SHOP DIRECT

very Littlewoods VERY EXCLUSIVE

Annual Report and Group Financial Statements 2016/2017

DELIVERING THE GOODS

BUILDING A WORLD CLASS DIGITAL RETAILER

With annual sales of £1.9bn, Shop Direct is the UK's second largest pureplay digital retailer. Our digital department stores, Very.co.uk, VeryExclusive.co.uk, Littlewoods.com and LittlewoodsIreland.ie, sell over 1,800 famous brands and receive over 1.3 million website visits a day, with 69% of online sales completed on mobile devices.

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

OUR AMBITION

BUILD A WORLD CLASS DIGITAL RETAILER

OUR PURPOSE

1—MAKE GOOD THINGS
Read more on pages 10-11

2—EASILY ACCESSIBLE
Read more on pages 12-13

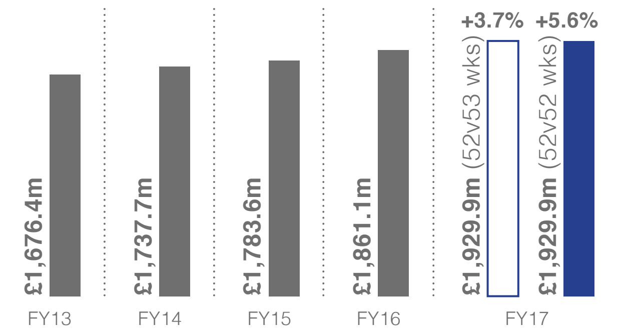
3—TO MORE PEOPLE
Read more on pages 14-15

FIND OUT MORE
shopdirect.com

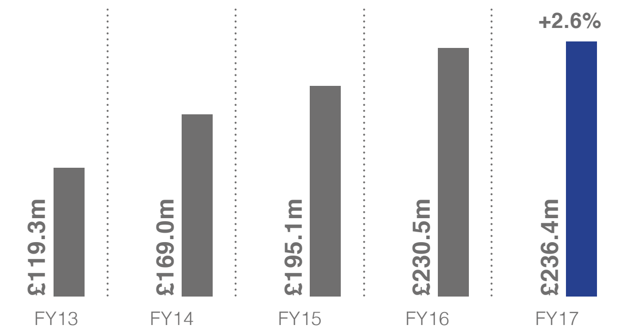
OPERATING AND FINANCIAL HIGHLIGHTS

- Group sales up 3.7% to £1,929.9m (+5.6% adjusted for week 53 in FY16[1])
- Very sales up 12.6% to £1,263.5m (+14.6% adjusted for week 53 in FY16[1])
- Littlewoods sales decline slowed – down 9.8% to £666.4m (-7.9% adjusted for week 53 in FY16[1])
- Group gross margin of 40.8% (FY16: 40.8%)
- Underlying EBITDA[2] up 8.9% to £249.7m (FY16: £229.3m)
- EBITDA up 2.6% to £236.4m (FY16: £230.5m)
- Underlying profit before tax[3] up 6.6% to £160.4m (FY16: £150.4m)
- Profit before tax of £24.9m (FY16: £105.6m) driven by exceptional items of £121.0m including £112.3m regulatory costs and provisions to cover an increase in complaint volumes experienced across the market. This figure is estimated to cover all claims up to the claims deadline of August 2019
- Appetite for mobile still growing – now 69% of online sales (FY16: 62%)
- Recruitment of new credit customers up 7.6%, with a 14.1% increase for Very

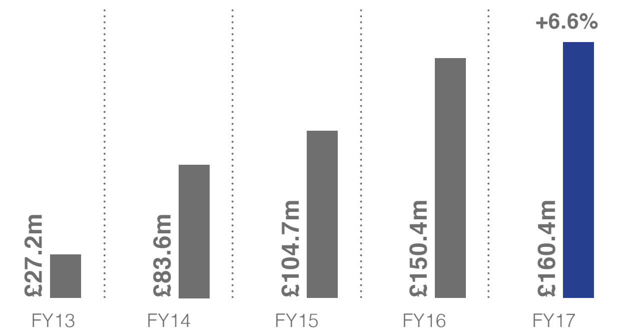
GROUP SALES



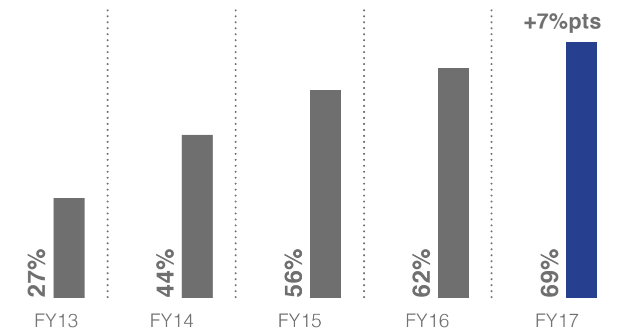
EBITDA



UNDERLYING PROFIT BEFORE TAX



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



1 FY17 was a 52 week period whereas FY16 was a 53 week period. Unless stated otherwise, figures include extra week in FY16.
2 Underlying EBITDA calculated as earnings before exceptional items, interest, tax, depreciation and amortisation, fair value adjustments and IAS19 (Employee Benefits)/IFRIC14.
3 Underlying profit before tax calculated as profit before tax, exceptional items, fair value adjustments and IAS19 (Employee Benefits)/IFRIC14.

GROUP AT A GLANCE

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

Our high growth digital department store, focusing on style-conscious, aspirational women.

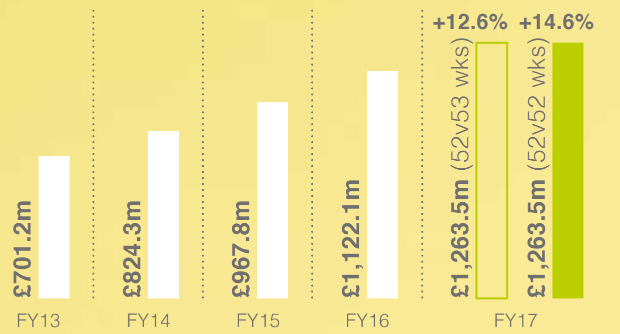
VERY.CO.UK

A UK online department store with big name brands

Flexible ways to pay via unique financial services products allowing our customers to purchase what they want when they need it the most

Offers a broad, curated and inspiring selection of products for our customers

VERY SALES



SALES[1] (FY17)	**EBITDA CONTRIBUTION**[2] (FY17)	**ONLINE VISITS**[3] (FY17)	**GROWTH IN SMARTPHONE ORDERS** (FY17)
£1,263.5m (+12.6%)	£290.1m (+6.0%)	335.4m (+18.5%)	+41.5%

1 Very sales includes Very.co.uk and VeryExclusive.co.uk.
2 EBITDA contribution is stated before central costs. Sales growth partially mitigated at EBITDA level due to investment to drive future growth. See page 38 for more details.
3 Online visits growth partially offset at sales level due to increasing proportion of mobile visits which have lower conversion.

Our timeline

A business, with a long history of serving UK customers, now transformed into a leading digital retailer

Establishing the brands

1890s-1990s

- Kay & Company founded 1890s
- Littlewoods launched 1920s
- Telephone ordering launched 1980s
- eCommerce launched 1990s

Merging the brands

2002-2003

- Present owners buy Littlewoods from Moores family
- GUS's home shopping acquired, renamed Shop Direct

2005

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

Focussed expansion ecommerce

2009

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

2014-2015

- Very overtakes Littlewoods to become Shop Direct's largest brand
- Very Exclusive launched to offer high street luxury to our customers

Accelerated Transformation

2015-2017

- No catalogues distributed after 80 years of circulation
- Own brands simplified with launch of V by Very
- Focus on two retail power brands

Future

- New financial services environment
- Mobile-first customer experience
- Technology innovation

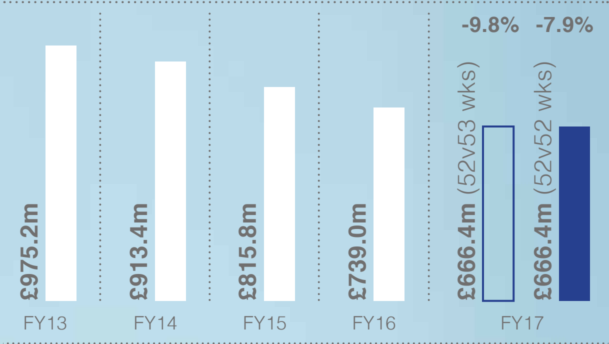
Read more:
www.shopdirect.com

Littlewoods.com

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

Servicing a wide range of customers

LITTLEWOODS SALES



SALES[4]
(FY17)

£666.4m
(-9.8%)

EBITDA CONTRIBUTION[5]
(FY17)

£158.9m
(-9.3%)

ONLINE VISITS
(FY17)

156.8m
(+0.0%)

CREDIT CUSTOMERS WITH TENURE OF OVER FIVE YEARS[5]
(FY17)

49.6%

4 Littlewoods sales include Littlewoods.com and LittlewoodsIreland.ie.
5 EBITDA contribution is stated before central costs. See page 38 for more details.
6 Excludes Littlewoods Ireland.

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

Flexible ways to pay via unique financial services products allowing our customers to purchase what they want when they need it the most

I'm pleased to share the results from another excellent year at Shop Direct – accelerating sales growth and record underlying profit.

“A mobile-first approach is fuelling our success

“We're still not close to the business's full potential

I'm pleased to share another record trading performance in FY17, as we continue to make progress by sticking to our strategy: making good things easily accessible to more people. We're playing in a competitive online market where most of the growth is coming from mobile – and our mobile-first approach is fuelling our success.

Our unique combination of brands plus credit continues to be what makes us special. Very.co.uk continued to expand rapidly as the growth engine of our business – as more and more people shopped on their smartphones.

We're not slowing down: we know the huge potential of this business, and we've still lots more to do.

FINANCIAL PROGRESS

Group revenue rose 3.7% to £1,929.9m (+5.6% adjusted for week 53 in FY16) and underlying profit before tax was up 6.6% to £160.4m. Reported pre-tax profit declined to £24.9m (FY16: £105.6m) due to an increase in exceptional items to £121.0m (FY16: £43.5m) including £112.3m regulatory costs and provisions to cover an increase in complaint volumes experienced across the market. This figure is estimated to cover all claims up to the claims deadline of August 2019. We've made investments in data and technology, and they've paid off with our ever-more personalised marketing leading to record acquisition of bullseye customers. Very.co.uk continues to thrive as the UK's fastest-growing online department store, with sales up 12.6% on last year (+14.6% adjusted for week 53 in FY16). It's been fuelled by customers shopping on mobile: 69% of our sales came from smartphones and tablets, up 7%pts on last year.

We enjoyed another record Christmas period, recording group sales growth of 9% during the seven weeks to 23 December 2016. Fashion was a great performer, up 16% thanks to the success of our own-brand V by Very and the increasing popularity of athleisure taking sportswear growth to 38%.

