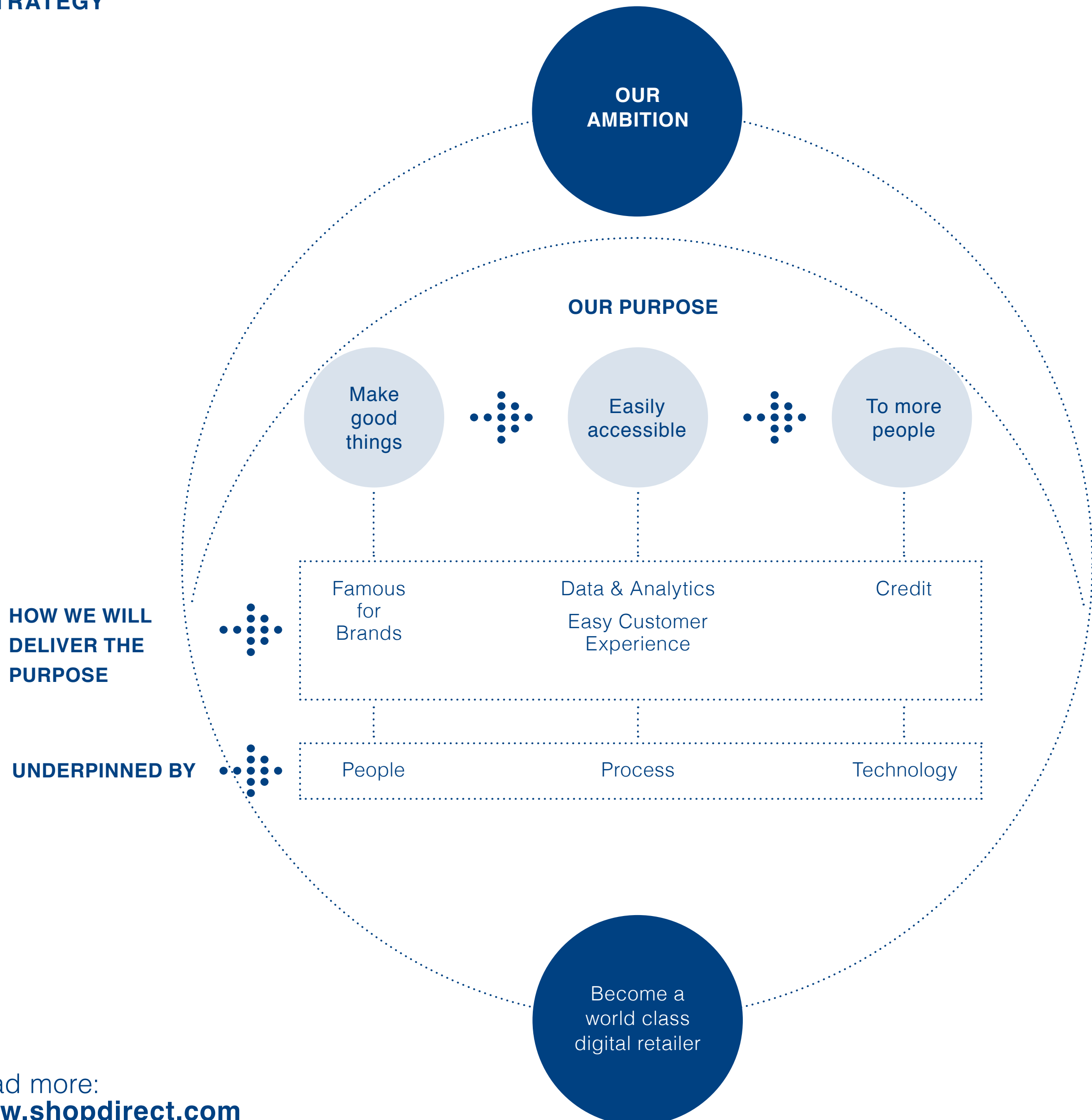
Our highest ever Net Promoter Score

Continued from page 07

to ensure we can adapt to future technological developments.

Shop Direct has delivered a good underlying performance, with sales and EBITDA improving in a tough market. We expect the external landscape to remain challenging in the year ahead but we have plans in place to tackle any headwinds and for significant growth beyond that timeframe. Our colleagues' relentless focus on making good things easily accessible to more people, alongside our renewed priorities gives us confidence in our outlook for the year ahead and in realising the enormous potential of this business over the longer term.

OUR STRATEGY



Read more:
www.shopdirect.com

KEY PERFORMANCE INDICATORS

We measure the performance of our business using the following Key Performance Indicators for the year ended 30 June 2018.

EBITDA[1]

£262.3m
(+11.0%)

OPERATING PROFIT[1] (pre-exceptional)

£224.6m
(+9.5%)

LOSS BEFORE TAX

£(24.7)m
(FY17 profit before tax £24.9m)

GROUP SALES

£1,958.8m
(+1.5%)

FINANCIAL SERVICES

AVERAGE DEBTOR BOOK

£1,651.5m
(+3.4%)

INTEREST INCOME
% OF DEBTOR BOOK[7]

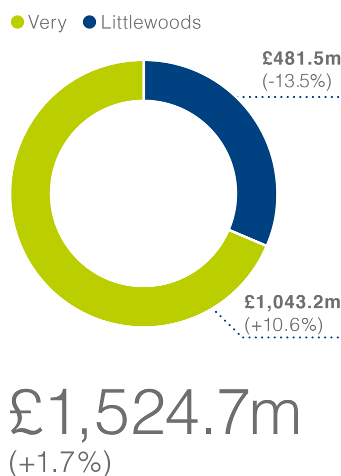
22.8%
(+0.6%pts)

BAD DEBT
% OF DEBTOR BOOK

(7.2)%
(0.4%pts lower)

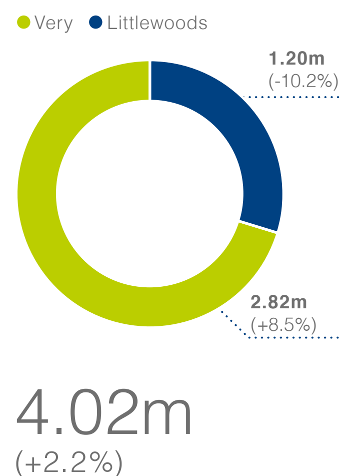
RETAIL

RETAIL SALES[3]



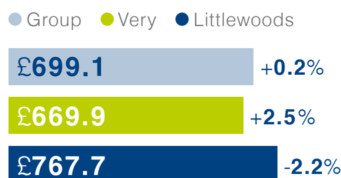
£1,524.7m
(+1.7%)

TOTAL ACTIVE CUSTOMERS[4] (CASH & CREDIT)



4.02m
(+2.2%)

DEMAND PER CUSTOMER[5]



SALES CONVERSION[6]

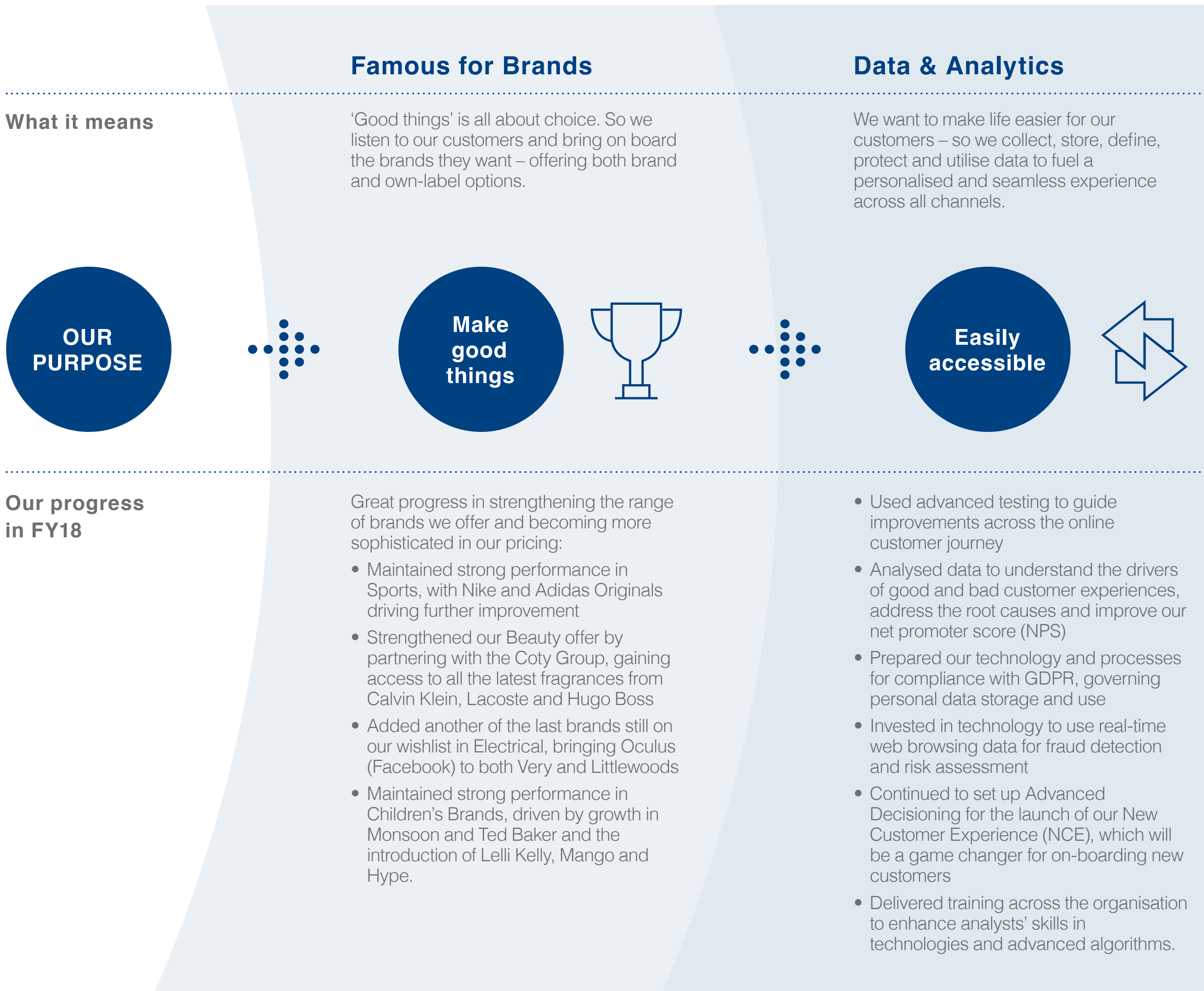
54.2%
(-0.3%pts)

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

1 EBITDA is defined in note 5 to the Financial Statements (Pre-exceptional EBITDA).
2 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 4.
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).
7 Presented on an updated basis to better reflect statutory presentation.

