THE VERY GROUP

Facing the future with confidence

ANNUAL REPORT AND GROUP
FINANCIAL STATEMENTS 2019/2020

With annual sales of over £2bn, The Very Group is the UK's largest integrated pureplay digital retailer and financial services provider. Our digital multi-category stores – Very.co.uk, Littlewoods.com and LittlewoodsIreland.ie – sell approximately 1,900 famous brands and receive 1.9m website visits a day, with 82% of online sales completed on mobile devices.

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

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

Our purpose
Make good things easily accessible to more people.

Find out more:
www.theverygroup.com

Operating and financial highlights

GROUP SALES

FY16	£1,861.1m	
FY17	£1,929.9m	
FY18	£1,958.8m	
FY19	£1,993.4m	
FY20	**£2,050.7m**	**+2.9%**

UNDERLYING EBITDA[3]

FY16	£229.3m	
FY17	£249.7m	
FY18	£260.2m	
FY19	£272.4m	
FY20	**£264.4m**	**-2.9%**

PROFIT/(LOSS) BEFORE TAX

FY16	£105.6m
FY17	£24.9m
FY18	£(24.7)m
FY19	£(185.5)m
FY20	**£48.4m**

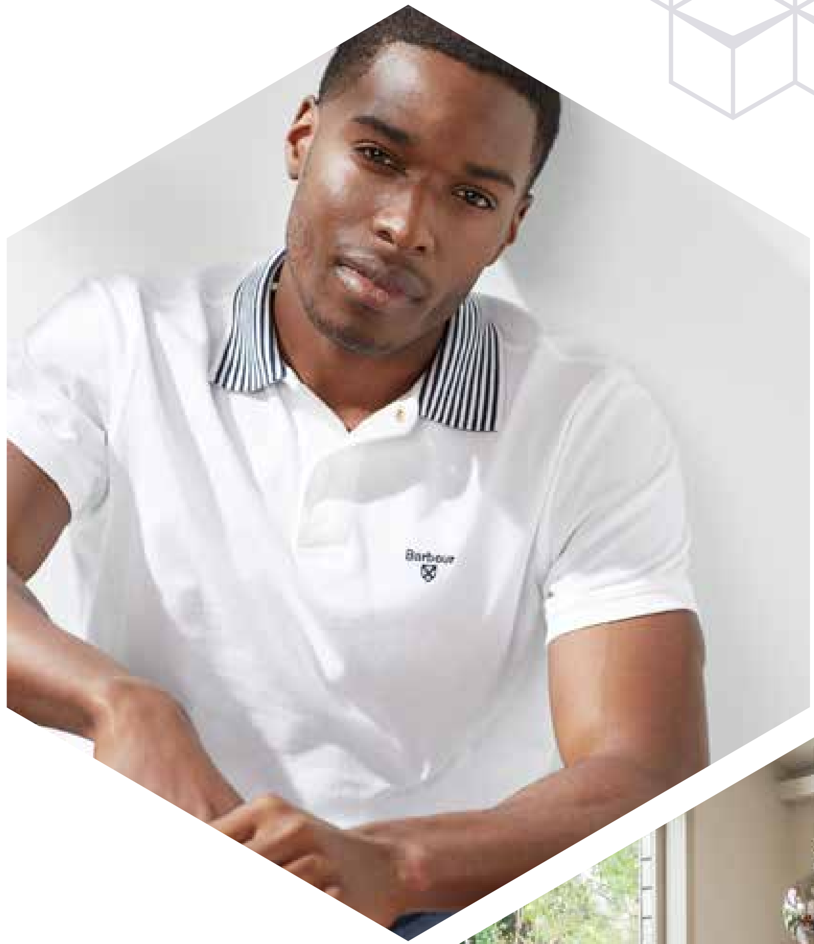
MOBILE SALES MIX %
(AS % OF TOTAL ONLINE SALES)

FY16	62%	
FY17	69%	
FY18	74%	
FY19	79%	
FY20	**82%**	**+3pts**

- Despite the onset of Covid-19 the Group returned to profit in the year, reporting profit before tax of £48.4m, an increase of £233.9m on the prior year (FY19 loss before tax: £(185.5)m). Included in this result are exceptional items of £42.6m (FY19: £310.2m)
- Group sales increased 2.9% to £2,050.7m (FY19: £1,993.4m)
- Very.co.uk customers[1] increased 14.1% to 3.40m, with new customers up by over 100% in quarter 4, boosting total Group customers[1] by 10.6% to 4.48m
- Very.co.uk sales increased 6.8% to £1,589.8m (FY19: £1,488.1m) – including retail sales growth of 36% in the final quarter and leading to full year retail sales growth of over 10%
- Littlewoods controlled rate of sales decline improved – down 8.8% to £460.9m (FY19: £505.3m, an 11.3% decline)
- Group gross margin[2] down by 3.1%pts to 36.5% (FY19: 39.6%), driven by lower financial services margin and a change in product mix, with demand for higher margin fashion items lower year-on-year
- Underlying EBITDA[3] slightly lower by 2.9% to £264.4m (FY19: £272.4m), with volume growth and cost efficiency helping to mitigate the effects of a challenging market and the emergence of Covid-19
- Pre-exceptional EBITDA[4] down 4.4% to £259.1m (FY19: £271.0m)
- Cash at bank £206.4m (FY19: £14.8m)
- Mobile sales mix up +3%pts – now 82% of online sales (FY19: 79%)

1 Defined as having shopped in the last 12 months.
2 Gross profit as a % of total revenue, each as per Consolidated Income Statement on page 40
3 Underlying EBITDA is defined on page 23 of the Financial review (Pre-exceptional EBITDA) and includes £7.3m benefit relative to prior year due to the transition to IFRS 16 and the corresponding reclassification of rent expense to interest and depreciation.
4 Pre-exceptional EBITDA is defined in note 6 to the Financial statements.

Our business at a glance



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

very VERY.CO.UK

Our biggest and fastest growing brand selling everything from tech to tableware, it's famous for its combination of big-name brands and on-trend fashion.

VERY.CO.UK SALES

FY16	£1,122.1m
FY17	£1,263.5m
FY18	£1,389.1m
FY19	£1,488.1m
FY20	**£1,589.8m** **+6.8%**

+10.5%
RETAIL SALES GROWTH

SALES[1] (FY20)
£1,589.8m
(+6.8%)

VERY.CO.UK PRE-EXCEPTIONAL EBITDA[3] (FY20)
£329.4m
(-4.3%)

ONLINE VISITS (FY20)
524.0m
(+28.8%)

TOTAL ACTIVE CUSTOMERS (FY20)
3.40m
(+14.1%)

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

Littlewoods.com

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

LITTLEWOODS SALES

FY16	£739.0m
FY17	£666.4m
FY18	£569.7m
FY19	£505.3m
FY20	**£460.9m** **-8.8%**

57.3%
CREDIT CUSTOMERS RETAINED FOR 5+ YEARS[4]

SALES[2] (FY20)
£460.9m
(-8.8%)

LITTLEWOODS PRE-EXCEPTIONAL EBITDA (FY20)
£116.6m
(-16.7%)

ONLINE VISITS (FY20)
162.5m
(+17.0%)

- Offers the big brands our customers desire, for themselves and all the family
- Services a wide range of customers
- Lets customers access the products they want while staying in financial control through regular interest-free payments

1 In FY19 Very sales included Very.co.uk and VeryExclusive.co.uk. VeryExclusive.co.uk was fully migrated to Very.co.uk by the second half of FY19
2 Littlewoods sales include Littlewoods.com and LittlewoodsIreland.ie.
3 Pre-exceptional EBITDA by brand is stated before central costs. See page 57 for more details.
4 Credit customer retention rate excludes Littlewoods Ireland.

Group Chief Executive's review

Delivering strong results in an exceptionally challenging year.

HENRY BIRCH

2020 has been an unprecedented year for our business and the country more broadly.

When the Covid-19 outbreak began, our priorities were to protect the wellbeing of our colleagues, to continue to support our customers and to ensure the long-term financial health of our business. Thanks to the commitment and hard work of our fantastic colleagues, we were able to do this and more.

CREATING VALUE THROUGH OUR DIFFERENTIATED BUSINESS MODEL

At the start of the outbreak, we carried out a stress test assuming that our business would face both reduced trading levels and liquidity challenges in the ensuing months. However, our differentiated business model, combining multi-category online retail and credit, proved compelling for customers, who increasingly shopped with us following the coronavirus outbreak. I am therefore pleased to report a strong set of underlying results, including a return to profit, demonstrating the flexibility and resilience of our business model. Our FY20 trading was buoyed by an outstanding quarter 4, when new customers more than doubled and Very.co.uk retail sales climbed 36.0% year-on-year.

CONTINUING TO FOCUS ON OUR STRATEGIC OBJECTIVES

Despite the operational challenges posed by coronavirus, we saw continued progress against our strategic objectives, including the successful launch of Skygate, our new automated fulfilment centre and a significant acceleration in our digital agenda, establishing new working models for contact centre and head office colleagues which harness the benefits of remote and on-premise work, including setting up our 800 contact centre colleagues to work from home for the first time.

The economic impact of Covid-19 will undoubtedly create challenges for retail in the years ahead. However, I am proud of how our colleagues have navigated this crisis so far and I am confident that by continuing to focus squarely on our customers and our strategic objectives, we will continue to thrive in the post-Covid-19 environment.

FY20 PERFORMANCE

RETURNING TO PROFIT

In our first year as The Very Group, having rebranded in January 2020, I am pleased to announce a return to profit, with the Group reporting profit before tax of £48.4m, an improvement of £233.9m versus the prior year loss.

GROWING REVENUE

In FY20 Group revenue surpassed £2bn for the first time, growing by 2.9% to £2,050.7m. Very.co.uk has grown by 6.8% in the year to £1,589.8m, including quarter 4 growth of 22.2% against prior year. Very.co.uk's growth has more than offset the continued managed decline of Littlewoods, for which revenue was down by 8.8% to £460.9m, representing an improvement on the prior year decline of 11.3%.

£2bn
Revenue surpassed for first time

£48.4m
PBT, reflecting a return to profit

ACQUIRING CUSTOMERS

This performance was underpinned by strong customer acquisition, which in turn was boosted by consumers' eagerness to shop online during quarter 4. Very.co.uk customers grew 14.1% to 3.4m, driven by new customer growth of 26.6% in the year and over 100% in quarter 4 alone, supporting total Group customer growth of 10.6% to 4.48m for FY20.

INCREASING SALES

Group retail sales grew by 5.8% over the prior year, including strong performances across many of our electrical and home departments, as well as toys and sportswear, which we see as key growth opportunities. Similar to other fashion retailers, we have experienced reduced demand for fashion in the year. However, with the brands we offer, combined with our flexible ways to pay, we are well positioned to grow this category when the overall fashion market picks up. During quarter 4 we have seen a significant shift in consumer behaviour as a result of the coronavirus outbreak. During the quarter Group retail sales grew by 28%, driven by stellar performances in electrical, which was up by 64%, as well as home which grew by 40%.

Total sales via mobile devices increased 3%pts year-on-year to 82% of total online sales. Orders from Very.co.uk app increased 34.4% year-on-year to represent 35.7% of total Very.co.uk orders across all devices (FY19: 29.5%).

CATEGORY MIX MITIGATED BY COST CONTROL

Underlying EBITDA of £264.4m reflects a marginal decline of 2.9% over the prior year. This resulted from a lower margin rate, which was driven by lower financial services margin including £12.4m of Covid-19 impacts and a fall in demand for higher margin fashion items, a result of a softening in the fashion market. These impacts have been largely mitigated through higher retail volumes, continued cost discipline and the benefit to EBITDA from adoption of IFRS 16.

> "We delivered sales growth throughout lockdown and maintained our financial stability. We did not draw on the Government's Coronavirus Job Retention Scheme or any Government initiated loan schemes, and will repay the temporary salary reduction we initially introduced."

VERY.CO.UK DEBTOR BOOK IN GROWTH

The Very.co.uk debtor book continued to grow, by 1.1%. Our Group debtor book declined by 2.6%, reflecting the impact from strong customer payment rates and improved credit decisioning, which uses the most up-to-date credit bureau data. The bad debt as a percentage of the debtor book increased by 1.2%pts to 8.2% including the impact of an additional £12m of provision due to Covid-19. Underlying bad debt was lower, as the quality of our financial services earnings continued to improve driven by advancements made in our credit decisioning processes.

Following the late surge in volume of customer redress claims ahead of the 29 August 2019 Financial Conduct Authority (FCA) deadline, which was provided for in FY19, our parent, Shop Direct Holdings Limited, continued to demonstrate its commitment to the business by providing a total equity injection in the year of £100m. Alongside a further £50m raised through the additional issue of C2 notes through the securitisation facility, this completed the total £150m funding requirement we announced in October 2019. During FY20 there has been a further increase to the provision of £15.0m to recognise the remaining cost of settling all outstanding claims, which has taken longer due to Covid-19 disruption.

I believe the combination of these strong financial results demonstrates the flexibility and resilience of our online, multi-category business model, and our strong positioning in the face of rapidly changing customer behaviour.

OUR COVID-19 RESPONSE

As part of our Covid-19 response, we introduced home working for our 2,000+ office-based colleagues. This included investment in, and then rapid implementation of, new technology to set-up our 800 contact centre colleagues to work from home for the first time and in doing so we have significantly accelerated our digital agenda.

To keep serving our customers when they needed us most, and to align to Public Health England and the Government's advice, we also continued to operate our fulfilment sites uninterrupted, with strict safety and hygiene measures in place to protect our people.

Group Chief Executive's review

continued

In the face of initial uncertainty, we planned against a stress test scenario and took decisive action to ensure the financial longevity of the business, including temporarily reducing leader and senior manager salaries for two months, freezing recruitment, tight management of capital spend and sensible inventory management.

Throughout lockdown we have delivered sales growth and maintained our financial stability, whilst not drawing on the Government's Coronavirus Job Retention Scheme or any Government initiated loan schemes, and will repay our leaders' and senior managers' salary reductions that took place earlier in the year.

Like many organisations, in remote working we have found a new level of efficiency and innovation, as well as significant colleague benefits. As a result, we are implementing a new working model which will combine both on-premise and remote working, which we believe will drive greater efficiency and growth into the future.

DIVERSITY AND INCLUSION

Together with Covid-19, this year will be remembered for the tragic death of George Floyd and the increased spotlight on the treatment of minorities globally and the Black Lives Matter movement.

Inequality and oppression have no place in our world or our workplaces. We have made progress in recent years in diversity and inclusion, but we know that there is much more that we need, and want, to do.

Over the coming year, we will listen, learn and take positive action in our workplace, and invest in our brands to ensure they are even more supportive and representative of all of the communities we serve.

CFO APPOINTMENT

During this financial year, we appointed Ben Fletcher as Group CFO. He previously led Clarks Shoes' £1bn-revenue, 9,000 colleague-strong European business, spanning retail and wholesale. Ben has consistently delivered growth across large and complex consumer businesses. He is a key member of our executive team and was central to our financial response to Covid-19.

+81%

New credit customers in quarter 4

£23m

future annual efficiency savings from Skygate

THE LAUNCH OF SKYGATE

We opened Skygate, our new automated fulfilment centre, on time and on budget. It will initially create up to £23m in annual efficiency savings for the Group, and the site is now preparing for its first peak trading period.

Having taken the decision to safely open Skygate during the coronavirus outbreak, we can realise the customer service and efficiency benefits it will deliver at a vital time for our business. It will help us increase our next-day delivery order cut-off time to midnight, and give us the future option to offer our customers same day delivery.

The opening of Skygate results in the planned closures of our Little Hulton and Shaw fulfilment centres in Greater Manchester. Over the last two years, we have supported impacted colleagues with training and development, including apprenticeships, forklift truck accreditations, functional skills training, and career and employment training, to set them up for the future.

All of these colleagues made a huge contribution to the progress and success of The Very Group. We thank them for their outstanding service and wish them every success in the future.

CONTINUED INVESTMENT IN OUR PROPOSITION

During FY20, we continued to give our customers the brands they love and a seamless shopping experience, with flexible ways to pay.

This included adding Topshop and Topman to our portfolio of more than 600 fashion brands. We also boosted our home offer, with additions including Swoon, Calvin Klein, Tommy Hilfiger, Accessorize and East End Prints.

To make the customer journey easier, we invested in our automated chatbot, kicked off the redevelopment of our consumer websites and began redefining The Very Group's brand proposition.

And we further developed advanced credit decisioning, which uses machine learning to help detect fraud and make faster, more accurate credit decisions for our customers.

LOOKING TO THE FUTURE

CONTINUING OUR STRATEGY

More people are buying online as a result of Covid-19 and the 80.9% increase in new credit customers we recorded during quarter 4 versus quarter 4 FY19 suggests that consumers are placing even greater importance on flexible ways to pay. Our strategy is squarely focused on creating a compelling online destination for these customers.

GIVING OUR CUSTOMERS MORE OF THE THINGS THEY LOVE

We will extend our ranges and give them even more of the things they love. We will do it by building on our relationships with leading brands as well as leveraging suppliers' renewed appetite for online sales and distribution channels.

We will also continue to give our customers the best possible user experience by investing further in our AI-powered chatbot, redesigning our sites and increasing the cut-off time for next-day delivery orders from 7pm to midnight – a key benefit of Skygate.

And by building on our brand relaunch as The Very Group, which puts our flexible ways to pay at the centre of our message, we can become even more relevant and accessible for our customers.

In support of this, we will introduce soft search in FY21, allowing customers to understand their eligibility for credit before they apply without impacting their credit file.

FACING THE FUTURE WITH CONFIDENCE

Although the UK now faces months and perhaps years of uncertainty and economic challenge, we face the future with confidence. Since the business' earliest days, over 100 years ago, our model has proven itself robust, flexible and resilient in challenging times, most recently with the 2008 financial crisis. The experience of the Covid-19 pandemic so far shows that our existing customers – and a growing number of new customers – place real value on the ability to shop online for a wide variety of brands across multiple categories and the flexible ways to pay offered by our integrated credit model. Our purpose – to make good things easily accessible to more people – has never been more relevant.

In the year ahead and beyond we have the opportunity both to play an even more important role in our customers' lives and to deliver significant business growth. With the infrastructure and investment we have behind us and the committed colleagues who work for us, I am very confident we will do both.

HENRY BIRCH
Group CEO

"By building on our brand relaunch as The Very Group, which puts our flexible ways to pay at the centre of our message, we can become even more relevant and accessible for customers."

Building success through resilience and adaptability

Responding to Covid-19

MORE FLEXIBLE, RESPONSIVE AND PRODUCTIVE

Our priorities immediately shifted when the pandemic began. Now, we're permanently embedding the cultural and operational changes that resulted from our response to the outbreak.

We quickly established three goals:

1
To protect our colleagues

2
To continue serving our customers

3
To maintain the long-term financial health of our business

To protect our colleagues, we introduced new ways of working, including remote working for all office-based colleagues.

To continue serving our customers, and aligned to Government advice, we added a range of new safety measures, including strict social distancing, as well as hygiene and cleaning protocols to protect our fulfilment colleagues on site and ensure we could continue processing orders.

And to maintain our financial health, we stress-tested our business in the worst-case scenarios and introduced a package of cost control measures.

The decisions we made at the outset of the Covid-19 outbreak allowed us to successfully navigate a lockdown period during which more and more UK consumers opted to shop online. Our quarter 4 retail sales for Very.co.uk increased by 36.0% year-on-year.

Another reason for our resilient performance was the response of our people, who quickly adapted to new ways of working and the new trading environment. Our colleagues were positive, engaged and innovative in the face of the challenges.

The legacy of Covid-19 on UK businesses and the economy as a whole will be felt for years to come. For The Very Group, the pandemic helped to accelerate valuable cultural and operational changes, which we are now making permanent.

As a result, we will be an even more responsive, flexible and productive organisation – an organisation well positioned to thrive in the post-Covid-19 retail environment.

PROTECTING OUR COLLEAGUES AND OUR BUSINESS

Widespread and innovative measures implemented at a rapid pace in order to protect our colleagues and the future of our business.

To achieve these aims in the face of the crisis, we knew it was critical to take the right decisions swiftly and transparently. The resulting changes we made not only altered our day to day operations, but also the lives of our people.

We introduced home working for our 2,000+ office-based colleagues. This included investment in setting up our 800 contact centre colleagues to work from home for the first time.

With this shift to remote working came a greater reliance on technology. We increased our focus on, and investment in, collaborative tools and digital communication, and the necessary training.

To maintain the long-term financial health of our business, we halted selected capital projects and temporarily froze recruitment, alongside reducing the cost of employment by asking our leaders to take a temporary 20% salary reduction in April and May.

At the same time, we opted to continue the migration to, and opening of, our new fulfilment centre, Skygate. We saw this significant project as critical to our long-term strategic goals and our coronavirus recovery effort.

We also opted not to draw on the Government's Coronavirus Job Retention Scheme.

Despite the significant impact on our people, they responded positively to the measures taken. Productivity and adoption of new technology increased, and our colleagues found innovative solutions to challenging problems, as shown by the project to take our contact centres remote.

Morale has remained high. We regularly measure colleague engagement through our Voice survey and our May 2020 Voice survey score of 7.7 out of 10 was our best so far. This achievement, alongside our resilient financial performance for the period, is a strong indication that we achieved our goals.

2,000+
office-based colleagues worked from home

7.7
out of 10 for our colleague engagement score – our best so far

Responding to Covid-19

continued

DELIVERING FOR OUR CUSTOMERS

Early in the coronavirus pandemic, the Government said that UK online retail should remain open and be encouraged. During a period characterised by uncertainty, we were committed to supporting our customers with uninterrupted service.

To do this, we needed to maintain product availability, protect customers facing financial difficulties as a result of Covid-19, and keep our fulfilment sites up and running.

Our customers continued to shop, but the balance of demand shifted almost overnight, with significant focus on the electrical and home categories since the beginning of the outbreak. Our retail teams worked closely with our strategic partners to respond, maintaining stock levels to ensure we remained competitive.

Since the start of the pandemic customer support has been at the forefront of our decisioning and to help our customers temporarily impacted financially by Covid-19, our financial services team proactively offered extended breathing space arrangements. Later, and in line with the FCA's guidance, we implemented a three-month payment freeze option, which was subsequently extended for a further three months. At its peak 2% of customer accounts were utilising this facility and currently 1% of accounts remain on a payment freeze.

In fulfilment, we understood that coming to work was challenging for our colleagues. We worked tirelessly to exceed government guidelines and standards for workplace hygiene and safety, while remaining in close dialogue with our recognised trade union.

On-site measures included increased cleaning, strict social distancing, staggering start and finish times, and opening up extra entrances and exits for colleagues.

To support our colleagues travelling to our fulfilment sites we introduced a 10% disruption allowance in response to feedback from colleagues who were finding it costlier than normal to travel to work due to the reduction in available public transport.

Our fulfilment sites have remained operational throughout the pandemic, enabling us to meet the needs of consumers relying heavily on online retailing, including those who had not previously bought online, and for our new and existing customers, our multi-category digital proposition has proven very compelling.

The steps we took to support our customers, alongside the outstanding commitment of our fulfilment colleagues in particular, helped us to double new customer numbers in quarter 4 and significantly grow retail sales.

REINVENTING OUR WAYS OF WORKING

We have no intention of returning to business as usual. On the contrary, we are building on our momentum, changing the way we work and grasping new opportunities.

The challenges of Covid-19 brought out the best in our colleagues, who continued to deliver amazing results. As lockdown started, the business responded very quickly to enable 2,000+ office based colleagues, including 800 contact centre colleagues, to work from home. They challenged the accepted norms when it came to ways of working, increased the digitisation of our processes, and operated with increased flexibility, trust and empowerment.

Based on our experience during Covid-19 and the views of our colleagues, we are introducing a new working model, looking to harness the benefits of both remote and on-premise work and increase both productivity and colleague wellbeing.

Working patterns will be flexible, based on what delivers the best outcomes for our customers, teams and colleagues. And we will continue our focus on the mental, physical and financial wellbeing of our colleagues via our mental health first aiders and awareness training programme; our on-site leisure facilities, like the gym at our head office in Liverpool and the multi-use playing surface at Skygate; our partnerships with Retail Trust and Nudge.

We are future proofing our business by embedding digital in everything we do. This has started with a digitally focused approach to meetings and a mandate to hold fewer of them. It will mean faster, better decisions.