We continue to be a disciplined business, evidenced in the year's gross margin rate and credit risk performance. We maintained gross margin rate at 40.8% despite retail market price pressure and we've maintained close control of bad debt and fraud. Our unique integrated retail and financial services model allows us to bring desirable department store brands within easy reach of customers who otherwise wouldn't be able to afford them.

STRATEGIC PROGRESS

Our ambition is to become a world class digital retailer by making good things easily accessible to more people. The strategy continues to drive sales, profit, customer advocacy and employee engagement.

We've got off to an excellent start with our own-label clothing brand, V by Very, successfully launching and migrating 13 own-label brands into one. We've also strengthened our Very Exclusive offering with the successful launch of menswear, and added more credit options. And our ever-more scientific approach to promotions and pricing has meant we've stepped-up in selling the right product, at the right time, at the right price to the right customer.

We've continued to invest in our credit offering; improving the digital credit journey, investing in regulatory compliance, and promoting our financial services products more than ever before across our mobile sites and apps, social media and digital marketing. We've also enjoyed success from market-leading trading promotions combining retail and financial services, including credit to accounts.

We've continued to make our customers' experience ever-easier, with a particular focus on mobile. Personalisation on mobile is where we intend to win, and we're uniquely placed to make the most of our data and technology – whether to bring customers to our site through personalised Facebook ads utilising the company's new 'Canvas' technology; engaging them while they're on site by personalising our homepage during Black Friday week; or using a system powered by machine learning which automatically contacts customers who haven't shopped for a while, encouraging them to return. We launched our Littlewoods app and added bio-authentication to our Very app, so that customers can simply use their fingerprint to check-out or manage their account. And, most excitingly, we launched our own Very Assistant – a 'conversational user interface' allowing customers to ask questions in their own words within a WhatsApp-style chat environment. Encouraged by the customer focus of Very Assistant, we've been embedding these ways of working into other teams, including product teams focussed on parts of the customer experience.

We've progressed our data strategy ambitions – we've built the technical capability for our data lake and begun to fill it with source systems and a core layer of data. This will ultimately enable access to data and insight when colleagues need it to drive decision making through accurate and up-to-date data. And then we've supercharged some initiatives in driving data-led decisions to impact our trading performance – with real success from using data in our CRM and email world, ensuring we're contacting customers at the right time, with the right message, and with the right offer or promotion attached.

And not just on site, we've made good progress off site too. Our partnership with Dentsu Aegis has led to more optimised and effective marketing campaigns, increasing new customer acquisition and allowing us to spend in the right digital channels at the right time, to the right customer.

We now have a presence in London, with our newly launched office in Victoria, enabling us greater access to top talent across the world. Not just in London, we've invested in our working environment in Liverpool this year, including creating The Cube, a state-of-the-art training, conferencing and wellbeing facility, designed using feedback from colleagues.

We've also made some world-class hires including Jon Rudoe, who joined us from Sainsbury's plc as group retail and technology director, and Derek Harding, group finance and strategy director, who has recently joined us from Senior plc.

Shop Direct has continued to be recognised in the industry. We bagged Retail Week's 'pureplay etailer of the year award' for the third year running – the first company to ever do so. I'm immensely proud of what we're achieving here.

FUTURE

We'll continue to invest in what makes us special, and stick to our strategy. We'll keep adding more good things across all of our brands, trialling a stockless model which will enable us to significantly increase our offer. We've added over 500 new brands to the shop in the past 3 years – and we're just getting warmed up. Our scientific pricing capabilities will become ever-more advanced. And we'll continue to strengthen and protect the USP provided by our credit offering, with enhancements ranging from journey improvements and personalised credit offers to artificial intelligence (AI) powered credit decisions and the launch of our new credit platform.

Very Assistant will get to know our customers better every time they interact, and we're excited to start with giving her a personalised customer service conversation, before we move to style advice and recommendations.

Continuing to make it easier for our customers to shop is our focus for the future. From when she arrives on site, we're making it easier to find and buy what's right for her, and to keep improving our service after she's shopped – we're making improvements across the whole journey, and using data to make decisions on where to start. We're laser-focussed on our customer, and we're accelerating how we work to serve her, kicking on further with our transformation to become a world class digital retailer. We'll be investing in new ways of working and technology to create a truly digital workplace – experimenting with product teams and structures throughout the customer experience, continuing to update our office environment.

There's lots to do here, and I'm looking forward to another record year – which I'm confident we'll deliver through our clear and ambitious plans, and our outstanding people.

ALEX BALDOCK
Group Chief Executive

OUR STRATEGY

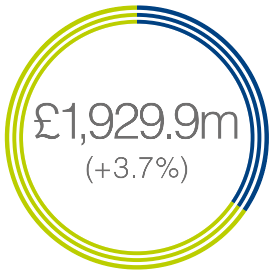
Our Ambition	Transform a catalogue business into a world class digital retailer		
Our Purpose	MAKE GOOD THINGS	EASILY ACCESSIBLE	TO MORE PEOPLE
How we will deliver the purpose	Famous for Brands	• Data & Analytics • Easy Customer Experience • Personalisation	Credit
Underpinned by	People	Process	Technology

Read more:
www.shopdirect.com

KEY PERFORMANCE INDICATORS

We measure the performance of our business using the following Key Performance Indicators[1] for the year ended 30 June 2017.

GROUP SALES



Very	**£1,263.5m**	(+12.6%)
Littlewoods	**£666.4m**	(-9.8%)

Group sales up 5.6% after adjusting for week 53 in FY16.

UNDERLYING EBITDA[2]

£249.7m
(+8.9%)

UNDERLYING PROFIT BEFORE TAX[3]

£160.4m
(+6.6%)

EBITDA

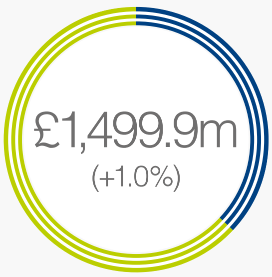
£236.4m
(+2.6%)

PROFIT BEFORE TAX

£24.9m
(-76.4%)

Retail

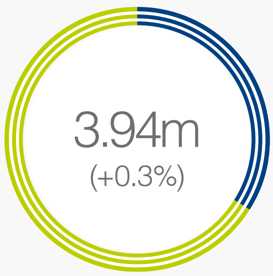
RETAIL SALES[4]



Very	**£943.5m**	(+11.7%)
Littlewoods	**£556.4m**	(-13.1%)

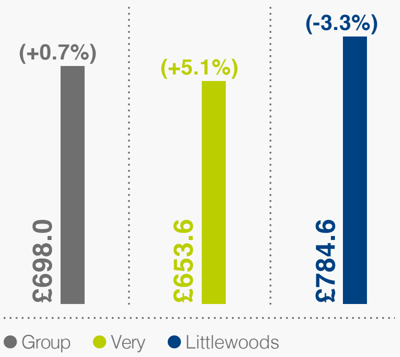
Retail sales up 2.9% after adjusting for week 53 in FY16.

TOTAL ACTIVE CUSTOMERS[5] (CASH & CREDIT)



Very	**2.60m**	(+6.2%)
Littlewoods	**1.34m**	(-9.7%)

DEMAND PER CUSTOMER[6]



SALES CONVERSION[7]

54.5%
(0.0%pts)

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

Financial services

AVERAGE DEBTOR BOOK

£1,596.8m
(+3.5%)

INTEREST INCOME % OF DEBTOR BOOK

21.0%
(+1.5%pts)

BAD DEBT % OF DEBTOR BOOK

7.6%
(0.7%pts lower)

1 Unless stated, Key Performance Indicators include 53rd week in FY16.
2 Underlying EBITDA calculated as earnings before interest, tax, depreciation and amortisation, fairvalue adjustment and IAS19 (Employee Benefits)/IFRIC14.
3 Underlying profit before tax calculated as profit before tax, exceptional costs, fair value adjustments and IAS 19R (Employee Benefits)/IFRIC 14.
4 Retail sales is on a management accounts basis excluding statutory adjustments, therefore differs to revenue from the sales of goods presented in note 4.
5 Defined as having shopped in the last 12 months.
6 Average order frequency multiplied by average order value stated before customer returns, VAT, not yet despatched goods and credit approval.
7 Impact of customer returns, VAT, not yet despatched goods (due to time lag/stock availability) and credit approval (insufficient credit, fraud detection).

OUR STRATEGY

We focus relentlessly on delivering our promise to make good things easily accessible to more people. Here's how…

OUR PURPOSE

	MAKE GOOD THINGS	EASILY ACCESSIBLE
Our Strategy	**Famous for Brands**	**Data & Analytics**
What it means	'Good things' is all about choice. So we listen to our customers and bring on board the brands they want – offering both branded and own-label options. Read more on pages 10-11	We want to make life easier for our customers – so we collect, store, define, protect and utilise data so we can fuel a personalised and seamless experience across all channels.
Our progress in 2016/2017	• Launched our own brand, V by Very, across womenswear, menswear and kidswear, plus V by Very petite. • Strengthened our branded offer by adding new brands (including Nicce, CK jeans, B by Ted Baker, EA7 and Outback) and expanding our ranges with existing brands (including Nike, River Island, Apple and Amazon). • Launched menswear on Very Exclusive, including Paul Smith, Aquascutum, Barbour and Reiss.	• Used data to communicate more effectively with new customers and maximise their value – customising the way we welcome and nurture them, explaining our financial services products and introducing them to our department store ranges. • Invested significantly in data science to help us personalise sort orders and optimise direct marketing, marketing mix and pricing intelligence. • Optimised the effectiveness of marketing campaigns, increasing new customer acquisition: new Very credit customers up 14.1% year-on-year.

Progress against FY17 priorities

1	**Easier mobile experience**	We launched webchat on mobile, released our Very Assistant in the Very app to answer customer service questions quickly, enabled touch ID in the Very app, and launched the Littlewoods app.	1.6m app downloads
2	**Data-fuelled personalisation**	We used personalised Facebook ads, segmented homepages and programmatic CRM to contact customers when they need to replenish a product or haven't engaged with us for a while.	37 Customer repurchasing cycles identified
3	**Enhanced our credit capability**	We completed technical design for release of our New Customer Experience (NCE), and the build phase is well underway. This investment programme will help us personalise credit offers, develop new credit products and streamline the customer journey.	£50m investment programme in financial services
4	**Wider product choice**	We launched our new own brand, V by Very, across womenswear, menswear and kidswear, delivering sales of £148m in the period. We also strengthened our branded offer by adding new brands and launched menswear on Very Exclusive.	£148m V by Very retail sales

TO MORE PEOPLE

Easy Customer Experience

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

Read more on pages 12-13

- Launched Very Assistant, a conversational user interface on the Very mobile app to quickly answer customer service questions.
- Enabled touch ID across Very apps, so customers can use their fingerprint to log-in, check-out and manage their account.
- Released Littlewoods iOS and Android apps.
- Rolled out our new customer service model – empowering advisers to resolve issues on first contact, reducing repeat contacts and improving customer satisfaction.
- Launched new webchat facility on mobile devices.