OUR STRATEGY

We continue to deliver our aim to make good things easily accessible to more people. Here's how…



Progress against FY18 priorities

1 Increasing product ranges

We continued to deliver our purpose of making good things easily accessible to more people and to invest in our brand relationships and range.

2 Creating easier customer experiences

Our focus on continuous improvement delivered a better experience for our customers and our best full year score since launching NPS.

3 Enhancing our credit capabilities

We are completing further rigorous testing of the systems supporting our New Customer Experience programme, to ensure that the launch will be seamless. It will help us personalise credit offers, develop new credit products and streamline the customer journey.

4 Transforming the way we operate internally

We've transformed the way we operate internally by combining our retail functions to accelerate change and improve the customer experience.

Easy Customer Experience

Just like physical stores, we want to make our websites welcoming, enjoyable places to visit – where it's easy and fun to find and buy the things our customers want.

- Increased NPS by 4 points to 41 (FY17: 37)
- Made significant changes to customer service front end and systems, to improve first contact resolution
- Customer Experience team prepared to trial a new suite of surveys that will enrich our understanding of the end-to-end customer journey and get closer to our high-affinity customers to gain a broader, more holistic view of their experience.

Fulfilment

Our goal is to run our current fulfilment operation smoothly and drive further improvement by building future fulfilment capabilities that benefit both our business and our customers.

- Delivered key initiatives to upgrade our existing applications and hardware
- Defined further initiatives for FY19 to build on current capability and support future fulfilment changes
- Implemented projects to make customers' data more secure
- Secured a site and laid the foundations for our new distribution and returns centre
- Worked with local councils to ensure we manage the site move effectively, communicated our plans to colleagues and worked with them to secure prospects for our existing staff
- Built a strong five-pillar governance structure to track and manage progress against all our Fulfilment deliverables.

Credit

Our credit offer differentiates us from other retailers. Flexible ways to pay and options to spread the cost mean that our customers can buy what they want when they need it most.

- Continued to develop market-leading Financial Services proposition: NCE, launching in FY19, will deliver targeted offers to drive increased use of affordable credit, and other operational efficiencies
- Changed the standard minimum order value amount required to qualify for Buy Now Pay Later, to balance our portfolio and remain ahead of the market
- Used Credit to Account to give our customers even better value

Priorities in FY19

1 Grow relationships with our target customers

We'll be broadening our focus from Miss Very to a wider target customer group who value both our products and options to spread the cost.

2 Deliver across our categories

We have significant opportunity to grow both revenue and margin across all of our categories. We see particular opportunity for Littlewoods this year – and across our brands have identified fashion and sports as a key growth opportunity.

3 Create a winning customer experience

We will continue to invest in our end to end customer experience – making it easier for our customers to shop with us across the journey. Our investment focus is on building our future fulfilment capabilities to support this.

4 Provide more ways to spread the cost

NCE will boost our ability to personalise our credit offer and advance our portfolio of options to spread the cost.

5 Build a truly customer-centric digital business

We are transforming our operating model and technology to deliver the experience our customers seek.

TRANSFORMING THE WAY WE WORK

Our groundbreaking people strategy has earned us a 2018 Best Employer award

Delivering transformation at pace depends absolutely on getting our people strategy right. We need an organisation full of purpose and passion, where colleagues enjoy their work and feel inspired to do their best.

To achieve this, we've launched a series of pioneering employee initiatives – which helped to earn us Retail Week's 2018 Best Employer award.

To attract the world's best retail and digital talent we opened a London hub to engage better with the capital's thriving retail and digital scene. And we boosted our early talent pipeline and career opportunities through initiatives including degree-level apprenticeships, sponsored PhDs and Masters courses, and one-year paid undergraduate internships.

We've empowered our people to innovate and progress their careers by busting the hierarchy: initiatives have included company-wide hackathons and a career programme for rising stars.

Our investment in people has also included introducing the national living wage six months early, rolling-out a new company-wide wellbeing strategy, and creating a £500,000 wellbeing, learning and events centre in our Liverpool HQ.

Read more:
www.shopdirect.com

DELIVERING ON OUR PURPOSE

TRANSFORMING THE CUSTOMER EXPERIENCE

Painstaking attention to detail is helping to push customer satisfaction ratings to record levels.

It's not just the big initiatives that drive a better customer experience. We're also getting strong results from our focus on iterative improvements throughout the year. These come from obsessive attention to detail by our Transaction and Discovery groups – complemented by the Customer Service Team's efforts to ensure that any issues our customers face are minimal and resolved quickly.

As a result, we've seen our best-ever annual increase in Net Promoter Score. This rose 4 points to 41 in FY18.

During the year we delivered improvements which lifted customer satisfaction with order tracking and work by the Discovery group helped push satisfaction with the website across mobile, desktop and app.

Customer Service complemented this work by refining the way we resolve customers' experience of goods lost in transit. And its work on resolving problems at first contact contributed to our lowest-ever volume of contacts: by the last week of the financial year our first contact resolution rate, which was running at 54% in January, had increased to 68%.

Read more:
www.shopdirect.com

2021

New distribution and returns centre scheduled to be fully operational in 2021

DELIVERING ON OUR PURPOSE

TRANSFORMING OUR RESPONSIVENESS

Scheduled to be fully operational in 2021, our new 850,000ft² distribution and returns centre will enhance both efficiency and customer response times

We're determined to make good things even more easily accessible in the future. But we've been constrained by the limitations of our three existing fulfilment operations in Greater Manchester.

So in April we announced plans to replace them with a state-of-the-art new distribution and returns centre in Leicestershire. Scheduled to be fully operational in 2021, this new facility will bring all our fulfilment operations – inbound, distribution, outbound and returns – under one roof. It will enable us to extend our cut-off time for next day delivery from 7pm currently to midnight, with scope for introducing same-day delivery in future. It will also allow for future expansion.

Construction is already underway at the site, where the latest automation technology will take products from order placement to 'ready for dispatch' in just 30 minutes.

Unfortunately, the closure of our Greater Manchester fulfilment centres from mid-2020 will impact colleagues based there. Ensuring a fair outcome for them is a priority, and we are doing everything we can to support them through the transition.

Read more:
www.shopdirect.com

FINANCE REVIEW

Revenue and EBITDA growth despite a challenging external environment, reflecting continued transformation and positioning of the company for the future.

GROUP SALES

Group sales[1] increased by 1.5% to £1,958.8m. Very.co.uk, our largest and fastest growing retail brand, continued to outperform the highly competitive online retail market[2] and enjoyed record breaking Black Friday and Christmas events.

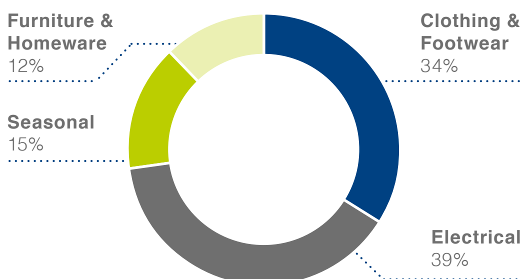
Very's sales (including Very Exclusive) grew 9.9% to £1,389.1m – the popularity of our mobile device proposition continued to grow, with orders up by 15.4% year-on-year. Orders from our smartphone app, MyVery, increased 39.5% year-on-year and now represent 25.4% of total orders across all devices (FY17: 19.5%). This reflects the curated experience our customers enjoy as a result of our continued investment in our mobile apps.

The controlled decline in Littlewoods sales continued during the period: sales reduced by 14.5% to £569.7m. Sales were impacted by the annualisation of the prior-year closure of the commission scheme[3], which benefited FY17 sales as customers redeemed outstanding credits ahead of the scheme closure in December 2016.

The decline in Littlewoods was partly offset by high single digit growth in Littlewoods Ireland, driven by a strong Electrical performance.

	FY18 £'m	FY17 £'m	Change %
Very	1,389.1	1,263.5	9.9
Littlewoods	569.7	666.4	(14.5)
Group Sales	**1,958.8**	**1,929.9**	**1.5**

FY18 RETAIL SALES MIX (%) BY PRODUCT DIVISION



FY18 RETAIL SALES GROWTH BY PRODUCT DIVISION

	Change %
Clothing & Footwear	0.2
Electrical	7.2
Seasonal	1.7
Furniture & Homeware	(9.5)
Retail sales	**1.7**

Retail sales[4] grew 1.7%, with strong growth in Electrical and Seasonal more than offsetting a decline in Furniture & Homeware, demonstrating our continued resilience to adverse movements in individual product categories.

Electrical sales grew 7.2% as we delivered strong performances in consoles, Apple products and Smart Tech, particularly smart home products. Seasonal sales growth of 1.7% was driven by the Gifting and Beauty categories, particularly on Fragrance products, which received greater homepage presence during the year. Clothing & Footwear saw a modest increase of 0.2%, with a strong performance in Sportswear offsetting a decline in Womenswear. We have chosen to protect retail margins in this category in the face of foreign currency exchange pressures by reducing the volume of promotional sales year-on-year. Furniture & Homeware sales declined by 9.5%. The Furniture & Homeware market slowed significantly in the year and the market continues to have a stronger credit offer in furniture. We have a clear plan to address the trajectory with good progress being made in FY19 to date on product, availability and stock health.

1 Group Sales defined as net despatches excluding VAT and inclusive of Financial Services and Littlewoods Clearance revenues and IFRS adjustments for discounts and vouchers.
2 BRC online retail market (non-food)
3 The Littlewoods commission scheme enabled customers to accrue rewards and redeem in the form of credit to account and cheques by demonstrating loyalty through repeat custom.
4 Retail sales is on a management accounts basis excluding statutory adjustments, therefore differs to revenue from the sale of goods presented in note 4 to the financial statements.

FINANCIAL SERVICES REVENUE

Financial Services revenue increased by 3.1% to £427.1m (FY17: £414.2m), driven by an increase in interest income. Interest income as a percentage of the debtor book grew by 0.6%pts as a result of the shift in brand mix towards Very with its greater interest bearing element and the continuous review of our customer risk based pricing.