In the longer term, a specialist squad sponsored by members of our Executive Board will explore and invest in a series of initiatives to make us more digital on the inside.

Part of this is about technology and digitising processes, but we also need to invest in our physical spaces so they are reconfigured for improved collaboration and flexibility. This project has already begun at our Liverpool headquarters and our Bolton customer care centre. As a result of increased home working and more efficient use of our spaces. We will close our Aintree site during FY21, with the relocation of these colleagues to our Liverpool headquarters.

Our offices will become places to collaborate, innovate and make personal connections. We will spend less time in them, but the time we do spend will be more valuable than ever before.

To accompany all of this, we have documented the behaviours that embody our culture and approach, and embedded them within how our colleagues regularly monitor their performance and work with each other from day to day.

The new, permanent ways of working and the high-performance culture we are cultivating as a result of the outbreak will help us to capitalise on these trends and the unique opportunities we have as a business in the years to come.

Key performance indicators

We measure the performance of our business for the year ended 30 June 2020 using the following key performance indicators.

UNDERLYING EBITDA[1]
£264.4m
(-2.9%)

OPERATING PROFIT[2]
(PRE-EXCEPTIONAL)
£203.8m
(-9.9%)

PROFIT BEFORE TAX
£48.4m
(FY19 loss before tax: £185.5m)

GROUP SALES

£2,050.7m
(+2.9%)

FINANCIAL SERVICES

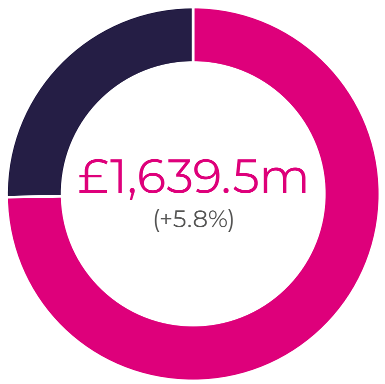
AVERAGE DEBTOR BOOK
£1,622.5m
(-2.6%)

INTEREST INCOME
(% OF AVERAGE DEBTOR BOOK)
22.2%
(1.0%pts lower)

BAD DEBT EXPENSE
(% OF AVERAGE DEBTOR BOOK)
(8.2%)[7]
(1.2%pts higher)

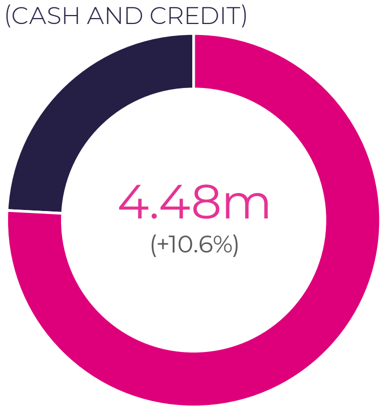
RETAIL

RETAIL SALES[3]



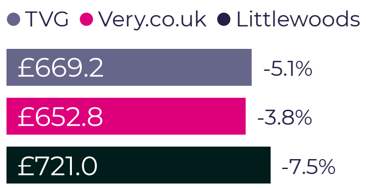
● Very.co.uk	**£1,229.6m** (+10.5%)
● Littlewoods	**£409.9m** (-6.2%)

TOTAL ACTIVE CUSTOMERS[4]
(CASH AND CREDIT)



● Very.co.uk	**3.40m** (+14.1%)
● Littlewoods	**1.08m** (+0.9%)

DEMAND PER CUSTOMER[5]



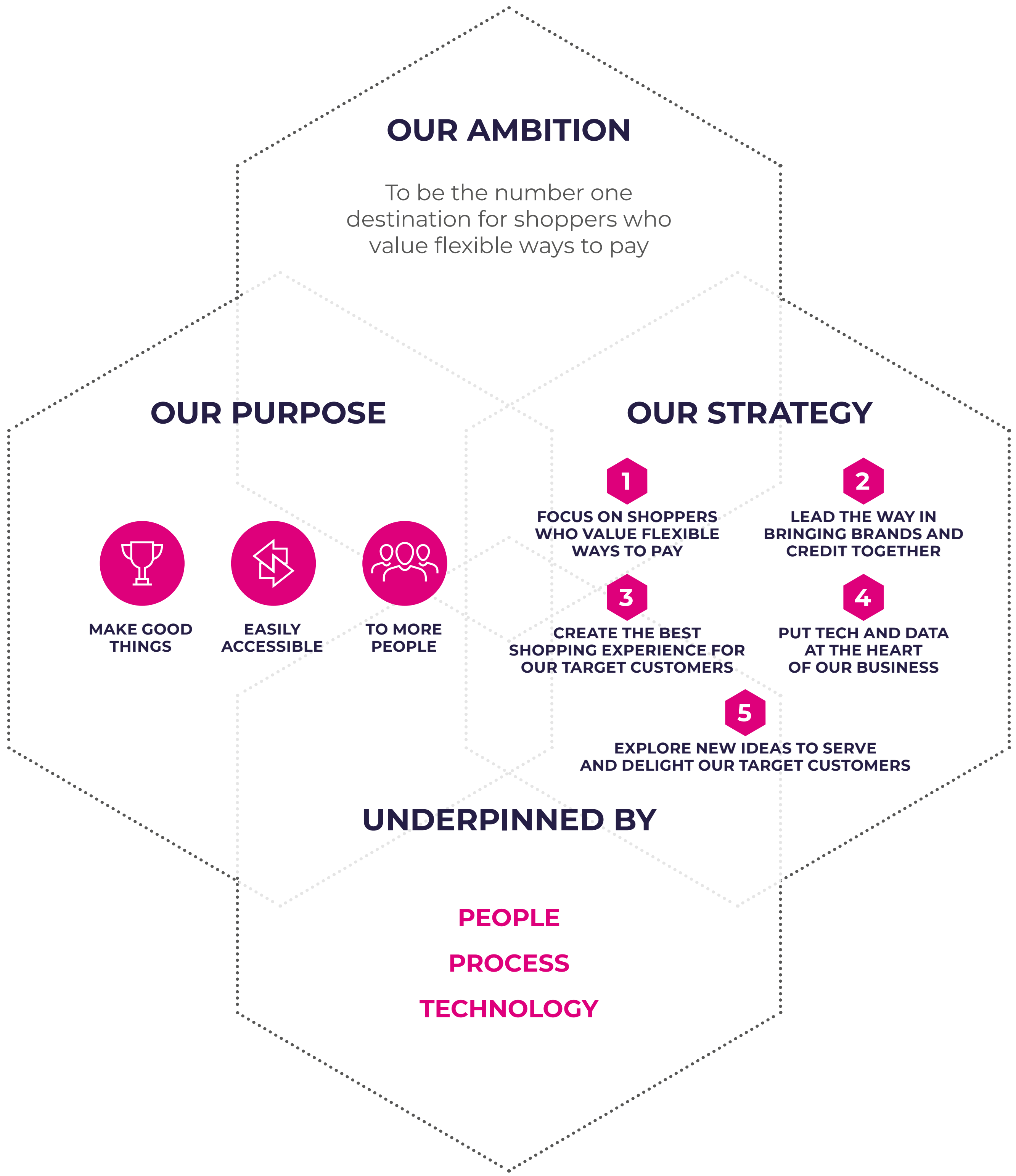
SALES CONVERSION[6]
54.7%
(+0.4%pts)

Commentary around these KPIs is contained in the Financial review on page 20.

1. Underlying EBITDA is defined on page 23 of the Financial review (Pre-exceptional EBITDA) and includes an £7.3m benefit relative to prior year due to the transition to IFRS 16 and the corresponding reclassification of rent expense to interest and depreciation compared to underlying EBITDA for FY19.
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 5.
4. Defined as having shopped in the last 12 months.
5. Average order frequency multiplied by average order value stated before customer returns, VAT, not yet despatched goods and credit approval.
6. Impact of customer returns, VAT, not yet despatched goods (due to time lag/stock availability) and credit approval (insufficient credit, fraud detection).
7. Includes £12.4m adverse impact from Covid-19 as described in Financial review.

Our business model

We're the UK's largest integrated digital retailer and financial services provider, and we've been helping customers say "yes" for over 100 years.



Our strategy

Making good things easily accessible to more people.

REINVENTING RETAIL
The impact of Covid-19 on the retail industry has been stark. Whilst the high street has suffered, digital retailers have, on the whole, flourished. Our model of digital-only, multi-category retail combined with integrated credit has resonated both with our existing customers and hundreds of thousands of new customers. This is not the first time our business has been tested with a difficult external environment. Our business has proved itself resilient and has prospered through a number of challenges over our 100 years of history, not least the last financial crisis in 2008.

Our existing strategy, expressed as five "pillars", recognises and looks to amplify where we have competitive advantage: in our distinct and targeted customer base; in our industry-leading integrated retail and credit offer and capability; in our increasing scale and capability as a digital retailer; and in our ability to harness data and technology to drive customer benefits and efficiency. Our strategy also recognises that, with our scale and expertise, there are opportunities adjacent to our current business that can be realised. We made good progress on all these strategic initiatives in the course of FY20, including the opening of Skygate, our new fulfilment centre in the East Midlands.

As the pandemic has progressed, it has been apparent that, whilst our strategy remains relevant, there are increased new opportunities that we need to consider and we need to ensure that we can adapt and change our approach should it make sense to do so. Not least among these opportunities, is the ability to attract a much wider customer base than previously anticipated. This year we saw a 22% increase in new customers opening our credit account and gaining access to our flexible ways to pay and we have also continued to welcome a significant number of cash customers to the business. Remaining focused on customers' needs and wants – inspiration, choice, value, ease-of-use and flexibility – and ensuring that our activity and investment is appropriately targeted, will ensure we continue to drive our overall number of customers and our revenues.

We believe our model of online retail credit is more relevant than ever – and customers, both existing and new, agree. Our focus is now on maintaining our relevance, ensuring our customers continue to shop with us and ensuring we can adapt to new opportunities.

> "In the most uncertain of circumstances, we continued our dedication to serving both our customers and colleagues."

OUR STRATEGIC PILLARS

Will help us achieve our ambition of being the number one destination for shoppers who value flexible ways to pay.

1

FOCUS ON SHOPPERS WHO VALUE FLEXIBLE WAYS TO PAY

Our most engaged and loyal customers – those we term "shoppers who value flexible ways to pay" are also our most valuable customers. By focusing on these customers, we not only give them the best possible service, but we create business value. These customers are central to how we work, what we work on and how we show and talk about our proposition. All our plans are optimised towards them.

FY20 PROGRESS

- We launched our new consumer brand proposition which focuses on retail and flexible ways to pay. We have consistently brought our financial services proposition to the forefront, through "Shop now, pay later" messaging. Through our brand tracking we can see consumers have connected us as a brand with the concept of "flexible ways to pay" which shows that our core proposition messaging is landing strongly with our target audience, a great place to build from as we continue to innovate in brands + credit. Our consumer credit operations are subject to licensing and regulation as explained in the Risk management and principal risks section on page 28
- We have used detailed research and analysis into highly engaged customers to thoroughly understand patterns in their behaviour, allowing us to build algorithms which improve and support how we target our customers

FY21 PRIORITY

We will ensure that, in addition to attracting and serving our high value customers, we will look to grow our broader customer base whilst it is cost-efficient to do so and build overall scale.

We will ensure that we do everything we can to retain those new customers we gained during the pandemic.

Our strategy

continued

2

LEAD THE WAY IN BRINGING BRANDS AND CREDIT TOGETHER

Our integrated retail and credit model is what makes us stand apart as a retailer and why customers choose us. Whilst we are market leaders in this field, we need to ensure we continue to innovate and offer customers new and differentiated benefits.

FY20 PROGRESS

- We began work to redesign the new customer onboarding journey, including a "soft search" feature for FY21. This allows customers to check the likelihood of approval for credit without impacting their credit file
- We onboarded over 100 new brands this year including our first integrated retail and credit proposition brand launch, Topshop. We saw customer demand shift towards electricals – Nintendo was a stand out brand during H2 along with Apple and Samsung Vision as our customers looked to keep themselves and their families entertained

FY21 PRIORITY

Innovating our credit offer

We have a clear roadmap of improved functionality to our credit offer that we will implement in the course of FY21, including the introduction of monthly statements for Very.co.uk and Littlewoods Ireland and improving our warranty products. Additionally, we will work ever closer with brands, as they understand the benefits of our model and the ability to attract a new customer base.

3

CREATE THE BEST SHOPPING EXPERIENCE FOR OUR TARGET CUSTOMERS

We are continuing to invest in, and focus on, improving each customer touchpoint – from our website and apps to order fulfilment and customer care. We have made significant progress in these areas across the course of the year which gives us a strong base to build upon in the coming year.

FY20 PROGRESS

- We landed our new fulfilment centre, Skygate, in the East Midlands. Towards the end of the financial year, we hit a milestone with over one million items stocked in the warehouse across 2,500 product lines
- We made improvements to our site content and functionality. For example, we partnered with Nike to tackle size and fit in the sportswear market, showcasing a sample of products across a broader selection of model images
- We extended our carrier management capability to direct despatch orders, bringing our best customer experience to those orders coming direct from suppliers
- We adapted and extended our product range to help our customers during the Covid-19 pandemic. For example, we launched a household goods essentials box in collaboration with Booths. We also adapted our ranges to take into account emerging themes, such as home working, home school resources, and home and garden improvements
- We invested in customer support to adapt and adjust our Customer Care services in extremely difficult circumstances, including remote working for our customer care colleagues. We finished FY20 broadly in line with last year on our Net Promoter Score (NPS) at +48

FY21 PRIORITY

Focus on brand expansion, customer experience and conversion

We will prioritise leveraging our Skygate capability to advance our customer delivery options and improve cut off times, giving customers more time to shop with next day delivery. We've got exciting plans to onboard new, fresh brands into our categories, giving our customers more reasons to shop with us. We will replace our Net Promoter Score with a new Relationship Net Promoter Score that will allow us to get even closer to our customers and further improve their experience, and we will be investing in our technology to further increase the flexibility of our platform's fulfilment models, driving availability and assortment with our brand partners.

4

PUT TECH AND DATA AT THE HEART OF OUR BUSINESS

We are continuing to invest in data and technology to allow us to make even faster and better improvements to our customer journey in a secure, stable and scalable way.

FY20 PROGRESS

- We moved our operating model into "tribes", dedicated to our business areas. Our priority last year was to get the teams up and running, closing resource gaps and setting them up for success. We have started to see the benefits of moving to this model, with clear accountability, empowered teams and agile delivery of customer and business benefits
- We delivered a stable and successful peak period, with 100% available time for customers to place an order during the key month of December
- The Covid-19 pandemic meant that working from home became the new normal for the majority of colleagues and our tech team worked relentlessly to ensure our infrastructure was secure and had the bandwidth to support this, as well as being on hand for any issues and coaching colleagues to use tools remotely
- We completed our investment in "contact centre as a service" software – providing a vital cloud platform that enabled an easy move to remote working for the contact centres through lockdown
- We have commenced the refurbishment and rationalisation of our physical infrastructure to adapt to the digital ways of working in the future

FY21 PRIORITY

Digital on the inside

The pandemic has sped up our plans to revolutionise our ways of working and we will continue to work through how we can embrace technology. Focusing on digital communication and collaboration which will enable us to further our agile mindset. It will be key for us to learn as we go and adapt as we need to during, and in the aftermath of, this global pandemic.

5

EXPLORE NEW IDEAS TO SERVE AND DELIGHT OUR TARGET CUSTOMERS

We want to identify and grow new opportunities that will help address more of the needs of our customers beyond what we offer today.

FY20 PROGRESS

- We experimented with new third party paid partnerships on our platform
- We started our investment to implement new and improved Financial Services products in our portfolio. As part of this we have been looking at how we can extend our Financial Services offer and ideas that have been developed in 2019/20 are the launch of a new personal loan business and new opportunities in the insurance sector
- We know our target customers love flexible ways to pay, and with the current economic uncertainty, we believe we can help them outside of our core retail credit through flexible borrowing

FY21 PRIORITY

Move from discovery into delivery

We've completed a year of discovery, and test and learn on a small scale. In the coming year, we will focus on execution and will start building a new revenue-generating service that will go live in FY22.

The sky's the limit

Our new state-of-the-art, automated fulfilment centre will deliver outstanding service for our customers, and game-changing efficiency and environmental benefits for our business.

In July 2020, Skygate, our new 850,000-square foot automated fulfilment centre in the East Midlands, processed its one-millionth outbound customer order. This milestone was made all the more impressive having been reached during the Covid-19 pandemic.

Rather than change our timetable, we opted to continue the phased migration of product and the opening of Skygate throughout the coronavirus outbreak, introducing a range of new measures to help ensure the safety of our colleagues.

By pressing ahead with our plans during this period of global uncertainty, we are now in a position to realise the benefits of Skygate at a time when online retail is growing and we are attracting a large number of new customers.

And the long-term opportunities are clear. Skygate will provide a better experience for our customers, deliver significant efficiency savings and reduce our environmental impact. Moreover, the site has options for modular expansion as our business grows – so we will have even more scope to deliver benefits.

PURPOSE-BUILT, AUTOMATED AND CONNECTED

The decision to relocate our fulfilment operation to the East Midlands away from Greater Manchester was a difficult one, but ultimately right for our customers and our business.

In ecommerce, location is critical and Skygate is in a prime location for our suppliers and carriers, and is at the centre of the areas where our customer base is most concentrated. It is also close to our supplier centre of gravity and there are seven major carrier sortation centres within 50 miles of the site.

The central UK location, adjacent to the M1 and East Midlands Airport, has allowed us to increase next day delivery cut-off from 7pm to 10pm. Over the coming months, this will be extended further to midnight and we will explore same day delivery in future.

850,000
square foot automated fulfilment centre

1m
future miles off the road per annum, reducing packaging waste and improving our heat, light and power footprint

Best-in-class automated technology means product goes from order to despatch in just 30 minutes, and we have space for expansion and options for future innovation through the flexible technology we have selected.

Skygate will also help us to meet our environmental goals by taking 1m future miles off the road per annum, reducing packaging waste and improving our heat, light and power footprint.

SUPPORTING COLLEAGUES

We have so far hired 975 committed and talented colleagues in the East Midlands to serve our customers. This figure will rise to 1,200 during peak. Our ability to secure multi-skilled talent is underpinned by a colleague proposition that we believe sets us apart from other organisations locally, including flexible working patterns and on-site wellbeing facilities.

A flexible approach to weekly hours and shift patterns gives colleagues choice on how to balance work and home life. Meanwhile, we have built an all-weather multi-use games pitch, fitness centre and high-quality, 24/7 restaurant.

Our commitment to colleagues extended to those who were made redundant as a result of the closure of our Greater Manchester fulfilment sites, which we announced two years in advance in 2018.

Since then, we have worked with a taskforce, including our trade union Usdaw, local councils, Government bodies and inward investment organisations, to deliver a coordinated package of tailored support for each colleague to help prepare them for the future. This included apprenticeships, forklift truck accreditations, functional skills training, and career and employment training.

The collaborative model for colleague and community support has since been recognised as a benchmark by other companies and stakeholders in similar circumstances.

LOOKING FORWARD TO THE PEAK AND BEYOND

Our team at Skygate is now ready for its first peak, which includes the Black Friday period and Christmas. Not only will we benefit from turning orders around – from placement to despatch – faster than ever before, but new technology also gives us the ability to pre-pick and pack high volume promotional lines to ensure even faster order-to-fulfilment time.

And beyond peak, we will begin the migration of the majority of our returns operations to Skygate. By combining our outbound fulfilment and returns operations within one automated site, we will be able to process returns and make them available for sale faster than ever before.

In April 2021, Skygate will become fully operational. It will mean a faster, more flexible service for our growing customer base and contribute up to £23m in efficiency savings per year for our business. And with capacity to expand over the next 10 years as our business grows and technology develops, we believe the sky's the limit for fulfilment at The Very Group.

Financial review

Building on our flexible and resilient business model, we returned to profit in the year and have a strong liquidity position.

BEN FLETCHER

GROWING IN A CHALLENGING YEAR

RETURNING TO PROFIT

In my first year as the Chief Financial Officer at The Very Group I am pleased with the business' return to profit, despite the impact of Covid-19, and continued progression against its strategic objectives. In looking at the Group, I am confident that we have an economic model which enables us to create long-term value, even when the context is that of a challenging consumer market. Our model has five clear elements to it; long-term Very.co.uk revenue growth, stable gross margin, improving return on assets, cost control and increasing the Very.co.uk debtor book. Our FY20 results demonstrate significant progression against these.

The Group has returned to profit in FY20, including an increase in profit before tax of £233.9m against the prior year to £48.4m (FY19: loss before tax: £185.5m). In FY20, we have seen continued revenue growth, with Group revenue surpassing £2bn for the first time, driven by Very.co.uk. The Very.co.uk debtor book has grown in the year and the underlying quality of the debtor book has continued to improve. We are also reporting another year of stable underlying retail margin rate alongside successful cost control. Through these elements of our robust economic model we have been able to partially mitigate margin pressures which we have seen, particularly in the second half, arising from a lower demand for higher margin fashion items and a significant shift into lower margin electrical products, accompanied by lower interest income and an increase in the bad debt charge relating to customers who, at the onset of Covid-19, chose to take advantage of existing facilities to temporarily pause payments to their accounts for two months and an additional £4.0m macroeconomic provision. Consequently, we report that underlying EBITDA has slightly decreased to £264.4m (FY19: £272.4m).

As discussed on the following page, EBITDA is after adverse impacts of £12.4m relating to Covid-19. Excluding these impacts, underlying EBITDA would have been approximately £277m.

GROWING SIGNIFICANTLY IN QUARTER 4

The impact of Covid-19 in the UK was felt towards the end of quarter 3 of the financial year and so the full year figures mask some materially different trends across the year. Since the final two weeks of March 2020, we saw significant growth in new customers and this has driven growth in our active customer base of 10.6% (Very.co.uk 14.1%) in the year. We have also seen a shift in the sales mix, primarily out of fashion, which saw a sharp drop, into electrical, and products for home living and working. In total, retail sales increased 27.6% in quarter 4 against the prior year and we have provided additional disclosure below on our quarter 4 retail sales trends.

ACTING DECISIVELY IN RESPONSE TO COVID-19

At the outset of Covid-19, we planned against a stress test scenario and deployed strategies and tools to closely manage cash flow and mitigate impacts. We took decisive actions against this prudent stress test, including cost reduction, tight management of capital spend, a reduction in our cost of employment, including a freeze on recruitment, and sensible inventory management. These actions, together with strong trading have enabled us to finish the year with £206.4m of cash and cash equivalents (FY19: £7.2m) leading to a net debt (excluding securitisation) reduction of £144.2m against prior year.

In line with FCA guidance we continue to offer our customers temporarily impacted by Covid–19 a three-month payment freeze, and customers are currently able to commence this until the end of October 2020. We have seen participation in the scheme at levels well within the stress tests with c1% of accounts currently on a payment freeze. The payment freeze has been accounted for within the bad debt provision as if these customers were not on the freeze and followed a normal bad debt profile. The macroeconomic element of the Group IFRS 9 provision has also increased year on year by £4.0m, reflecting current circumstances (see note 3 to the financial statements for further details).

As a result of Covid-19, we have seen a number of significant impacts on our income statement, which are summarised below. These have reduced pre-exceptional EBITDA by £12.4m and profit before tax by £23.3m. These items are further explained through the Financial review.

FY20 COVID-19 IMPACT

	£m
Increase in bad debt provision	(8.4)
Increase in bad debt macroeconomic overlay	(4.0)
Pre-exceptional EBITDA impact	**(12.4)**
Restructuring costs	(4.6)
Impairment of tangible fixed assets	(3.4)
Covid-19 costs	(2.9)
Exceptional items impact	**(10.9)**
Profit before tax impact	**(23.3)**

CAPITALISING ON OUR STRONG OFFER AND ECONOMIC MODEL

Since the onset of Covid-19, our multi-category store, supported by credit products, has proven to be more relevant than ever. The multi-category offer provides resilience against movements in individual product categories and we believe that the latter part of FY20 is a further validation of the robustness of the business model.

GROUP SALES

We achieved good sales growth in the year.