Personalisation

Relevance wins in retail. So we're applying advanced technology to customers' shopping data to bring them the products they want, and not what they don't.

- Used machine-powered learning to contact customers automatically and predict the brands/products they'd like to re-purchase, or showcase products that will grab their attention when they add items to their 'save for later' list.
- Used survival analysis to listen for and identify customers who show signs of lapsing – automatically contacting them with an incentive to shop.
- Released personalised ads using Facebook's new Canvas technology to bring products to life on mobile.

Credit

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

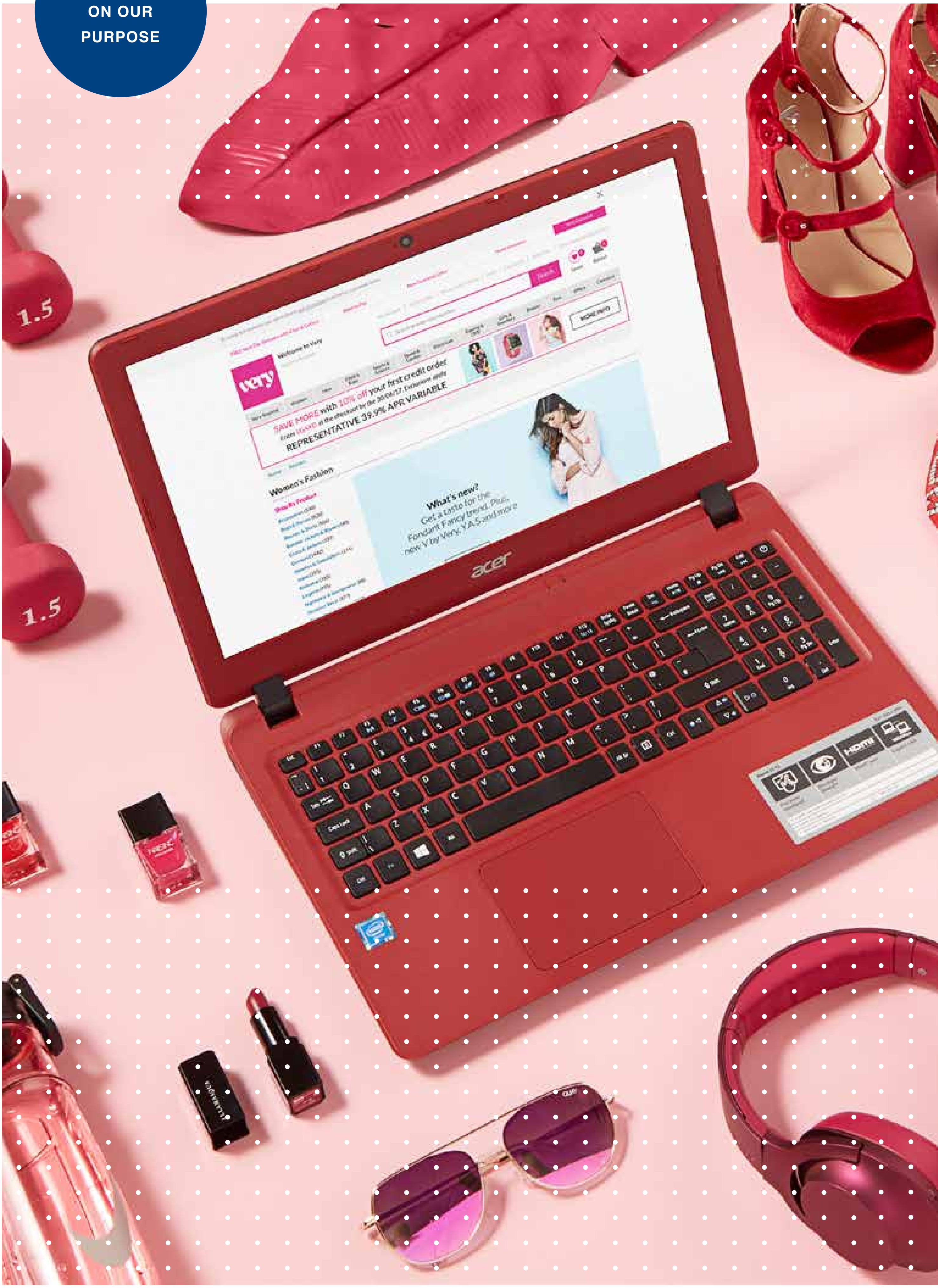
Read more on pages 14-15

- Combined retail and financial services in trading promotions – including offering credit to customers' accounts as an alternative to price discounts.
- Launched a simpler, new-look MoneyZone educating customers about our credit offer.
- Launched 'buy now pay later' on Very Exclusive.
- Completed first-release technical design of our new financial services environment, with the related build progressing on-track. This will bring customers broader financial service options and a more personalised experience.

Priorities in FY18

1	**Increasing product ranges**	We want to make even more good things accessible for our customers, and we'll be looking to deliver this through stockless technology.
2	**Creating easier customer experiences**	We want to make life even easier for customers, both while shopping online and afterwards – which means breaking fewer promises and resolving issues better when things do go wrong.
3	**Enhancing our credit capability**	Our three-year financial services investment programme in NCE will culminate this year – helping us personalise credit offers, develop new credit products and streamline the customer journey.
4	**Transforming the way we operate internally**	We're transforming the way we operate internally to accelerate our rate of change and improve the customer experience.

DELIVERING ON OUR PURPOSE



GOOD THINGS

45%
of customers
have purchased
V by Very

V by Very: a clear own-label brand that's already a hit with customers

Our V by Very clothing brand is at the heart of our ambition to build a world-class online department store. Since launch in September 2016 it's become our top-selling brand, representing 10% of retail sales. Merging 13 previous brands into one coherent offer, it's brought clarity and efficiency to our own-label proposition: while presenting a simpler brand identity to customers, it allows us to buy more efficiently from fewer suppliers.

It reaches every aspect of our customers' lives, with wardrobe essentials alongside must-have fashion trend pieces. We've highlighted its strong design, value and quality story through collaborations with monthly magazines such as Elle and increased placement in weeklies and social media.

Already, 45% of Shop Direct customers have purchased from its women's, men's or children's ranges. And we're building on that success. We added women's petite and plus sizes this year, and in FY18 we'll extend the menswear offer into tall styles and broader size ranges.

Read more:
www.shopdirect.com

DELIVERING ON OUR PURPOSE

EASILY ACCESSIBLE

Our Very.co.uk apps are a critical part of our business – so we're making them better and better

Customers love our apps. They've been downloaded 1.6m times, maintaining user ratings of 4.5* (Android) and 5* (iOS) for the past three years. They now account for 32% of all Very mobile sales.

Customers who use them visit us more often, and have a higher conversion rate. To build on this, we're finding new ways to make them simpler and more personal. Two key developments this year were bio-authentication and our Very Assistant.

Bio-authentication means customers only need a fingerprint to log-in, check-out and manage their account. Since launch in July 2016, 84% of app users have enabled it.

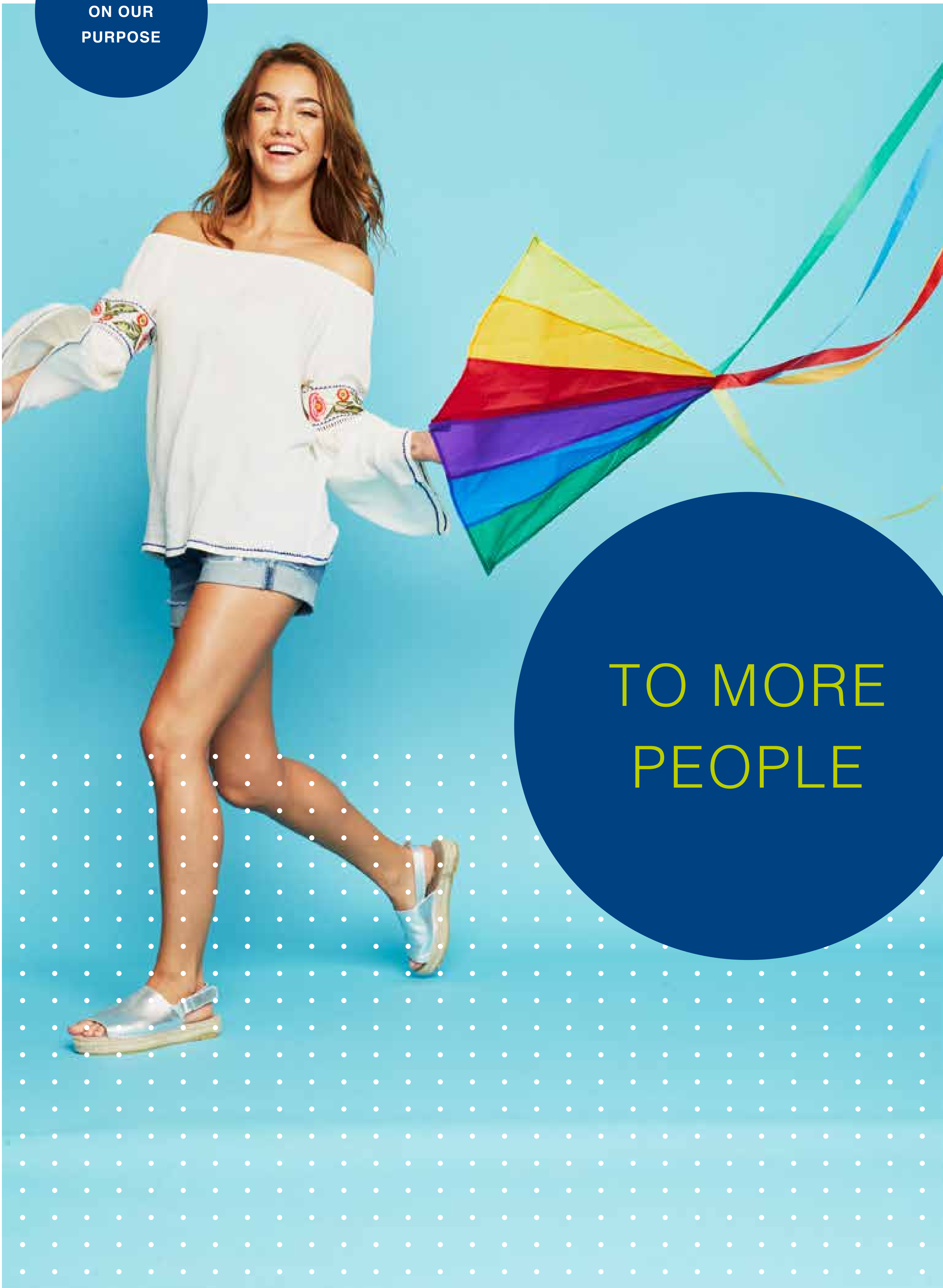
Very Assistant is a UK retail first that's earned international press attention and multiple award nominations. It allows customers to manage key aspects of their account – from orders and payments to arranging returns and tracking delivery – through conversational, WhatsApp-style text dialogue. We're now working on artificial intelligence enhancements to solve a growing number of customer problems in clear, natural language.