CUSTOMERS

Active customers (those shopping with us over the previous 12 months) grew 2.2% to 4.02m. This was driven by Very (+8.5%, including 7.9% growth in new credit customers), reflecting our continued focus on improving our customers' experience. In Littlewoods, active customers reduced by 10.2%.

Demand per customer (average order value multiplied by average order frequency) remained broadly flat at 0.2%. Growth in Very average order values of 4.0%, driven by a higher participation of Electrical sales, was offset by a reduction in the average order frequency across both brands (Very 1.4% and Littlewoods 2.5%).

Sales conversion was marginally below the prior year, impacted by higher returns and credit cancellations in our Clothing & Footwear and Electrical categories.

	FY18	FY17	Change %
Active customers[5] (m)	4.02	3.94	2.2
Demand per customer[6] (£)	699.1	698.0	0.2
Sales conversion[7] (%)	54.2	54.5	(0.3)

COSTS AND PROFIT

EBITDA[8] increased by 11.0% to £262.3m (FY17: £236.4m) despite the challenging external environment and a highly competitive online retail market.

Group gross margin rate reduced by 0.9%pts to 39.9% (FY17: 40.8%). The adverse movement was driven by changes to product and category mix, particularly the growth of the Electrical category, the overall growth of Very and the closure of the Littlewoods agency commission scheme in FY17. This was partly offset by a benefit from Financial Services contribution, comprised of higher interest income and a reduction in bad debt, driven by our continued focus on customer quality and customer-centric collections strategies, which improved the debtor book's risk profile.

FY17 GROSS MARGIN (%)	40.8
Retail gross margin	(0.8)
Commission scheme closure	(0.4)
Financial Services	0.3
FY18 GROSS MARGIN (%)	**39.9**

Despite the decline in gross margin rate, through continued and strong focus on driving cost efficiency we grew EBITDA margin rate by 1.2%pts to 13.4% (FY17: 12.2%).

Distribution expenses reduced to £215.8m (FY17: £218.6m) as costs as a percentage of Group sales reduced by 0.3%pts to 11.0%, reflecting favourable collation as efficiencies in labour and packaging reduced the cost per pick.

Administrative expenses before exceptional items decreased to £342.0m (FY17: £364.0m), due to improvements in the efficiency of marketing spend, underpinned by focusing on channels presenting the highest return on investment. In addition, we experienced a reduction in contact volumes handled in our call centres accompanied by head office efficiencies identified during the year.

Higher net finance costs of £84.5m (FY17 £59.3m) as a result of the directors raising £550m in Senior Secured Notes in November 2017 (see Capital Structure section).

5 Defined as having shopped in the last 12 months.
6 Defined as average order frequency multiplied by average order value stated before customer returns, VAT, not yet despatched goods and credit approval.
7 Impact of customer returns, VAT, not yet despatched goods (due to time lag/stock availability) and credit approval (insufficient credit, fraud detection).
8 EBITDA is defined in note 5 to the Financial Statements (Pre-exceptional EBITDA).

FINANCE REVIEW
Continued

Loss before tax £(24.7)m (FY17 profit before tax of £24.9m), driven by higher net finance costs and an increase in exceptional items to £164.8m (FY17: £121.0m). During the year the regulatory provision was increased by £128.0m to cover customer redress payments for historical shopping insurance sales expected to be made before the FCA's claims deadline of August 2019. The charge follows an increase in the volume of claims observed by the Group and across the industry. This is believed to have been driven by the FCA marketing campaign, launched in August 2017 and running until the August 2019 deadline. At the balance sheet date the regulatory provision is £100.4m (FY17: £88.0m).

Exceptional items also include £27.9m charge (FY17: £7.3m) for restructuring costs reflecting expenditure on the rationalisation of processes and functions within the Group. Within this charge, £22.5m is the closure cost associated with the new fulfilment and returns centre announced in April 2018. This is a key investment which will support our future growth ambitions, enabling us to offer a competitive proposition that serves our customers better and responds to their rapidly changing needs. Accelerated amortisation of loan issue costs of £5.2m on the repaid senior debt facility and professional fees for corporate projects of £3.7m, are also included in the FY18 charge.

INCOME STATEMENT

	FY18 £'m	FY17 £'m
Group sales	1,958.8	1,929.9
Gross margin	780.7	786.5
Gross margin rate %	39.9	40.8
Distribution expenses	(215.8)	(218.6)
Administrative expenses	(342.0)	(364.0)
Other operating income	1.7	1.3
Operating profit before exceptional items	224.6	205.2
Net finance costs	(84.5)	(59.3)
Profit before tax and exceptional items	140.1	145.9
Exceptional items	(164.8)	(121.0)
(Loss)/profit before tax	(24.7)	24.9

Reconciliation of operating profit before exceptional items to EBITDA

	FY18 £'m	FY17 £'m
Operating profit before exceptional items	224.6	205.2
Adjusted for:		
Depreciation + amortisation	37.7	31.2
EBITDA	**262.3**	**236.4**

TAXATION

Loss after tax £(9.2)m (FY17 profit of £64.9m) includes a tax credit of £15.5m (FY17: credit £40.0m), comprised of a current tax debit of £1.7m and a credit of £17.2m in relation to an increase in the deferred tax asset.

FINANCIAL POSITION

Net assets decreased to £185.3m (FY17: £199.9m), driven by the Group's loss after tax. Non-current assets increased to £571.1m (FY17: £508.2m), driven by the business' recent capital investment. Inventory decreased to £101.9m (FY17: £114.3m), driven by targeted reduction in inventory cover days. Working capital efficiency through inventory management will remain a key priority. Trade debtors increased to £1,516.3m (FY17: £1,463.2m), reflecting year-on-year sales growth, while amounts due from fellow Group undertakings also increased to £500.4m (FY17: £455.6m) following an increase in the intercompany receivable with Shop Direct Holdings Limited to £476.5m (FY17: £452.6m) (see Capital Structure). Trade and other payables increased to £557.8m (FY17: £516.4m), reflecting working capital management and year-on-year sales growth.

Securitisation borrowings increased to £1,317.4m (FY17: £1,228.8m), driven by trade debtors growth and benefiting from additional class 'C' variable funding notes of £65.0m, drawn in December 2017. The securitisation facility was successfully renewed in the year, expiring 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.

CAPITAL STRUCTURE

In November 2017 the directors raised £550.0m through an offering of 7.75% senior secured notes due 2022. Proceeds of the offering, together with cash on the balance sheet, were used to repay all amounts drawn under, and cancel the existing senior debt facility of £500m, and existing revolving credit facility, £60m.

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.

During the year the Group completed buy-in agreements for both the Shop Direct Group Limited Pension Plan ("Plan") and the Littlewoods Pension Scheme ("Scheme") separately. The buy-ins were completed on 30 November 2017 and 31 May 2018 respectively and have been reflected in these financial statements as detailed in note 24. At 30 June 2018 the Group is committed to completing a buy-out of the Plan and this is expected to complete during the year ended 30 June 2019. The buy-out of the Plan is expected to crystallise a surplus of approximately £15m which will be received by the Group when the Plan is wound up upon completion of the buy-out.

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 £6.1m (FY17: £6.2m).

IFRS 9

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; de-recognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. The Group will therefore apply IFRS 9 from 1 July 2018. The Group anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9, and expects to take the accounting policy choice to continue to account for all hedges under IAS 39. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model.

The estimated impact at 1 July 2018 is to decrease retained earnings within a range between £100.0m and £130.0m. As we conclude the adoption work, the impact is the Group's best estimate. The Group continues to evaluate, refine and confirm aspects of the impairment models, related internal controls and governance approach.

IFRS 9 is applied retrospectively, although comparatives are not restated, with adjustments arising from classification and measurement, and impairment with changes recognised in opening equity.

CASH FLOWS

The cash and cash equivalents balance decreased by £12.8m to £37.7m during the year (FY17 cash and cash equivalents: £50.5m) – driven by customer redress payments and working capital movements, partially offset by the issue of the 'C' Note tranche and proceeds from the senior secured notes.

	FY18 £'m	FY17 £'m
(Loss)/profit for the year	(9.2)	64.9
Depreciation/amortisation	37.7	31.2
Working capital	(87.4)	(222.3)
Borrowings	138.6	244.9
Pension	(15.4)	(16.1)
Capital expenditure	(86.1)	(66.0)
Tax	(16.0)	(46.9)
Other	25.0	86.5
Total cash (outflow)/inflow	**(12.8)**	**76.2**
Opening cash and cash equivalents	**50.5**	**(25.7)**
Closing cash and cash equivalents	**37.7**	**50.5**

FINANCE REVIEW
Continued

CAPITAL INVESTMENT
Capital expenditure for the year totalled £86.1m (FY17: £66.0m) across business-as-usual and strategic investment.

During the year we completed the build phase of the underlying IT systems that will support our New Customer Experience proposition and the suite of associated new customer credit offers. We continued extensive system integration testing and decided to delay going 'live' and rolling out to our customers until the first half of 2019. This will provide the opportunity to complete further system testing and ensure the best possible execution in order to avoid any impact on customers and trading.

We also invested in improving our data analytic capabilities through creation of a corporate data asset using cloud-based, big data technology. This gives our users access to the data and insight they need, when they need it, leading to faster, better informed decisions that generate value for the business.

We have also continued to invest in our customers' experience and journey through both mobile and website channels.

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 financial position including cash flows, liquidity and borrowing facilities and the principal risks and uncertainties relating to its business activities. We carefully considered the Group's cash flows and banking covenants for the 12 months following the date of approving the financial statements. 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 will have sufficient headroom within its current loan facilities. 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, they continue to adopt the going concern basis in the preparation of the financial statements.

Derek Harding

RISK MANAGEMENT AND PRINCIPAL RISKS

We face a number of risks and uncertainties in our operations and delivery of our strategy. Those with potentially significant impact on the business are summarised below:

	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 Brexit).	While we are a UK-focused business, we have a robust business model which 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.
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 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.	We keep a close watch on individual customers' exposures and have clear procedures for establishing credit limits and monitoring exposure.
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 maintain open and positive relationships with relevant regulatory bodies and remain compliant with regulation through our dedicated compliance function and proactive management approach. In March 2016, we secured full permission for our consumer credit activities from the FCA.
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.
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.	Less than 10% of goods we purchase are denominated in US dollars and we use a rolling 18-month 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 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.	A detailed technology roadmap is in place looking across 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.