Group sales[1] increased by 2.9% to £2,050.7m. Full year growth included a very strong quarter 4 performance, when growth in the online market was accelerated by changes in customer behaviour due to Covid-19, with quarter 4 Group sales growing by 19.2% against prior year. This strong performance is testament to our strength as a multi-category retailer, as well as the resilience and responsiveness of our colleagues during this unprecedented period.

During the year, Very.co.uk sales grew 6.8% to £1,589.8m, including 22.2% growth during quarter 4 against prior year. Our flagship brand saw impressive growth in retail sales, up 10.5% in the year and 36.0% in the final quarter, with the full year growth driven by electrical (+18.0%) along with strong growth in home (+13.0%) and other categories (+10.5%).

Very.co.uk mobile sales continued to increase in the year, reaching 83% of the brand's online sales as a result of the continued commitment to our mobile apps and user experience.

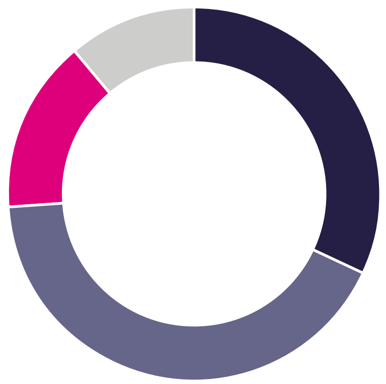
Littlewoods sales of £460.9m (FY19: £505.3m) show a lower rate of reduction of 8.8%, compared to 11.3% in the prior year, as we successfully controlled the decline of the Littlewoods brand.

Littlewoods performance strengthened significantly in quarter 4 compared to prior year, reporting growth of 9.5%, underpinned by a strong electrical performance. Littlewoods mobile sales also increased as a proportion of online sales, from 77% in FY19 to 79% in FY20. The total for Littlewoods includes the performance of Littlewoods Ireland, which performed very strongly, with growth of 22.2%, driven by double digit growth across all categories.

	FY20 £m	FY19 £m	Change %
Very.co.uk	**1,589.8**	1,488.1	6.8
Littlewoods*	**460.9**	505.3	(8.8)
Group Sales	**2,050.7**	1,993.4	2.9

* Littlewoods sales performance includes growth in Ireland sales of 22.2%.

FY20 VERY.CO.UK RETAIL SALES MIX (%)
(By product)



	2020 %	2019 %
Fashion & sports	**32**	35
Electrical	**42**	40
Home	**15**	14
Other categories	**11**	11

FY20 VERY.CO.UK RETAIL SALES GROWTH
(By product)

	Change %
Fashion & sports	0.9
Electrical	18.0
Home	13.0
Other categories	10.5
Retail sales	**10.5**

Group retail sales[2] grew 5.8% versus the prior year, including 27.6% quarter 4 year-on-year growth. During quarter 4 we have seen a significant shift in consumer behaviour with electrical up by 64.1%, as well as home and other (includes toys, gifts, beauty, leisure) each up by around 40%. Over the course of FY20 we have seen a small decline in fashion & sports, which, accompanied by strong growth in electrical, has changed our retail sales mix by around 2%pts.

Very.co.uk retail sales represent 75% of group retail sales and grew by 10.5% versus the prior year. Fashion & sports growth of 0.9% was impacted by a softening in the wider market following a strong Christmas trading period, and Covid-19, which further dampened growth during quarter 4 as lockdown measures significantly impacted spend on fashion across the market. Within this, men's, women's and children's sportswear clothing have continued to grow, with total sportswear growing by 14.2% compared to the prior year. We continue to see sportswear as a key growth opportunity. Electrical grew 18.0% in the year, including accelerated growth in quarter 4. Audio was the standout category in the year, posting growth of 76.0%. It was further supported by strong performances in small domestic appliances, computing, vision and smart tech. Home growth of 13.0% also included a step-up in performance in quarter 4, with customers purchasing products from our garden & outdoor range, as well as home improvement ranges. Other categories grew by 10.5% in the year and by 47.4% in quarter 4. This strong performance was driven by toys, which grew by 15.7% in the year.

FINANCIAL SERVICES REVENUE

Our financial services revenue was impacted by a number of factors and decreased by 8.8% to £393.3m (FY19: £431.2m). Interest income performance was impacted by higher customer payments and a number of changes made to the customer journey, including improved approval decisions

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 Retail sales is on a management accounts basis excluding statutory adjustments therefore differs to revenue from the sales of goods presented in note 6 to the Financial statements.

Financial review

continued

using the most up-to-date credit bureau data and proactive measures to limit credit increases. These changes, while reducing the Group debtor book and interest income in the short term, are driving an improvement in the quality of the book and margin earned, and we expect to annualise on this revenue impact during FY21. Interest income as a percentage of the average debtor book has consequently decreased by 1.0%pt to 22.2% (FY19: 23.2%).

Financial Services revenue was also impacted by a reduction in the volume of administration fees charged in the year due to changes we have made to our administration fees policy. The volume of administration fees charged in quarter 4 was also affected by customers entering three-month payment freezes, introduced by the FCA in response to Covid-19.

CUSTOMERS

We maintained our focus on building strong customer relationships.

Active customers (those shopping with us over the previous 12 months) grew 10.6% to 4.48m. Very.co.uk active customer growth of 14.1%, including 12.1% growth in credit customers, reflects the relevance of our offer combining a multi-category store and flexible ways to pay, as well as our continued focus on improving our customers' experience. In Littlewoods, active customers increased by 0.9%. including 48.3% growth in cash customers and 20.0% growth in Littlewoods Ireland customers. The percentage of Littlewoods credit customers retained for five or more years increased to 53.7%[3] (FY19: 52.3%), reflecting customers' continued loyalty to this famous, historic and profitable brand.

During quarter 4 we were particularly strong in engaging with both existing and new customers. Quarter 4 active customers were up by 85.9%, driven by new customer growth, up by over 100% for both the Group and Very.co.uk. Moreover, this growth has been achieved at a lower cost per acquisition.

The strong growth in new customers in quarter 4 together with a lower mix of fashion retail sales resulted in the average order frequency per customer reducing (Very.co.uk (6.0)% and Littlewoods (1.8)%). Combined with broadly flat Group average orders values (+0.3%), this has reduced demand per customer (average order frequency multiplied by average order value) by 5.1%.

This reduction in demand per customer has been partially offset by an improvement in sales conversion, which was ahead of the prior year by 0.4%pts

	FY20	FY19	Change %
Active customers[4] (m)	**4.48**	4.05	10.6
Demand per customer[5] (£)	**669.2**	704.9	(5.1)
Sales conversion[6] (%)	**54.7**	54.3	0.4

3 Excludes Littlewoods Ireland customers who have been retained for 5+ years.
4 Defined as having shopped in the last 12 months.
5 Defined as 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).

COSTS AND PROFIT

We returned to profitability and continued to drive down costs.

Group gross margin rate reduced by 3.1%pts to 36.5% (FY19: 39.6%), reflecting the significant changes in consumer behaviour and lower contribution from Financial Services. Retail margin rates were lower than the prior year, driven by a change in product mix, with demand for higher margin fashion items lower year-on-year, accompanied by the continued impact of brand switching between Very.co.uk and Littlewoods. Underlying retail margins were flat year-on-year. Financial Services contribution was down compared to the prior year, due to lower interest income as well as lower warranty volumes and administration fee charges.

Bad debt was £16.5m higher year-on-year. This was primarily driven by annualising against prior year provision movements, accompanied by an increase to the provision in FY20 reflecting the sudden and unprecedented increase at the onset of Covid-19 in the number of customers taking advantage of an existing facility to temporarily pause payments to their accounts for two months (customers who have been temporarily impacted by Covid-19 and chose to enter a three month payment freeze have been accounted for within the bad debt provision as if these customers were not on a freeze and followed a normal bad debt profile). In addition, the macroeconomic element of the bad debt provision, as described in note 3 to the financial statements, has increased in the year by £4.0m. Excluding such movements, the underlying bad debt charge has reduced year-on-year, thanks to improvements in our credit decisioning processes.

Our strong focus on driving cost efficiency has resulted in total costs as a percentage of revenue decreasing by 1.8%pts to 26.6% (FY19: 28.4%). However, this was offset by the decline in gross margin rate. Consequently, underlying EBITDA margin rate decreased by 0.8%pts to 12.9% (FY19: 13.7%). Excluding Covid-19 related costs, underlying EBITDA margin rate would have been 13.5%.

Distribution expenses of £227.3m are broadly in line with the prior year (FY19: £226.4m), despite growth in retail sales. Distribution costs as a percentage of Group sales decreased by 0.3%pts to 11.1%, driven by product mix, including lower sales of high returning items such as occasionwear.

Administrative expenses before exceptional items decreased to £319.0m (FY19: £338.9m), and as a percentage of revenue have fallen by 1.4%pt to 15.6%. This reflects a strong culture of cost control in the business, as well as a reduction through adopting IFRS 16 and the corresponding reclassification of rent expense to interest and depreciation (further detail provided in note 4). Excluding the £7.3m impact from IFRS 16, administrative costs as a percentage of revenue decreased by 1.1%pts to 15.9%, driven by a reduction in the cost per acquisition of new customers and head office efficiencies.

Underlying EBITDA decreased by 2.9% to £264.4m (FY19: £272.4m). This reflects volume growth and continued cost discipline, more than offset by a lower margin rate due to the factors outlined above. Excluding Covid-19 related costs, underlying EBITDA would have been approximately £277m. Pre-exceptional EBITDA decreased by 4.4% to £259.1m (FY19: £271.0m). A reconciliation of underlying EBITDA to pre-exceptional EBITDA is provided opposite.

Higher net finance costs of £112.8m (FY19: £101.5m) were driven by higher 'B' and 'C1' and new 'C2' note drawings in the year, as well as the impact of transition to IFRS 16 with the corresponding reclassification of rent expense to interest and depreciation.

Profit before tax £48.4m (FY19: Loss before tax: £185.5m) was driven by a decrease in exceptional items to £42.6m (FY19: £310.2m). During FY19 the Group recognised regulatory charges of £241.0m to cover the estimated cost of customer redress claims in respect of historic shopping insurance sales to the claim's deadline set by the FCA of 29 August 2019. During FY20 there has been a further increase to the provision of £15.0m to recognise the remaining processing costs for all outstanding claims. The remaining provision of £101.1m at 30 June 2020 is expected to be fully utilised within 12 months. Exceptional items also include a £20.9m charge relating to the dual running costs of our new fulfilment and returns centre in the East Midlands, as well as a £10.4m charge for restructuring costs, including the Group's redundancy costs which are a direct result of Covid-19. The remaining charges consist of £6.9m for professional fees, £4.2m for finance costs associated with the lease of the new fulfilment centre, a £3.4m charge for the impairment of the Group's customer care centre in Aintree which will be closed during FY21 due to the shift to home-working and £2.9m Covid-19 one-off operating costs which have been incurred to make changes to the Group's office and fulfilment operations in response to changing health and safety requirements.

The total of these charges has been partly offset by a £21.1m credit with respect to Gross Minimum Pensions (GMP) equalisation of The Littlewoods Pension Scheme, which has been recognised as an exceptional past service credit (further detail provided in note 25).

INCOME STATEMENT

	FY20 £m	FY19 £m
Group sales	**2,050.7**	1,993.4
Gross margin	**747.9**	788.8
Gross margin rate %	**36.5**	39.6
Distribution expenses	**(227.3)**	(226.4)
Administrative expenses	**(319.0)**	(338.9)
Other operating income	**2.2**	2.7
Operating profit before exceptional items	**203.8**	226.2
Net finance costs	**(112.8)**	(101.5)
Profit before tax and exceptional items	**91.0**	124.7
Exceptional items	**(42.6)**	(310.2)
Profit/(loss) before tax	**48.4**	(185.5)

RECONCILIATION OF OPERATING PROFIT TO PRE-EXCEPTIONAL EBITDA

	FY20 £m	FY19 £m
Operating profit	**165.4**	(84.0)
Adjusted for exceptional items	**38.4**	310.2
Operating profit before exceptional items	**203.8**	226.2
Adjusted for: depreciation + amortisation	**55.3**	44.8
Pre-exceptional EBITDA	**259.1**	**271.0**

RECONCILIATION OF OPERATING PROFIT TO UNDERLYING EBITDA

	FY20 £m	FY19 £m
Operating profit	**165.4**	(84.0)
Adjusted for exceptional items	**38.4**	310.2
Operating profit before exceptional items	**203.8**	226.2
Adjusted for: depreciation + amortisation	**55.3**	44.8
Pre-exceptional EBITDA	**259.1**	271.0
Adjusted for:		
Fair value adjustments to financial instruments	**2.3**	(2.3)
Fair value adjustments to trade creditors	**(0.2)**	2.6
Pension adjustments	**3.2**	1.1
Underlying EBITDA**	**264.4**	**272.4**

** Underlying EBITDA includes a £7.3m adjustment for the reclassification of rent expense to interest and depreciation.

TAXATION

Profit after tax of £69.5m (FY19: Loss after tax: £170.0m) includes a tax credit of £21.1m (FY19: credit £15.5m). This includes a current tax charge of £1.6m and a credit of £22.7m relating to an increase in the deferred tax asset.

FINANCIAL POSITION

Net assets/(liabilities) increased to £60.6m (FY19 net liability: £(88.5)m), driven by the profit for the period and an equity injection of £100.0m to fund the late surge in volume of customer redress claims which occurred ahead of the 29 August 2019 FCA deadline. Non-current assets increased to £769.0m (FY19: £576.9m), driven by the transition to IFRS 16 and recognition of right of use assets, alongside the business' recent capital investment, and an increase in the deferred tax asset.

Inventories decreased to £65.4m (FY19: £94.2m), driven by a targeted reduction in inventory cover days and the strong quarter 4 retail sales performance. Working capital efficiency through inventory management will remain a key priority. Trade debtors decreased to £1,330.6m (FY19: £1,374.4m), driven by higher customer payments. Trade and other payables increased to £533.1m (FY19: £502.6m), reflecting year-on-year sales growth, particularly through quarter 4.

Securitisation borrowings increased to £1,385.4m (FY19: £1,372.6m), driven by the additional issue of £50.0m 'C2' Notes, partly offset by a decrease in gross trade debtors. The securitisation facility expires in December 2022 for 'AS' Notes (£1,143.3m) and 'AJ' Notes (£181.7m), and December 2023 for 'B' Notes (£105.0m), 'C1' Notes (£105.0m) and 'C2' Notes (£50.0m). The total facility size is £1,585.0m. The securitisation borrowings also include £26.4m per note 24 (FY19: £24.5m) relating to the balance sheet receivables of Shop Direct Ireland Limited.

The Group uses a number of measures to assess financial performance that are not defined within IFRS and are widely referred to as 'Alternative Performance Measures' ("APMs"). The directors use these measures to review the performance of the Group, as evidenced by their inclusion in the monthly Group Performance Report which is presented to the Board. Underlying EBITDA is an important APM as it provides the best indication of the underlying trading performance of the Group.

Financial review

continued

>£200m

year-end cash headroom

PENSIONS

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

In FY18 the Group completed the buy-in agreements for the Shop Direct Group Littlewoods Pension Plan ("Plan") and the Littlewoods Pension Scheme ("Scheme"). In FY19 the Group completed the buy-out of the Plan. As such, the liability was fully extinguished and a net surplus of £14.4m crystallised. This is reflected in the comparative numbers in these Financial statements as detailed in note 25.

During the year ended 30 June 2020 the Group has opted to carry out a Guaranteed Minimum Pensions (GMP) conversion within the Scheme. This has resulted in a credit in the income statement during the year ended 30 June 2020 of £21.1m.

Post FY20 year end, the Trustees of the Littlewoods Pension Scheme ("Scheme") have secured substantially all long-term benefits for the c.13,000 Pension Scheme members via a second buy-in deal. The Rothesay Life transaction covers just under £930m of liabilities and follows on from the aforementioned first buy-in with Scottish Widows for £880m in May 2018.

On 19 August 2020, formal agreement was reached between the Group and the Trustees of the Scheme with regards to future Company contribution obligations. This has been documented in a revised Schedule of Contributions, which allows for a single future contribution of £18.7m payable on or before 31 August 2021. If this change had been agreed prior to 30 June 2020, the net pension liability of £57.9m would have reduced to £17.7m i.e. the impact would have been a reduction in the IFRIC 14 liability as disclosed in note 25 of £40.2m.

The Group also operates a defined contribution pension scheme for all employees, the Shop Direct Group Personal Pension Plan. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £6.2m (FY19: £6.2m).

IFRS 16

During the current financial year, the Group has adopted IFRS 16 which supersedes IAS 17 (Leases) and was effective for accounting periods beginning on or after 1 January 2019. Under IFRS 16, a lessee recognises a 'right-of-use' asset for all leases, which represents its right to use the underlying leased asset for the period of the lease. At the commencement date of a lease, a lessee is required to recognise both a right-of-use asset and a lease liability. Note 4 details the IFRS 16 leases transition and accounting policy choices applied.

CASH FLOWS

The FY20 year-end position reflects a cash liquidity headroom of over £200m. The cash and cash equivalents balance increased by £199.2m to £206.4m during the year (FY19 cash and cash equivalents: £7.2m). This was driven by working capital movements, including a reduction in inventory balances, lower receivables due to higher customer payments, an unusually high year-end trade creditor balance following the strength of quarter 4 trading, and tax payments which were deferred out of FY20 using HMRC's Time To Pay scheme, along with drawings on the revolving credit facility and issue of share capital in the year.

	FY20 £m	FY19[7] £m
Profit/(loss) for the year	**69.5**	(170.0)
Depreciation and amortisation	**59.6**	44.8
Working capital	**79.1**	(104.8)
Securitisation facility draw down	**12.8**	55.2
Proceeds from revolving credit facility	**55.0**	–
Pension	**(16.0)**	9.6
Capital expenditure	**(74.1)**	(51.7)
Issue of share capital	**100.0**	–
Other[8]	**(86.7)**	91.4
Net increase/(decrease) in cash and cash equivalents	**199.2**	(125.5)
Opening cash and cash equivalents	**7.2**	132.7
Closing cash and cash equivalents	**206.4**	7.2

CAPITAL INVESTMENT

Net capital additions for the year totalled £74.1m (FY19: £51.7m) across business-as-usual and strategic investment.

INVESTING IN SERVING OUR CUSTOMERS BETTER

During the year we continued to invest in our internal systems. Our old contact centres system infrastructure was over a decade old and more suited to when most orders and contacts were received through our call centres. We are replacing this infrastructure with a new system that is less constraining for our colleagues – allowing them to serve our customers better and ultimately drive improved customer satisfaction.

MODERNISING TO WORK TOGETHER SEAMLESSLY

In head office our colleagues continue to modernise processes and ways of working by undertaking rebuild projects to replace various legacy systems. We have also continued to make progress towards creating a cloud-based platform so our colleagues around the business can work together seamlessly.

ENHANCING OUR STRENGTHS AND CAPABILITIES

Through the year we continued to invest in our customer proposition and the security of our customers' data. We have enhanced our credit decisioning capability, enabling the business to continue to provide customers with the most suitable credit products. We have also committed spend to projects we see as key to protecting our sustainability and business reputation. Such projects ensure risks around fraud and data integrity are sufficiently reduced and that the business continues to comply with the requirements of the various regulators.

CONTINUING TO DEVELOP TO MEET FUTURE DEMANDS

We have also invested further in the infrastructure and systems in our new fulfilment centre in the East Midlands to support our supply chain capabilities as we continue to develop our delivery proposition to meet future demands.

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. Given the current uncertain economic climate, conservative 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.

The Group financial statements for the year ended 30 June 2019 included a material uncertainty with respect to going concern due to the accounts being approved before an additional £150.0m of funding was received in order to meet the final customer redress claims liability following an unexpected late surge in claims ahead of the 29 August 2019 FCA deadline. During the year ended 30 June 2020 the material uncertainty relating to going concern has been resolved through a cash injection of £150.0m as follows:

- £75.0m equity injection on 18 November 2019;
- £25.0m equity injection on 7 February 2020; and
- £50.0m of 'C2' notes issued under the securitisation programme and drawn down on 5 February 2020.

As such the Directors no longer consider that there is a material uncertainty regarding the Group's ability to continue as a going concern.

The Group has carefully considered its cash flows and banking covenants for the 12 months from the date of signing the audited financial statements. These have been considered in conjunction with the current economic climate, including the Covid-19 pandemic.

As a result of the Covid-19 pandemic, the Group has experienced the following:

- A shift in sales out of fashion and into the likes of electrical and home categories;
- Strong trading during quarter 4; and
- In line with other companies, and per FCA guidance, the Group has granted customers adversely impacted by Covid-19 the ability to take a three-month payment freeze. At its peak use 2% of customer accounts were utilising this facility and currently 1% of accounts remain on a payment freeze. Despite this, customer payment rates since the onset of Covid-19 have been, and remain, at historically high levels.

The Group continued to trade effectively throughout the lockdown period with the online store remaining open throughout and adjustments implemented such as office-based colleagues working from home. Actions taken by the Group included cost reduction, tight management of capital spend and sensible inventory management. The multi-category offering has provided resilience against movements in individual product categories and there has been an increase in customer account applications, including credit accounts. Due to the strong trading performance during the lockdown period the Group opted not to draw on the Government's Coronavirus Job Retention Scheme. Despite its significant negative economic and social impact, Covid-19 has accelerated online retail growth and increased consumers' appetite for flexible ways to pay, as well as led more brands to look for new online sales and distribution channels. The Group is well placed to capitalise on these trends and the unique opportunities we have as a business in the years to come.

There are clearly challenges in quantifying the expected future impact of Covid-19 on the Group. However, Group forecasts have been stress tested for a number of scenarios and the Group has deployed strategies and tools to closely manage cash flow and mitigate any issues.

Following the work undertaken by the Group the Directors are confident that the Group has sufficient liquidity for the next 12 months, and they are confident the Group will satisfy covenant requirements. Trading to date remains significantly better than the Group stress test scenario.

After making appropriate enquiries the Directors are confident 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 Annual Report and Financial statements.

7 Comparatives restated as per note 2 to the Financial Statements.

8 Other is driven by provision movements, reflecting timing differences between the recognition of exceptional customer redress charges and the associated cash outflows, tax, payments of lease liabilities, non-cash statutory adjustments and impairment charges, as well as timing adjustments for interest payments.

Section 172 Companies Act 2006

This report sets out how the Directors comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted The Very Group Board's decision making throughout FY20.

The Very Group Board's primary responsibility is to promote the long-term success of the Group by ensuring an excellent consumer experience, which, in turn, delivers sustainable shareholder value and contributes to wider society. The successful delivery of the long-term plans relies on key inputs and positive relationships with a wide range of stakeholders (as described in the Corporate governance report). The Very Group Board seeks to achieve this by setting out its strategy, monitoring performance against the Group's strategic objectives and reviewing the Executive Board's implementation of the strategy.

The Very Group Board has chosen to apply its own corporate governance arrangements for the year ended 30 June 2020. The Corporate governance report is included on pages 33 to 35.

The Very Group Board's priority is to ensure that the Directors have acted both individually and collectively in ways they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs a-f of Section 172 of the Companies Act 2006. These details are set out on the following pages:

SECTION 172: A) THE LIKELY CONSEQUENCE OF ANY DECISION IN THE LONG TERM

The Executive Board agrees a capital investment plan with The Very Group Board on an annual basis, and agrees three year and five year plans on an annual cycle. The Executive Board monitors its implementation throughout the year using detailed reports on operating and financial performance. This includes monitoring progress against key strategic programmes (both short-term and long-term) as well as considering the allocation of capital to support the rolling three/five-year business plan.

The Executive Board and Very Group Board regularly reviews the Group's forecast funding requirements and during the year, following a spike in customer redress claims ahead of the FCA-imposed August 2019 deadline, secured £100.0m of equity injections from the parent company and raised £50.0m of additional securitisation funding through the issue of 'C2' notes.

External factors, such as competitor behaviour, the performance of the retail industry and the evolving economic, political and market conditions, are also considered by the Directors in approving the strategy.

SECTION 172: B) THE INTEREST OF THE COMPANY'S EMPLOYEES

The Directors recognise the vital importance of the Group's employees and their abilities and dedication to the long-term success of the business.

The health and safety of the Group's employees (and other stakeholders) is of paramount importance and the Directors review performance in this area. The onset of Covid-19 has meant that this has been of even greater relevance and this has been discussed extensively by the Executive Board (see case study opposite).