Read more:
www.shopdirect.com

32%

of Very mobile sales via the app

DELIVERING ON OUR PURPOSE



TO MORE PEOPLE

> We're helping an additional 720 customers a week

Win-win: helping customers to resolve financial difficulties works for them and us

Our credit proposition is one of our key competitive differentiators, and we take our lending responsibilities seriously. We're committed to helping customers to avoid getting into financial difficulty – and if they do face challenges, we continue to find new ways to help get them back on track.

In FY17 we successfully tested two-way SMS, enabling them to communicate with us by text as well as phone. This works for customers who may be put off contacting us because they're uncomfortable talking to a person about arrears. As a result, bad debts are down and we're helping an additional 720 customers a week to understand their options, get back up-to-date with their payments and start shopping again.

We now also alert customers by text if a direct debit payment is rejected – offering to waive the penalty fee if they find another way to pay by the due date.

Read more:
www.shopdirect.com

FINANCE REVIEW

Underlying profit progression underpinned by continued sales growth at Very and financial services stability.

GROUP SALES

Group sales, comprising retail and financial services, increased by 3.7% to £1,929.9m (+5.6% after adjusting for week 53 in FY16) as our power brand Very.co.uk continued to outperform the online retail market*.

Very's sales grew 12.6% to £1,263.5m (+14.6% adjusted for week 53 in FY16) – benefiting from its unique combination of famous brands, mobile-first customer experience and credit options to spread the cost of purchases. The controlled decline in Littlewoods sales continued during the period: sales reduced by 9.8% to £666.4m (-7.9% adjusted for week 53 in FY16).

	FY17 £'m	FY16 £'m	Change %
Very	1,263.5	1,122.1	12.6
Littlewoods	666.4	739.0	(9.8)
Group Sales (52 v 53 weeks)	**1,929.9**	**1,861.1**	**3.7**
Very	1,263.5	1,102.8	14.6
Littlewoods	666.4	723.9	(7.9)
Group Sales (52 v 52 weeks)	**1,929.9**	**1,826.7**	**5.6**

FY17 RETAIL SALES MIX (%)
BY PRODUCT DIVISION

Retail sales grew 1.0% (+2.9% adjusted for week 53 in FY16), with our department store model providing continued resilience against adverse movements in individual product categories. Clothing & Footwear and Seasonal were the stand-out performers, more than offsetting a decline in Furniture & Homeware.

Clothing & Footwear growth of 6.4%† was driven by the continued trend for Athleisure, with Ladies' and Children's Sportswear up over 30% and 50% respectively. Seasonal sales growth of 4.7%† was driven by children's ranges (including Toys), Garden Tools and DIY. Electrical sales grew 2.6%† as momentum from strong pre-Christmas trading was maintained in the second half. Smart Tech was the strongest category – up over 120%. Furniture & Homeware sales declined by 6.0%†, reflecting pressure on higher-priced products as Very currently lacks an interest-free credit product to compete with leading furniture retailers. This will be rectified when our New Customer Experience launches in FY18.

FY17 RETAIL SALES GROWTH
BY PRODUCT DIVISION

	52 v 53 weeks YoY %	52 v 52 weeks YoY %
Clothing & Footwear	3.9	6.4
Electrical	1.0	2.6
Seasonal	3.1	4.7
Furniture & Homeware	(7.6)	(6.0)
Retail sales	**1.0**	**2.9**

CUSTOMERS

Active customers (those shopping with us over the previous 12 months) grew 0.3% to 3.94m. This was driven by Very (+6.2%, including 14.1% growth in new credit customers). We continued to benefit from our credit model and recurring customer base, as demand per customer (average order value multiplied by average order frequency) grew 0.7%, driven by Very (+5.1%). This reflected improved loyalty as the customer base matures, and effective investment in personalisation and ecommerce to drive more frequent return visits and present customers with more relevant product offers. Sales conversion was in line with the prior year.

	FY17	FY16	Change %
Active customers[1] (m)	3.94	3.93	0.3
Demand per customer[2] (£)	698.0	693.2	0.7
Sales conversion[3] %	54.5	54.5	nil

1 Defined as having shopped in the last 12 months.
2 Defined as average order frequency multiplied by average order value stated before customer returns, VAT, not yet despatched goods and credit approval.
3 Impact of customer returns, VAT, not yet despatched goods (due to time lag/stock availability) and credit approval (insufficient credit, fraud detection).

FINANCIAL SERVICES

Credit is a key enabler of our proposition: our unique credit products let customers buy the things they need when they need them most. Sales increased by 6.7%, driven by 1.5%pts growth in interest income as a percentage of the debtor book as Very, which has a high financial services attachment, becomes a bigger part of the group. At the same time, continued focus on customer quality improved the debtor book's risk profile, reducing bad debt as a percentage of the book by 0.7%pts.

COSTS AND PROFIT

We maintained gross margin rate at 40.8%, offsetting retail price pressure in the wider market through a favourable retail mix, with higher-margin Clothing & Footwear mix up 1.0%pt, and lower bad debt.

Distribution expenses were flat at £218.6m (FY16: £218.3m) despite higher volumes. Costs as a percentage of group sales reduced by 0.4%pts to 11.3%, reflecting more efficient collation and the increased proportion of Clothing & Footwear, which is cheaper to distribute.

Administrative expenses before exceptional items increased to £364.0m (FY16: £340.0m), due mainly to investments to support sustainable future growth. These included a TV and print campaign supporting the launch of our new own-brand, V by Very, and strategic marketing to drive growth in new credit customers for Very – up 14.1% on the prior year.

Net finance costs increased to £59.3m (FY16: £54.2m). This increase was driven by interest on the senior debt facility, which was increased from £375m to £575m in the year.

Underlying profit before tax^ rose 6.6% to £160.4m (FY16: £150.4m). As a percentage of Group sales, underlying pre-tax profit margin rose 0.2%pts to 8.3%.

“Underlying profit progression whilst investing for future growth

Reported pre-tax profit declined to £24.9m (FY16: £105.6m) due to an increase in exceptional items to £121.0m (FY16: £43.5m) including £112.3m regulatory costs and provisions to cover an increase in complaint volumes experienced across the market. This figure is estimated to cover all claims up to the claims deadline of August 2019.

INCOME STATEMENT

	FY17 £'m	FY16 £'m
Group sales	1,929.9	1,861.1
Gross margin	786.5	760.0
Gross margin rate %	*40.8*	*40.8*
Distribution expenses	(218.6)	(218.3)
Administrative expenses	(364.0)	(340.0)
Other operating income	1.3	1.6
Operating profit before exceptional items	**205.2**	**203.3**
Net finance costs	(59.3)	(54.2)
Profit before tax and exceptional items	**145.9**	**149.1**
Exceptional items	(121.0)	(43.5)
Profit before tax	**24.9**	**105.6**

Reconciliation of profit before tax and exceptional items to underlying profit before tax

	FY17 £'m	FY16 £'m
Profit before tax and exceptional items	145.9	149.1
Adjusted for:		
Fair value adjustments to financial instruments	10.3	(6.4)
Fair value adjustments to trade creditors	1.2	4.7
IAS19 and IFRIC 14 pension adjustments	3.0	3.0
Underlying profit before tax^	**160.4**	**150.4**

Reconciliation of EBITDA to underlying EBITDA

	FY17 £'m	FY16 £'m
EBITDA	236.4	230.5
Adjusted for:		
Fair value adjustments to financial instruments	10.3	(6.4)
Fair value adjustments to trade creditors	1.2	4.7
IAS 19 and IFRIC 14 pension adjustments	1.8	0.5
Underlying EBITDA**	**249.7**	**229.3**

* BRC online retail market (non-food).
† Adjusted for the impact of week 53 in FY16.
^ Underlying profit before tax calculated as profit before tax, exceptional items, fair value adjustments and IAS 19 (Employee Benefits)/IFRIC 14.
** Underlying EBITDA calculated as earnings before interest, tax, depreciation and amortisation, fairvalue adjustment and IAS19 (Employee Benefits)/IFRIC14.

TAXATION

The tax credit in the income statement of £40.0m (FY16: charge £15.5m) includes a current tax charge of £3.9m and a credit of £43.9m in relation to an increase in the deferred tax asset.

CAPITAL INVESTMENT

Capital expenditure for the period was £66.0m (FY16: £52.1m) as we continued to invest in our strategic priorities – notably personalisation, mobile, technology and financial services. Our new Very Assistant technology answers customer service questions quickly in a WhatsApp-style chat environment within the Very app. Building on the success of the Very iOS app, we released a Littlewoods iOS app which has earned a 5* rating. Investment in a new London presence – opened at the end of the year – has brought us closer to the capital's thriving technology, data and ecommerce community. Our programme to enhance our Financial Services offer remains on track for launch in FY18: it will enhance credit product flexibility, improve responsiveness to regulatory change and allow us to introduce new credit products including personalised offers.

BALANCE SHEET

Net assets reduced to £199.9m (FY16: £559.2m), reflecting a non-cash dividend payment of £400.0m partially offset by the Group's profit after tax.

Inventory increased to £114.3m (FY16: £101.0m), driven by end of season sale timing and additional intake to support year-on-year sales growth planned for quarter 1 FY18. Working capital efficiency through stock management will remain a priority. Trade and other receivables decreased to £2,072.9m (FY16: £2,260.9m), driven by the £400.0m dividend payment and corresponding reduction in loans to Group undertakings, partially offset by sales growth. Trade and other payables increased to £516.4m (FY16: £500.7m), reflecting working capital improvement and year-on-year sales growth.

The Group has a three-year senior debt facility, which increased from £375m to £575m over the period. This comprises a £500.0m term loan, £60.0m revolving credit facility and £15.0m overdraft. It is secured, with the first of two options to extend for one year exercised in April 2017.

GOING CONCERN

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

We carefully considered the Group's cash flows and banking covenants for the 12 months following the date of the financial statements. Given the current uncertain economic climate, realistic assumptions for working capital performance have been used to determine the level of financial resources available to the Group and to assess liquidity risk. The key risk identified for these assumptions is the impact that a deterioration in the economic climate would have on revenues and the debtor book.