RISK MANAGEMENT AND PRINCIPAL RISKS
Continued

	Nature and impact	Mitigation
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.	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.
Supply chain management	We are dependent on relationships with other 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.	The Group uses a diverse sourcing and supply chain encompassing both own-brand manufacture and third-party brands. The Group seeks ways to develop a supplier base to reduce reliance on individual suppliers and maintain quality and competitiveness. The Group has its own 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	During the year we completed a review of our distribution centres and announced the move to a purpose built automated distribution and returns centre in the East Midlands, 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.	The Group attempts to manage litigation risk through an appropriate approach to stakeholders including customers, suppliers and employees. The Group has an in-house legal team which includes individuals experienced in intellectual property law, and also uses external legal advisers.

CORPORATE RESPONSIBILITY

We're determined to behave in a responsible way, with strong ethical and environmental standards, and to be the best possible citizen we can in the communities where we operate.

ENHANCING ETHICS AND SUSTAINABILITY

We maintain and abide by rigorous policies on labour, human rights and sourcing across our supply chain. In support of that, 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.

In FY18, we took the decision to further increase the transparency of our supply chain by publishing on our corporate website a full list of our first-tier manufacturing sites. We will update this data every six months to support our efforts to better understand and make improvements within our supply chain.

We have worked hard to update and further develop policies to support our responsible sourcing programme and improve the knowledge and understanding of our suppliers. These include an updated young worker policy and a migrant and contract labour policy, both of which are currently being shared with our suppliers.

Over the past 12 months we have also improved our ongoing verification of suppliers' compliance with our code of conduct by signing global agreements with three third-party audit companies. These provide a crucial due diligence tool, allowing us to request that specific areas be investigated more deeply if we have particular concerns at a supplier site.

Alongside our audit programme, our strategy is focused on better supporting our internal teams, suppliers and factories to help them make sustainable improvements. Our in-country specialists collaborate with our internal teams and suppliers to deliver training to prevent issues from arising, and to resolve any issues that are identified. This has included training our in-country teams in responsible sourcing in FY18, to give them the skills and knowledge needed to support our work. We have also delivered responsible sourcing training to our suppliers in India, Malaysia, China and Bangladesh, with a view to rolling this out to all remaining suppliers over the coming 12 months. We are also partnering with Impactt, a specialist ethical trade consultancy, on a factory improvement programme in China aimed at giving factories the tools to better assess and monitor their own risks.

We remain a key member of the Carbon Trust, certifying our best practice approach to managing and reducing greenhouse gas emissions. During the year, we exceeded our reduction target for electricity and gas consumption. Our partnerships with key suppliers such as Veolia and Baxter Storey continue to support our aim to further reduce waste and our carbon footprint year on year, through initiatives such as 'We don't do rubbish', which incentivises the use of crockery instead of disposables, and by providing colleagues with coffee grounds as a free natural fertiliser for their gardens.

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.

As we continue our transformation, we are focused on two core strategic goals: creating a winning customer experience and building a truly customer-centric digital business. Our people strategy aims to support those goals by creating 'a digital place full of purpose and passion'.

Towards that goal, in FY18 we defined our priorities as: developing an organisational structure focused on customer and business outcomes; creating a candidate experience that delivers high calibre multi-skilled digital talent at pace and scale; fostering the digital and customer-centric capability, mindset and skills our colleagues and leaders need; and ensuring we have energised, engaged and productive colleagues at every step of our journey.

CORPORATE RESPONSIBILITY
Continued

Key initiatives launched during the year included:

- Performance: launched our new Perform values and outcomes-driven performance management approach, focusing on ensuring that every colleague knows their purpose, priorities and progress
- Reward: enhanced transparency and fairness within our reward structure by moving from performance-based pay to a market-based approach
- Diversity and inclusion: appointed a head of diversity to drive our diversity and inclusion strategy, enhanced our maternity, paternity and adoption packages and published our first gender pay gap report, outlining a series of clear commitments that will support us in driving progress
- Wellbeing: established wellbeing as part of our DNA, rolling out a consistent working from home and flexible working policy, launching a new financial education portal to enable colleagues to manage their money better, and holding the inaugural Shop Direct Games to encourage our people to get involved in sports.

We were recognised for our world-class people strategy in March 2018 with Retail Week's coveted Employer of the Year award.

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 that we will get behind as a team.

This year saw the culmination of our partnership with Wirral-based Claire House Children's Hospice, which helps seriously and terminally ill children and young people across the North West by providing specialist nursing care and emotional support. We raised £440,000 for Claire House, exceeding our target of £400,000 – helping the charity to digitally equip and futureproof its new, second site in Liverpool and enabling it to support hundreds more children and families. David Pastor, CEO at

Claire House, said: "Not only has this been Claire House's largest corporate partnership, it's been one of our most successful, with both organisations working closely together on a common goal: to support the children and families we care for."

For 2017-19, our colleagues voted to support the Booth Centre and the Whitechapel Centre, the leading homelessness charities in Greater Manchester and Liverpool respectively. We have committed to raising £600,000 across a two-year period to support the charities in delivering a multi-faceted approach to improve digital inclusion and employment for some of the North West's most excluded and impoverished people. We'll also provide industry-leading knowledge to help drive the project.

Approved by the Board 18 September 2018 and signed on its behalf by:

D W KERSHAW
Director

DIRECTORS' REPORT

for the Year Ended 30 June 2018

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 2018.

DIRECTORS OF THE GROUP

The directors, who held office during the year, were as follows:

A D Baldock (resigned 31 January 2018)
A S Barclay
H M Barclay
D W Kershaw
P L Peters
M Seal
S A Winton

DIVIDENDS

The directors do not recommend the payment of a final dividend (2017: £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.

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 24 and includes the Group Chief Executive's review on pages 6 to 8. The principal risks are considered on page 21 and 22.

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. Further detail is included on page 20.

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 section 418 of the Companies Act 2006.

REAPPOINTMENT OF AUDITORS

Deloitte LLP have indicated their willingness to continue in office.

Approved by the Board on 18 September 2018 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 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 group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and 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 2018 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 balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 39.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, 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 (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.

CONCLUSIONS RELATING TO GOING CONCERN

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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
18 September 2018

CONSOLIDATED INCOME STATEMENT

for the Year Ended 30 June 2018

	Notes	Year ended 30 June 2018			Year ended 30 June 2017		
		Pre-exceptional items £ m	**Exceptional items[6] £ m**	**Total £ m**	Pre-exceptional items £ m	Exceptional items[6] £ m	Total £ m
Continuing operations							
Revenue	4,5	**1,958.8**	**–**	**1,958.8**	1,929.9	–	1,929.9
Cost of sales		**(1,178.1)**	**–**	**(1,178.1)**	(1,143.4)	–	(1,143.4)
Gross profit		**780.7**	**–**	**780.7**	786.5	–	786.5
Distribution costs		**(215.8)**	**–**	**(215.8)**	(218.6)	–	(218.6)
Administrative costs		**(342.0)**	**(159.6)**	**(501.6)**	(364.0)	(121.0)	(485.0)
Other operating income		**1.7**	**–**	**1.7**	1.3	–	1.3
Operating profit	7	**224.6**	**(159.6)**	**65.0**	205.2	(121.0)	84.2
Finance income	8	**0.1**	**–**	**0.1**	0.1	–	0.1
Finance costs	8	**(84.6)**	**(5.2)**	**(89.8)**	(59.4)	–	(59.4)
(Loss)/profit before tax		**140.1**	**(164.8)**	**(24.7)**	145.9	(121.0)	24.9
Tax (charge)/credit	12	**(6.2)**	**21.7**	**15.5**	40.0	–	40.0
(Loss)/profit for the year		**133.9**	**(143.1)**	**(9.2)**	185.9	(121.0)	64.9
(Loss)/profit attributable to equity holders of the Group		**133.9**	**(143.1)**	**(9.2)**	185.9	(121.0)	64.9

The above results were derived from continuing operations.

The notes on pages 34 to 76 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the Year Ended 30 June 2018

	Note	**2018 £ m**	2017 £ m
(Loss)/profit for the year		**(9.2)**	64.9
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on retirement benefit obligations before tax	24	**121.8**	(34.3)
Impact of pension scheme buy-ins	24	**(124.6)**	–
Income tax effect	12	**(2.7)**	9.0
Other comprehensive expense for the year		**(5.5)**	(25.3)
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation gains		**0.1**	1.1
Other comprehensive (expense)/income for the year		**(5.4)**	(24.2)
Total comprehensive (expense)/income attributable to:			
Owners of the company		**(14.6)**	40.7

The notes on pages 34 to 76 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**2018 £ m**	2017 £ m
Assets			
Non-current assets			
Goodwill	14	**252.5**	252.5
Intangible assets	15	**201.5**	154.9
Property, plant and equipment	13	**12.7**	10.9
Deferred tax assets	12	**104.4**	89.9
		571.1	508.2
Current assets			
Inventories	17	**101.9**	114.3
Trade and other receivables	18	**2,206.0**	2,072.9
Income tax asset		**0.8**	2.0
Cash and cash equivalents	19	**140.5**	116.9
Derivative financial instruments	16	**2.5**	–
		2,451.7	2,306.1
Total assets		**3,022.8**	2,814.3
Equity			
Share capital	21	**(100.0)**	(100.0)
Retained earnings		**(85.3)**	(99.9)
Equity attributable to owners of the company		**(185.3)**	(199.9)
Non-current liabilities			
Loans and borrowings	22	**(550.0)**	(500.0)
Securitisation facility	22	**(1,317.4)**	(1,228.8)
Retirement benefit obligations	24	**(72.3)**	(85.1)
Deferred income		**(35.8)**	(44.9)
Obligations under finance leases	23	**(3.1)**	(3.1)
Provisions	25	**(39.3)**	(19.7)
		(2,017.9)	(1,881.6)
Current liabilities			
Trade and other payables	26	**(557.8)**	(516.4)
Loans and borrowings	19,22	**(102.8)**	(66.4)
Obligations under finance leases	23	**(1.5)**	(1.3)
Deferred income		**(69.0)**	(68.6)
Provisions	25	**(88.5)**	(78.1)
Derivative financial instruments	16	**–**	(2.0)
		(819.6)	(732.8)
Total liabilities		**(2,837.5)**	(2,614.4)
Total equity and liabilities		**(3,022.8)**	(2,814.3)

Approved by the Board and authorised for issue on 18 September 2018 and signed on its behalf by:

D W KERSHAW
Director

The notes on pages 34 to 76 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Year Ended 30 June 2018