Feedback from colleagues around factors linked to their engagement is received through our "Voice" surveys. The results, along with action plans implemented in response to the feedback received, are reviewed by the Executive Board.

The ways in which we ensure full and open engagement with colleagues and their representatives and our approach to remuneration are described in the Corporate governance report on pages 33 to 35.

Shaping future ways of working

During the year, the Executive Board considered a number of matters where it was important to be mindful of the interests of employees.

One example of this was around how and when our people could return to our offices following the closures caused by Covid-19.

A detailed proposal was considered by the Executive Board. This recognised that the way we begin to return to and use our workspaces once lockdown was lifted, and the level of input we afford our colleagues in helping to create our future ways of working, will send very clear signals internally and externally about the organisation we are and plan to become.

A number of areas of interest for employees were considered, including a phased reopening of the office space during May and June, with colleagues continuing to work from home if at all possible. We also engaged with employees through a Company-wide people survey to help shape future ways of working, based on any learnings from the March to May 2020 period following the onset of Covid-19. Significant investments have been approved in order to ensure the appropriate technology is in place for home working and appropriate new equipment including personal protective equipment and thermometers are in place for those returning to the office. The transformation of our ways of working is described on page 11 and a £2m investment has been approved to fully support the hybrid home/office working we will move to.

SECTION 172: C) THE NEED TO FOSTER THE COMPANY'S BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Executive Board regularly reviews how the Group maintains positive relationships with all its stakeholders, including suppliers, customers and others, and this is further outlined in the Corporate governance report on pages 33 to 35.

The Directors understand the importance of the Group's suppliers in delivering the long-term plans of the Group. We work with a large range of suppliers – from global technology companies to local businesses. We understand that our suppliers being able to operate efficiently and effectively is critical to our ongoing success. Supplier relationship management is a key discipline across the business and we work collaboratively with our key suppliers to ensure the best outcomes for our customers and colleagues.

Our Sustainability report on pages 30 to 31 describes our commitments and actions towards our supply chain and the environment in which we live and operate.

We have been serving UK customers for well over a century and the criticality of the customer in our business model is reflected at Executive Board level in areas including the level of reporting received and Executive remuneration, as discussed in the Corporate governance report on pages 33 to 35.

Other stakeholders include communities, government bodies, shareholders, financing partners and industry and regulatory bodies, as described in the Corporate governance report on pages 33 to 35.

SECTION 172: D) THE IMPACT OF THE COMPANY'S OPERATIONS ON THE COMMUNITY AND ENVIRONMENT

The Executive Board supports the Company's goals and initiatives in relation to supporting the communities and reducing adverse impacts on the environment. Please see our Sustainability report on pages 30 to 31 for details.

SECTION 172: E) THE DESIRABILITY OF THE COMPANY MAINTAINING A REPUTATION FOR HIGH STANDARDS OF BUSINESS CONDUCT

The Directors take the reputation of the Group seriously. This is not limited only to operational and financial performance.

The Executive Board has committed to having a workforce that more accurately reflects society and our Diversity and Inclusion strategy is outlined within the Corporate governance report on pages 33 to 35.

The Executive Board has also approved the Group's Third Party Code of Business Conduct & Ethics and Modern Slavery statements (which can both be found on the Group's website **www.theverygroup.com**). The Executive Board has considered the data and narrative relevant to the Group's Gender Pay Reporting in preparation for external publication (which can also be found on the Group's website).

SECTION 172: F) THE NEED TO ACT FAIRLY BETWEEN MEMBERS OF THE COMPANY

The Very Group is 100% family owned via the Sir David Barclay and Sir Frederick Barclay Family Settlements. The Group regularly engages with family shareholder members, including at The Very Group Board meetings. The Board of The Very Group Limited comprises the Group CEO together with two non-executive directors and representatives of the shareholders, including members of the Barclay family.

Upgrading our fulfilment capabilities

In April 2018, we announced proposals to upgrade our fulfilment capabilities by creating an automated distribution and returns centre in the East Midlands.

The Executive Board has had regular updates over the course of the project and during the 2019/20 financial year, considered a number of actions affecting a range of stakeholders.

As part of the move to the new fulfilment centre, the closure of our Greater Manchester fulfilment centres from mid-2020 inevitably impacted colleagues based there. The Executive Board has focused on ensuring that a fair outcome for colleagues has remained a priority and that they are supported through the transition. One of the areas of support was to set up a taskforce of representatives from across the Greater Manchester area. This includes The Very Group, local councils, government departments and external skills providers as well as representatives from Guidant and Usdaw. This taskforce has a strong collective understanding of the local economy and future workforce needs and has been supporting colleagues for the future with a strong development offer, including apprenticeships, Maths and English functional skills and self-led digital learning.

Other key focus areas have included ensuring the efficient migration of stock to the new site in order to minimise any negative impact on customers, and supporting suppliers so they can provide stock in a way that complies with the new fulfilment centre.

Risk management and principal risks

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

	Nature and Impact	Mitigation
Market	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, as a result of an economic downturn, currency/interest rate volatility or the political environment. Brexit could create potential risks, including how goods are moved in and out of Ireland, foreign exchange movements, adverse impacts from changes in import taxes/tariffs and consumer confidence. 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 have a robust business model which performed resiliently through the 2008/09 UK economic downturn and is a model which, due to the financial services offering, allows us to meet the opportunities and challenges ahead. Our Financial Services offering enables customers to spread the cost of purchases if they need to and we have a diverse multi-category product range. We are a business which engenders a culture of good customer outcomes and strong, forward-looking risk awareness. Management is proactively planning for Brexit by identifying risks and driving mitigation actions against these risks, including continuing our rolling foreign exchange hedging programme and a specific plan to mitigate potential impacts on our Irish 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 our 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. This could be heightened by a downturn in the economy and increased unemployment rates.	We have a coherent and consistent risk management framework that sets out clear organisational structures with well-defined roles and responsibilities as well as effective processes to identify, manage, monitor and report credit risks, their owners and the associated internal controls. This ensures that the Board and relevant committees have appropriate oversight. Our forward-looking approach to credit risk management ensures that risks are known, monitored and treated or mitigated. At a portfolio level, micro and macro-economic factors are considered as we look to understand the impact that changes may have on the portfolio. This forward-looking approach ensures that where economic risks are identified, we are able to quickly react to influence the debtor portfolio mix. Additionally, we closely monitor individual customer exposures and have clear procedures for establishing credit limits and monitoring exposure using a range of both internal and external data. When existing customers do face financial difficulties, we have established collections routines which include appropriate forbearance measures. Where customers are suffering temporary financial difficulties as a result of Covid-19 we have implemented increased forbearance to support.
Regulatory Environment	We are subject to a range of legislative and regulatory changes, notably in relation to consumer credit and data protection. Our consumer credit operations, which are primarily based in the UK, are subject to licensing and regulation by governmental and regulatory bodies in the UK. At present, our activities in the UK are principally regulated by the UK Financial Conduct Authority, the UK Information Commissioner's Office and the UK Office of Communications.	We have a comprehensive compliance risk management framework which oversees compliance risk across the business in the context of the overarching FCA regulatory regime as well as conduct rules and other applicable regulations. A key element of this framework ensures an open and transparent relationship with all regulatory bodies and compliance with the regulatory regime. The framework is managed through our dedicated compliance function and proactive management approach.
IT Systems, Cyber and Data	Our operational and commercial success depends on the continued availability and integrity of our IT systems, including our websites and payments systems, and our ability to keep pace with growth and change in the business. Our business is subject to data security risks including security breaches. Our business relies heavily on social media, email and other messaging services. Technology and data underpin every aspect of our business, including customer acquisition, retention, supply chain, customer experience and our credit offering.	As a digital first business, we are cognisant of cyber risk and have driven changes to treat these risks. We have a comprehensive programme of penetration testing to provide assurance over cyber defences and have delivered a number of significant enhancements this year, including the implementation of 24-hour security surveillance and monitoring of our platforms alongside investment in new systems to support our new state-of-the-art distribution centre in the East Midlands. Our well-established data analytics and insight programmes are used to further leverage our rich seam of data to identify cyber and security threats. We have a detailed technology roadmap covering future enhancements to ensure capacity for growth which includes further investment in our teams and systems, including a new Technical Operations Centre to enhance our management of systems and security threats. We have comprehensive back-up and disaster recovery procedures which are subject to regular review and testing

	Nature and Impact	Mitigation
People	People are our most important asset and our performance depends on our ability to attract, motivate and retain key employees and to embed the right culture across the business.	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. We have done a significant amount of work in refreshing our values and defining our desired culture and embedding these across the business. We conduct regular staff engagement surveys and proactively use the results to support continuous improvement.
Liquidity	We need sufficient cash flow to fund day to day business operations and meet financial obligations as they fall due including remaining customer redress payments for historical shopping insurance sales. We 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 manage liquidity risk by maintaining adequate banking and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group has successfully negotiated additional sources of funding during 2019/20 and continues to monitor debt markets. We maintain strong relationships with supporting securitisation banks and have a rolling three-year funding programme with a fixed margin over LIBOR. Metrics in relation to the securitisation facility are monitored on an ongoing basis and reported to the supporting banks regularly.
Warehousing and Distribution	We are dependent on our distribution centres. They 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.	Our new purpose-built automated distribution and returns centre opened in Spring 2020 and is increasing capacity ahead of 2020 peak trading. The new facility will support customer service improvements, will deliver significant efficiency benefits and future proof our fulfilment operation. A detailed business continuity plan has been developed for Skygate which includes a number of scenarios for partial loss of site as well as the total loss of site. This has been developed in conjunction with our third-party Business Continuity partners and will be regularly reviewed and tested. We closely monitor service levels to ensure that goods are delivered to customers on a timely basis. We use a diverse sourcing and supply chain encompassing both own-brand manufacture and third-party brands. We seek ways to develop a supplier base to reduce reliance on individual suppliers and maintain quality and competitiveness.
Covid-19 and Business Interruption	There is a risk of further waves of Covid-19 impacting the UK or other countries who are critical to our supply chain. Business interruption is a wider risk which could impact our ability to continue serving our customers through the unavailability of key sites, systems, people, or key third-party suppliers.	Having continued to operate throughout the pandemic, we have gained valuable experience of the measures required to maintain operations. This has included deploying social distancing across all of our sites; investment in PPE and cleaning measures, and successfully deploying home working for our office and contact centre colleagues. This was enabled by our comprehensive business continuity arrangements and the skill and agility of a broad range of people across the business. As discussed in our response to Covid-19 on pages 8 to 11, we are changing ways of working to embrace the successful ways in which colleagues have worked since the onset of the pandemic. We have used these learnings to develop playbooks for further scenarios including potential further waves of Covid-19.
Business Change	The ability to successfully deliver change in a controlled manner is critical to the continued success of the business, delivery of strategic goals and maintenance of brand reputation.	The Group has implemented an Investment Board to provide greater Business Change control. We have implemented a new approach to delivering and governing change, embracing agile ways of working. This ensures that change is delivered in more discreet components, reducing risk, and increasing the frequency of delivery.

Sustainability at The Very Group

We're continuing to create a sustainable future for our business, our colleagues and the communities in which we operate.

EMBEDDING UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS
As part of our new sustainability strategy developed over the last 12 months, we aim to embed the United Nations Sustainable Development Goals (SDGs) across our business to ensure we act as a responsible citizen in everything we do.

FOCUSING ON PEOPLE, PLANET AND COMMUNITIES
We must minimise the negative impacts on people and the planet as a result of our operations, but we must also support our customers and colleagues in making sustainable decisions. Our approach is rooted in a framework of three pillars: our people, our planet and our communities.

This structure allows us to focus on the SDGs that are most important to our business.

INCREASING THE SIZE OF OUR SUSTAINABILITY TEAM
We have invested in the size of our sustainability team in the UK to increase our emphasis in this area. The UK team forms part of a wider global sustainability team that has colleagues based in some of our sourcing countries including Turkey, India, Bangladesh and China.

WORKING TOGETHER
Close collaboration is an important part of our work on sustainability. We are active members of the United Nations Global Compact, where we participate in the Modern Slavery, Child Labour and Sustainable Development Goals working groups, and this year our Head of CSR was asked to join the local network's advisory group, allowing us to shape the work of the Compact.

We are also members of the Ethical Trading Initiative, Fast Forward and the Carbon Trust, and a signatory to the Bangladesh Accord on Fire and Building Safety. Additionally, this year, we became signatories to the UK Apparel and General Merchandise Public and Private Protocol to support improvements in the UK Garment Industry.

OUR APPROACH

Responsible to our people
Our goal is to empower our customers and collegues to make more sustainable decisions

Responsible to our planet
Seek ways to reduce our carbon footprint

Responsible in our communities
Our goal is to positively impact all communities we work in

PEOPLE
SUPPORTING HUMAN RIGHTS
At The Very Group, we have policies and processes to ensure we operate responsibly. These policies, which are based on the principles laid out in the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, are reviewed and updated regularly as we learn from our experiences and best practice. They are designed to ensure that people in our business and our supply chain are treated with dignity and respect.

To conduct due diligence against our policies in our supply chain, and ensure workers are respected and protected, all first tier factories are required to undertake an annual ethical audit, whether this be SMETA (Sedex Members Ethical Trade Audit), Fast Forward or BSCI (Business Social Compliance Initiative). These audits are undertaken by our three global audit partners and are conducted on an unannounced/semi-announced basis, enabling us to gain an insight into working conditions. Our local team offers ongoing support to our suppliers to remedy issues found during audits and follow up audits are conducted to close high risk issues that need independent verification.

Alongside our audit programme, our strategy focuses on better supporting our factories and their workers through training to tackle areas of risk in our supply chain. The projects aim to support our factories with more complex issues and improve the lives and livelihoods of workers.

STRIVING FOR GENDER EQUALITY
Across all of our operations at The Very Group, we strive for gender equality. We have successfully developed and delivered training programmes in India and Bangladesh which put gender equality at their heart, aiming to ensure the fair treatment of workers in our factories.

Gender inequality is a global issue. Different approaches are needed to address in different countries. On a trip to India in October 2019, our sustainability team visited the United Nations offices in New Delhi to meet with representatives from UN Women. During the meeting, we discussed the Women's Empowerment Principles (WEPs) and it was apparent that the WEPs were aligned with our own values. In January 2020, alongside our rebrand to The Very Group, we announced our commitment to the WEPs.

We are also part of the UN Global Compact's Target Gender Equality workstream. The objective of this global working group is to generate behavioural change across over 1,000 organisations, supporting women's participation and leadership in business. As a first step, in April 2020, we started a gap analysis using the WEPs tool to gain an understanding of how the Company is performing in comparison with our peers and what we can do to improve. This process will continue into the new financial year.

> "At The Very Group, we strive to ensure gender equality throughout all of our operations in the UK and across our global supply chain. We want to inspire the next generation of female leaders and change makers and demonstrate to them that The Very Group is a place to fulfil their ambitions.
>
> To be the best citizen that we can be in our communities, we must ensure that all members of the community are treated equally. We understand that in order to address the imbalance, we need to take proactive steps to create an empowering environment for women.
>
> In order to make real change we recognise the need to work collaboratively to the same goal which is why the Women's Empowerment Principles are so important to us. By signing the statement of support, we are committing to embedding the seven principles to further our pursuit of gender equality."
>
> **HENRY BIRCH,**
> CEO

ENSURING AN INCLUSIVE WORKPLACE
In order to ensure a truly inclusive workplace, we reached out to Stonewall to be a critical friend to our business and highlight areas where we could improve. As a result of our initial discussions, we became members of their Diversity Champion programme. We will continue to work with Stonewall over the next 12 months, working towards their Workplace Equality Index.

PLANET
REDUCING ROAD MILE AND ENERGY USE THROUGH SKYGATE
In early 2020, the business started the process of moving the heart of its distribution operations from Greater Manchester to a purpose-built fulfilment centre in the East Midlands. Due to the central location of Skygate, its proximity to East Midlands Airport and the on-site rail freight terminal, the new centre will remove approximately one million road miles each year. The energy used by our fulfilment operations will also decrease as we move from a scattered footprint in our Greater Manchester sites to a single focus of operations in the East Midlands.

TAKING A RESPONSIBLE APPROACH TO PRODUCTS
We must ensure that products that are no longer wanted are disposed of in a responsible manner. We are committed to helping our customers recycle their unwanted items and give a new lease of life to products they are replacing. In early 2020, we implemented a pilot scheme with our charity partners at Emmaus to allow customers who were purchasing new items of furniture to donate their unwanted items. A programme like this means large items of furniture diverted from landfill and the income generated can improve the lives of those supported by the Emmaus network.

Fashion is a large part of our business so it is important to ensure we are looking into ways of diverting unwanted clothing from landfill. To start this journey we launched a partnership with Traid on a clothing take back scheme for our colleagues to utilise. The scheme provides colleagues with textile recycling banks to bring unwanted clothing that Traid can resell in order to continue their mission to reduce consumption, waste and carbon emissions, as well as funding international projects to improve conditions for workers in the textile industry.

COMMITTING TO SUSTAINABLE COTTON
With our move to BCI (Better Cotton Initiative) cotton and our intention to use more sustainable fabrics within our clothing ranges, we wanted to find a way to better engage colleagues and customers. This led us to the Textile Exchanges Sustainable Cotton Challenge, supported by the Prince of Wales, where brands commit to purchase 100% of their cotton from sustainable sources by 2025.

We have worked to embed this initiative and developed our own commitment to exceed the targets of the Sustainable Cotton Challenge of 100% sustainable cotton by 2025.

As a business we have a four-year plan to ensure all cotton used across all fashion and home categories will be BCI cotton by 2022. In FY20, we successfully started the plan on fashion to hit a total BCI cotton percentage of 16.6%. For FY21, the goal is for 50% of all cotton used in the business to be BCI cotton. This will mean an increase in the amount of BCI cotton used in fashion, as well as introducing BCI cotton across our home categories.

COMMUNITIES
MODERN SLAVERY
To help eradicate modern slavery, we have worked closely over the past year with the International Slavery Museum (ISM) in order to develop a variety of initiatives. The ISM is based near to our head office in Liverpool, so we have begun the process to develop training for our colleagues. We are also working collaboratively to develop an initiative that would increase community engagement and demonstrate to the public that slavery is an ongoing problem that we all need to work together to eradicate.

COVID-19
As Covid-19 struck across the world, we were acutely aware of the impact it would have on the workers across our supply chain. As production slowed down across the world, our in-country teams quickly mobilised to support those most vulnerable by providing food and hygiene parcels. In Bangladesh, we recognised that access to running water can sometimes be limited in worker communities. To combat this, we worked with our in-country partners to install hand washing stations for workers and their families.

As factories began to increase production again after the initial outbreak, we quickly moved to mitigate risk where we felt we could make the most impact. All factories in India, Bangladesh and Turkey were sent best practice guidance and training materials to enable them to reopen safely and ensure that measures were in place to protect workers and staff. We also continued to support our factories with orders during this time and ensured that all orders made and in production were shipped.

To address the complex issues resulting from the pandemic, we collaborated closely with partners, industry peers and international organisations to play our part in a concerted effort to support those who have been affected by it. In May 2020, The Very Group endorsed the International Labour Organisation (ILO) global garment industry call to action, which aims to bring together actors from across the sector to help manufacturers survive the economic disruption caused by the Covid-19 pandemic and protect garment workers' income, health and employment. We will continue to collaborate as the lasting effects of the pandemic continue to evolve.

CHARITIES
As discussed within the Corporate governance report, within our communities we have chosen charities to support at a corporate level. Between 2017 and 2019, we raised more than £600,000 for the Booth and Whitechapel Centres, homelessness charities in Greater Manchester and Liverpool respectively, as well as providing them with knowledge and expertise. We are now supporting Coram Beanstalk, a national reading charity which recruits, trains and supports volunteers to provide reading support in primary schools and we plan to raise £600,000 over the next two years.

Energy and carbon report

ORGANISATIONAL STRUCTURE
The Very Group is classified as a large unquoted company due to its size and shareholding structure.

REPORTING PERIOD
The Very Group is reporting for the financial year ended 30 June 2020.

REPORTING BOUNDARY
The reporting boundary for the Energy and Carbon Report is the UK-based elements of The Very Group Limited and its subsidiaries.

MEASUREMENT METHODOLOGY
Scope 1 and 2 consumption and CO_2e emission data has been calculated in line with the 2019 UK Government environmental reporting guidance. The following Emission Factor Databases consistent with the 2019 UK Government environmental reporting guidance have been used, utilising the current published emissions factors relevant for the reporting period:

Database 2020, Version 1.00

Database 2019, Version 1.01

Estimations undertaken to cover missing billing periods for properties directly invoiced to The Very Group were calculated on a kWh/day pro-rata basis at meter level.

For properties where The Very Group is indirectly responsible for utilities (i.e. via a landlord or service charge), an average p/kWh rate of £0.15p/kWh was applied to provided cost values of service charges to calculate kWh consumption.

These full year estimations were applied to three electricity supplies for The Very Group.

ENERGY PERFORMANCE RESULTS

Energy use (kWh)	FY20
Gaseous fuels	**13,119,658**
Purchased electricity	**19,957,931**
Transport	**774,387**
Total	**33,851,976**

CARBON PERFORMANCE RESULTS

Carbon Dioxide Equivalent Emissions (t/CO_2e)	FY20
Gaseous fuels	**2,412**
Purchased electricity	**5,101**
Transport	**186**
Total	**7,699**

INTENSITY RATIO

	FY20
Reporting Boundary t/CO_2e/£m sales	**3.8**

ENERGY AND CARBON PERFORMANCE COMMENTARY
The Very Group is a member of the Carbon Trust and works in collaboration with them to pursue ways of minimising its carbon footprint. In the four years since The Very Group began working with the Carbon Trust, a 16.6% absolute reduction in its carbon footprint has been achieved.

The Very Group is consolidating its fulfilment operations by moving to Skygate, our new 850,000 square-foot automated fulfiment entre in the East Midlands. The move will help take miles off the road each year due to its close proximity to freight rail services.

The Very Group will continue to seek ways to reduce its carbon footprint through a carbon reduction strategy.

Electricity accounts for around two-thirds of our carbon footprint and with this in mind, The Very Group will look to source electricity from a renewable energy provider during FY21.

We will also look to promote a reduction in carbon emissions caused by colleagues' business travel, notably by embedding new digital ways of working that have evolved as a result of the Covid-19 pandemic.

APPROVAL OF THE STRATEGIC REPORT
Approved by the Board on 7 October 2020 and signed on its behalf by:

D W KERSHAW
Director

Corporate governance report

ROBUST GOVERNANCE
At The Very Group we have robust governance arrangements that are proportionate for the type, scale and complexity of our activities.

OUR PURPOSE AND LEADERSHIP
A GREAT HERITAGE
The heritage of The Very Group Limited can be traced back to the founding of the Kay and Company mail order business in Worcester in 1890. Its story to date includes the establishment of the Littlewoods businesses in 1923; the combination of the Littlewoods and Great Universal organisations in the early 2000s under the ownership of the Barclay family; the expansion of eCommerce; and the transformation of the Group from a traditional mail order business into the UK's largest integrated pure play digital retailer and financial services provider. 2020 saw the latest phase in our development with the rebranding and renaming of The Very Group Limited to align the Group as a whole with our lead brand, Very.co.uk.

A CLEAR PURPOSE
We have a very clear and well-established purpose – we make good things easily accessible to more people. This purpose reflects our combination of multi-category retail and famous brands with market leading eCommerce and technology capabilities and unique financial services products offering flexible ways to pay.

Our ambition is to be the number one destination for shoppers who value credit.

WELL-ESTABLISHED VALUES AND BEHAVIOURS
We have a well-established and embedded framework of our values and leadership behaviours, which evolves as our business continues to develop, and which underpins our culture. Key developments during the year were the implementation of the Senior Management and Certification Regime within our financial services business in December 2019; a refresh of the key behaviours that underpin our culture – "The Very Mindset" and enhancements to our performance management and feedback approach.

CORPORATE CITIZENSHIP
We are determined to play our full part as a citizen in the communities in which we live and work. Colleague wellbeing and investment in our colleagues remains a key focus for us, together with support for our chosen charities and the charitable activities of our colleagues. We are also committed to high ethical and environmental standards in our supply chain and workplaces.

Further details of our purpose, leadership and culture can be found in the Strategic Report.