After sensitivities to take account of reasonably foreseeable changes in trading performance, our forecasts and projections show that the Group will have sufficient headroom within its current loan facilities. After making appropriate enquiries the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

RISK MANAGEMENT AND PRINCIPAL RISKS

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

	Nature and impact	Mitigation
Economy and market conditions	Our business depends on consumer spending which can be influenced by factors beyond our control. A significant change in the UK economy could lead to a decline in Group performance. We could be affected by issues such as consumer confidence, currency/ interest rate volatility (see below) or the political environment (including Brexit).	Whilst we are a UK-focussed business, we have a robust business model which allows us to meet the opportunities and challenges ahead. Our financial services offering enables customers to spread the cost of purchases if they need to.
Competition	Retail, both online and on the high street, is an increasingly competitive market and consumer behaviour is difficult to predict. Customers are sensitive to price, service, product quality and availability. Failure to meet customer expectations in any of these areas could reduce sales and result in excessive stockholding.	We continue to add big brands to our roster, invest in data and personalisation to improve the customer journey and provide options to spread the cost of purchases. In addition, we have a strong focus on service and monitor competitors' pricing.
Credit	Credit is a key part of our customer offering and a significant majority of customers use it to make purchases. Credit risk is the risk that a proportion of these customers will not repay the money borrowed.	We keep a close watch on individual customers' exposures and have clear procedures for establishing credit limits and monitoring exposure.
Regulatory environment	We are subject to a range of legislative and regulatory changes, notably in relation to consumer credit and data protection.	We maintain open and positive relationships with relevant regulatory bodies and remain compliant with regulation through our dedicated compliance function and proactive management approach.
Securitisation	We use securitisation to fund a significant portion of our receivables book. Increases in securitisation costs could adversely impact our financial performance.	We maintain strong relationships with supporting banks and have a rolling three year funding programme with a fixed margin over LIBOR.
Foreign exchange	We purchase some of the goods we sell in foreign currencies, while recognising our costs in pounds sterling. The Group therefore has potential exposure to changes in foreign exchange rates.	Less than 10% of goods we purchase are denominated in US dollars and we use a rolling 18 month hedging programme to manage this exposure.
Data and IT	Our operational and commercial success depends on the continued availability and integrity of our IT systems, including our websites, and ability to keep pace with growth and change in the business. Our business is subject to data security risks including security breaches.	A detailed technology roadmap is in place looking across all areas of the business to ensure capacity for growth. We continue to invest in IT systems, infrastructure, security and people and we have comprehensive back-up and disaster recovery procedures, which are regularly reviewed, tested and updated.
People	Almost all sectors that are relevant to our business are very competitive. Our performance depends on our ability to attract, motivate and retain key employees.	All employees are provided with the opportunity to have fulfilling careers through employment policies, competitive remuneration and benefits packages, and career development opportunities. We have an in-house team of recruitment partners to attract talent.
Interest rate	Our borrowings expose us to cash flow interest rate risk.	Our Treasury team is responsible for reducing exposure to this risk and securing sufficient liquidity to meet foreseeable needs.
Liquidity	We need sufficient cash flow to fund day to day business operations and meet financial obligations as they fall due.	The Group manages liquidity risk by maintaining adequate banking and borrowing facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

CORPORATE RESPONSIBILITY

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

ETHICAL AND SUSTAINABLE

We maintain rigorous policies on labour, human rights and sourcing across our supply chain. We subscribe to the United Nations Global Compact and the Bangladesh Accord on Fire and Building Safety, and belong to the Ethical Trading Initiative and SEDEX.

We published our first statement on modern slavery in December 2016 and will issue annual updates. We've also joined Fast Forward. This new initiative unites us with other retailers to build legal and ethical labour standards compliance and combat exploitation in UK retail supply chains – complementing the more global outlook of our other responsible sourcing memberships.

We remain certified to the Carbon Trust Standard for Carbon, recognising our best-practice approach to managing and reducing greenhouse gas emissions. During the year we beat our target for reducing electricity use and formed a new partnership with Veolia to further reduce our carbon footprint.

INVESTING IN OUR PEOPLE

Our people strategy aims to support our transformation into a world-class digital retailer by creating 'a digital place full of purpose and passion'. We seek full and open dialogue with our people and their representatives through channels such as people forums, joint working parties, briefing groups and representation on pension trustee boards. We have a collective bargaining approach with the USDAW and SATA trade unions. And we keep our people and their representatives informed of corporate and individual business unit objectives, trading performance, economic conditions and other relevant matters. Our 84% colleague engagement score puts us firmly in the top quartile of companies globally.

As an equal opportunities employer we see diversity as central to our success. We're currently working with colleagues and external experts to develop a new diversity strategy aimed at embedding diversity and inclusion more deeply in our culture and the way we hire and retain talent.

Working with schools and universities to maximise the opportunity created by the Apprenticeship Levy, we began 12 four-year degree-level apprenticeships across data, technology and product in September 2017.

We want to empower our people to serve customers better, and constantly seek innovative new ways to increase collaboration, update our workspaces and support colleagues with better tools and technology. Our London hub, which opened for business at the end of the year, will spearhead much of this activity.

SUPPORTING OUR COMMUNITIES

We support employees' volunteering and charitable fundraising, and each year they select one focal cause. We completed our year-long fundraising challenge for Liverpool's Alder Hey Children's Hospital in September 2016, exceeding our original £200,000 target by hitting £250,000. This supported the hospital in developing a ground-breaking digital app for patients and families, which is set to launch towards the end of 2017, before being made available to every NHS Trust in England. Colleagues have set a September 2017 goal of £400,000 for Wirral-based Claire House Children's Hospice, to digitally equip and futureproof its new, second site in Liverpool.

“

£250,000 raised for Alder Hey Children's Hospital

DIRECTORS' REPORT

The directors present their annual report and the consolidated financial statements of Shop Direct Limited ("the Company") and its subsidiaries ("the Group") for the year ended 30 June 2017.

DIRECTORS' OF THE GROUP

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

- A D Baldock
- A S Barclay
- H M Barclay
- D W Kershaw
- P L Peters
- M Seal
- S A Winton
- G V Pateras (resigned 28 October 2016)

DIVIDENDS

The directors do not recommend the payment of a final dividend (2016: £nil).

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 20 and includes the Group Chief Executive's review on pages 4 to 6. The principal risks are considered on page 19.

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 18.

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.

Approved by the Board on 29 September 2017 and signed on its behalf by:

A D BALDOCK
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

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

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

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

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

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2017 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENT

We have audited the financial statements of Shop Direct Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 37.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

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

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

We have nothing to report in respect of these matters.

OTHER INFORMATION

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

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

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion 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.

SHARON THORNE FCA
(Senior Statutory Auditor)
For and on behalf of Deloitte LLP, Statutory Auditor

Manchester
United Kingdom
29 September 2017

CONSOLIDATED INCOME STATEMENT

for the Year Ended 30 June 2017

	Notes	Year ended 30 June 2017 £m			Year ended 30 June 2016 £m		
		Pre-exceptional items	Exceptional items(6)	Total	Pre-exceptional items	Exceptional items(6)	Total
Continuing operations							
Revenue	4,5	**1,929.9**	**–**	**1,929.9**	1,861.1	–	1,861.1
Cost of sales		**(1,143.4)**	**–**	**(1,143.4)**	(1,101.1)	–	(1,101.1)
Gross profit		**786.5**	**–**	**786.5**	760.0	–	760.0
Distribution costs		**(218.6)**	**–**	**(218.6)**	(218.3)	–	(218.3)
Administrative costs		**(364.0)**	**(121.0)**	**(485.0)**	(340.0)	(43.5)	(383.5)
Other operating income		**1.3**	**–**	**1.3**	1.6	–	1.6
Operating profit	7	**205.2**	**(121.0)**	**84.2**	203.3	(43.5)	159.8
Investment income	8	**0.1**	**–**	**0.1**	0.2	–	0.2
Finance costs	8	**(59.4)**	**–**	**(59.4)**	(54.4)	–	(54.4)
Profit before tax		**145.9**	**(121.0)**	**24.9**	149.1	(43.5)	105.6
Tax credit/(charge)	12	**40.0**	**–**	**40.0**	(15.5)	–	(15.5)
Profit for the year	7	**185.9**	**(121.0)**	**64.9**	133.6	(43.5)	90.1
Profit attributable to equity holders of the Group		**185.9**	**(121.0)**	**64.9**	133.6	(43.5)	90.1

The above results were derived from continuing operations.

The notes on pages 30 to 64 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the Year Ended 30 June 2017

	Note	2017 £m	2016 £m
Profit for the year		**64.9**	90.1
Items that will not be reclassified subsequently to profit or loss			
Remeasurement on retirement benefit obligations before tax	23	**(34.3)**	(5.5)
Income tax effect	12	**9.0**	7.0
Other comprehensive (expense)/income for the year		**(25.3)**	1.5
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation gains		**1.1**	3.3
Other comprehensive income for the year		**(24.2)**	4.8
Total comprehensive income attributable to:			
Owners of the company		**40.7**	94.9

The notes on pages 30 to 64 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill	14	**252.5**	252.5
Intangible assets	15	**154.9**	122.7
Property, plant and equipment	13	**10.9**	8.6
Deferred tax assets	12	**89.9**	37.0
		508.2	420.8
Current assets			
Inventories	17	**114.3**	101.0
Trade and other receivables	18	**2,072.9**	2,260.9
Income tax asset		**2.0**	–
Cash and cash equivalents	19	**116.9**	35.8
Derivative financial instruments	16	**–**	8.3
		2,306.1	2,406.0
Total assets		**2,814.3**	2,826.8
Equity and liabilities			
Equity			
Share capital	20	**(100.0)**	(100.0)
Retained earnings		**(99.9)**	(459.2)
Equity attributable to owners of the company		**(199.9)**	(559.2)
Non-current liabilities			
Loans and borrowings	21	**(500.0)**	(300.0)
Securitisation facility	21	**(1,228.8)**	(1,183.9)
Retirement benefit obligations	23	**(85.1)**	(67.1)
Deferred income		**(44.9)**	(50.2)
Obligations under finance leases	22	**(3.1)**	(2.5)
Provisions	24	**(19.7)**	–
		(1,881.6)	(1,603.7)
Current liabilities			
Trade and other payables	25	**(516.4)**	(500.7)
Loans and borrowings	19, 21	**(66.4)**	(61.5)
Income tax liability		**–**	(1.0)
Obligations under finance leases	22	**(1.3)**	(0.9)
Deferred income		**(68.6)**	(78.4)
Provisions	24	**(78.1)**	(21.4)
Derivative financial instruments	16	**(2.0)**	–
		(732.8)	(663.9)
Total liabilities		**(2,614.4)**	(2,267.6)
Total equity and liabilities		**(2,814.3)**	(2,826.8)

Approved by the Board on 29 September 2017 and signed on its behalf by:

A D BALDOCK
Director

D KERSHAW
Director

The notes on pages 30 to 64 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Year Ended 30 June 2017

	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 July 2015	100.0	500.0	(135.7)	464.3
Profit for the year	–	–	90.1	90.1
Other comprehensive income	–	–	4.8	4.8
Total comprehensive income	–	–	94.9	94.9
New share capital subscribed	500.0	(500.0)	–	–
Capital reduction	(500.0)	–	500.0	–
At 30 June 2016	100.0	–	459.2	559.2

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

The capital contribution reserve related to the acquisition of LW Finance Limited from Shop Direct Holdings Limited in 2008 for nil consideration. The directors fair valued the investment at £500.0m and as such created a capital contribution reserve of £500.0m.

During the prior year there was a bonus issue of 500m ordinary shares of £1 each fully paid up using the capital contribution reserve. Subsequent to this there was a capital reduction of £500.0m.