	Share capital £m	Retained earnings £m	Total £m
At 1 July 2016	100.0	459.2	559.2
Profit for the year	–	64.9	64.9
Other comprehensive expense	–	(24.2)	(24.2)
Total comprehensive income	–	40.7	40.7
Dividends	–	(400.0)	(400.0)
At 30 June 2017	100.0	99.9	199.9

	Share capital £m	Retained 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

The notes on pages 34 to 76 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the Year Ended 30 June 2018

	2018 £ m	2017 £ m
Cash flows from operating activities		
(Loss)/profit for the year	**(9.2)**	64.9
Adjustments for:		
Depreciation	**2.9**	2.3
Amortisation	**34.8**	28.9
Financial instrument net (gains)/losses through profit and loss	**(4.5)**	10.3
Profit on disposal of intangible assets	**–**	(5.0)
Finance income	**(0.1)**	(0.1)
Finance costs	**87.8**	57.5
Income tax credit	**(15.5)**	(40.0)
Increase in provisions	**30.0**	76.4
Adjustments for pensions	**(15.4)**	(16.1)
Operating cash flows before movements in working capital	**110.8**	179.1
Decrease/(increase) in inventories	**12.4**	(13.3)
Increase in trade and other receivables	**(131.3)**	(210.8)
Increase in trade and other payables	**31.5**	1.8
Cash generated/(absorbed) by operations	**23.4**	(43.2)
Income taxes paid	**(0.5)**	(6.9)
Interest paid	**(88.4)**	(57.5)
Net cash flow from operating activities	**(65.5)**	(107.6)
Cash flows from investing activities		
Interest received	**0.1**	0.1
Acquisitions of property plant and equipment	**(4.7)**	(4.9)
Acquisitions of intangible assets	**(81.4)**	(61.1)
Proceeds from sale of intangible assets	**–**	3.8
Net cash flows from investing activities	**(86.0)**	(62.1)
Cash flows from financing activities		
(Repayments of)/drawdowns from bank borrowings	**(500.0)**	200.0
Proceeds from issue of senior secured notes	**550.0**	–
Proceeds from finance lease draw downs	**0.1**	1.0
Proceeds from securitisation facility draw downs	**88.6**	44.9
Net cash flows from financing activities	**138.7**	245.9
Net (decrease)/increase in cash and cash equivalents	**(12.8)**	76.2
Cash and cash equivalents at 1 July	**50.5**	(25.7)
Cash and cash equivalents at 30 June	**37.7**	50.5

The notes on pages 34 to 76 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2018

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 24.

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 polices set out herein.

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 financial position including cash flows, liquidity and borrowing facilities and the principal risks and uncertainties relating to its business activities. We carefully considered the Group's cash flows and banking covenants for the 12 months following the date of approving the financial statements. 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 will have sufficient headroom within its current loan facilities. 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, they continue to adopt the going concern basis in the preparation of the financial statements.

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

None of the standards, interpretations and amendments effective for the first time from 1 July 2017 have had a material effect on the financial statements.

2. ACCOUNTING POLICIES CONTINUED

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 9 – Financial Instruments
IFRS 15 – Revenue from Contracts with Customers
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 the following standards will have a material impact on the financial statements of the Group in future periods:

- IFRS 9 will impact both the measurement and disclosure of financial instruments
- IFRS 16 will impact on the treatment and recognition of leases

The impact of IFRS 9 is included below. It is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed. None of the other standards, interpretation or amendments noted above are material.

IFRS 9 FINANCIAL INSTRUMENTS

Nature of change

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; de-recognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

IFRS 9 is effective for accounting periods beginning on or after 1 January 2018. The Group will therefore apply IFRS 9 from 1 July 2018. The Group anticipates that the classification and measurement basis for its financial assets and liabilities will be largely unchanged by adoption of IFRS 9, and expects to take the accounting policy choice to continue to account for all hedges under IAS 39. The main impact of adopting IFRS 9 is likely to arise from the implementation of the expected loss model.

The estimated impact at 1 July 2018 is to decrease retained earnings within a range between £100.0m and £130.0m. As we conclude the adoption work, the impact is the Group's best estimate. The Group continues to evaluate, refine and confirm aspects of the impairment models, related internal controls and governance approach ahead of full reporting of IFRS 9.

IFRS 9 is applied retrospectively, although comparatives are not restated, as elected by the Group, with adjustments arising from classification and measurement, and impairment, changes recognised in opening equity.

Impairment

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses (ECL) based on an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. This replaces the existing IAS 39 incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and would measure the loss at the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments, financial guarantee contracts and contract assets under IFRS 15. This contrasts to the IAS 39 impairment model which is not applicable to loan commitments and financial guarantee contracts (covered by IAS 37). In addition, IAS 39 requires the impairment of available for sale debt to be based on the fair value loss rather than estimated future cash flows as for amortised cost assets. Intercompany exposures, including loan commitments and financial guarantee contracts, are also in scope in the stand-alone reporting entity accounts.

2. ACCOUNTING POLICIES CONTINUED

The measurement of expected loss involves increased complexity and judgement including estimation of probabilities of defaults, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk. It is expected that the impairment charge under IFRS 9 will be more volatile than under the incurred loss model in IAS 39. It is also expected to result in an increase in the total level of impairment allowances, since all financial assets within scope will be assessed for at least a 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Classification and measurement

IFRS 9 requires financial assets to be classified on the basis of two criteria:

- the business model within which financial assets are managed, and;
- their contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest').

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are measured at fair value through profit and loss.

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.

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 insurance products and administration fees earned following instances such as late or partial payment by customers.

Explicit and implicit 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.

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

Operating profit 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 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 Sterling at the rate of exchange prevailing at the

2. ACCOUNTING POLICIES CONTINUED

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 or credit 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 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 revalued amounts, being the fair value at the date of revaluation, 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 revalued buildings is charged to income. On the subsequent sale or scrappage of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

2. ACCOUNTING POLICIES CONTINUED
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
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.

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 their estimated useful lives. 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.

2. ACCOUNTING POLICIES CONTINUED

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.

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.

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 Limited; 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Continued

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 profit and loss account by virtue of their size or 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

2. ACCOUNTING POLICIES CONTINUED

assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled.

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

Defined benefit costs are split into three categories:

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

The Group presents the first component of defined benefit costs within administrative expenses (see note 24) in its consolidated income statement. Curtailments gains and losses are accounted for as past-service cost. Net interest expense or income is recognised within finance costs (see note 8).

The retirement benefit obligation recognised in the 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.

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.

During the year the Group seperately 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 have been reflected in these financial statements as detailed in note 24. At 30 June 2018 the Group is committed to completing a buy-out of the Plan and this is expected to complete during the year ended 30 June 2019. The buy-out of the Plan is expected to crystallise a surplus of approximately £15m which will be received by the Group when the Plan is wound up upon completion of the buy-out.

FINANCIAL INSTRUMENTS

Classification

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a 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 'loans and receivables'. Loans and 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 for indicators of impairment at each balance sheet date. Financial assets are impaired

2. ACCOUNTING POLICIES CONTINUED

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.

SUPPLIER FINANCING ARRANGEMENTS

The Group has supplier financing schemes as part 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 16.

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.

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

There are no critical judgements other than those reported below under key sources of estimation uncertainty.

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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

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. Estimation of 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 £104.4m (2017: £89.9m).

As at 30 June 2018 the Group has a liability in respect of VAT assessments raised by HMRC. The assessments have been appealed and are now subject to negotiations with HMRC under the Alternative Dispute Resolution process. A successful outcome, which will result in the assessment being withdrawn or significantly reduced, is expected by the Group's external providers of specialist VAT advice. The best estimate of the liability as at 30 June 2018 has been provided for within trade and other payables.

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. The carrying amount of goodwill at the balance sheet date was £252.5m. Details of the impairment review carried out are included in note 14.

LOAN LOSS PROVISIONING

An allowance for estimated irrecoverable customer receivables is retained against balances where there is an observed event which, based on historic performance, is evidence of a potential impairment and reduction in the recoverability of future cash flows.

This allowance is calculated using assumed collection rates. Assumptions are informed by the Group's historic experience of customer repayment trends as the best available guide to future performance of a potentially impaired balance.

Assumptions are continually assessed for relevance and adjusted appropriately.

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 this review, taking into account factors including risk and uncertainty.

INVENTORY

Inventories are held at the lower of cost and net realisable value and provision is therefore recognised where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historical sales patterns and assumptions regarding future selling values.

4. REVENUE

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

	2018 £ m	2017 £ m
Sale of goods[1]	**1,531.7**	1,515.7
Rendering of services	**427.1**	414.2
	1,958.8	1,929.9
Other operating income	**1.7**	1.3
Finance income	**0.1**	0.1
Total revenue as defined in IAS 18	**1,960.6**	1,931.3

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

5. SEGMENTAL ANALYSIS

Information reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance is focussed 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.

BY BUSINESS SEGMENT

	2018 £ m	2017 £ m
Analysis of revenue:		
Very	**1,389.1**	1,263.5
Littlewoods	**569.7**	666.4
	1,958.8	1,929.9
Gross profit	**780.7**	786.5
Distribution costs	**(215.8)**	(218.6)
Administrative costs (excluding depreciation and amortisation)	**(304.3)**	(332.8)
Other operating income	**1.7**	1.3
Pre-exceptional EBITDA*:		
Very	**325.0**	290.1
Littlewoods	**142.4**	158.9
Central costs	**(205.1)**	(212.6)
	262.3	236.4
Exceptional items	**(159.6)**	(121.0)
Depreciation	**(2.9)**	(2.3)
Amortisation	**(34.8)**	(28.9)
Operating profit	**65.0**	84.2
Finance income	**0.1**	0.1
Finance costs	**(84.6)**	(59.4)
Exceptional finance costs	**(5.2)**	–
(Loss)/profit before taxation	**(24.7)**	24.9

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.

Very sales include Very.co.uk and VeryExclusive.co.uk.

Littlewoods sales include Littlewoods.com and LittlewoodsIreland.ie.

5. SEGMENTAL ANALYSIS CONTINUED
BY GEOGRAPHICAL LOCATION OF DESTINATION

	2018 £ m	2017 £ m
Revenue:		
United Kingdom	**1,886.3**	1,867.2
Rest of World	**72.5**	62.7
	1,958.8	1,929.9

	2018 £ m	2017 £ m
Operating profit:		
United Kingdom	**60.6**	80.5
Rest of World	**4.4**	3.7
	65.0	84.2

The analysis above is in respect of continuing operations.