BOARD AND EXECUTIVE BOARD
The Board of The Very Group Limited comprises the Group CEO, together with two non-executive directors and representatives of the Shareholders, including members of the Barclay Family. Operational responsibility for day to day running of the business is executed through the Group Executive Board, comprising highly experienced specialist executives including the Chief Finance Officer, Chief Technology Officer, Chief People Officer, CEO of Financial Services, Chief Operations Officer and Managing Director Retail under the Group CEO. Profiles of the members of the Executive Board can be found on The Very Group Limited website

The Very Group Board considers that its composition and that of the Executive Board reflect the scale and complexity of the Group.

The Executive Board meets weekly for trading meetings, bi-weekly for operational meetings, with a monthly Executive Board chaired by the Group CEO with non-executive directors and a Shareholder representative in attendance to consider planning and strategic issues. Oversight of the Executive Board is also provided through regular operational communication between the Group CEO and the Executive Board and members of The Very Group Board, including regular meetings with the Shareholders.

An Audit Committee and a Remuneration Committee are established as sub-committees of The Very Group Board, each chaired by a non-executive director. Significant matters from the sub-committees are escalated to The Very Group Board.

Responsibility for the management of the three regulated financial services companies in the Group, Shop Direct Finance Company Limited in the UK, Shop Direct Ireland Limited in the Republic of Ireland and Douglas Insurance in the Isle of Man, lies with the Directors and executive management teams of those entities, within the parameters of the overall strategic objectives of the Group. Audit and Risk sub-committees are also established in these businesses.

DIRECTOR RESPONSIBILITIES
As detailed above, The Very Group Board has delegated responsibility for day to day operations to the Executive Board, which comprises a team of experienced executive leaders in their respective fields, reporting to the Group CEO. The Executive Board is supported by the Audit and Remuneration sub-committees of The Very Group Board.

The framework for oversight by The Very Group Board is described above.

Corporate governance report

continued

The Executive Board reviews extensive management information provided from the Company's systems, together with analysis of that information. The Group Finance function is responsible for the integrity and accuracy of the financial information, supported by its Information Technology function. Trading and other information is reviewed on a daily, weekly or monthly basis, depending on the nature of the information. Performance against budgets, forecasts and other KPIs is also measured and reported on to the same timescales.

Our customer focus is reflected in the reporting to the Executive Board of information, including the outputs of customer focus groups, our Customer Closeness Centre Initiative, Relationship Net Promoter Score, First Contact Resolution and our Digital Customer Experience (DCX) team.

Within our Financial Services businesses there is a continued strong focus on treating customers fairly and ensuring customers receive the right outcomes including our forbearance policies and processes for customers in financial difficulties.

OPPORTUNITY AND RISK

Short-term operational and trading opportunities are constantly kept under review as part of the day to day routine of the business and through the weekly trading Executive Board meetings.

The Executive Board regularly considers both medium and longer term opportunities in its planning meetings, Board meetings and in meetings with Shareholders. Formal strategy days are held quarterly. The Executive Board agrees a capital investment plan with The Very Group Board on an annual basis, and agrees three-year and five-year plans on an annual basis.

Opportunities for generating income streams from new sources are regularly considered by the Executive Board, including specifically under Pillar 5 of the Group strategic plan.

Risk is managed across the Group within frameworks that The Very Group Board considers proportionate to the varying degrees of risk associated with different activities and operational areas.

Risks within the regulated financial services companies within the Group are managed by the boards of the respective companies, who have established risk management frameworks and reporting structures to satisfy the requirements and expectations of their respective regulators. Where relevant, matters are reported from those companies into the Executive Board, The Very Group Board and Audit Committee of The Very Group Limited.

The risks faced across the wider business of the Group outside the regulated financial services entities are primarily managed by controls designed and operated by front line management and assured by a combination of second line and third line (Internal Audit). The key risks, nature and impact and mitigants are detailed in the Strategic report on pages 1 to 32.

The Group leverages the risk management and compliance capability of its UK financial services subsidiary in a number of key areas across the wider Group, including data protection, information security and business continuity. Its delegated approval levels and contract approval and authorisation process provide robust control and extensive Executive Board and senior management oversight over commitments to expenditure and legal and contracting risk. Internal Audit provide a third line of assurance, working to an audit plan directed by the Group Audit Committee.

REMUNERATION

Executive pay structures are designed to promote sustainable, long-term success. The Group Remuneration Committee is chaired by a non-executive director. It has clear terms of reference that are intended to enable the Group to attract and retain high quality senior management while incentivising behaviours and performance consistent with our values and leadership culture. Executive remuneration is linked to both financial performance and to customer outcomes and the customer experience. Remuneration is considered in the light of remuneration structures and rewards across the workforce.

Each of the regulated financial services companies in the Group has its own remuneration committee responsible for recommending to their respective boards on matters including recruitment and remuneration strategy and reward frameworks. Compliance with regulatory obligations and expectations on senior management conduct is a key element of those frameworks.

Directors' remuneration is disclosed on page 60 of the Report.

STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT

We are very conscious of the role we play in the lives of our customers and colleagues and in the communities in which we live and work, and are determined to be the best citizen we can be. Our relationships with our key stakeholders are critical to our continued, sustainable success, and those relationships are major considerations when decisions are made at Executive Board and The Very Group Board.

Our continued focus on colleague engagement is measured through our periodic colleague engagement survey with the results reviewed at every level of the organisation to inform plans to further enhance colleague engagement. We are committed to pay equality and diversity in the business and produce an annual Gender Pay Report and associated plans, and have a series of initiatives promoting diversity in the business.

We engage fully and openly with colleagues and their representatives through channels such as consultative committees, joint working parties, briefing groups and collective bargaining agreements with the Usdaw and Sata trade unions. Colleagues are regularly updated on corporate and individual business unit objectives, trading performance and market conditions through a variety of communication media, including our regular Head Office "balcony briefings", which are communicated across all our sites, as well as other presentations and video updates.

We have a number of key supplier relationships supporting the business. We work proactively and collaboratively with our key suppliers across the full breadth of the business. Further information on supplier relationships is included in the Section 172 statement on pages 26 and 27.

Whistleblowing procedures are in place, managed by the People function and issues are escalated to the Executive Board as appropriate. These include an independent whistleblowing line and regular colleague training and awareness which encourages people to safely highlight any concerns they may have. Internal Audit also monitor the whistleblowing line to provide secondary, independent oversight.

Within our communities we have chosen charities to support at a corporate level. Between 2017 and 2019, we raised more than £600,000 for the Booth and Whitechapel Centres, homelessness charities in Greater Manchester and Liverpool respectively, as well as providing them with knowledge and expertise. Our current charity partner is Coram Beanstalk, a national reading charity, which recruits and trains volunteers to provide reading support in primary schools. We plan to raise £600,000 over the next two years through colleague activities and events, and this money will be used to give 40,000 children one-to-one reading support. In addition, we help colleagues with their own individual charitable fundraising efforts through our matched funding portal, payroll giving and online fundraising platforms.

As a business we are determined to be responsible, adhering to strong ethical and environmental standards. We invest in corporate social responsibility to keep it at the heart of our business and we're committed to promoting diversity, sourcing responsibly and helping communities thrive. We accept our responsibility to be transparent and resolve problems. We regularly review our business practices and collaborate with others to protect the rights of workers, particularly those who are most vulnerable to exploitation. Our approach to sustainability encompasses all of our operations and focuses on our communities, the planet, our people and our customers.

Our Sustainability report on pages 30 and 31 provides more detail around our commitments and actions towards our colleagues, supply chain and the environment in which we live and operate.

Our Corporate website, theverygroup.com, contains information and reports on the Group for media, investors, suppliers, colleagues and prospective colleagues and other stakeholders.

We work closely with government bodies such as HMRC and have a tax strategy which is available on our corporate website.

Our communication with our shareholders is described in the "Board and Executive Board" section above. We liaise extensively with our bondholders and other financing partners, including via quarterly calls with our collective bondholders, and via a communication programme managed by our Investor Relations function. We also engage with the trustees and advisors of the pension schemes on an ongoing basis.

We are active participants in industry bodies across the retail and financial services sectors, including the British Retail Consortium and the Finance and Leasing Association, and engage actively with government and regulators on industry matters, including regulatory change, both as a Group and as a proactive contributor to industry responses.

APPROVAL OF THE CORPORATE GOVERNANCE REPORT

Approved by the Board on 7 October 2020 and signed on its behalf by:

D W KERSHAW
Director

Directors' report

for the Year Ended 30 June 2020

The Directors present their annual report and the consolidated financial statements of The Very Group Limited (formerly Shop Direct Limited) ("the Company") and its subsidiaries ("the Group") for the year ended 30 June 2020.

MATTERS DISCLOSED IN THE STRATEGIC REPORT

The following items which are required under s416 of the Companies Act 2006 have been disclosed in the Strategic Report:

- Future developments (included within the Financial review on pages 20 to 25)
- Engagement with suppliers, customers and others (included within Section 172 on pages 26 and 27)
- Energy and Carbon reporting (included on page 32)
- Financial risk management (included in Risk management and principal risks on pages 28 and 29)

DIRECTORS OF THE GROUP

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

A S Barclay
H M Barclay
H B Birch
B P Fletcher
(appointed 1 September 2020)
D W Kershaw
P L Peters
S A Winton
J T Humphries
M McMenemy

DIVIDENDS

The Directors do not recommend the payment of a final dividend (2019: £nil).

EMPLOYMENT OF DISABLED PERSONS

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

EMPLOYEE INVOLVEMENT

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

BUSINESS REVIEW

The Directors are required by company law to set out a fair review of the business, its position at the year end, future developments and a description of the principal risks and uncertainties facing the Group. The Strategic Report is on pages 1 to 32 and includes the Group Chief Executive's review on pages 4 to 7. The principal risks are considered on pages 28 and 29.

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 25.

EVENTS AFTER THE BALANCE SHEET DATE

On 8 July 2020 the Group completed a buy-in of the Littlewoods Pension Scheme ("Scheme"). This followed the first buy-in during May 2018. This second buy-in will be accounted for during the year ended 30 June 2021. The expected impact of the buy-in is not considered to have a material impact on the assets or liabilities of the Scheme.

On 19 August 2020, formal agreement was reached between the Group and the Trustees of the Scheme with regards to future Company contribution obligations. This has been documented in a revised Schedule of Contributions, which allows for a single future contribution of £18.7m payable on or before 31 August 2021. If this change had been agreed prior to 30 June 2020, the net pension liability of £57.9m would have reduced to £17.7m i.e. the impact would have been a reduction in the IFRIC 14 liability as disclosed in note 25 of £40.2m.

ELECTIVE RESOLUTIONS

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

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

REAPPOINTMENT OF AUDITORS

Deloitte LLP have indicated their willingness to continue in office. Appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

APPROVAL OF THE DIRECTORS' REPORT

Approved by the Board on 7 October 2020 and signed on its behalf by:

D W KERSHAW
Director

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group Financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

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

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

Independent auditor's report to the members of The Very Group Limited

(formerly Shop Direct Limited)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- the financial statements of The Very Group 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 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 46.

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

BASIS FOR OPINION

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

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

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 Statement of Directors' responsibilities, 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.

APPROVAL OF THE AUDITOR'S REPORT

RACHEL ARGYLE
(SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, United Kingdom

7 October 2020

Consolidated Income Statement

for the Year Ended 30 June 2020

	Note	Year ended 30 June 2020 Pre-exceptional items £m	Exceptional items[7] £m	Total £m	Year ended 30 June 2019 Pre-exceptional items £m	Exceptional items[7] £m	Total £m
Continuing operations							
Sale of goods		**1,657.4**	**–**	**1,657.4**	1,562.2	–	1,562.2
Rendering of services		**393.3**	**–**	**393.3**	431.2	–	431.2
Total revenue	5,6	**2,050.7**	**–**	**2,050.7**	1,993.4	–	1,993.4
Cost of sales		**(1,302.8)**	**–**	**(1,302.8)**	(1,204.6)	–	(1,204.6)
Gross profit		**747.9**	**–**	**747.9**	788.8	–	788.8
Distribution costs		**(227.3)**	**(20.9)**	**(248.2)**	(226.4)	–	(226.4)
Administrative costs		**(319.0)**	**(17.5)**	**(336.5)**	(338.9)	(310.2)	(649.1)
Other operating income		**2.2**	**–**	**2.2**	2.7	–	2.7
Operating profit/(loss)	8	**203.8**	**(38.4)**	**165.4**	226.2	(310.2)	(84.0)
Finance income	9	**0.1**	**–**	**0.1**	0.6	–	0.6
Finance costs	9	**(112.9)**	**(4.2)**	**(117.1)**	(102.1)	–	(102.1)
Profit/(loss) before tax		**91.0**	**(42.6)**	**48.4**	124.7	(310.2)	(185.5)
Tax credit/(charge)	13	**13.0**	**8.1**	**21.1**	(6.3)	21.8	15.5
Profit/(loss) for the year		**104.0**	**(34.5)**	**69.5**	118.4	(288.4)	(170.0)
Profit/(loss) attributable to equity holders of the Group		**104.0**	**(34.5)**	**69.5**	118.4	(288.4)	(170.0)

The above results were derived from continuing operations.

The notes on pages 45 to 79 form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the Year Ended 30 June 2020

	Note	2020 £m	2019 £m
Profit/(loss) for the year		**69.5**	(170.0)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on retirement benefit obligations before tax	25	**(21.7)**	2.0
Impact of pension scheme buy-out	25	**–**	22.2
Tax on pension scheme buy-out		**–**	(7.8)
Income tax effect	13	**1.4**	(3.4)
Other comprehensive (expense)/income for the year for items that will not be reclassified subsequently to profit or loss		**(20.3)**	13.0
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation losses		**(0.1)**	(0.6)
Other comprehensive (expense)/income for the year		**(20.4)**	12.4
Total comprehensive income/(expense) attributable to:			
Owners of the Company		**49.1**	(157.6)

The notes on pages 45 to 79 form an integral part of these financial statements.

Consolidated Statement of Financial Position

as at 30 June 2020

	Note	2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill	15	**202.5**	202.5
Intangible assets	16	**238.0**	215.1
Property, plant and equipment	14	**9.1**	10.2
Right-of-use assets	17	**146.2**	–
Deferred tax assets	13	**173.2**	149.1
		769.0	576.9
Current assets			
Inventories	19	**65.4**	94.2
Trade and other receivables	20	**2,072.7**	2,103.6
Income tax asset		**0.3**	1.8
Cash at bank	21	**206.4**	14.8
Derivative financial instruments	18	**2.5**	4.8
		2,347.3	2,219.2
Total assets		**3,116.3**	2,796.1
Equity			
Share capital	23	**(200.0)**	(100.0)
Accumulated deficit		**139.4**	188.5
Equity attributable to owners of the Company		**(60.6)**	88.5
Non-current liabilities			
Loans and borrowings	24	**(550.0)**	(550.0)
Securitisation facility	24	**(1,385.4)**	(1,372.6)
Retirement benefit obligations	25	**(59.5)**	(58.0)
Deferred income	28	**(30.7)**	(36.2)
Lease liabilities	32	**(151.3)**	(1.6)
Provisions	26	**(0.6)**	(16.8)
		(2,177.5)	(2,035.2)
Current liabilities			
Trade and other payables	27	**(533.1)**	(502.6)
Loans and borrowings	21, 24	**(150.0)**	(102.6)
Lease liabilities	32	**(14.3)**	(1.5)
Deferred income	28	**(55.6)**	(61.9)
Provisions	26	**(125.2)**	(180.8)
		(878.2)	(849.4)
Total liabilities		**(3,055.7)**	(2,884.6)
Total equity and liabilities		**(3,116.3)**	(2,796.1)

The financial statements of The Very Group Limited, registered number 04730752, have been approved by the Board and authorised for issue on 7 October 2020 and signed on its behalf by:

D W KERSHAW
Director

The notes on pages 45 to 79 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the Year Ended 30 June 2020

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

	Share capital £m	**Accumulated deficit £m**	**Total £m**
At 1 July 2019	**100.0**	**(188.5)**	**(88.5)**
Issue of share capital	**100.0**	**–**	**100.0**
Profit for the year	**–**	**69.5**	**69.5**
Other comprehensive expense	**–**	**(20.4)**	**(20.4)**
Total comprehensive income	**100.0**	**49.1**	**149.1**
At 30 June 2020	**200.0**	**(139.4)**	**60.6**

The notes on pages 45 to 79 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the Year Ended 30 June 2020

	2020 £m	2019 £m (restated)
Cash flows from operating activities		
Profit/(loss) for the year	**69.5**	(170.0)
Adjustments for:		
Depreciation	**13.4**	2.0
Amortisation	**46.2**	42.8
Financial instrument net losses/(gains) through profit and loss	**2.3**	(2.3)
Impairment of assets	**5.7**	5.9
Impairment of goodwill	**-**	50.0
Finance income	**(0.1)**	(0.6)
Finance costs	**115.6**	100.4
Income tax credit	**(21.1)**	(15.5)
(Decrease)/increase in provisions	**(71.8)**	69.8
Adjustments for pensions	**(16.0)**	9.6
Operating cash flows before movements in working capital	**143.7**	92.1
Decrease in inventories	**28.8**	7.7
Decrease/(increase) in trade and other receivables	**26.5**	(39.9)
Increase/(decrease) in trade and other payables	**23.8**	(72.6)
Cash generated/(absorbed) by operations	**222.8**	(12.7)
Income taxes paid	**(0.4)**	(17.1)
Interest paid	**(107.4)**	(98.3)
Net cash inflows/(outflows) from operating activities	**115.0**	(128.1)
Cash flows from investing activities		
Interest received	**0.1**	0.6
Acquisitions of property plant and equipment	**(1.0)**	(1.9)
Acquisitions of intangible assets	**(73.1)**	(49.8)
Net cash outflows from investing activities	**(74.0)**	(51.1)
Cash flows from financing activities		
Issue of share capital	**100.0**	–
Payments of lease liabilities	**(9.6)**	(1.5)
Proceeds from securitisation facility draw downs	**12.8**	55.2
Proceeds from secured revolving credit facility	**55.0**	–
Net cash inflows from financing activities	**158.2**	53.7
Net increase/(decrease) in cash and cash equivalents	**199.2**	(125.5)
Net cash and cash equivalents at 1 July (note 21 restated)	**7.2**	132.7
Net cash and cash equivalents at 30 June (note 21)	**206.4**	7.2

The notes on pages 45 to 79 form an integral part of these financial statements.

Notes to the Financial statements

for the Year Ended 30 June 2020

1 GENERAL INFORMATION

The Very Group Limited (formerly Shop Direct Limited) is a private company limited by share capital incorporated, registered and domiciled in England and Wales under the Companies Act. On 13 January 2020, Shop Direct Limited changed its name to The Very Group Limited.

The address of its registered office is:

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

The Very Group Limited is the UK's largest integrated pureplay digital retailer and financial services provider, providing a multi-category range of famous brands, market-leading ecommerce and technology capabilities, and unique financial services products offering flexible ways to pay.

2 ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Very Group Limited (the "Group") financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 (IFRSs) 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. In the current financial year this was Saturday 27 June 2020 (2019: Saturday 29 June 2019).

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

PRIOR PERIOD RESTATEMENT

In the prior period, the Group presented cash movements in relation to the secured revolving credit facility within the cash and cash equivalents balance. As per IAS 7, these amounts do not meet the definition of cash and cash equivalents and the cash flows associated with this facility should be treated as a financing cash flow.

The prior year figures have been adjusted to increase the cash and cash equivalents line within the Consolidated Statement of Cash Flows by £95.0m. There was no net movement on the secured revolving credit facility during the prior year, and therefore there is no impact on net cash flows from financing activities in the prior period.

EXTRACTS FROM CONSOLIDATED STATEMENT OF CASH FLOWS:

	£m
Net cash flows from financing activities as previously reported	57.0
Proceeds from securitisation facility draw downs	–
Net cash flows from financing activities (restated)	57.0

	£m
Net cash and cash equivalents at 1 July 2018 as previously reported	37.7
Add back amounts payable for secured revolving credit facility	95.0
Net cash and cash equivalents at 1 July 2018 (restated)	132.7

	£m
Net cash and cash equivalents at 30 June 2019 as previously reported	(87.8)
Add back amounts payable for secured revolving credit facility	95.0
Net cash and cash equivalents at 30 June 2019 (restated)	7.2

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. 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.

Notes to the Financial statements
continued

2 ACCOUNTING POLICIES (continued)
GOING CONCERN (continued)
The Group Financial statements for the year ended 30 June 2019 included a material uncertainty with respect to going concern due to the accounts being approved before an additional £150.0m of funding was received in order to meet the final customer redress claims liability following an unexpected late surge in claims ahead of the 29 August 2019 FCA deadline.

During the year ended 30 June 2020 the material uncertainty relating to going concern has been resolved through a cash injection of £150.0m as follows:

- £75.0m equity injection on 18 November 2019;
- £25.0m equity injection on 7 February 2020; and
- £50.0m of 'C2' notes issued under the securitisation programme and drawn down on 5 February 2020.

As such the Directors no longer consider that there is a material uncertainty regarding the Group's ability to continue as a going concern.

The Group has carefully considered its cash flows and banking covenants for the 12 months from the date of signing the audited financial statements. These have been considered in conjunction with the current economic climate, including the Covid-19 pandemic.

As a result of the Covid-19 pandemic, the Group has experienced the following:

- A shift in sales out of fashion and into the likes of electrical and home categories;
- Strong trading throughout the lockdown period; and
- In line with other companies, and per FCA guidance the Group has granted customers adversely impacted by Covid-19 the ability to take a three-month payment freeze. At its peak use 2% of customer accounts were utilising this facility and currently 1% of accounts remain on a payment freeze. Despite this, customer payment rates since the onset of Covid-19 have been and remain at historically high levels.

The Group continued to trade effectively throughout the lockdown period with the online store remaining open throughout and adjustments implemented such as office-based colleagues working from home. Actions taken by the Group included cost reduction, tight management of capital spend and sensible inventory management. The multi-category offering has provided resilience against movements in individual product categories and there has been an increase in customer account applications, including credit accounts. Due to the strong trading performance during the lockdown period the Group opted not to draw on the Government's Coronavirus Job Retention Scheme. Despite its significant negative economic and social impact, Covid-19 has accelerated online retail growth and increased consumers' appetite for flexible ways to pay, as well as led more brands to look for new online sales and distribution channels. The Group is well placed to capitalise on these trends and the unique opportunities we have as a business in the years to come.

There are clearly challenges in quantifying the expected future impact of Covid-19 on the Group. However, Group forecasts have been stress tested for a number of scenarios and the Group has deployed strategies and tools to closely manage cash flow and mitigate any issues.

Following the work undertaken by the Group the Directors are confident that the Group has sufficient liquidity for the next 12 months, and they are confident the Group will satisfy covenant requirements. Forecasts have been stress tested with sensitivities around reductions in revenue, deterioration in customer payments and increased write offs of trade receivables. Significant positive headroom remains under each of the scenarios. Reverse stress testing has also been applied to the forecasts which represent a significant deterioration in the key assumptions from the base case forecasts. The reverse stress test scenarios are considered to be remote. Trading to date remains significantly better than the Group stress test scenario.

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 ConsolidatedFinancial Statements incorporate the financial statements of the Group and entities controlled by the Group (its subsidiaries) made up to 30 June each year. Control is achieved when the Group:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

2 ACCOUNTING POLICIES (continued)
BASIS OF CONSOLIDATION (continued)
Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

NEW AND REVISED STANDARDS AND INTERPRETATIONS EFFECTIVE
The Group has applied the following standards, interpretations and amendments with effect from 1 July 2019:

- IFRS 16, Leases;
- Amendments to IFRS 9, Prepayment Features with Negative Compensation;
- Amendments to IAS 28, Long-term Interest in Associates and Joint Ventures;
- Annual Improvements 2015-2017 Cycle;
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement; and
- IFRIC 23, Uncertainty over Income Tax Treatments

During the current financial year, the Group has adopted IFRS 16 which supersedes IAS 17 (Leases) and was effective for accounting periods beginning on or after 1 January 2019. Under IFRS 16, a lessee recognises a 'right-of-use' asset for all leases, which represents its right to use the underlying leased asset for the period of the lease. At the commencement date of a lease, a lessee is required to recognise both a right-of-use asset and a lease liability. Note 4 details the IFRS 16 leases transition and accounting policy choices applied.