The notes on pages 30 to 64 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the Year Ended 30 June 2017

	2017 £m	2016 £m
Cash flows from operating activities		
Profit for the year	**64.9**	90.1[1]
Adjustments for:		
Depreciation	**2.3**	2.4
Amortisation	**28.9**	24.8
Financial instrument net losses/(gains) through profit and loss	**10.3**	(6.4)
Profit on disposal of intangible assets	**(5.0)**	–
Finance income	**(0.1)**	–
Finance costs	**57.5**	51.9
Income tax (income)/expense	**(40.0)**	15.5
Increase/(decrease) in provisions	**76.4**	(2.2)
Adjustments for pensions	**(16.1)**	(14.3)
Operating cash flows before movements in working capital	**179.1**	161.8
Increase in inventories	**(13.3)**	(2.2)
Increase in trade and other receivables	**(210.8)**	(367.9)
Increase in trade and other payables	**1.8**	30.6
Cash absorbed by operations	**(43.2)**	(177.7)
Income taxes paid	**(6.9)**	(1.5)
Interest paid	**(57.5)**	(51.9)
Net cash flow from operating activities	**(107.6)**	(231.1)
Cash flows from investing activities		
Interest received	**0.1**	0.2
Acquisitions of property plant and equipment	**(4.9)**	(4.5)
Acquisition of intangible assets	**(61.1)**	(47.6)
Proceeds from sale of intangible assets	**3.8**	–
Net cash flows from investing activities	**(62.1)**	(51.9)
Cash flows from financing activities		
New bank loans raised	**–**	300.0
Proceeds from bank borrowing draw downs	**200.0**	–
Proceeds from finance lease draw downs	**1.0**	–
Proceeds from securitisation facility draw downs	**44.9**	32.5
Net cash flows from financing activities	**245.9**	332.5
Net increase in cash and cash equivalents	**76.2**	49.5
Cash and cash equivalents at 1 July	**(25.7)**	(75.2)
Cash and cash equivalents at 30 June	**50.5**	(25.7)

1 £7m has been reclassified in 2016 between profit for the year and income tax expense to correct a classification error.

The notes on pages 30 to 64 form an integral part of these financial statements.

1 GENERAL INFORMATION

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

The address of its registered office is:

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

The nature of the Group's operations are set out in the Strategic Report on pages 1 to 20.

2 ACCOUNTING POLICIES

Statement of compliance

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

Summary of significant accounting policies and key accounting estimates

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the current and prior years.

Basis of preparation

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

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

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

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

Going concern

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

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the annual report and financial statements.

Basis of consolidation

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

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

New and revised standards

None of the standards, interpretations and amendments effective for the first time from 1 July 2016 have had a material effect on the financial statements.

New standards, interpretations and amendments not yet effective

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leasing
IFRS 17	Insurance Contracts
IAS 1 (amendments)	Disclosure Initiative
IAS 16 and IAS 38 (amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
IAS 27 (amendments)	Equity Method in Separate Financial Statements
Annual Improvements to IFRSs: 2012-2014 Cycle	Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting

2 ACCOUNTING POLICIES (CONTINUED)

The directors expect that the adoption of the following standards will have a material impact on the financial statements of the Group in future periods:

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

IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practical to provide a reasonable estimate of the effect of IFRS 9, IFRS 16 and IFRS 15 until a detailed review has been completed. None of the other standards, interpretation or amendments noted above are material.

Revenue recognition

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

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

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

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

Explicit and implicit interest is recognised by reference to the principal outstanding and the applicable effective interest rate which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the assets' net carrying amount. Interest is presented net of amounts expected to be settled within the interest free period.

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

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

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

Operating profit

Operating profit is stated after charging restructuring costs but before investment income, finance costs and fair value adjustments to financial instruments.

Foreign currency transactions and balances

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

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

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

Tax

Current tax

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

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

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

2 ACCOUNTING POLICIES (CONTINUED)

Deferred tax

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

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the year

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

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

Depreciation

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

Freehold land is not depreciated.

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

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

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

2 ACCOUNTING POLICIES (CONTINUED)

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

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

Goodwill

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

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

Intangible assets acquired separately

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

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

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

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

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

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

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

Amortisation

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

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

Impairment of tangible and intangible assets excluding goodwill

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

2 ACCOUNTING POLICIES (CONTINUED)

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

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

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

Securitised trade receivables

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

Securitisation

Where the Group securitises its own financial assets, this is achieved through the sale of these assets to a securitisation trust (the 'Trust'), which is financed through the issuance of loan notes to a number of funders. The Trust used to hold the securitised receivables and funds raised by the issued loan notes is not controlled by Shop Direct; 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 a non-recourse borrowings for the proceeds received.

Inventories

Inventories are stated at the lower of cost and net realisable value and consist of finished goods purchased for resale and consumable stocks for use. Cost is determind using a standard cost 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 rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Provisions

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

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

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

2 ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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 23) in its consolidated income statement. Curtailments gains and losses are accounted for as past-service cost.

Net interest expense or income is recognised within finance costs (see note 8).

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

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

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

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

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

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

2 ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Impairment

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

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

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

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

Derivatives

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 16.

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

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

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. There are no critical accounting judgements.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £252.5m.

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

Loan loss provisioning

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

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

Assumptions are continually assessed for relevance and adjusted appropriately.

Regulatory

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

Inventory

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

Deferred 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 £89.9m.

4 REVENUE

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

	2017 £m	2016 £m
Sale of goods[1]	**1,515.7**	1,467.8
Rendering of services	**414.2**	393.3
	1,929.9	1,861.1
Other operating income	**1.3**	1.6
Finance income	**0.1**	0.2
Total revenue as defined in IAS 18	**1,931.3**	1,862.9

1 Revenue from the sales of goods differs to retail sales presented on page 7, which is on a managements accounts basis, excluding statutory adjustments.

5 SEGMENTAL ANALYSIS

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

5 SEGMENTAL ANALYSIS (CONTINUED)

By business segment

	2017 £m	2016 £m
Analysis of revenue:		
Very	**1,263.5**	1,122.1
Littlewoods	**666.4**	739.0
	1,929.9	1,861.1
Gross profit	**786.5**	760.0
Distribution costs	**(218.6)**	(218.3)
Administrative costs pre-exceptional items	**(332.8)**	(312.8)
Other operating income	**1.3**	1.6
Segment EBITDA*:		
Very	**290.1**	273.7
Littlewoods	**158.9**	175.2
Central costs	**(212.6)**	(218.4)
	236.4	230.5
Exceptional items	**(121.0)**	(43.5)
Depreciation	**(2.3)**	(2.4)
Amortisation	**(28.9)**	(24.8)
Operating profit	**84.2**	159.8
Finance income	**0.1**	0.2
Finance costs	**(59.4)**	(54.4)
Profit before taxation	**24.9**	105.6

The analysis above is in respect of continuing operations.

*Segment 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.

Littlewoods sales include Littlewoods.com and LittlewoodsIreland.ie.

By geographical location of destination

	2017 £m	2016 £m
Revenue:		
United Kingdom	**1,867.2**	1,809.9
Rest of World	**62.7**	51.2
	1,929.9	1,861.1

	2017 £m	2016 £m
Operating profit/(loss):		
United Kingdom	**80.5**	159.9
Rest of World	**3.7**	(0.1)
	84.2	159.8

The analysis above is in respect of continuing operations.

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

5 SEGMENTAL ANALYSIS (CONTINUED)

Non-GAAP measures	Notes	2017 £m	2016 £m
Reconciliation of pre-exceptional profit before tax ("PBT") to underlying PBT			
Pre-exceptional PBT		**145.9**	149.1
Adjusted for:			
Fair value adjustments to financial instruments	16	**10.3**	(6.4)
Foreign exchange translation movement on trade creditors		**1.2**	4.7
IAS 19 and IFRIC 14 pension adjustments	23	**3.0**	3.0
Underlying PBT		**160.4**	150.4

Non-GAAP measures	Notes	2017 £m	2016 £m
Reconciliation of pre-exceptional earnings before interest, tax, depreciation and amortisation ("EBITDA") to underlying EBITDA			
Segment EBITDA		**236.4**	230.5
Adjusted for:			
Fair value adjustments to financial instruments	16	**10.3**	(6.4)
Foreign exchange translation movement on trade creditors		**1.2**	4.7
IAS 19 and IFRIC 14 pension adjustments	23	**1.8**	0.5
Underlying EBITDA		**249.7**	229.3

6 EXCEPTIONAL ITEMS

	2017 £m	2016 £m
Regulatory costs and associated administrative expenses	**(112.3)**	(40.4)
Restructuring costs	**(7.3)**	(3.1)
Profit on disposal of intangible asset	**5.0**	–
Loss on disposal of subsidiary	**(0.1)**	–
Professional fees	**(5.5)**	–
Warranty provision	**(0.8)**	–
	(121.0)	(43.5)

The analysis above is in respect of continuing operations.

During the financial year ended 30 June 2017, the Group recognised cumulative regulatory charges of £112.3m (FY16 £40.4m) to cover the estimated cost of customer redress claims in the year and of future customer redress payments for historical shopping insurance sales and associated processing costs. The current provision of £88.0m (FY16 – £15.6m) reflects the estimated cost of all claims and associated processing costs up and until the claims deadline of August 2019. On the 29th August, the FCA started a marketing campaign covering the period until the FCA's deadline for the bringing of claims in August 2019. The additional charge of £112.3m has been recognised to reflect an updated estimate primarily due to an increase in the volume of claims. The impact of the marketing campaign has been considered in the latest estimate, however, the full impact remains uncertain. The principle sensitivities in this regulatory provision are set out in the table below:

	2017 £m
+/- 10% in customer claims volumes	**5.6**
+/- 5% in uphold rate	**3.8**
+/- 10% in average redress amounts	**5.7**

The restructuring costs reflect expenditure on the rationalisation of processes and functions within the Shop Direct Group.

The professional fees relate to corporate projects.

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

7 OPERATING PROFIT

Arrived at after charging:

	2017 £m	2016 £m
Depreciation	**2.3**	2.4
Amortisation	**28.9**	24.8
Foreign exchange losses	**6.8**	1.0
Cost of inventories recognised as an expense	**1,008.9**	952.5
Write downs of inventories recognised as an expense	**9.1**	15.5
Staff costs	**142.4**	146.9
Impairment loss recognised on trade receivables	**178.0**	194.6
Operating lease charge	**7.6**	7.7

8 FINANCE INCOME AND COSTS

	Note	2017 £m	2016 £m
Finance income			
Interest income on bank deposits		**0.1**	0.2
Finance costs			
Interest on bank overdrafts and borrowings		**(19.0)**	(8.4)
Interest on obligations under finance leases and hire purchase contracts		**(0.6)**	(0.1)
Interest on securitisation facility		**(37.9)**	(43.4)
Net interest on defined benefit obligation	23	**(1.9)**	(2.5)
Total finance costs		**(59.4)**	(54.4)
Net finance costs		**(59.3)**	(54.2)

9 STAFF COSTS

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

	2017 £m	2016 £m
Wages and salaries	**124.0**	129.5
Social security costs	**11.8**	11.0
Pension costs, defined contribution scheme	**6.2**	6.0
Pension costs, defined benefit scheme	**0.4**	0.4
	142.4	146.9

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

	2017 No.	2016 No.
Stores	**69**	78
Distribution & customer service centres	**1,294**	1,465
Administration	**2,506**	2,303
	3,869	3,846

10 DIRECTORS' REMUNERATION

The directors' remuneration for the year was as follows:

	2017 £m	2016 £m
Remuneration	**2.4**	2.3
Contributions paid to money purchase schemes	**0.2**	0.1
	2.6	2.4

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

	2017 No.	2016 No.
Accruing benefits under money purchase pension scheme	**3**	3

In respect of the highest paid director:

	2017 £m	2016 £m
Remuneration	**1.4**	1.8
Company contributions to money purchase pension schemes	**–**	0.1
	1.4	1.9

The directors are considered to be the key management personnel.