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

	Notes	2018 £ m	2017 £ m
Non-GAAP measures			
Reconciliation of pre-exceptional earnings before interest, tax, depreciation and amortisation ("EBITDA") to underlying EBITDA			
Pre-exceptional EBITDA		**262.3**	236.4
Adjusted for:			
Fair value adjustments to financial instruments (gain)/loss	16	**(4.5)**	10.3
Fair value adjustments to trade creditors		**0.4**	1.2
IAS 19 and IFRIC 14 pension adjustments	24	**2.0**	1.8
Underlying EBITDA		**260.2**	249.7

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

6. EXCEPTIONAL ITEMS

	Note	**2018 £ m**	2017 £ m
Regulatory costs and associated administrative expenses		**(128.0)**	(112.3)
Restructuring costs		**(27.9)**	(7.3)
Profit on disposal of intangible asset		**–**	5.0
Loss on disposal of subsidiary		**–**	(0.1)
Professional fees		**(3.7)**	(5.5)
Warranty provision		**–**	(0.8)
Charged to operating profit		**(159.6)**	(121.0)
Accelerated amortisation of loan issue costs	22	**(5.2)**	–
		(164.8)	(121.0)

The analysis above is in respect of continuing operations.

During the financial year ended 30 June 2018, the Group recognised regulatory charges of £128.0m (2017 £112.3m) 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 (see note 25). The provision is expected to be fully utilised by the year ended 30 June 2020.

The restructuring costs reflect expenditure on the rationalisation of processes and functions within the Shop Direct Limited 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 provision is expected to be fully utilised by the year ended 30 June 2022.

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

The profit on disposal of intangible asset in the prior year relates to the sale of the Swan brand.

7. OPERATING PROFIT

Arrived at after charging/(crediting):

	2018 £ m	2017 £ m
Depreciation	**2.9**	2.3
Amortisation	**34.8**	28.9
Foreign exchange (gains)/losses	**(6.9)**	6.8
Cost of inventories recognised as an expense	**1,060.6**	1,008.9
Write downs of inventories recognised as an expense	**5.5**	9.1
Staff costs	**133.7**	142.4
Impairment loss recognised on trade receivables	**185.0**	178.0
Operating lease charge	**9.6**	7.6

8. FINANCE INCOME AND COSTS

	Note	**2018 £ m**	2017 £ m
Finance income			
Interest income on bank deposits		**0.1**	0.1
Finance costs			
Interest on bank overdrafts and borrowings		**(41.1)**	(19.0)
Interest on obligations under finance leases and hire purchase contracts		**(0.2)**	(0.6)
Interest on securitisation facility		**(41.3)**	(37.9)
Net interest on defined benefit obligation	24	**(2.0)**	(1.9)
		(84.6)	(59.4)
Accelerated amortisation of loan issue costs	22	**(5.2)**	–
Total finance costs		**(89.8)**	(59.4)
Net finance costs		**(89.7)**	(59.3)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

9. STAFF COSTS

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

	2018 £ m	2017 £ m
Wages and salaries	**115.1**	124.0
Social security costs	**12.2**	11.8
Pension costs, defined contribution scheme	**6.1**	6.2
Pension costs, defined benefit scheme	**0.3**	0.4
	133.7	142.4

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

	2018 No.	2017 No.
Stores	**66**	69
Distribution & customer service centres	**1,203**	1,294
Administration	**2,450**	2,506
	3,719	3,869

10. DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

	2018 £ m	2017 £ m
Emoluments	**2.3**	2.4
Contributions paid to money purchase schemes	**0.1**	0.2
	2.4	2.6

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

	2018 No.	2017 No.
Accruing benefits under money purchase pension scheme	**2**	3

In respect of the highest paid director:

	2018 £ m	2017 £ m
Emoluments	**1.5**	1.4
Contributions paid to money purchase schemes	**0.1**	0.1
	1.6	1.5

The directors are considered to be the key management personnel.

11. AUDITORS' REMUNERATION

	2018 £ m	2017 £ m
Audit of these financial statements	–	–
Audit of the financial statements of subsidiaries of the company pursuant to legislation	**0.5**	0.4
Total audit fees	**0.5**	0.4
Other fees to auditors		
Audit related assurance services	**0.3**	0.1
Total non-audit fees	**0.3**	0.1

12. INCOME TAX

Tax charged/(credited) in the income statement

	2018 £ m	2017 £ m
Current taxation		
UK corporation tax	**0.7**	2.0
Prior year adjustment	–	1.0
Foreign tax	**1.0**	0.9
Total current income tax	**1.7**	3.9
Deferred taxation		
Arising from origination and reversal of temporary differences	**(17.2)**	(43.9)
Tax credit in the income statement	**(15.5)**	(40.0)

The tax on (loss)/profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 – lower than the standard rate of corporation tax in the UK) of 19.0% (2017 – 19.75%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

12. INCOME TAX CONTINUED
The differences are reconciled below:

	2018 £ m	2017 £ m
(Loss)/profit before tax	**(24.7)**	24.9
Corporation tax at standard rate	**(4.7)**	4.9
Decrease from effect of revenues exempt from taxation	**–**	(1.1)
Increase from effect of expenses not deductible in determining taxable profit	**0.6**	1.4
Decrease from tax losses for which no deferred tax asset was recognised	**(11.2)**	(33.0)
Decrease arising from group relief tax reconciliation	**(3.5)**	(17.9)
Increase from effect of foreign tax rates	**0.2**	0.3
Prior year adjustment	**–**	1.0
Transfer pricing adjustment	**3.5**	4.7
Other tax effects for reconciliation between accounting profit and tax income	**(0.4)**	(0.3)
Total tax credit	**(15.5)**	(40.0)

The main rate of corporation 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. The 17% main rate of corporation tax was set by the Finance Act 2016 which received Royal Assent on 15 September 2016.

DEFERRED TAX
Deferred tax movement during the 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 movement during the prior year:

	At 1 July 2016 £ m	Recognised in income statement £ m	Recognised in other comprehensive income £ m	At 30 June 2017 £ m
Accelerated tax depreciation	18.4	24.9	–	43.3
Tax losses carry-forwards	10.0	19.0	–	29.0
Pension benefit obligations	7.0	–	9.0	16.0
Other items	1.6	–	–	1.6
Net tax assets	37.0	43.9	9.0	89.9

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

12. INCOME TAX CONTINUED

At the balance sheet date, the Group has unused tax losses of £56.6m (2017: £59.9m) and capital losses of £11.2m (2017: £3.4m) 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.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £ m	Furniture, fittings and equipment £ m	Total £ m
Cost or valuation			
At 1 July 2016	9.4	70.6	80.0
Additions	1.1	3.8	4.9
Disposals	–	(3.0)	(3.0)
At 30 June 2017	10.5	71.4	81.9
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
Depreciation			
At 1 July 2016	6.8	64.6	71.4
Charge for year	0.2	2.1	2.3
Eliminated on disposal	–	(2.7)	(2.7)
At 30 June 2017	7.0	64.0	71.0
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
Carrying amount			
At 30 June 2018	4.4	8.3	12.7
At 30 June 2017	3.5	7.4	10.9
At 1 July 2016	2.6	6.0	8.6

13. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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:

	2018 £ m	2017 £ m
Fixtures and Fittings	**0.6**	0.7

14. GOODWILL

	Goodwill £ m
Carrying amount	
At 1 July 2016, 30 June 2017 and 30 June 2018	**252.5**

Goodwill is allocated to two cash generating units (CGUs) being £105.5m relating to the acquisition of the Littlewoods business in 2005 and £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% (2017: 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% (2017: 7.4%).

The analysis performed indicates that no impairment is required. A sensitivity analysis has been performed on each of these key assumptions with other variables held constant. A cut in the forecast future cash flows of Douglas Insurance Limited of 11% would result in the carrying value of goodwill being reduced to its recoverable amount. There are no reasonably possible movements that would impact the Littlewoods goodwill. Management has concluded that there are no reasonably possible changes in these key assumptions that would cause the carrying value to exceed the value in use.

15. INTANGIBLE ASSETS

	Internally generated software costs £m	Acquired brands £m	Total £m
Cost or valuation			
At 1 July 2016	252.6	9.7	262.3
Additions	61.1	–	61.1
Disposals	(26.9)	–	(26.9)
At 30 June 2017	286.8	9.7	296.5
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
Amortisation			
At 1 July 2016	134.8	4.8	139.6
Amortisation charge	28.5	0.4	28.9
Amortisation eliminated on disposals	(26.9)	–	(26.9)
At 30 June 2017	136.4	5.2	141.6
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
Carrying amount			
At 30 June 2018	197.4	4.1	201.5
At 30 June 2017	150.4	4.5	154.9
At 1 July 2016	117.8	4.9	122.7

The recoverable amount of the brands have been determined from a value in use calculation. The key assumptions for this calculation are those regarding discount rates, growth rates and forecast cash flows. The amortisation periods are 5 – 20 years for brands and 3 – 7 years for software.

Included within software costs are assets held under finance leases with a net book value of £nil (2017: £0.6m) and £79.2m (2017: £51.3m) of investment incurred related to ongoing software development projects on which depreciation has not commenced as the assets have not yet been brought into use.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Continued

16. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2018 £ m	2017 £ m
Notional amount – sterling contract value	**161.7**	134.1
Fair value of asset/(liability) recognised	**2.5**	(2.0)

Changes in the fair value of derivative financial instruments amounted to a gain of £4.5m in the year (2017: loss of £10.3m).

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. There were no transfers between Level 1 and Level 2 during the year.

17. INVENTORIES

	2018 £ m	2017 £ m
Finished goods and goods for resale	**101.9**	114.3

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

18. TRADE AND OTHER RECEIVABLES

	Note	2018 £ m	2017 £ m
Trade receivables		**1,516.3**	1,463.2
Amounts owed by group undertakings	31	**500.4**	455.6
Prepayments		**156.6**	129.4
Other receivables		**32.7**	24.7
Total current trade and other receivables		**2,206.0**	2,072.9

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

Other receivables include £5.3m (2017: £2.4m) 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.

All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a bad debt provision of £125.7m (2017: £136.7m) has been recorded accordingly.

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 rate on Very is 39.9% and 0% on Littlewoods.

18. TRADE AND OTHER RECEIVABLES CONTINUED

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 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.