The other changes listed above did not result in material changes to the Group's Consolidated Financial Statements.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE
A number of new standards and interpretations have been issued but are not yet effective for the Group. These standards are either not expected to have a material effect on the Consolidated Financial Statements or they are not currently relevant for the Group.

REVENUE RECOGNITION
Revenue comprises sales of goods to customers outside of the Group, less discounts, and is stated net of value added tax and other sales taxes. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when performance obligations are satisfied and goods are delivered to the customer and the control of goods is transferred to the customer.

A right of return is not a separate performance obligation and the Group is required to recognise revenue net of estimated returns. A refund liability and a corresponding asset in inventory representing the right to recover products from the customer are recognised.

Rendering of services revenue 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.

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

For loans in stage 3, where interest is still being contractually charged, the calculation is applied to the receivable, net of the allowance for impairment losses, from the start of the next reporting date after the loan entered stage 3. Further detail of the stages of customer receivables is included in the financial instruments accounting policy on page 51.

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 they are charged to the customers' accounts.

It is the Group's policy to sell its products to the retail customer with a right to return within 28 days. The Group uses the expected value method to estimate the value of goods that will be returned because this method best predicts the amounts of variable consideration to which the Group will be entitled. Revenue is recognised net of estimated returns. The refund provision on the balance sheet is accounted for on a gross basis under IFRS 15, hence a refund liability and a corresponding asset representing the right to recover products from the customer are recognised. The refund liability due to customers on return of their goods is recognised either as a component of trade payables and other liabilities (for cash payments) or as a deduction from customer receivables (for credit sales).

OPERATING PROFIT
Operating profit is stated after charging exceptional costs but before finance 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.

Notes to the Financial statements

continued

2 ACCOUNTING POLICIES (continued)

FOREIGN CURRENCY TRANSACTIONS AND BALANCES (continued)

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"). At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

TAX

Current tax

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

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

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

Deferred tax

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

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

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

DEPRECIATION

Depreciation on assets is charged to income and 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 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.

2 ACCOUNTING POLICIES (continued)

DEPRECIATION (continued)

In the prior year, assets held under finance leases were depreciated over their expected useful lives on the same basis as owned assets. However, when there was no reasonable certainty that ownership would be obtained by the end of the lease term, assets were depreciated over the shorter of the lease term and their useful lives. Leased assets are now recognised under IFRS 16.

Asset class	Depreciation method and rate
Leasehold improvement	2%-10% per annum
Plant and equipment	12.5%-20% 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 the estimated useful life of the asset and is recognised within administrative expenses in the Consolidated Income Statement. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Useful economic lives are as follows:

Asset class	Amortisation method and rate
Internally generated software costs	3-10 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.

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 The Very Group; 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.

Notes to the Financial statements

continued

2 ACCOUNTING POLICIES (continued)

SECURITISATION

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.

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 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.

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.

FINANCIAL INSTRUMENTS

Classification

IFRS 9 Financial Instruments contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL).

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

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Recognition and measurement

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

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

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

2 ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

Recognition and measurement (continued

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

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

Impairment

Financial assets are assessed throughout the year for significant increase in credit risk and impairment. The Group recognises loss allowances for expected credit losses (ECLs) on trade receivables. ECLs are a probability weighted estimate of the present value of credit losses discounted over the expected life of an instrument at its original effective interest rate (EIR).

The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. The Group considers whether financial assets are credit impaired at each reporting date.

The impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income (FVOCI), but not to investments in equity instruments. See note 20 for further details.

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

The Group has one type of financial asset which is subject to the IFRS 9 expected credit loss model, which is trade receivables and contract assets under IFRS 15:

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

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

The Group uses underwriting processes which enable it to assess each transaction for approval at the time of sale based on the customer's perceived spending capacity. These processes use statistical models and inputs including spending patterns and payment behaviour. The Group has the right to refuse each transaction at its discretion. Therefore, undrawn components will not be classified as loan commitments and future spending is not in scope for IFRS 9 expected credit losses.

A significant increase in credit risk is defined as follows:

A customer balance is recognised as demonstrating a significant increase in credit risk where there has been a significant increase in the probability of default of that balance since origination.

A significant increase in credit risk is defined as the probability of default of a customer balance having increased by at least 100% against the probability of default calculated at origination; other determining factors are also considered.

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

Definition of impairment

Evidence of impairment includes where a customer balance meets forbearance criteria or reaches three scheduled payments past due or greater. Probation periods are retained for accounts moving from Stage 2 to Stage 1, and from Stage 3 to Stage 2.

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

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

The provision is calculated on one of the following bases:

- 12-month expected credit losses anticipated from potential default events within the 12 months following the reporting date (discounted exposure at default multiplied by probability of default multiplied by loss given default); and
- Lifetime expected credit losses anticipated from all potential default events over the expected life of a financial instrument.

The Group has a loss given default ("LGD") model, which estimates future losses in the event of a customer balance reaching default. The Group's approach to modelling loss given default is based on analysis of historical data and estimates that future cash flows will reflect collections and payments performance over the past three years. The LGD model considers customer payments, debt sale revenue and the reclaim of VAT.

A macroeconomic element is included in the overall calculation of expected credit loss. Multiple economic scenarios are purchased.

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

- PD is an estimate of the likelihood of default over a given time horizon, estimated at a point in time. The calculation is based on statistical models that utilise both market and internal data, based on current conditions adjusted to take into account estimates of future conditions that will impact PD.
- LGD is an estimate of the likely loss in the event of a default. The estimates are based on the Group's history of recovery rates.
- EAD is an estimate of the expected gross carrying amount at a future default date. EAD is based on the current loan amount adjusted for expected repayments of principal, and the impact of missed payments which would be expected for an account in default. At 30 June 2020, the maximum exposure at default is considered by the Group to be the current outstanding balance.

Notes to the Financial statements

continued

2 ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

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

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

LEASES

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Group recognises a right-of-use asset and a lease liability at the lease commencement date which is the date at which the asset is made available for use by the Group.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, restoration costs and lease payments made at or before the commencement date less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Where the lease contains a purchase option, the asset is written off over the useful life of the asset when it is reasonably certain that the purchase option will be exercised. Right-of-use assets are subject to impairment testing.

The lease liability is initially measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate known at the commencement date, payments for a purchase option, payments for an optional renewal period and termination option payments if the Group is reasonably certain to exercise those options. The lease term is the non-cancellable period of the lease adjusted for any renewal or termination options which are reasonably certain to be exercised. Management applied judgement in determining whether it is reasonably certain that a renewal or termination option will be exercised. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the interest implicit in the lease or where this cannot be readily determined, the lessee's incremental borrowing rate which is assumed to be 7.75%.

After the commencement date, the lease liability is measured at amortised cost using the effective interest method. It is remeasured if there is a modification, a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it is reasonably certain to exercise an option within the contract.

The Group has elected to apply the recognition exemptions for short-term and low-value leases and recognises the lease payments associated with these leases as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less. Low-value assets with a cost less than £3,000 comprise certain items of IT equipment, small items of office furniture and vehicle leases.

Accounting policy applied before 1 July 2019

Arrangements which transferred substantially all of the risk and rewards of ownership of an asset to the Group were classified as finance leases. They were capitalised at inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The interest element of lease payments was expensed in the Consolidated Income Statement over the lease period so as to produce a constant periodic rate of interest. Assets acquired under finance leases were depreciated over the shorter of the useful life of the asset and the lease term

Arrangements in which substantially all of the risks and rewards of ownership of an asset were not transferred to the Group by the lessor were classified as operating leases. Operating lease rentals, net of incentives received from the lessor, were expensed in the Consolidated Income Statement on a straight-line basis over the lease term.

Arrangements comprising transactions that did not take the legal form of a lease but conveyed the right to use an asset in return for payment, or a series of payments, were assessed to determine whether the arrangement contained a 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 and incidence to enable a full understanding of the Group's financial performance.

2 ACCOUNTING POLICIES (continued)

SHARE CAPITAL

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

DIVIDENDS

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

INVESTMENTS

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

DEFINED CONTRIBUTION PENSION OBLIGATION

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

DEFINED BENEFIT PENSION OBLIGATION

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. 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 25) in its consolidated income statement. Curtailments gains and losses are accounted for as past-service cost. Net interest expense or income is recognised within finance costs (see note 9).

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

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.

SUPPLIER FINANCING ARRANGEMENTS

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

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 18.

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

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

UNDRAWN CREDIT LIMITS

The Group's underwriting processes enable it to assess each transaction for approval at the time of sale based on the customer's perceived spending capacity. The Group judges undrawn components not to be classified as loan commitments and future spending is therefore not in scope of expected credit loss calculations (see note 20).

LOAN LOSS PROVISIONING

The Group considers the determination criteria for significant increase in credit risk to be a key judgement within the expected credit loss model that may have a significant risk of causing material adjustment. As explained in note 2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Notes to the Financial statements

continued

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

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.

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 £173.2m (2019: £149.1m).

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. There has been no impairment of goodwill in the current financial year. The carrying amount of goodwill at the balance sheet date was £202.5m, with £105.5m (2019: £105.5m) relating to the acquisition of the Littlewoods business in 2005 and £97.0m (2019: £97.0m) resulting from the acquisition of Douglas Insurance Limited in 2008. Details of the impairment review carried out on the Douglas goodwill balance are included in note 15. The Directors do not believe that there is a reasonably possible change in a key assumption that could cause the Littlewoods goodwill balance to be impaired.

Loan loss provisioning

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

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

A macroeconomic element is included in the overall calculation of expected credit loss. Multiple economic scenarios are purchased. The scenarios provide macroeconomic forecast data for key indicator variables, unemployment and CPI. Key indicator variables have been established as having the closest correlation to Group default performance. The scenarios consider, with different probable outcomes, a range of as follows:

I. Base Case,
II. Upside,
III. Mild Upside,
IV. Stagnation,
V. Downside, and
VI. Severe Downside economic performance.

The Group's macroeconomic calculation applies a weighting of base case 40%, mild upside 30% and downside 30% (2019: same).

If 100% severe downside scenario were applied, the provision would increase by £5.0m. The application of 100% upside scenario would indicate a provision decrease of £2.6m. The macroeconomic element of the Group IFRS 9 provision has increased year on year reflecting current circumstances. The economic scenarios and sensitivities considered in provision models reflect outlooks as at 30 June 2020, in which a 100% severe downside scenario would reflect an unemployment rate peak during the financial year of above 11%.

In the year ended 30 June 2019 the key indicator variables utilised in macroeconomic forecasts by the Group were GDP and CPI. However, given the relative volatility of GDP measures in economic outlooks for the year ahead, management have determined it is appropriate and prudent to hold unemployment and CPI as key indicator variables for expected credit loss modelling.

The macroeconomic calculations within Group expected credit loss models are based on historic correlation analysis, should credit losses prove to be more sensitive to key indicator variables in the outlook period actual credit losses may increase.

Post-model adjustment

In addition to existing customer support levers, and in accordance with FCA guidance, the Group rapidly launched a payment freeze scheme during lockdown. The availability of a payment freeze has provided customers adversely impacted by Covid-19 with the option to defer payments for up to three months, where needed.

As at year-end, 65,640 customers (2.6% of all credit accounts) had made use of a payment freeze at some stage, these accounts held £87.0m of balances at 30 June 2020.

At its peak use, during June, 54,492 customer accounts (2.2% of all credit accounts) were utilising the payment freeze scheme in a single week. The availability of a payment freeze ensured a greater number of customers remained up to date than would usually have been expected. Management therefore considered it appropriate to retain a post-model adjustment to IFRS 9 provisions to specifically increase coverage for potential credit losses on those accounts utilising a payment freeze at year-end.

A post-model adjustment was therefore retained for £8.3m of additional potential losses on these accounts. This is in addition to £10.6m of provisions already held for those accounts in accordance with modelling for expected credit losses. In total, therefore a provision of £18.9m has been retained against balances of £87.0m. The post-model adjustment reflects all accounts that had used a payment freeze during or before June 2020.

Since the close of the financial year a further 15,426 customers have utilised a payment freeze for the first time up to and including 30 September 2020.

The Group has however seen a consistent reduction in the volume of accounts on a payment freeze, and as at 30 September just 18,363 customers (0.8% of all credit accounts) holding £26.7m of balances remain on a payment freeze. Arrears rates on the 62,703 accounts that have concluded use of a payment freeze to date remain below the potential arrears levels provided for in the post-model adjustment.

Despite this, overall customer payment rates did not see a reduction following the onset of Covid-19; this trend has remained consistent following the end of the financial year. In line with current FCA guidance, the Group will continue to provide payment freeze schemes until October 2020.

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 regulatory obligations based on this review, taking into account factors including risk and uncertainty.

The Group continues to work through the claims that were received before the August 2019 deadline. The 2020 year-end provision is based on Directors' best estimate. If the claims remaining were to have a higher or lower attachment rate or size of claim, this would have a material impact on the provision required. A 1% change in attachment rate would require a £4.0m change in provision. A 1% change in the average size of claim would require a £1.3m change in the provision.

During the year ended 30 June 2020 redress payments made plus associated costs were lower than expected due to the reduced claims processed in the last quarter due to Covid-19.

PENSION

The Group has defined benefit pension plans; all plans have been accounted for in accordance with IAS 19.

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

VAT

The Group has been in a long running dispute with HMRC in respect of the methodology used for the Group's partial exemption calculation. The Group has received two assessments of £2.4m and £8.5m from HMRC covering the period April 2015 to March 2019, which have both been paid. As discussions are still ongoing with HMRC and a satisfactory outcome has not yet been achieved, the Directors have continued to accrue in line with professional advice, accruing at £6.3m as at the balance sheet date (2019: £4.9m). The total value of the Group's exposure, using HMRC's methodology, is estimated to be £14.0m (2019: £9.3m), leaving a maximum unprovided exposure of £7.7m (2019: £4.4m).

4 IFRS 16 TRANSITION

IFRS 16 Leases replaces IAS 17 Leases and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases and introduces a single lessee accounting model with some exemptions for short-term and low value leases. The lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

IFRS 16 was adopted by the Group on 1 July 2019 and the modified retrospective approach was applied to transition. Under the modified retrospective approach, a lessee does not restate comparative figures; instead the Group applies the new standard from the beginning of the current period.

The Group leases a range of assets including property, plant and equipment. Further information regarding the Group's leasing activities is disclosed in note 32.

Transition

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

The right-of-use asset is measured at cost, which is equal to the amount of the initial measurement of the lease liability plus payments made less incentives received before the commencement date of the lease.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted using the interest implicit in the lease or where this could not be readily determined, the Group's incremental borrowing rate as at 1 July 2019. The Directors have calculated the incremental borrowing rate as the rate of interest that best reflects what the Group would have to pay to borrow over a similar term, with a similar security and in a similar economic environment to its leases.

A 1% increase in the incremental borrowing rate used would decrease the opening value of right-of-use assets and equal lease liability by £5.2m. A 1% decrease in the incremental borrowing rate would increase the opening value right-of-use assets and equal lease liability by £5.8m.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- The requirements of IFRS 16 have not been applied to leases of less than 12 months or those leases with an annual cost of less than £3,000 (such costs are recognised on a straight line or other systematic basis);
- IAS 17 lease assessments have been grandfathered (lease definition conclusions applied under IAS 17 have been carried forward on transition to IFRS 16); and
- Non-lease components are not separated from lease components within the lease liability.

Notes to the Financial statements

continued

4 IFRS 16 TRANSITION (continued)

Impacts on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities relating to operating leases. The impact on transition is summarised below.

	1 July 2019 £m
Right-of-use assets	79.7
Lease liabilities presented in borrowings	79.5

When measuring lease liabilities, the Group discounted lease payments using the interest rate implicit in the lease or where this could not be readily determined, the lessee's incremental borrowing rate at 1 July 2019. The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019 as follows:

	1 July 2019 £m
Operating lease commitments at 30 June 2019	137.3
Add:	
Extension options reasonably certain to be exercised	–
Non-lease components	–
Less:	
Commitments relating to short-term and low-value leases	(0.7)
Total future lease payments	136.6
Effect of discounting	(60.2)
Finance lease liabilities recognised at 30 June 2019	3.1
Lease liabilities at 1 July 2019	79.5

The impact of IFRS 16 on the Group Financial Statements is set out in note 32.

5 REVENUE

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

	2020 £m	2019 £m
Sale of goods	**1,657.4**	1,562.2
Rendering of services	**393.3**	431.2
	2,050.7	1,993.4
Other operating income	**2.2**	2.7
Finance income	**0.1**	0.6
Total income	**2,053.0**	1,996.7

6 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. Segment EBITDA represents the EBITDA earned by each segment without allocation of central administration costs including directors' salaries, finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive, who is the Group's chief operating decision maker, for the purpose of resource allocation and assessment of segment performance.

BY BUSINESS SEGMENT

	2020 £m	2019 £m
Analysis of revenue:		
Very	**1,589.8**	1,488.1
Littlewoods	**460.9**	505.3
	2,050.7	1,993.4
Gross profit	**747.9**	788.8
Distribution costs (excluding depreciation and amortisation)	**(227.3)**	(224.9)
Administrative costs (excluding depreciation and amortisation)	**(263.7)**	(295.6)
Other operating income	**2.2**	2.7
Pre-exceptional EBITDA*:		
Very	**329.4**	344.3
Littlewoods	**116.6**	139.9
Central costs	**(186.9)**	(213.2)
	259.1	271.0
Exceptional items	**(38.4)**	(310.2)
Depreciation	**(9.1)**	(2.0)
Amortisation	**(46.2)**	(42.8)
Operating profit	**165.4**	(84.0)
Finance income	**0.1**	0.6
Finance costs	**(112.9)**	(102.1)
Exceptional finance costs	**(4.2)**	–
Profit/(loss) before taxation	**48.4**	(185.5)

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 includes Very.co.uk. and Veryexclusive.co.uk. The Veryexclusive.co.uk website was amalgamated onto the Very.co.uk website during the prior year.

Littlewoods sales include Littlewoods.com and LittlewoodsIreland.ie.

BY GEOGRAPHICAL LOCATION OF DESTINATION

	2020 £m	2019 £m
Revenue:		
United Kingdom	**1,957.2**	1,916.8
Republic of Ireland	**93.5**	76.6
	2,050.7	1,993.4

	2020 £m	2019 £m
Operating profit/(loss):		
United Kingdom	**156.6**	(89.8)
Republic of Ireland	**8.6**	7.3
Rest of World	**0.2**	(1.5)
	165.4	(84.0)

The analysis above is in respect of continuing operations.

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

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7 EXCEPTIONAL ITEMS

	2020 £m	2019 £m
Regulatory costs and associated administrative expenses	**15.0**	241.0
Restructuring costs	**10.4**	13.0
New fulfilment centre – charged to distribution costs	**20.9**	1.5
Covid-19 costs	**2.9**	–
Impairment of intangible assets	**–**	3.7
Impairment of tangible fixed assets	**3.4**	–
Impairment of goodwill	**–**	50.0
Professional fees	**6.9**	1.0
Pension scheme past service credit	**(21.1)**	–
Charged to operating profit	**38.4**	310.2
New fulfilment centre interest costs charged to finance costs	**4.2**	–
	42.6	310.2

During the financial year ended 30 June 2019, the Group recognised regulatory charges of £241.0m to cover the estimated cost of customer redress claims in respect of historic shopping insurance sales to the claim's deadline set by the FCA of 29 August 2019. During the year ended 30 June 2020 there has been a further increase to the provision of £15.0m to recognise the remaining cost of settling all outstanding claims. The remaining provision of £101.1m at 30 June 2020 is expected to be fully utilised within 12 months.

The restructuring costs reflect expenditure on the rationalisation of processes and functions within The Very Group. This included £4.6m relating to redundancies across the Group as a direct result of Covid-19.

On 11 April 2018 the Group announced a proposal to upgrade its fulfilment capabilities by creating an automated 850,000 square foot distribution and returns centre in the East Midlands. The Group has begun to exit its existing fulfilment sites in Greater Manchester, a process which began in mid-2020. As the Group is dual running multiple sites, all running costs for the East Midlands site including depreciation and finance costs related to the site's leases were included in exceptional costs for the period before the site became fully operational. Following the opening of the East Midlands site, it has become the Group's principal distribution centre and as such, running costs associated with East Midlands will be charged to normal operating profit, with any remaining running costs for the existing sites charged to exceptional costs.

The Covid-19 pandemic and resulting 'lockdown' had a significant impact on the Group. As such the Group has incurred additional costs which are directly related to the pandemic. Given that these costs are one-off in nature and material they have been separately categorised as exceptional. Some effects of Covid-19 on the business are pervasive and difficult to quantify and therefore the group has not attempted quantify the portion of the overall results relating to Covid-19. This is on the basis that such an assessment is unlikely to provide users with reliable information as it would be heavily judgemental. Those impacts which are directly related to the Group's response to the pandemic and which can be reliably measured have been categorised as exceptional items. The Covid-19 costs include operating costs which have been incurred to make changes to the Group's office and fulfilment operations in response to changing health and safety requirements.

An impairment charge of £3.4m has been recognised relating to the impairment of the Group's customer care centre in Aintree which will be closed during 2021 as a result of the shift to home-working which the Group decided to adopt on a permanent basis in June 2020.

Impairment of intangible assets in the prior year relates to the impairment of brands (see note 16). Impairment of Goodwill in the prior year relates to the impairment of the Goodwill that arose on acquisition of Douglas Insurance Limited in 2008 (see note 15).

The professional fees relate primarily to the advice procured to secure an additional £100.0m of equity funding in order to meet the final customer redress claims liability following an unexpected late surge in claims ahead of the 29 August 2019 FCA deadline, as detailed in note 2. Also included within professional fees are expenses related to corporate projects. These costs have been included within exceptionals as they occur infrequently and are not part of underlying business performance.

During the year ended 30 June 2020 there has been a £21.1m credit with respect to Gross Minimum Pensions (GMP) equalisation of The Littlewoods Pensions Scheme ("Scheme") as discussed in note 25. This has been recognised as an exceptional past service credit.

8 OPERATING PROFIT

Arrived at after charging/(crediting):

	2020 £m	2019 £m
Depreciation	**13.4**	2.0
Amortisation	**46.2**	42.8
Foreign exchange losses/(gains)	**1.1**	(2.1)
Impairment of Brands	**–**	3.7
Impairment of Goodwill	**–**	50.0
Impairment of Tangible Fixed Assets	**5.7**	2.2
Cost of inventories recognised as an expense	**1,143.2**	1,068.1
Write downs of inventories recognised as an expense	**12.1**	4.2
Staff costs	**134.1**	142.3
Impairment loss recognised on trade receivables	**183.2**	174.8
Short-term lease expense	**0.1**	–
Low value lease expense	**0.1**	–
Operating lease charge	**–**	13.6

During the current financial year, the Group has adopted IFRS 16 which supersedes IAS 17. Under IFRS 16, a lessee recognises a 'right-of-use' asset for all leases, which represents its right to use the underlying leased asset for the period of the lease. At the commencement date of a lease, a lessee is required to recognise both a right-of-use asset and a lease liability. Note 4 details the IFRS 16 leases transition and accounting policy choices applied. The lease figures presented above for the year ended 30 June 2020 are presented on an IFRS 16 basis whereas the lease figures above for the year ended 30 June 2019 are presented on an IAS 17 basis.

9 FINANCE INCOME AND COSTS

	Note	2020 £m	2019 £m
Finance income			
Interest income on bank deposits		**0.1**	0.6
Finance costs			
Interest on bank overdrafts and borrowings		**(48.5)**	(51.1)
Interest on obligations under leases and hire purchase contracts		**(7.3)**	(0.2)
Interest on securitisation facility		**(51.3)**	(49.1)
Net interest on defined benefit obligation	25	**(1.5)**	(1.7)
Other finance costs		**(4.4)**	–
		(112.9)	(102.1)
Exceptional finance interest costs	7	**(4.2)**	–
Total finance costs		**(117.1)**	(102.1)
Net finance costs		**(117.1)**	(101.5)

10 STAFF COSTS

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

	2020 £m	2019 £m
Wages and salaries	**108.7**	115.4
Social security costs	**11.3**	11.6
Redundancy costs	**7.9**	9.1
Pension costs, defined contribution scheme	**6.2**	6.2
	134.1	142.3

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

	2020 No.	2019 No.
Stores	**–**	61
Distribution & customer service centres	**779**	1,128
Administration	**2,336**	2,499
	3,115	3,688

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11 DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

	2020 £m	2019 £m
Emoluments	**1.5**	1.9
Contributions paid to money purchase schemes	**0.1**	0.1
	1.6	2.0

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

	2020 No.	2019 No.
Accruing benefits under money purchase pension scheme	**1**	1

In respect of the highest paid Director:

	2020 £m	2019 £m
Emoluments	**0.8**	0.9
Contributions paid to money purchase schemes	**–**	0.1
	0.8	1.0

The directors are considered to be the key management personnel.