11 AUDITORS' REMUNERATION

	2017 £m	2016 £m
Audit of these financial statements	**–**	–
Audit of the financial statements of subsidiaries of the company pursuant to legislation	**0.4**	0.4
Total audit fees	**0.4**	0.4
Other fees to auditors		
Tax services	**0.1**	0.1
Total non-audit fees	**0.1**	0.1

12 INCOME TAX

Tax charged/(credited) in the income statement:

	2017 £m	2016 £m
Current taxation		
UK corporation tax	**2.0**	2.3
Prior year adjustment	**1.0**	–
Foreign tax	**0.9**	0.2
Total current income tax	**3.9**	2.5
Deferred taxation		
Arising from origination and reversal of temporary differences	**(43.9)**	13.0
Tax (credit)/charge in the income statement	**(40.0)**	15.5

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2016 – lower than the standard rate of corporation tax in the UK) of 19.75% (2016 – 20%).

The differences are reconciled below:

	2017 £m	2016 £m
Profit before tax	**24.9**	105.6
Corporation tax at standard rate	**4.9**	21.1
Decrease from effect of revenues exempt from taxation	**(1.1)**	(0.3)
Increase from effect of expenses not deductible in determining taxable profit	**1.4**	0.1
Decrease from tax losses for which no deferred tax asset was recognised	**(33.0)**	(13.3)
Decrease arising from group relief tax reconciliation	**(17.9)**	(4.4)
Increase/(decrease) from effect of foreign tax rates	**0.3**	(0.1)
Prior year adjustment	**1.0**	7.7
Transfer pricing adjustment	**4.7**	3.7
Other tax effects for reconciliation between accounting profit and tax (income)/expense	**(0.3)**	1.0
Total tax (credit)/charge	**(40.0)**	15.5

The main rate of corporation reduced to 19% with effect from 1 April 2017, the Government has announced that it intends to reduce the rate of corporation tax to 17% with effect from 1 April 2020. The 17% main rate of corporation tax was set by the Finance Act 2016 which received Royal Assent on 15 September 2016.

12 INCOME TAX (CONTINUED)

Deferred tax

Group

Deferred tax movement during the year:

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

Deferred tax movement during the prior year:

	At 1 July 2015 £m	Recognised in income statement	Recognised in other comprehensive income	At 30 June 2016 £m
Accelerated tax depreciation	11.4	7.0	–	18.4
Tax losses carry-forwards	31.6	(21.6)	–	10.0
Pension benefit obligations	–	–	7.0	7.0
Other items	–	1.6	–	1.6
Net tax assets/(liabilities)	43.0	(13.0)	7.0	37.0

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

At the balance sheet date, the Group has unused tax losses of £59.9m (2016: £153.1m) and capital losses of £3.4m (2016: £8.6m) available for offset against future profits. The unused tax losses do not expire.

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

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £m	Furniture, fittings and equipment £m	Total £m
Cost or valuation			
At 1 July 2015	9.4	67.7	77.1
Additions	–	4.5	4.5
Disposals	–	(1.6)	(1.6)
At 30 June 2016	9.4	70.6	80.0
At 1 July 2016	9.4	70.6	80.0
Additions	1.1	3.8	4.9
Disposals	–	(3.0)	(3.0)
At 30 June 2017	10.5	71.4	81.9
Depreciation			
At 1 July 2015	6.5	64.1	70.6
Charge for year	0.3	2.1	2.4
Eliminated on disposal	–	(1.6)	(1.6)
At 30 June 2016	6.8	64.6	71.4
At 1 July 2016	6.8	64.6	71.4
Charge for the year	0.2	2.1	2.3
Eliminated on disposal	–	(2.7)	(2.7)
At 30 June 2017	7.0	64.0	71.0
Carrying amount			
At 30 June 2017	3.5	7.4	10.9
At 30 June 2016	2.6	6.0	8.6
At 1 July 2015	2.9	3.6	6.5

Assets held under finance leases and hire purchase contracts

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

	2017 £m	2016 £m
Fixtures and Fittings	0.7	0.8

14 GOODWILL

	Goodwill £m
Carrying amount	
At 1 July 2015, 30 June 2016 and 30 June 2017	252.5

Goodwill is allocated to two CGUs being £105.5m relating to the acquisition of the Littlewoods business in 2005 and £147.0m resulting from the acquistion of Douglas Insurance Limited in 2008.

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

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

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

The rate used to discount the forecast cash flows is 7.4% (2016: 7.4%).

The analysis performed indicates that no impairment is required. A sensitivity analysis has been performed on each of these key assumptions with other variables held constant. A cut in the forecast future cash flows of Douglas Insurance Limited of 15% would result in the carrying value of goodwill being reduced to its recoverable amount. There are no reasonably possible movements that would impact the Littlewoods goodwill. Management has concluded that there are no reasonably possible changes in these key assumptions that would cause the carrying value to exceed the value in use.

15 OTHER INTANGIBLE ASSETS

	Internally generated software costs £m	Acquired brands £m	Total £m
Cost or valuation			
At 1 July 2015	241.0	9.7	250.7
Additions	47.6	–	47.6
Disposals	(36.0)	–	(36.0)
At 30 June 2016	252.6	9.7	262.3
At 1 July 2016	252.6	9.7	262.3
Additions	61.1	–	61.1
Disposals	(26.9)	–	(26.9)
At 30 June 2017	286.8	9.7	296.5
Amortisation			
At 1 July 2015	146.4	4.4	150.8
Amortisation charge	24.4	0.4	24.8
Amortisation eliminated on disposals	(36.0)	–	(36.0)
At 30 June 2016	134.8	4.8	139.6
At 1 July 2016	134.8	4.8	139.6
Amortisation charge	28.5	0.4	28.9
Amortisation eliminated on disposals	(26.9)	–	(26.9)
At 30 June 2017	136.4	5.2	141.6
Carrying amount			
At 30 June 2017	150.4	4.5	154.9
At 30 June 2016	117.8	4.9	122.7
At 1 July 2015	94.6	5.3	99.9

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

Included within software costs are assets held under finance leases with a net book value of £0.6m (2016: £1.4m) and £51.3m (2016: £32.5m) of investment incurred related to ongoing software development projects on which depreciation has not commenced as the assets have not yet been brought into use.

16 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2017 £m	2016 £m
Notional amount – sterling contract value	**134.1**	63.6
Fair value of (liability)/asset recognised	**(2.0)**	8.3

Changes in the fair value of derivative financial investments amounted to a loss of £10.3m in the year (2016: credit of £6.4m).

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

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

17 INVENTORIES

	2017 £m	2016 £m
Finished goods and goods for resale	**114.3**	101.0

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

18 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Trade receivables	**1,463.2**	1,391.1
Amounts owed by group undertakings	**455.6**	724.3
Prepayments	**129.4**	109.7
Other receivables	**24.7**	35.8
Total current trade and other receivables	**2,072.9**	2,260.9

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

Other debtors include £2.4m (2016: £9.6m) due from the Company's external trade receivables securitisation provider.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a bad debt provision of £136.7m (2016: £150.5m) has been recorded accordingly.

We offer a range of options which enable our customers to spread the cost of their purchases, some options are interest free and others are interest bearing. The representative rate on Very is 39.9% and 0% on Littlewoods.

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.

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

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.

	2017 £m	2016 £m
Movement in the allowance for bad debts:		
Balance at beginning of the year	**150.5**	154.7
Amounts charged to the income statement	**178.0**	194.6
Amounts written off	**(191.8)**	(198.8)
Balance at the end of the year	**136.7**	150.5

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

Age of trade receivables that are past due but not impaired

	2017 £m	2016 £m
31 to 60 days	**17.7**	17.1

All balances over 60 days past due are provided for.

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

19 CASH AND CASH EQUIVALENTS

	2017 £m	2016 £m
Cash at bank	**116.9**	35.8
Bank overdrafts	**(66.4)**	(61.5)
Cash and cash equivalents in statement of cash flows	**50.5**	(25.7)

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 12 months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to fair value.

20 SHARE CAPITAL

Allotted, called up and fully paid shares

	2017		2016	
	No. m	£m	No. m	£m
Ordinary shares of £1 each	**100**	**100**	100	100

21 LOANS AND BORROWINGS

	2017 £m	2016 £m
Secured non-current loans and borrowings at amortised cost		
Bank borrowings	**500.0**	300.0
Securitisation facility	**1,228.8**	1,183.9
	1,728.8	1,483.9

	2017 £m	2016 £m
Current loans and borrowings at amortised cost		
Secured bank overdrafts	**60.0**	60.0
Unsecured bank overdrafts	**6.4**	1.5
	66.4	61.5

The underlying currency of the unsecured bank overdrafts of £6.4m (2016: £1.5m) is Euros. The underlying currency of the other borrowings and overdrafts set out above is Sterling.

	2017 £m	2016 £m
The borrowings are repayable as follows:		
Within one year	**66.4**	61.5
In the second year	**1,228.8**	–
In the third to fifth year	**500.0**	1,483.9
Over five years	**–**	–
Amount due for settlement after 12 months	**1,728.8**	1,483.9

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

(a) The Group has a securitisation facility of £1,228.8m (2016: £1,183.9m) secured by a charge over certain eligible trade debtors of the Group. The securitisation facility, with a maximum value of £1,315.0m, expires on 1 December 2019.

(b) The Group has a three year senior debt facility of £575.0m, which increased by £200m during the year. The facility is secured by a debenture over the assets of the subsidiary to which it relates and has an option to extend for an additional year at the end of the current three year term. The facility bears interest at a rate of up to 3.75% over LIBOR.

	2017 %	2016 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	**3.77**	3.30
Bank loans	**3.78**	2.57
Securitisation facility	**2.65**	2.89

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

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

22 OBLIGATIONS UNDER OPERATING LEASES AND HIRE PURCHASE CONTRACTS

Finance leases

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

2016	Minimum lease payments £m	Interest £m	Present value £m
Within one year	0.9	–	0.9
In two to five years	2.9	(0.4)	2.5
	3.8	(0.4)	3.4

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

	2017 £m	2016 £m
Current liabilities	**1.3**	0.9
Non-current liabilities	**3.1**	2.5
	4.4	3.4

Operating leases

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

	2017 £m	2016 £m
Within one year	**9.0**	6.7
In two to five years	**24.6**	22.0
In over five years	**49.6**	25.7
	83.2	54.4

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 5 years. For the period ended 30 June 2017, the average effective borrowing rate was 6.03% (2016: 5.15%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

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

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 13 and 15.