	2018 £ m	2017 £ m
Movement in the allowance for bad debts:		
Balance at beginning of the year	**136.7**	150.5
Amounts charged to the income statement	**185.0**	178.0
Amounts written off	**(196.0)**	(191.8)
Balance at end of the year	**125.7**	136.7

Trade receivables above include amounts (detailed below) that are past due at the end of the reporting period and which an allowance for doubtful debts has not been recognised as the amounts are still considered recoverable and there hasn't been a significant change in credit quality.

AGE OF TRADE RECEIVABLES THAT ARE PAST DUE BUT NOT IMPAIRED

	2018 £ m	2017 £ m
31 to 60 days	**19.1**	17.7

All balances over 60 days past due are provided for.

The allowance for bad debts includes specific provisions for cohorts of debt which are not impaired due to age or default. The directors are satisfied that this covers any potential exposure arising from balances past due but not impaired.

19. CASH AND CASH EQUIVALENTS

	2018 £ m	2017 £ m
Cash at bank	**140.5**	116.9
Secured revolving credit facility	**(95.0)**	(60.0)
Bank overdrafts	**(7.8)**	(6.4)
Cash and cash equivalents in statement of cash flows	**37.7**	50.5

Cash and cash equivalents comprise cash net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to fair value. The new secured revolving credit facility was put in place during the year and expires in May 2022. The facility rolls over on a monthly basis and hence is classified within cash and cash equivalents, and is classified as repayable within one year, see notes 22 and 37.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

20. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	At 1 July 2017 £m	Financing cash flows £m	Non-cash changes £m	**At 30 June 2018 £m**
Bank borrowings	500.0	(500.0)	–	**–**
Securitisation facility	1,228.8	88.6	–	**1,317.4**
Senior secured notes	–	550.0	–	**550.0**
Finance lease liabilities	4.4	0.1	0.1	**4.6**
Total liabilities from financing activities	1,733.2	138.7	0.1	**1,872.0**

21. SHARE CAPITAL
Allotted, called up and fully paid shares

	2018		2017	
	No. m	**£ m**	No. m	£ m
Ordinary shares of £1 each	**100**	**100**	100	100

22. LOANS AND BORROWINGS

	2018 £m	2017 £m
Secured non-current loans and borrowings at amortised cost		
Bank borrowings	**–**	500.0
Securitisation facility	**1,317.4**	1,228.8
Senior secured notes	**550.0**	–
	1,867.4	1,728.8

	2018 £m	2017 £m
Current loans and borrowings at amortised cost		
Secured revolving credit facility	**95.0**	60.0
Unsecured bank overdrafts	**7.8**	6.4
	102.8	66.4

The underlying currency of the unsecured bank overdrafts of £7.8m (2017: £6.4m) is Euros. The underlying currency of the other borrowings and overdrafts set out above is Sterling.

22. LOANS AND BORROWINGS CONTINUED

The borrowings are repayable as follows:

	2018 £ m	2017 £ m
Within one year	**102.8**	66.4
In the second year	**–**	1,228.8
In the third to fifth year	**1,867.4**	500.0
Over five years	**–**	–
Amount due for settlement after 12 months	**1,867.4**	1,728.8

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

(a) The Group has a securitisation facility of £1,317.4m (2017: £1,228.8m) 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 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 June 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 of which £95.0m was drawn down at 30 June 2018. 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.

	2018 %	2017 %
The weighted average interest rates paid were as follows:		
Unsecured bank overdrafts	**2.54**	2.67
Secured revolving credit facility	**3.81**	3.77
Bank loans	**3.78**	3.78
Securitisation facility	**2.72**	2.65
Senior secured notes	**7.75**	–

The loans and borrowings classified as financial instruments are disclosed in the financial instruments note.

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 2018
Continued

23. OBLIGATIONS UNDER OPERATING LEASES AND HIRE PURCHASE CONTRACTS
FINANCE LEASES

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**

2017	Minimum lease payments £ m	Interest £ m	Present value £ m
Within one year	1.5	(0.2)	1.3
In two to five years	3.3	(0.2)	3.1
	4.8	(0.4)	4.4

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

	2018 £ m	2017 £ m
Current liabilities	**1.5**	1.3
Non-current liabilities	**3.1**	3.1
	4.6	4.4

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

	2018 £ m	2017 £ m
Within one year	**8.6**	9.0
In two to five years	**21.6**	24.6
In over five years	**35.9**	49.6
	66.1	83.2

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 5 years. For the period ended 30 June 2018, the average effective borrowing rate was 6.39% (2017: 6.03%). 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.

All lease obligations are denominated in 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 notes 13 and 15.

24. 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 £6.1m (2017: £6.2m). 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 also charged to the income statement.

Contributions totalling £0.7m (2017: £0.8m) 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.

	2018 £ m	2017 £ m
Scheme and Plan – defined benefit pension scheme deficit	**(70.3)**	(82.7)
UURBS and Ex-gratia – present value of scheme liabilities	**(2.0)**	(2.4)
Retirement benefit obligations	**(72.3)**	(85.1)
Scheme & Plan – amounts taken to the Statement of Comprehensive Income	**(3.0)**	(34.3)
UURBS and Ex-gratia – amounts taken to the Statement of Comprehensive Income	**0.2**	–
Loss recognised in the Statement of Comprehensive Income	**(2.8)**	(34.3)

SHOP DIRECT GROUP LIMITED PENSION PLAN (“PLAN”) AND 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 and all other Shop Direct Holdings Limited Group companies 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 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.

During the year the Group completed buy-in agreements for both the Plan and the Scheme separately. The buy-ins were completed on 30 November 2017 and 31 May 2018 respectively and have been reflected in these financial statements. At 30 June 2018 the Group is committed to completing a buy-out of the Plan and this is expected to complete during the year ended 30 June 2019. The buy-out of the Plan is expected to crystallise a surplus of approximately £15m which will be received by the Group when the Plan is wound up upon completion of the buy-out.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

24. PENSION AND OTHER SCHEMES CONTINUED

RECONCILIATION OF SCHEME ASSETS AND LIABILITIES TO ASSETS AND LIABILITIES RECOGNISED

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

	2018 £ m	2017 £ m
Fair value of scheme assets	**1,523.4**	1,687.2
Present value of scheme liabilities	**(1,262.7)**	(1,381.5)
	260.7	305.7
Restrictions on asset recognised	**(260.7)**	(305.7)
IFRIC 14 liability	**(70.3)**	(82.7)
Defined benefit pension scheme deficit	**(70.3)**	(82.7)

SCHEME ASSETS

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

	2018 £ m	2017 £ m
Fair value at start of year	**1,687.2**	1,535.3
Interest income	**42.9**	47.7
Return on plan assets, excluding amounts included in interest income/(expense)	**(126.2)**	21.0
Employer contributions	**17.7**	18.4
Benefits paid	**(97.2)**	(67.1)
Current service cost	**(1.0)**	(0.3)
Actuarial gains	**–**	132.2
Fair value at end of year	**1,523.4**	1,687.2

24. PENSION AND OTHER SCHEMES CONTINUED

ANALYSIS OF ASSETS

The major categories of scheme assets are as follows:

	2018 £ m	2017 £ m
Cash and cash equivalents	**71.3**	192.3
Equity instruments	**36.5**	75.1
Debt instruments	**322.8**	1,056.5
Real estate	**98.8**	99.8
Derivatives	**21.3**	72.5
Investment funds	**178.9**	191.0
Assets held by insurance company	**793.8**	–
	1,523.4	1,687.2

The assets held by the insurance company are in respect of the Scheme buy-in that has completed during the year. The assets are equal to the value of the insured pensioner liabilities on an IAS19 basis as at 30 June 2018.

ACTUAL RETURN ON SCHEME'S ASSETS

	2018 £ m	2017 £ m
Actual return on scheme assets	**(83.3)**	68.7

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.

SCHEME LIABILITIES

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

	2018 £ m	2017 £ m
Present value at start of year	**1,381.5**	1,211.2
Current service cost	**0.1**	0.1
Past service credit	**(0.7)**	–
Interest cost	**34.7**	37.2
Benefits paid	**(97.2)**	(67.1)
Actuarial (losses)/gains	**(55.7)**	200.1
Present value at end of year	**1,262.7**	1,381.5

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

24. 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:

	2018 %	2017 %
Rate of increase in pensionable salaries	**2.0**	2.1
Rate of increase in pensions in payment if RPI 5%	**2.9**	3.0
Rate of increase in pensions in payment if RPI 2.5%	**2.0**	2.1
Discount rate	**2.8**	2.6
Rate of increases in pensions in deferment	**2.0**	2.1
RPI inflation assumption	**3.0**	3.1
CPI inflation assumption	**2.0**	2.1

POST RETIREMENT MORTALITY ASSUMPTIONS

	2018 Years	2017 Years
Current UK pensioners at retirement age – male	**22.1**	22.0
Current UK pensioners at retirement age – female	**23.5**	23.7
Future UK pensioners at retirement age – male	**23.3**	22.9
Future UK pensioners at retirement age – female	**24.8**	25.0

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2018 £ m	2017 £ m
Amounts recognised in operating profit		
Current service cost	**(0.3)**	(0.4)
Amounts recognised in finance income or costs		
Net interest	**(1.9)**	(1.8)
Total recognised in the income statement	**(2.2)**	(2.2)

AMOUNTS TAKEN TO THE STATEMENT OF COMPREHENSIVE INCOME

	2018 £ m	2017 £ m
Return on plan assets, excluding amounts included in interest income/(expense)	**(1.6)**	21.0
Impact of buy-in of Scheme and Plan	**(124.6)**	–
Actuarial gains/(losses)	**55.7**	(67.9)
Adjustments for restrictions on the defined benefit asset	**67.5**	12.6
Amounts recognised in the Statement of Comprehensive Income	**(3.0)**	(34.3)

24. PENSION AND OTHER SCHEMES CONTINUED

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 £1.2m (2017: £1.3m).

If the discount rate is 25 basis points lower, the defined benefit obligation would increase by £1.3m (2017: £1.5m).

If the price inflation rate is 25 basis points higher, the defined benefit obligation would increase by £1.3m (2017: £1.4m).

If the post retirement mortality assumption reduces by one year for both men and women, the defined benefit obligation would reduce by £1.3m (2017: £1.5m).

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 expects to make a contribution of £14.5m (2017: £14.5m) to the defined benefit schemes during the next financial year.