12 AUDITORS' REMUNERATION

	2020 £m	2019 £m
Audit of these financial statements	**–**	–
Audit of the financial statements of subsidiaries of the company pursuant to legislation	**0.5**	0.5
Total audit fees	**0.5**	0.5
Other fees to auditors		
Audit related assurance services	**0.1**	0.3
Total non-audit fees	**0.1**	0.3

13 INCOME TAX

Tax (credited)/charged in the income statement

	2020 £m	2019 £m
Current taxation		
UK corporation tax	**0.4**	0.5
Prior year adjustment	**–**	6.7
Foreign tax	**1.2**	1.1
Total current income tax	**1.6**	8.3
Deferred taxation		
Arising from origination and reversal of temporary differences	**(5.7)**	(23.8)
Impact of rate change	**(17.0)**	–
	(22.7)	(23.8)
Tax credit in the income statement	**(21.1)**	(15.5)

The tax on profit/(loss) before tax for the year is lower than the standard rate of corporation tax in the UK (2019: lower than the standard rate of corporation tax in the UK) of 19.0% (2019: 19.0%).

13 INCOME TAX (continued)

The differences are reconciled below:

	2020 £m	2019 £m
Profit/(loss) before tax	**48.4**	(185.5)
Corporation tax at standard rate	**(9.2)**	35.2
Increase from effect of expenses not deductible in determining taxable profit	**–**	(9.4)
Decrease /(increase) from tax losses for which no deferred tax asset was recognised	**0.6**	(7.6)
Decrease arising due to rate change	**17.0**	–
Decrease arising from group relief tax reconciliation	**3.5**	0.6
Increase from effect of foreign tax rates	**–**	(0.2)
Prior year adjustment	**8.6**	–
Transfer pricing adjustment	**(3.4)**	(3.6)
Other tax effects for reconciliation between accounting profit and tax income	**–**	0.5
Pension gain not taxable	**4.0**	–
Total tax credit	**21.1**	15.5

The applicable rate of corporation tax for the period is 19%. The 2016 Finance Act had a provision to reduce the UK corporation tax rate to 17% from 1 April 2020, however, this was repealed in the Spring budget of 2020. Therefore, the opening deferred tax balances have been adjusted in the current financial year at 19%, the rate at which they are expected to reverse.

The prior year adjustment in 2019 relates to group relief claimed in the prior year for which the Group has been subsequently charged by a fellow subsidiary of the Group's ultimate parent. Subsequent to the accounts for 2019 being prepared, management decided that group relief would no longer be paid for. As such, a prior year adjustment has arisen in relation to deferred tax resulting in a credit to the tax charge of £8.6m as instead of using the tax attributes of the Group, the Group instead received losses from outside the consolidated Group for £nil payment.

DEFERRED TAX

Deferred tax movement during the year:

	At 1 July 2019 £m	Recognised in income statement £m	Tax rate change recognised in income statement £m	Recognised in other comprehensive income £m	Tax rate change recognised in other comprehensive income £m	At 30 June 2020 £m
Accelerated tax depreciation	40.6	8.9	5.8	–	–	55.3
Tax losses carry-forwards	44.7	10.3	6.5	–	–	61.5
Pension benefit obligations	9.9	–	–	0.2	1.2	11.3
Provisions and accruals	53.9	(13.5)	4.7	–	–	45.1
Net tax assets	149.1	5.7	17.0	0.2	1.2	173.2

Deferred tax movement during the prior year:

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

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

At the balance sheet date, the Group has unused tax losses of £56.5m (2019: £59.4m) and capital losses of £nil (2019: £9.5m) available for offset against future profits. The unused tax losses do not expire. No deferred tax asset has been recognised with respect to these losses.

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. 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. One of the Group's subsidiaries, Shop Direct Finance Company Limited, reported a loss in the preceding period and has recognised a deferred tax asset of £112.9m as at 30 June 2019.

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14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £m	Furniture, fittings and equipment £m	Total £m
Cost			
At 1 July 2018	11.8	33.8	45.6
Additions	–	1.9	1.9
Impairment	–	(2.2)	(2.2)
Disposals	–	(5.1)	(5.1)
At 30 June 2019	11.8	28.4	40.2
At 1 July 2019	11.8	28.4	40.2
Additions	0.1	3.1	3.2
Impairment	–	(2.3)	(2.3)
Disposals	(0.2)	(4.1)	(4.3)
At 30 June 2020	11.7	25.1	36.8
Depreciation			
At 1 July 2018	7.4	25.5	32.9
Charge for year	0.3	1.7	2.0
Eliminated on disposal	–	(4.9)	(4.9)
At 30 June 2019	7.7	22.3	30.0
At 1 July 2019	7.7	22.3	30.0
Charge for the year	0.4	1.9	2.3
Eliminated on disposal	(0.5)	(4.1)	(4.6)
At 30 June 2020	7.6	20.1	27.7
Carrying amount			
At 30 June 2020	4.1	5.0	9.1
At 30 June 2019	4.1	6.1	10.2
At 1 July 2018	4.4	8.3	12.7

15 GOODWILL

	Goodwill £m
Cost	
At 1 July 2018, 1 July 2019 and 30 June 2020	252.5
Impairment	
At 1 July 2018	–
Impairment charge	50.0
At 30 June 2019	50.0
At 1 July 2019	50.0
Impairment charge	–
At 30 June 2020	50.0
Carrying amount	
At 30 June 2019	202.5
At 30 June 2020	202.5

Goodwill is allocated to two cash generating units (CGUs) being £105.5m (2019: £105.5m) relating to the acquisition of the Littlewoods business in 2005 and £97.0m (2019: £97.0m) 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.

15 GOODWILL (continued)

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 has prepared a 5 year cash flow forecast derived from the most recent financial budgets approved by management and extrapolated cash flows in perpetuity based on an estimated growth rate of 2.4% (2019: 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 pre-tax rate used to discount the forecast cash flows is 7.4% (2019: 7.4%). The key inputs into the forecast for the Douglas goodwill balance are discussed below.

The analysis performed indicates that no impairment is required to the goodwill resulting from the acquisition of the Littlewoods business or from the acquisition of Douglas Insurance Limited in the current year. A £50.0m impairment was recognised in relation to Douglas Insurance Limited in the year ended 30 June 2019 due to its carrying value exceeding the value in use. The value in use model includes average growth in earned premiums of 27% and an average decline in claims rate of 3% over the 5 year projection period, which is based on the director's assessment of the impact of changes in the product mix being offered by the Douglas business. The headroom on the Douglas goodwill balance as at 30 June 2020 is £56.8m.

The following sensitivity analysis has been prepared for the Douglas Insurance Limited CGU. A 5%pt decrease in earned premium growth rates decreases the value in use of the CGU by £27.9m. A 10%pt increase in claims rates decreases the value in use of the CGU by £26.8m. Applying both of these sensitivities together would reduce the headroom to nil.

The Directors do not believe that there is a reasonably possible change in a key assumption on which management has based its determination of the recoverable amount of the goodwill created on acquisition of the Littlewoods business that would cause the unit's carrying amount to exceed its recoverable amount.

16 INTANGIBLE ASSETS

	Internally generated software costs £m	Acquired brands £m	Total £m
Cost			
At 1 July 2018	345.4	9.7	355.1
Additions	60.1	–	60.1
Impairment	–	(3.7)	(3.7)
Disposals	(17.1)	(6.0)	(23.1)
At 30 June 2019	388.4	–	388.4
Additions	69.1	–	69.1
Disposals	(124.3)	–	(124.3)
At 30 June 2020	333.2	–	333.2
Amortisation			
At 1 July 2018	148.0	5.6	153.6
Amortisation charge	42.4	0.4	42.8
Amortisation eliminated on disposals	(17.1)	(6.0)	(23.1)
At 30 June 2019	173.3	–	173.3
Amortisation charge	46.2	–	46.2
Amortisation eliminated on disposals	(124.3)	–	(124.3)
At 30 June 2020	95.2	–	95.2
Carrying amount			
At 30 June 2020	238.0	–	238.0
At 30 June 2019	215.1	–	215.1
At 1 July 2018	197.4	4.1	201.5

Included within software costs are £69.9m (2019: £108.4m) of investment incurred related to ongoing software development projects on which amortisation has not commenced as the assets have not yet been brought into use.

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

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17 RIGHT-OF-USE ASSETS

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
On transition to IFRS 16 at 1 July 2019	79.7	–	79.7
Adjustments	2.6	–	2.6
Additions	6.9	71.6	78.5
Disposals	(0.1)	–	(0.1)
At 30 June 2020	89.1	71.6	160.7
Depreciation			
On transition to IFRS 16 at 1 July 2019	–	–	–
Charge for the year	8.9	2.2	11.1
Impairment	3.4	–	3.4
At 30 June 2020	12.3	2.2	14.5
Carrying amount			
On transition to IFRS 16 at 1 July 2019	79.7	–	79.7
At 30 June 2020	76.8	69.4	146.2

The impairment charge relates to the customer care site in Aintree, which is to be closed during 2021. This is due to the successful working from home of colleagues during the Covid-19 lockdown period, who will instead work between Skyways head office and from home. As such, the leased asset for the Aintree site has been impaired during the year resulting in a charge of £3.4m.

Right-of-use assets have been recognised in the current year as a result of the first-time adoption of IFRS 16, which is discussed further in note 4.

18 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2020 £m	2019 £m
Notional amount – sterling contract value	**62.4**	106.0
Fair value of asset recognised	**2.5**	4.8

Changes in the fair value of derivative financial instruments amounted to a loss of £2.3m in the year (2019: gain of £2.3m).

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.

Contracts committed to are denoted in US Dollars, South African Rand and Euros to manage foreign currency risk.

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

- Level 1 – quoted prices for similar instruments
- Level 2 – directly observable market inputs other than Level 1 inputs
- Level 3 – inputs not based on observable market data

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.

19 INVENTORIES

	2020 £m	2019 £m
Finished goods and goods for resale	**65.4**	94.2

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

20 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Trade receivables	**1,330.6**	1,374.4
Amounts owed by Group undertakings (note 33)	**522.3**	514.5
Prepayments	**159.6**	161.6
Other receivables	**60.2**	53.1
Total trade and other receivables	**2,072.7**	2,103.6

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

Other receivables include £15.3m (2019: £10.6m) due from the Group's external trade receivables securitisation provider.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. A bad debt provision of £221.3m under IFRS 9 (2019: £235.5m) has been recorded.

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

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

The contractual amount outstanding on trade and other receivables written off during the reporting period and subject to enforcement activity was £nil (2019: £nil).

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

ALLOWANCE FOR DOUBTFUL DEBTS:

	2020 £m	2019 £m
Balance at beginning of the year	**235.5**	125.7
IFRS 9 opening adjustment	**–**	140.5
Adjusted balance at beginning of the year	**235.5**	266.2
Amounts charged to the income statement	**183.2**	174.8
Amounts written off	**(197.4)**	(205.5)
Balance at end of the year	**221.3**	235.5

The ageing of trade receivables is as follows:

	2020 £m	2019 £m
Current – not past due	**1,315.9**	1,311.9
1 scheduled payment past due	**50.2**	94.2
2 scheduled payments past due	**22.4**	34.9
3 scheduled payments past due or greater	**163.4**	168.9
Gross trade receivables	**1,551.9**	1,609.9
Allowance for doubtful debts	**(221.3)**	(235.5)
Net trade receivables	**1,330.6**	1,374.4

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

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20 TRADE AND OTHER RECEIVABLES (continued)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Allowance for bad debts as at 1 July 2019	55.7	62.0	117.8	235.5
Transfer stage 1	–	(9.9)	0.9	(9.0)
Transfer stage 2	9.9	–	6.8	16.7
Transfer stage 3	(0.9)	(6.8)	–	(7.7)
Post Model Adjustment	5.0	3.3	–	8.3
Remeasurement of balances	(17.3)	19.1	44.0	45.8
New financial assets recognised	4.9	11.2	10.5	26.6
Financial assets derecognised	(1.8)	(2.9)	(3.6)	(8.3)
Assets written off	(2.8)	(15.7)	(68.1)	(86.6)
Allowance for bad debts as at 30 June 2020	52.7	60.3	108.3	221.3

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 July 2019	1,053.9	342.7	213.3	1,609.9
Transfer stage 1	–	(13.6)	50.4	36.8
Transfer stage 2	13.6	–	40.5	54.1
Transfer stage 3	(50.4)	(40.5)	–	(90.9)
Growth in trade receivables	28.2	47.9	(6.6)	69.5
New financial assets recognised	111.8	52.9	16.5	181.2
Financial assets derecognised	(82.9)	(19.9)	(8.5)	(111.3)
Amounts written off	(36.8)	(50.7)	(109.9)	(197.4)
Balance at 30 June 2020	1,037.4	318.8	195.7	1,551.9

The following table analyses the movement of the loss allowance by stage for accounts that had utilised a payment freeze before the end of the financial year. This table includes the additional £8.3m post-model adjustment retained against those accounts that had utilised a payment freeze before the end of the financial year:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 July 2019	1.8	3.1	0.4	5.3
Transfer stage 1	–	(0.3)	(0.1)	(0.4)
Transfer stage 2	0.3	–	(0.2)	0.1
Transfer stage 3	0.1	0.2	–	0.3
Post model adjustment	5.0	3.3	–	8.3
Change in balance	0.1	3.5	0.7	4.3
New financial assets recognised	0.2	0.8	–	1.0
Financial assets derecognised	–	–	–	–
Amounts written off	–	–	–	–
Balance at 30 June 2020	7.5	10.6	0.8	18.9

20 TRADE AND OTHER RECEIVABLES (continued)

The following table sets out changes in the carrying amount of trade receivables where the applicable account had utilised a payment freeze before the end of the financial year:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Balance at 1 July 2019	44.8	19.1	1.0	64.9
Transfer stage 1	–	6.2	0.4	6.6
Transfer stage 2	(6.2)	–	(0.2)	(6.4)
Transfer stage 3	(0.4)	0.2	–	(0.2)
Growth in trade receivables	8.6	8.3	0.2	17.1
New financial assets recognised	2.0	3.1	0.1	5.2
Financial assets derecognised	(0.1)	(0.1)	–	(0.2)
Amounts written off	–	–	–	–
Balance at 30 June 2020	48.7	36.8	1.5	87.0

21 RECONCILIATION OF NET CASH AND CASH EQUIVALENTS

	2020 £m	2019 £m (restated)
Cash at bank	**206.4**	14.8
Bank overdrafts	**–**	(7.6)
Net cash and cash equivalents in statement of cash flows	**206.4**	7.2

Cash and cash equivalents comprise cash net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to fair value. See note 2 of the accounts for restatement of prior year cash and cash equivalent balance.

22 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	At 1 July 2019 £m	Financing cash flows £m	Non-cash changes £m	At 30 June 2020 £m
Securitisation facility	1,372.6	12.8	–	1,385.4
Senior secured notes	550.0	–	–	550.0
Lease liabilities	3.1	(9.6)	172.1	165.6
Total liabilities from financing activities	1,925.7	3.2	172.1	2,101.0

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

23 SHARE CAPITAL

Allotted, called up and fully paid shares

	2020		2019	
	No. m	**£m**	No. m	£m
Ordinary shares of £1 each	**200**	**200**	100	100

On 19 November 2019 the Company issued 75,000,000 ordinary shares of £1 each at a nominal value of £1 per share. On 7 February 2020 the Company issued a further 25,000,000 ordinary shares of £1 each at a nominal value of £1 per share.

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24 LOANS AND BORROWINGS

	2020 £m	2019 £m
Secured non-current loans and borrowings at amortised cost		
Securitisation facility	**1,385.4**	1,372.6
Senior secured notes	**550.0**	550.0
	1,935.4	1,922.6

	2020 £m	2019 £m
Current loans and borrowings at amortised cost		
Secured revolving credit facility	**150.0**	95.0
Unsecured bank overdrafts	**–**	7.6
	150.0	102.6

The underlying currency of the unsecured bank overdrafts of £nil (2019: £7.6m) is Euros and within the securitisation facility £26.4m (2019: £24.5m) is Euros.

The secured revolving credit facility was put in place during the prior year and expires in May 2022. The facility rolls over on a monthly basis and is repayable within one year.

The borrowings are repayable as follows:

	2020 £m	2019 £m
Within one year	**150.0**	102.6
In the second year	**–**	–
In the third to fifth year	**1,935.4**	1,922.6
Over five years	**–**	–
Amount due for settlement after 12 months	**1,935.4**	1,922.6

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

(a) The Group has drawn £1,359.0m (2019: £1,348.1m) on its UK securitisation facility. This is 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 2022 for 'AS' Notes (£1,143.3m) and 'AJ' Notes (£181.7m), and December 2023 for 'B' Notes (£105.0m), 'C1' Notes (£105.0m) and 'C2' Notes (£50.0m). The total facility size is £1,585.0m.

(b) The Group has senior secured notes of £550.0m, at 7.75%, due November 2022 with a secured revolving credit facility of £150.0m of which £150.0m was drawn down at 30 June 2020 (2019: £95.0m). Transaction costs associated with the senior secured notes of £8.9m were prepaid on the balance sheet and amortised over the debt term. As at the balance sheet date these total £4.3m (2019: £6.2m).

(c) The Group has an Irish securitisation facility against which it has drawn down £26.4m (30 June 2019: £24.5m), secured by a charge over certain eligible trade debtors of the Group. The facility has a total maximum commitment of €35.0m which expires in December 2028.

	2020 %	2019 %
The weighted average interest rates paid were as follows:		
Unsecured bank overdrafts	**4.82**	2.41
Secured revolving credit facility	**3.26**	3.74
Securitisation facility – UK	**3.06**	3.09
Securitisation facility – Ireland	**2.50**	2.50
Senior secured notes	**7.75**	7.75

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

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

25 PENSION AND OTHER SCHEMES

DEFINED CONTRIBUTION PENSION SCHEME

The Group operates a defined contribution pension scheme for all employees; the Shop Direct Group Personal Pension Plan. The pension cost charge for the year represents contributions payable by the Group to the scheme and amounted to £6.2m (2019: £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 charged to the income statement.

Contributions totalling £0.8m (2019: £0.7m) were payable to the scheme at the end of the year and are included in creditors.

DEFINED BENEFIT PENSION SCHEMES

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

	2020 £m	2019 £m
Scheme – defined benefit pension scheme deficit	**(57.9)**	(56.2)
UURBS and Ex-gratia – present value of scheme liabilities	**(1.6)**	(1.8)
Retirement benefit obligations	**(59.5)**	(58.0)
Scheme – amounts taken to the Statement of Comprehensive Income	**(21.6)**	2.2
Plan – amounts taken to the Statement of Comprehensive Income	**–**	22.3
UURBS and Ex-gratia – amounts taken to the Statement of Comprehensive Income	**(0.1)**	(0.3)
(Loss)/gain recognised in the Statement of Comprehensive Income	**(21.7)**	24.2

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 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 ended 30 June 2020 the Group has opted to carry out a Guaranteed Minimum Pensions (GMP) conversion within the Scheme. GMP is the minimum level of pension set by the Government that must be paid to Scheme members who built up benefits between pre-1997. In October 2018 the High Court ruled that pension schemes must adjust scheme benefits to remove gender inequalities caused by GMP earned between 1990 and 1997. As well as applying this GMP equalisation the Group has opted to concurrently carry out a GMP conversion which is permitted under the 2018 ruling. This has resulted in a credit in the income statement during the year ended 30 June 2020 of £21.1m as disclosed below.

RECONCILIATION OF SCHEME ASSETS AND LIABILITIES TO ASSETS AND LIABILITIES RECOGNISED

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

	2020 £m	2019 £m
Fair value of scheme assets	**1,667.2**	1,560.0
Present value of scheme liabilities	**(1,440.2)**	(1,373.1)
	227.0	186.9
Restrictions on asset recognised	**(227.0)**	(186.9)
IFRIC 14 liability	**(57.9)**	(56.2)
Defined benefit pension scheme deficit	**(57.9)**	(56.2)

SCHEME ASSETS

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

	2020 £m	2019 £m
Fair value at start of year	**1,560.0**	1,442.4
Interest income	**35.0**	39.8
Return on plan assets, excluding amounts included in interest income/(expense)	**146.2**	129.7
Employer contributions	**0.5**	13.9
Benefits paid	**(74.5)**	(65.8)
Fair value at end of year	**1,667.2**	1,560.0

Notes to the Financial statements

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25 PENSION AND OTHER SCHEMES (continued)

ANALYSIS OF ASSETS

The major categories of scheme assets are as follows:

	2020 £m	2019 £m
Cash and cash equivalents	**59.1**	78.3
Quoted debt instruments	**810.1**	513.8
Derivatives	**–**	53.0
Investment funds	**–**	140.7
Assets held by insurance company	**794.3**	774.2
Other	**3.7**	–
	1,667.2	1,560.0

The assets held by the insurance company are in respect of the Scheme buy-in that completed during 2018. The assets are equal to the value of the insured pensioner liabilities on an IAS 19 basis as at 30 June 2020.

During the year the investment funds were sold and the proceeds used to purchase quoted debt instruments and terminate derivatives. Quoted debt instruments are used to hedge the Scheme's exposure to interest rates and inflation. Quoted debt instruments increased in value significantly as interest rates fell as a result of the effects of Covid-19 impacting market expectations of long term economic growth.

SCHEME LIABILITIES

Subsequent to the year end date, on 8 July 2020 the Group completed a further buy-in of the Scheme. This is discussed further in note 35.

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

	2020 £m	2019 £m
Present value at start of year	**1,373.1**	1,204.3
Current service cost	**0.4**	0.1
Past service credit	**(21.1)**	–
Interest cost	**30.7**	32.8
Benefits paid	**(74.5)**	(65.7)
Actuarial gains	**131.6**	201.6
Present value at end of year	**1,440.2**	1,373.1

The past service credit relates to the GMP conversion which has been completed during the year ended 30 June 2020.

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:

	2020 %	2019 %
Rate of increase in pensionable salaries	**2.4**	2.6
Rate of increase in pensions in payment if RPI 5%	**3.0**	3.2
Rate of increase in pensions in payment if RPI 2.5%	**2.1**	2.2
Discount rate	**1.6**	2.3
Rate of increases in pensions in deferment	**2.4**	2.6
RPI inflation assumption	**3.1**	3.4
CPI inflation assumption	**2.4**	2.6

25 PENSION AND OTHER SCHEMES (continued)

POST RETIREMENT MORTALITY ASSUMPTIONS

	2020 Years	2019 Years
Current UK pensioners at retirement age – male	**22.4**	22.3
Current UK pensioners at retirement age – female	**23.9**	23.8
Future UK pensioners at retirement age – male	**24.1**	23.9
Future UK pensioners at retirement age – female	**25.5**	25.4

AMOUNTS RECOGNISED IN INCOME STATEMENT

	2020 £m	2019 £m
Amounts recognised in income statement		
Current service cost	**0.1**	(0.1)
Past service credit	**21.1**	–
Amounts recognised in finance income or costs		
Net interest	**(1.4)**	(1.6)
Total recognised in the income statement	**19.8**	(1.7)

AMOUNTS TAKEN TO THE STATEMENT OF COMPREHENSIVE INCOME

	2020 £m	2019 £m
Return on plan assets, excluding amounts included in interest income/(expense)	**146.1**	129.7
Actuarial losses from changes in demographic assumptions	**–**	(37.5)
Actuarial losses from changes in financial assumptions	**(131.6)**	(167.5)
Actuarial gains from experience adjustments	**–**	3.4
Adjustments for restrictions on the defined benefit asset	**(36.2)**	74.1
Amounts recognised in the Statement of Comprehensive Income	**(21.7)**	2.2

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 £1.5m (2019: £1.4m).

If the discount rate is 25 basis points lower, the defined benefit obligation would increase by £1.6m (2019: £1.5m).

If the price inflation rate is 25 basis points higher, the defined benefit obligation would increase by £1.6m (2019: £1.5m).

If the post retirement mortality assumption reduces by one year for both men and women, the defined benefit obligation would reduce by £1.6m (2019: £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.

Subsequent to the balance sheet date formal agreement has been reached between the Group and the Trustees of the Scheme with regards to future Company contribution obligations. This has been documented in a revised Schedule of Contributions, which allows for a single future contribution of £18.7m payable on or before 31 August 2021 (2019: expected contributions of £nil). Further detail, and the expected reduction in the liability, is included in note 35.

SHOP DIRECT GROUP LIMITED PENSION PLAN ("PLAN")

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

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

In 2018 the Group completed buy-in agreements for the Plan. The buy-in was completed on 30 November 2017 and has been reflected in these financial statements. In the prior year the Group completed the buy-out of the Plan and the liability was fully extinguished.

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25 PENSION AND OTHER SCHEMES (continued)
PLAN ASSETS
Changes in the fair value of scheme assets are as follows:

	2020 £m	2019 £m
Fair value at start of year	–	81.0
Interest income	–	1.0
Return on plan assets, excluding amounts included in interest expense	–	(58.8)
Employer contributions	–	(22.3)
Benefits paid	–	(0.6)
Current service cost	–	(0.3)
Fair value at end of year	–	–

ACTUAL RETURN ON PLAN'S ASSETS

	2020 £m	2019 £m
Actual return on scheme assets	–	0.9

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

	2020 £m	2019 £m
Present value at start of year	–	58.5
Interest cost	–	0.6
Benefits paid	–	(0.5)
Settlements from plan assets	–	(58.9)
Actuarial gains	–	0.3
Present value at end of year	–	–

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2020 £m	2019 £m
Amounts recognised in operating profit		
Current service cost	–	(0.3)
Amounts recognised in finance income or costs		
Net interest	–	–
Total recognised in the income statement	–	(0.3)

AMOUNTS TAKEN TO THE STATEMENT OF COMPREHENSIVE INCOME

	2020 £m	2019 £m
Return on plan assets, excluding amounts included in interest income/(expense)	–	(0.1)
Impact of buy-out of Plan	–	22.2
Actuarial losses	–	(0.3)
Adjustments for restrictions on the defined benefit asset	–	0.5
Amounts recognised in the Statement of Comprehensive Income	–	22.3

25 PENSION AND OTHER SCHEMES (continued)
UURBS AND EX-GRATIA
There is an unfunded unapproved retirement benefit arrangement ("UURBS") which provides a benefit on retirement equal to the additional pension the member would have accrued had they 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:

	2020 £m	2019 £m
Present value of scheme liabilities	**(1.6)**	(1.8)

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

	2020 £m	2019 £m
Present value at start of year	**1.8**	2.0
Interest cost	**0.1**	0.1
Liabilities extinguished on settlements	**(0.4)**	(0.4)
Actuarial gains	**0.1**	0.1
Present value at end of year	**1.6**	1.8

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

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

	2020 £m	2019 £m
Amounts recognised in operating profit		
Recognised in arriving at operating profit	**0.4**	–
Amounts recognised in finance income or costs		
Net interest	**(0.1)**	(0.1)
Total recognised in the income statement	**0.3**	(0.1)

AMOUNTS TAKEN TO THE STATEMENT OF COMPREHENSIVE INCOME

	2020 £m	2019 £m
Actuarial losses	**(0.1)**	(0.3)

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26 PROVISIONS

	Warranties £m	Re-structuring £m	Regulatory £m	Total £m
At 1 July 2019	0.8	22.2	174.6	197.6
Increase in provisions	–	5.6	15.0	20.6
Provisions used	–	(3.9)	(88.5)	(92.4)
At 30 June 2020	**0.8**	**23.9**	**101.1**	**125.8**
Non-current	–	0.6	–	0.6
Current	0.8	23.3	101.1	125.2
	0.8	**23.9**	**101.1**	**125.8**

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

The regulatory provision reflects the estimated cost of all historic shopping insurance claims and associated processing costs and is expected to unwind as claims are cash settled throughout the year ended 30 June 2021. During the year ended 30 June 2020 there has been a further increase to the provision of £15.0m to recognise the remaining cost of settling all outstanding claims. The remaining provision of £101.1m at 30 June 2020 is expected to be fully utilised within 12 months.

If the claims remaining were to have a higher or lower attachment rate or size of claim, this would have a material impact on the provision required. A 1%pt change in attachment rate would require a £0.4m change in provision. A 1% change in the average size of claim would require a £0.8m change in the provision.

27 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Trade payables	**391.1**	352.9
Accrued expenses	**67.1**	107.1
Amounts due to group undertakings (note 33)	**0.3**	–
Social security and other taxes	**49.2**	21.0
Other payables	**25.4**	21.6
	533.1	502.6

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

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

Amounts owed under supplier financing arrangements included within trade payables above amounted to £148.9m (2019: £148.7m). The cash flows associated with these supplier financing arrangements are included within 'movements in trade and other payables' in the Consolidated Cash Flow Statement.

28 DEFERRED INCOME

	2020 £m	2019 £m
At 1 July	**98.1**	104.8
Released to the income statement	**(32.4)**	(14.7)
Accrued in the year	**20.6**	8.0
At 30 June	**86.3**	98.1
Non-current	**30.7**	36.2
Current	**55.6**	61.9
	86.3	98.1

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

29 COMMITMENTS

CAPITAL COMMITMENTS

Capital commitments include expenditure on tangible and intangible assets.

The total amount contracted for but not provided in the financial statements was £11.5m (2019: £11.5m).

OTHER FINANCIAL COMMITMENTS

At 30 June 2020 commitments to purchase stock totalled £90.5m (2019: £184.1m) which is considered to be the fair value. The commitments cover a period of 12 months (2019: same).

The Group has in place contracts for the provision of outsourced service functions. At 30 June 2020 the annual committed cost under these contracts is £48.5m (2019: £59.6m). These contracts expire in 2025 and 2030.

30 FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

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

- Level 1 – quoted prices for similar instruments
- Level 2 – directly observable market inputs other than Level 1 inputs
- Level 3 – inputs not based on observable market data

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivative held for trade

	Carrying value		Fair value	
	2020 £m	2019 £m	2020 £m	2019 £m
Forward contracts	**62.4**	106.0	**2.5**	4.8

See note 18 for details of the valuation methods and assumptions of these derivatives. The maturity dates for these derivatives range from July 2020 to June 2020. Derivative financial instruments have been classified as Level 2 financial assets.

FINANCIAL ASSETS AT AMORTISED COST

	Carrying value		Fair value	
	2020 £m	2019 £m	2020 £m	2019 £m
Cash and cash equivalents	**206.4**	14.8	**206.4**	14.8
Trade receivables	**1,330.6**	1,374.4	**1,330.6**	1,374.4
	1,537.0	1,389.2	**1,537.0**	1,389.2

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 average credit period given to customers for the sale of goods is 236 days (2019: 255 days).

FINANCIAL LIABILITIES

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2020 £m	2019 £m	2020 £m	2019 £m
Trade payables	**391.1**	352.9	**391.1**	352.9
Borrowings	**2,085.4**	2,025.2	**2,085.4**	2,025.2
Lease liabilities	**165.6**	3.1	**165.6**	3.1
	2,642.1	2,381.2	**2,642.1**	2,381.2

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 average credit period given to customers for the sale of goods is 91 days (2019: 69 days).

31 FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS

FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

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.

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

LIQUIDITY RISK

The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 24 is a description of the facilities that the Group has at its disposal and details of the Group's remaining contractual maturity for its non-derivative financial liabilities.

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

	2020 £m Carrying Amount	2020 £m Contractual Cash Flows	2020 £m 1 year or Less	2020 £m 1 to 2 years	2020 £m 2 to 5 years	2020 £m Over 5 years
Trade payables	**391.1**	**391.1**	**391.1**	**–**	**–**	**–**
Borrowings	**2,085.4**	**2,325.9**	**243.7**	**88.7**	**1,993.5**	**–**
Lease liabilities	**165.6**	**240.9**	**20.7**	**20.5**	**48.5**	**151.2**

	2019 £m Carrying Amount	2019 £m Contractual Cash Flows	2019 £m 1 year or Less	2019 £m 1 to 2 years	2019 £m 2 to 5 years	2019 £m Over 5 years
Trade payables	352.9	352.9	352.9	–	–	–
Borrowings	2,025.2	2,025.2	102.6	–	1,922.6	–
Lease liabilities	3.1	3.2	1.6	1.2	0.4	–

FOREIGN CURRENCY RISK MANAGEMENT

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

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group's principal foreign currency exposures are to US dollar which it uses to purchase inventory and euros due to the Group entering into a euro denominated lease during the current year. The table below illustrates the hypothetical sensitivity of the Group's reported profit (2019: loss) and closing equity if a 10% increase and decrease in the US dollar/sterling exchange rates and euro/sterling exchange rates at the reporting date, assuming all other variables remain unchanged. The sensitivity rate of 10% represents the directors' assessment of a reasonable possible change, based on historic volatility.

	Income Statement		Equity	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Sterling strengthens by 10% against USD	**0.1**	0.4	**0.1**	0.4
Sterling weakens by 10% against USD	**(0.1)**	(0.5)	**(0.1)**	(0.5)
Sterling strengthens by 10% against euro	**0.4**	–	**0.4**	–
Sterling weakens by 10% against euro	**(0.4)**	–	**(0.4)**	–

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

INTEREST RATE RISK MANAGEMENT

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

INTEREST RATE SENSITIVITY ANALYSIS

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

In preparing the analysis the following assumptions have been made:

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

	Income Statement		Equity	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Libor rate increase 0.5%	**(6.9)**	(6.8)	**(6.9)**	(6.8)
Libor rate decrease 0.5%	**6.9**	6.8	**6.9**	6.8

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 24, cash and cash equivalents disclosed in note 21 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.

32 LEASES

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2020 £m	1 July 2019 £m
Right-of-use assets:		
Land and buildings	**76.8**	79.7
Plant and equipment	**69.4**	–
	146.2	79.7

The Group presents lease liabilities as obligations under finance leases in the Consolidated Statement of Financial Position. The amounts included within lease liabilities are as follows:

	2020 £m	1 July 2019 £m
Lease liabilities:		
Current	**14.3**	5.9
Non-current	**151.3**	73.6
	165 .6	79.5

Notes to the Financial statements

continued

32 LEASES (continued)

Additions to the right-of-use assets during the financial year ending 30 June 2020 were £78.5m.

During the current financial year, the Group has adopted IFRS 16 which supersedes IAS 17 (Leases). Note 4 details the IFRS 16 leases transition and accounting policy choices applied.

Short term lease expense and low value lease expense is disclosed in note 8.

AMOUNTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

The Consolidated Income Statement includes the following amounts relating to leases:

	2020 £m	1 July 2019 £m
Depreciation charge of right-of-use assets:		
Land and buildings	**8.9**	–
Plant and equipment	**2.1**	–
	11.0	–
Impairment charge on leased assets	**3.4**	–
Interest expense on lease liabilities	**7.0**	–

AMOUNTS RECOGNISED IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

	2020 £m
Total cash outflow for leases	**9.6**

LEASING ACTIVITIES

The Group enters into leases for a range of assets, principally relating to property. These property leases, which consist of office buildings and warehouses, have varying terms, renewal rights and escalation clauses, including periodic rent reviews. Plant and equipment includes assets leased for use at Skygate.

COMPARATIVE LEASE DISCLOSURES UNDER IAS 17

Operating Leases

Future minimum lease payments under non-cancellable operating leases were as follows:

	2020 £m
Within one year	**12.2**
Within two to five years	**25.5**
Over five years	**99.6**
	137.3

Finance Leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments were as follows:

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

33 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 this 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 Very Group Limited:

Recharged costs	2020 £m	2019 £m
Yodel Delivery Network Limited	**4.2**	5.2
Arrow XL Limited	**0.4**	0.6
	4.6	5.8

Purchase of services	2020 £m	2019 £m
Yodel Delivery Network Limited	**(70.2)**	(61.5)
Drop & Collect Limited	**(22.2)**	(24.6)
Arrow XL Limited	**(41.4)**	(42.9)
Tenport Property Holdings Limited	**(1.3)**	(1.6)
Telegraph Media Group Limited	**–**	(1.7)
Shop Direct Holdings Limited	**(5.0)**	(5.0)
	(140.1)	(137.3)

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

Amounts due from fellow Group undertakings	2020 £m	2019 £m
Shop Direct Holdings Limited	**485.5**	480.5
Yodel Delivery Network Limited	**0.9**	0.2
Arrow XL Limited	**–**	0.3
Drop & Collect Limited	**0.7**	0.3
Primevere Limited	**22.9**	22.0
Primevere Equipment Limited	**12.3**	11.2
	522.3	514.5

Amounts due to fellow Group undertakings	2020 £m	2019 £m
Arrow XL Limited	**(0.3)**	–
	(0.3)	–

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.

34 PARENT AND ULTIMATE PARENT UNDERTAKING

The Company's immediate parent is Shop Direct Holdings Limited. The smallest consolidated set of accounts which contain The Very Group 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.

35 EVENTS AFTER THE BALANCE SHEET DATE

On 8 July 2020 the Group completed a buy-in of the Littlewoods Pension Scheme ("Scheme"). This followed the first buy-in during May 2018. This second buy-in will be accounted for during the year ended 30 June 2021. The expected impact of the buy-in is not considered to have a material impact on the assets or liabilities of the Scheme.

On 19 August 2020, formal agreement was reached between the Group and the Trustees of the Scheme with regards to future Company contribution obligations. This has been documented in a revised Schedule of Contributions, which allows for a single future contribution of £18.7m payable on or before 31 August 2021. If this change had been agreed prior to 30 June 2020, the net pension liability of £57.9m would have reduced to £17.7m, i.e. the impact would have been a reduction in the IFRIC 14 liability as disclosed in note 25 of £40.2m.

Statement of Financial Position of the Company

as at 30 June 2020

	Note	2020 £m	2019 £m
Assets			
Non-current assets	38	**68.3**	–
Right-of-use assets	39	**991.4**	991.4
Investments in subsidiaries			
Deferred tax assets	40	**0.4**	–
		1,060.1	991.4
Current assets			
Trade and other receivables	41	**1,593.5**	1,511.1
Total assets		**2,653.6**	2,502.5
Equity			
Share capital	46	**(200.0)**	(100.0)
Retained earnings		**(373.8)**	(380.6)
Total equity		**(573.8)**	(480.6)
Non-current liabilities			
Lease liabilities	44	**(115.3)**	–
Current liabilities			
Trade and other payables	43	**(1,804.7)**	(1,925.5)
Loans and borrowings	42	**(150.0)**	(95.0)
Lease liabilities	44	**(8.0)**	–
Income tax liability		**(1.8)**	(1.4)
		(1,964.5)	(2,021.9)
Total liabilities		**(2079.8)**	(2,021.9)
Total equity and liabilities		**(2,653.6)**	(2,502.5)

The loss on ordinary activities after taxation for the year ended 30 June 2020 attributable to the Company amounted to £6.8m (2019: profit of £20.6m). The Company has taken advantage of Section 408 of the Companies Act 2006 and has not published its own income statement.

The financial statements of The Very Group Limited, registered number 04730752, have been approved by the Board and authorised for issue on 7 October 2020 and signed on its behalf by:

D W KERSHAW
Director

The notes on pages 82 to 87 form an integral part of these financial statements.

Statement of Changes in Equity for the Company

as at 30 June 2020

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

	Share capital £m	Retained earnings £m	Total £m
At 1 July 2019	100.0	380.6	480.6
Issue of share capital	100.0	–	100.0
Loss for the year and other comprehensive expense	–	(6.8)	(6.8)
Total comprehensive income/(expense)	100.0	(6.8)	93.2
At 30 June 2020	**200.0**	**373.8**	**573.8**

The notes on pages 82 to 87 form an integral part of these financial statements.

Notes to the Financial statements
continued

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash-flow statement and certain disclosure requirements in respect of related party transactions with wholly owned subsidiaries and leases. 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.

IMPAIRMENT
The Company's accounting policies in respect of impairment of property, plant and equipment, intangible assets and financial assets are consistent with those of the Group.

The carrying values of investments in subsidiary undertakings are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an investment in a subsidiary undertaking is the greater of its value in use and its fair value less costs of disposal. 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.

The Company's impairment policies in relation to financial assets are consistent with those of the Group, with additional consideration given to amounts owed by Group undertakings. Except for certain loans due in greater than one year, all outstanding receivable balances are repayable on demand and arise from funding provided by the Company to its subsidiaries. The Company deems it unlikely that net receivers of funding would be able to repay loan balances in full at the end of the reporting period if the debt was called upon and in such circumstances the counterparty would either negotiate extended credit terms with the Company or obtain external financing to repay the balance. As such, the expected credit loss is either considered immaterial based on discounting the loan over the extended payment term, or has been calculated by applying a default loss rate based on the actual or proxy credit rating of the counterparty. No change in credit risk is deemed to have occurred since initial recognition for amounts not repayable and therefore a 12-month expected credit loss has been calculated based on the assessed probability of default.

37 LOSS OF THE COMPANY
The loss on ordinary activities after taxation for the year ended 30 June 2020 attributable to the Company amounted to £6.8m (2019: £20.6m profit). 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 (2019: same).

The auditor's remuneration for audit and other services is disclosed in note 12 to the consolidated financial statements.

38 RIGHT-OF-USE ASSETS

	Plant and equipment £m
Cost	
On transition to IFRS 16 at 1 July 2019	–
Additions	70.4
At 30 June 2020	70.4
Depreciation	
On transition to IFRS 16 at 1 July 2019	–
Charge for the year	2.1
At 30 June 2020	2.1
Carrying amount	
On transition to IFRS 16 at 1 July 2019	–
At 30 June 2020	68.3

During the current financial year, the Group has adopted IFRS 16 which supersedes IAS 17 (Leases). Note 4 details the IFRS 16 leases transition and accounting policy choices applied.

Right-of-use assets have been recognised in the current year as a result of the first-time adoption of IFRS 16, which is discussed further in note 4.

39 INVESTMENTS
GROUP SUBSIDIARIES
Details of the Group subsidiaries as at 30 June 2020 are as below.

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

			Proportion of ownership interest and voting rights held	
Name of subsidiary	Principal activity	Registered office	2020	2019
Shop Direct Home Shopping Limited	Retail	Skyways House, L70 1AB	100%	100%
Shop Direct Licensing Limited	Retail	Skyways House, L70 1AB	100%	100%
Littlewoods Clearance Limited*	Retail	Skyways House, L70 1AB	100%	100%
Shop Direct Ireland Limited	Retail	Cape House, Westend Office Park, Dublin	100%	100%
Source Direct International Limited	Merchandise sourcing	One Pacific Place, Hong Kong	100%	100%
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%
The Very Group Funding PLC*	Funding	Skyways House, L70 1AB	100%	100%
Shop Direct Limited	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Financial Services Limited	Dormant	Aintree Innovation Centre Park Lane, Liverpool, L30 1SL	100%	100%
Shop Direct Contact Centres 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%
Innovations Group Limited	Dormant	Skyways House, L70 1AB	100%	100%
Lewis UK Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Finance Company Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Retail Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods7 Limited	Dormant	Skyways House, L70 1AB	100%	100%

Notes to the Financial statements

continued

39 INVESTMENTS (continued)

GROUP SUBSIDIARIES (continued)

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2020	2019
Love Label Limited	Dormant	Skyways House, L70 1AB	100%	100%
Nationwide Debt Recovery Limited	Dormant	Skyways House, L70 1AB	100%	100%
Reality Group 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%
White Arrow Express Limited*	Dormant	Skyways House, L70 1AB	100%	100%
White Arrow Leasing Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Holdings Limited	Dormant	Skyways House, L70 1AB	100%	100%
Very Group Holdings Limited	Dormant	Skyways House, L70 1AB	100%	100%
Very Group International Limited	Dormant	Skyways House, L70 1AB	100%	100%
Very Group Finance Limited	Dormant	Skyways House, L70 1AB	100%	100%
Very Group Retail Limited	Dormant	Skyways House, L70 1AB	100%	100%
Very Group Financial Services Limited	Dormant	Skyways House, L70 1AB	100%	100%

* indicates direct investment of The Very Group Limited (formerly Shop Direct Limited)
◊ indicates the investment is in the process of being liquidated

SUMMARY OF THE COMPANY INVESTMENTS

	2020 £m	2019 £m
Investments in subsidiaries	**991.4**	991.4

Subsidiaries	
Cost or valuation	
At 1 July 2018, 30 June 2019 and 30 June 2020	1,432.5
Provision	
At 1 July 2018	440.6
Impairment	0.5
At 30 June 2019	441.1
At 1 July 2019	441.1
Impairment	–
At 30 June 2020	441.1
Carrying amount	
At 30 June 2020	991.4
At 30 June 2019	991.4
At 30 June 2018	991.9

40 DEFERRED TAX

Deferred tax movement during the year:

	At 1 July 2019 £m	Recognised in income statement £m	At 30 June 2020 £m
Accelerated tax depreciation	–	0.4	0.4
Net tax assets	–	0.4	0.4

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

41 TRADE AND OTHER RECEIVABLES

	2020 £m	2019 £m
Amounts owed by parent	**485.5**	480.5
Amounts owed by subsidiaries	**1,072.2**	996.5
Amounts owed by other Group companies	**35.2**	33.2
Other receivables	**0.6**	0.9
	1,593.5	1,511.1

42 LOANS AND BORROWINGS

	2020 £m	2019 £m
Current loans and borrowings at amortised cost		
Secured revolving credit facility	**150.0**	95.0

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

The borrowings are repayable as follows:

	2020 £m	2019 £m
Within one year	**150.0**	95.0

	2020 %	2019 %
The weighted average interest rates paid were as follows:		
Secured revolving credit facility	**3.26**	3.74

43 TRADE AND OTHER PAYABLES

	2020 £m	2019 £m
Amounts due to subsidiaries	**1,804.7**	1,925.5

Notes to the Financial statements

continued

44 LEASES

AMOUNTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

	2020 £m	1 July 2019 £m
Right-of-use assets:		
Plant and equipment	**68.3**	–
	68.3	–

The Company presents lease liabilities as obligations under finance leases in the Statement of Financial Position. The amounts included within obligations under finance leases are as follows:

	2020 £m	1 July 2019 £m
Lease liabilities:		
Current	**8.0**	–
Non-current	**115.3**	–
	123.3	–

During the current financial year, the Group has adopted IFRS 16 which supersedes IAS 17 Leases. Note 4 details the IFRS 16 leases transition and accounting policy choices applied.

Additions to the right-of-use assets during the financial year ending 30 June 2020 were £70.4m.

AMOUNTS RECOGNISED IN THE INCOME STATEMENT

The Income Statement includes the following amounts relating to leases:

	2020 £m	1 July 2019 £m
Depreciation charge of right-of-use assets:		
Plant and equipment	**2.1**	–
Impairment charge on leased assets	**–**	–
Interest expense on lease liabilities	**4.2**	–

LEASING ACTIVITIES

The Group enters into leases for a range of assets, principally relating to property. These property leases, which consist of office buildings and warehouses, have varying terms, renewal rights and escalation clauses, including periodic rent reviews. Plant and equipment includes assets leased for use at Skygate.

45 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. There are no transactions between the Company related parties who are not members of The Very Group Limited.

At 30 June, the Company had the following balances outstanding with its fellow group companies outside of The Very Group Limited:

	2020 £m	2019 £m
Amounts due from fellow group undertakings		
Shop Direct Holdings Limited	**485.5**	480.5
Primevere Limited	**22.9**	22.0
Primevere Equipment Limited	**12.3**	11.2
	520.7	513.7

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.

46 SHARE CAPITAL

	2020 £m	2019 £m
Allotted, called-up and fully paid:		
Ordinary shares of £1 each	**200.0**	100.0

On 19 November 2019 the Company issued 75,000,000 ordinary shares of £1 each at a nominal value of £1 per share. On 7 February 2020 the Company issued a further 25,000,000 ordinary shares of £1 each at a nominal value of £1 per share.

Company information

THE VERY GROUP

DIRECTORS
A S Barclay
H M Barclay
H B Birch
B P Fletcher (appointed 1 September 2020)
D W Kershaw
P L Peters
S A Winton
J T Humphries
M McMenemy

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

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