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:

	2018 £ m	2017 £ m
Present value of scheme liabilities	**(2.0)**	(2.4)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

24. PENSION AND OTHER SCHEMES CONTINUED

SCHEME LIABILITIES

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

	2018 £ m	2017 £ m
Present value at start of year	**2.4**	2.3
Interest cost	**0.1**	0.1
Liabilities extinguished on settlements	**(0.2)**	–
Actuarial losses	**(0.3)**	–
Present value at end of year	**2.0**	2.4

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 and Plan.

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2018 £ m	2017 £ m
Amounts recognised in operating profit		
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

	2018 £ m	2017 £ m
Actuarial gains	**0.2**	–

25. PROVISIONS

	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**

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

25. PROVISIONS CONTINUED

The regulatory provision reflects the estimated cost of all PPI claims and associated processing costs up and until the claims deadline of August 2019. In August 2017, the FCA started a marketing campaign covering the period until the FCA's deadline for the bringing of claims in August 2019. This appears to have had the effect of increasing the volume of claims across the industry.

During the year ended 30 June 2018 a charge of £128.0m has been recognised to reflect an updated estimate following an increase in the volume of claims experienced and the latest assessment of the expected uphold rate and average redress per claim.

The regulatory provision is expected to be fully utilised by the year ended 30 June 2020.

26. TRADE AND OTHER PAYABLES

	2018 £ m	2017 £ m
Trade payables	**413.8**	365.9
Accrued expenses	**78.4**	80.3
Amounts due to group undertakings (note 31)	**3.6**	–
Social security and other taxes	**39.7**	41.4
Other payables	**22.3**	28.8
	557.8	516.4

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 £163.9m (2017: £133.0m). The cash flows associated with these supplier financing arrangements are included within 'movements in trade and other payables' in the cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

27. DIVIDENDS

	2018 £ m	2017 £ m
Interim dividend of £nil (2017 – £4.00) per ordinary share	–	400.0

The directors do not propose a final dividend (2017: £nil).

28. 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 £7.2m (2017 £7.2m).

OTHER FINANCIAL COMMITMENTS

At 30 June 2018 commitments to purchase stock totalled £170.1m (2017: £181.5m) which is considered to be the fair value. The commitments cover a period of 12 months (2017: same).

The Group has in place contracts for the provision of outsourced service functions. At 30 June 2018 the annual committed cost under these contracts is £68.0m (2017: £53.5m). These contracts expire in 2025 and 2030.

29. FINANCIAL INSTRUMENTS
FINANCIAL ASSETS

Financial assets at fair value through profit or loss
Derivative held for trade

	Carrying value		Fair value	
	2018 £ m	2017 £ m	2018 £ m	2017 £ m
Forward contract	161.7	134.1	2.5	(2.0)

See note 16 for details of the valuation methods and assumptions of these derivatives. The maturity dates for these derivatives range from July 2018 to September 2019.

LOANS AND RECEIVABLES

	Carrying value		Fair value	
	2018 £ m	2017 £ m	2018 £ m	2017 £ m
Cash and cash equivalents	140.5	116.9	140.5	116.9
Trade receivables	1,516.3	1,463.2	1,516.3	1,463.2

VALUATION METHODS AND ASSUMPTIONS

The carrying amounts of financial assets 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 1.

The average credit period given to customers for the sale of goods is 276 days (2017: 271 days).

29. FINANCIAL INSTRUMENTS CONTINUED

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2018 £ m	2017 £ m	**2018 £ m**	2017 £ m
Trade payables	**413.8**	365.9	**413.8**	365.9
Borrowings	**1,970.2**	1,795.2	**1,970.2**	1,795.2

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 1. The average credit period taken for trade payables is 70 days (2017: 80 days).

30. 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 counterparty will default on its contractual obligations resulting in a financial loss to the Group. Investments of cash surpluses, borrowings and derivative financial instruments are made through banks which are approved by the Board.

All customers who wish to trade on credit terms are subject to credit verification procedures, supplied by independent rating agencies. Customer debtor balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts. The concentration of credit risk is limited due to the customer base being large and unrelated.

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 22 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

30. FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS CONTINUED
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 22, cash and cash equivalents disclosed in note 19 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.

The gearing ratio at the year end is as follows:

	2018 £ m	2017 £ m
Borrowings	1,970.2	1,795.2
Cash and bank balances	(140.5)	(116.9)
Net debt	1,829.7	1,678.3
Equity	185.3	199.9
Gearing ratio (%)	987%	840%

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.

31. 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:

	2018 £ m	2017 £ m
Recharged costs		
Yodel Delivery Network Limited	4.8	4.2
Arrow XL Limited	0.7	0.4
	5.5	4.6

31. RELATED PARTY TRANSACTIONS CONTINUED

	2018 £ m	2017 £ m
Purchase of services		
Yodel Delivery Network Limited	**(58.0)**	(81.7)
Drop & Collect Limited	**(24.9)**	–
Arrow XL Limited	**(40.3)**	(43.3)
Trenport Property Holdings Limited	**(1.6)**	(1.9)
Shop Direct Holdings Limited	**(5.0)**	(5.0)
	(129.8)	(131.9)

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

	2018 £ m	2017 £ m
Amounts due from fellow Group undertakings		
Shop Direct Holdings Limited	**476.5**	452.6
Yodel Delivery Network Limited	**–**	2.1
Arrow XL Limited	**3.7**	0.9
Primevere Limited	**5.0**	–
Primevere Equipment Limited	**15.2**	–
	500.4	455.6

	2018 £ m	2017 £ 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.

32. 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 2018

	Note	**2018 £ m**	2017 £ m
Assets			
Non-current assets			
Investments in subsidiaries	35	**991.9**	991.9
Current assets			
Trade and other receivables	36	**1,344.5**	1,216.8
Total assets		**2,336.4**	2,208.7
Equity			
Share capital	39	**(100.0)**	(100.0)
Retained earnings		**(360.0)**	(354.4)
Total equity		**(460.0)**	(454.4)
Current liabilities			
Trade and other payables	38	**(1,780.8)**	(1,754.3)
Loans and borrowings	37	**(95.0)**	–
Income tax liability		**(0.6)**	–
		(1,876.4)	(1,754.3)
Total equity and liabilities		**(2,336.4)**	(2,208.7)

The profit on ordinary activities after taxation for the year ended 30 June 2018 attributable to the Company amounted to £5.6m (2017: loss of £4.7m). The Company has taken advantage of Section 408 of the Companies Act 2006 and has not published its own income statement.

Approved by the Board and authorised for issue on 18 September 2018 and signed on its behalf by:

D W KERSHAW
Director

STATEMENT OF CHANGES IN EQUITY FOR THE COMPANY

for the Year Ended 30 June 2018

	Share capital £ m	Retained earnings £ m	Total £ m
At 1 July 2016	100.0	759.1	859.1
Loss for the year and other comprehensive expense	–	(4.7)	(4.7)
Total comprehensive expense	–	(4.7)	(4.7)
Dividends	–	(400.0)	(400.0)
At 30 June 2017	100.0	354.4	454.4

	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

33. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Shop Direct Limited ("the Company") is a company incorporated and registered 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.

34. PROFIT/(LOSS) OF THE COMPANY

The profit on ordinary activities after taxation for the year ended 30 June 2018 attributable to the Company amounted to £5.6m (2017: loss of £4.7m). 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 (2017: same).

The auditor's remuneration for audit and other services is disclosed in note 11 to the consolidated financial statements.

35. INVESTMENTS
GROUP SUBSIDIARIES

Details of the Group subsidiaries as at 30 June 2018 are as below.

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

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2018	2017
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%
Source Direct International 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	First Floor, Skyways House Speke Road, Speke, Liverpool, United Kingdom, 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%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018
Continued

35. INVESTMENTS CONTINUED

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2018	2017
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%
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%
Woolworth Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Cinema Club Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Entertainment Group Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Group Finance Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Holdings Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Marketing Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Media Limited		Skyways House, L70 1AB	100%	100%
Woolworths Nominees Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths On Line Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths On Line Shopping Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Publishing Limited	Dormant	Skyways House, L70 1AB	100%	100%

* indicates direct investment of Shop Direct Limited

35. INVESTMENTS CONTINUED

SUMMARY OF THE COMPANY INVESTMENTS

	2018 £ m	2017 £ m
Investments in subsidiaries	**991.9**	991.9

Subsidiaries	£ m
Cost or valuation	
At 1 July 2016	1,435.5
Disposals	(3.1)
At 30 June 2017	1,432.4
Additions	0.1
At 30 June 2018	1,432.5
Provision	
At 1 July 2016 and 30 June 2017	440.5
Impairment	0.1
At 30 June 2018	440.6
Carrying amount	
At 30 June 2018	991.9
At 30 June 2017	991.9
At 30 June 2016	995.0

36. TRADE AND OTHER RECEIVABLES

	2018 £ m	2017 £ m
Amounts owed by parent	**476.5**	452.6
Amounts owed by subsidiaries	**846.5**	764.2
Amounts owed by other group companies	**20.2**	–
Other receivables	**1.3**	–
	1,344.5	1,216.8

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Continued

37. LOANS AND BORROWINGS

CURRENT LOANS AND BORROWINGS AT AMORTISED COST

	2018 £ m	2017 £ m
Secured revolving credit facility	**95.0**	–

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

The borrowings are repayable as follows:

	2018 £ m	2017 £ m
Within one year	**95.0**	–

On 3rd November 2017, the Company entered into a new secured revolving credit facility of £150.0m, of which £95.0m was drawn down at 30 June 2018.

The weighted average interest rates paid were as follows:

	2018 %	2017 %
Secured revolving credit facility	**3.81%**	–

38. TRADE AND OTHER PAYABLES

	2018 £ m	2017 £ m
Amounts due to subsidiaries	**1,780.7**	1,754.3
Other payables	**0.1**	–
	1,780.8	1,754.3

39. SHARE CAPITAL

Allotted, called-up and fully paid:

	2018 £ m	2017 £ m
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
S A Winton

REGISTERED OFFICE
First Floor, Skyways House
Speke Road
Speke
Liverpool
L70 1AB
United Kingdom

Company Registration No. 04730752

INDEPENDENT AUDITOR
Deloitte LLP
Statutory Auditor
2 Hardman Street
Manchester
M3 3HF
United Kingdom

FINANCIAL PR
Brunswick Group LLP
16 Lincoln's Inn Fields
London
WC2A 3ED
United Kingdom

Designed and produced by
MerchantCantos
www.merchantcantos.com