23 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 charge for the year represents contributions payable by the Group to the scheme and amounted to £6.2m (2016: £6.0m). The defined contribution scheme is in compliance with employer pension duties in accordance with part 1 of the Pensions Act 2008, including auto enrolment requirements. Contributions to the defined contribution schemes are also charged to the income statement.

Contributions totalling £0.8m (2016: £0.8m) were payable to the scheme at the end of the year and are included in creditors.

Defined benefit pension schemes

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

	2017 £m	2016 £m
Scheme and Plan – defined benefit pension scheme deficit	(82.7)	(64.8)
UURBS and Ex-gratia – present value of scheme liabilities	(2.4)	(2.3)
Retirement benefit obligations	(85.1)	(67.1)
Scheme & Plan – amounts taken to the Statement of Comprehensive Income	34.3	5.6
UURBS and Ex-gratia – amounts taken to the Statement of Comprehensive Income	–	(0.1)
Loss recognised in the Statement of Comprehensive Income	34.3	5.5

Shop Direct Group Limited Pension Plan (“Plan”) and The Littlewoods Pensions Scheme (“Scheme”)

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

From 1 December 2003 certain employees of the Group 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 Group were eligible for membership of funded defined contribution stakeholder pension schemes to which employees and the Company contribute.

23 PENSION AND OTHER SCHEMES (CONTINUED)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2017 £m	2016 £m
Fair value of scheme assets	**1,687.2**	1,535.3
Present value of scheme liabilities	**(1,381.5)**	(1,211.2)
	305.7	324.1
Restrictions on asset recognised	**(305.7)**	(324.1)
IFRIC 14 liability	**(82.7)**	(64.8)
Defined benefit pension scheme deficit	**(82.7)**	(64.8)

Scheme assets

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

	2017 £m	2016 £m
Fair value at start of year	**1,535.3**	1,308.2
Interest income	**47.7**	48.8
Return on plan assets, excluding amounts included in interest income/(expense)	**21.0**	231.2
Employer contributions	**18.4**	13.8
Benefits paid	**(67.1)**	(60.0)
Assets distributed on settlements	**–**	(11.3)
Current service cost	**(0.3)**	(0.2)
Actuarial gains	**132.2**	4.8
Fair value at end of year	**1,687.2**	1,535.3

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £m	2016 £m
Cash and cash equivalents	**192.3**	74.6
Equity instruments	**75.1**	159.5
Debt instruments	**1,056.5**	908.9
Real estate	**99.8**	55.3
Derivatives	**72.5**	52.8
Investment funds	**191.0**	284.2
	1,687.2	1,535.3

The 2016 analysis of scheme assets has been split out into additional detail due to further information being available.

Actual return on scheme's assets

	2017 £m	2016 £m
Actual return on scheme assets	**68.7**	280.0

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

23 PENSION AND OTHER SCHEMES (CONTINUED)

Scheme liabilities

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

	2017 £m	2016 £m
Present value at start of year	**1,211.2**	1,195.5
Current service cost	**0.1**	0.2
Interest cost	**37.2**	44.0
Benefits paid	**(67.1)**	(60.0)
Liabilities extinguished on settlements	**–**	(11.3)
Actuarial losses	**200.1**	42.8
Present value at end of year	**1,381.5**	1,211.2

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:

	2017 %	2016 %
Rate of increase in pensionable salaries	**2.1**	3.2
Rate of increase in pensions in payment if RPI 5%	**3.0**	2.6
Rate of increase in pensions in payment if RPI 2.5%	**2.1**	2.0
Discount rate	**2.6**	2.9
Rate of increases in pensions deferment	**2.1**	1.7
RPI inflation assumption	**3.1**	2.7
CPI inflation assumption	**2.1**	1.7

Post retirement mortality assumptions

	2017 Years	2016 Years
Current UK pensioners at retirement age – male	**22.0**	22.1
Current UK pensioners at retirement age – female	**23.7**	23.3
Future UK pensioners at retirement age – male	**22.9**	23.9
Future UK pensioners at retirement age – female	**25.0**	25.6

Amounts recognised in the income statement

	2017 £m	2016 £m
Amounts recognised in operating profit		
Current service cost	**(0.4)**	(0.5)
Amounts recognised in finance income or costs		
Amounts recognised in finance costs	**(1.8)**	(2.4)
Total recognised in the income statement	**(2.2)**	(2.9)

Amounts taken to the Statement of Comprehensive Income

	2017 £m	2016 £m
Return on plan assets, excluding amounts included in interest income/(expense)	**21.0**	231.2
Actuarial losses	**(67.9)**	(38.0)
Adjustments for restrictions on the defined benefit asset	**12.6**	(198.8)
Amounts recognised in the Statement of Comprehensive Income	**(34.3)**	(5.6)

23 PENSION AND OTHER SCHEMES (CONTINUED)

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

If the discount rate is 25 basis points higher, the defined benefit obligation would decrease by £1.3m (2016: £1.1m).

If the discount rate is 25 basis points lower, the defined benefit obligation would increase by £1.5m (2016: £1.2m).

If the price inflation rate is 25 basis points higher, the defined benefit obligation would increase by £1.4m (2016: £1.2m).

If the post retirement mortality assumption reduces by one year for both men and women, the defined benefit obligation would reduce by £1.5m (2016: £1.2m).

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

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

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

The Group expects to make a contribution of £14.5m (2016: £14.5m) to the defined benefit schemes during the next financial year.

UURBS and Ex-Gratia

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

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

	2017 £m	2016 £m
Present value of scheme liabilities	**(2.4)**	(2.3)

Scheme liabilities

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

	2017 £m	2016 £m
Present value at start of year	**2.3**	2.3
Interest cost	**0.1**	0.1
Actuarial losses	**–**	(0.1)
Present value at end of year	**2.4**	2.3

23 PENSION AND OTHER SCHEMES (CONTINUED)

Principal actuarial assumptions

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

Amounts recognised in the income statement

	2017 £m	2016 £m
Amounts recognised in operating profit		
Recognised in arriving at operating profit	**–**	–
Amounts recognised in finance income or costs		
Net interest	**(0.1)**	(0.1)
Total recognised in the income statement	**(0.1)**	(0.1)

Amounts taken to the Statement of Comprehensive Income

	2017 £m	2016 £m
Actuarial gains	**–**	0.1

24 PROVISIONS

	Warranties £m	Restructuring £m	Regulatory £m	Total £m
At 1 July 2016	–	5.8	15.6	21.4
Increase in provisions	0.8	7.3	104.4	112.5
Provisions used	–	(4.1)	(35.0)	(39.1)
Reclassified from accruals	–	–	3.0	3.0
At 30 June 2017	**0.8**	**9.0**	**88.0**	**97.8**
Non-current	–	–	19.7	19.7
Current	0.8	9.0	68.3	78.1
	0.8	**9.0**	**88.0**	**97.8**

The regulatory provision relates to the Group's expected liabilities in respect of payments for historic customer redress (see note 6).

25 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Trade payables	**365.9**	301.3
Accrued expenses	**80.3**	142.7
Amounts due to group undertakings	**–**	0.1
Social security and other taxes	**41.4**	34.4
Other payables	**28.8**	22.2
	516.4	500.7

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

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

26 DIVIDENDS

	2017 £m	2016 £m
Interim dividend of £4.00 (2016 – £Nil) per ordinary share	**400**	–

The directors are not proposing a final dividend (2016: £Nil).

27 COMMITMENTS

Capital commitments
Capital commitments include expenditure on tangible and intangible assets.

The total amount contracted for but not provided in the financial statements was £7.2m (2016: £0.9m).

Other financial commitments
At 30 June 2017 commitments to purchase stock totalled £181.5m (2016: £149.4m) which is considered to be the fair value. The commitments cover a period of 12 months (2016: same)

The Group has in place contracts for the provision of outsourced service functions. At 30 June 2017 the annual committed cost under these contracts is £53.5m (2016: £52.7m). These contracts expire in 2025.

28 FINANCIAL INSTRUMENTS

Financial assets

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

	Carrying value		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Forward contract	**134.1**	63.6	**(2.0)**	8.3

See note 16 for details of the valuation methods and assumptions of these derivatives. The maturity dates for these derivatives range from July 2017 to August 2018.

Loans and receivables

	Carrying value		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Cash and cash equivalents	**116.9**	35.8	**116.9**	35.8
Loans and receivables	**1,463.2**	1,391.1	**1,463.2**	1,391.1

Valuation methods and assumptions

The carrying amounts of financial assets are recorded at amortised cost in the financial statements approximate to their fair values. The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 1.

The average credit period given to customers for the sale of goods is 271 days (2016: 267 days).

Financial liabilities

Financial liabilities at amortised cost

	Carrying value		Fair value	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Trade and other payables	**365.9**	304.2	**365.9**	304.2
Borrowings	**1,795.2**	1,545.4	**1,795.2**	1,545.4

Financial liabilities at amortised cost

The carrying amounts of financial liabilities are recorded at amortised cost in the financial statements approximate to their fair values. The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 1. The average credit period taken for trade payables is 80 days (2016: 74 days).

29 FINANCIAL RISK MANAGEMENT AND IMPAIRMENT OF FINANCIAL ASSETS

Financial Risk Management Objectives

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

Credit risk and impairment

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

All customers who wish to trade on credit terms are subject to credit verification procedures, supplied by independent rating agencies. Customer debtor balances are monitored on an ongoing basis and provision is made for estimated irrecoverable amounts. The concentration of credit risk is limited due to the customer base being large and unrelated, and did not exceed five percent of gross monetary assets 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 21 is a description of the facilities that the Group has at its disposal and details of the Group's remaining contractual maturity for its non-derivative financial liabilities.

Foreign currency risk management

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

Interest rate risk management

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

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 21, cash and cash equivalents disclosed in note 19 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

The gearing ratio at the year end is as follows:

	2017 £m	2016 £m
Borrowings	**1,795.2**	1,545.4
Cash and bank balances	**(116.9)**	(35.8)
Net debt	**1,678.3**	1,509.6
Equity	**199.9**	559.2
Gearing ratio (%)	**843%**	270%

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

30 RELATED PARTY TRANSACTIONS

Summary of transactions with entities with joint control or significant interest

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

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

	2017 £m	2016 £m
Recharged costs		
Shop Direct Holdings Limited	–	1.3
Yodel Delivery Network Limited	**4.2**	4.1
Arrow XL Limited	**0.4**	0.8
	4.6	6.2

	2017 £m	2016 £m
Purchase of services		
Yodel Delivery Network Limited	**(81.7)**	(106.0)
Arrow XL Limited	**(43.3)**	(22.4)
Trenport Property Holdings Limited	**(1.9)**	(3.1)
Shop Direct Holdings Limited	**(5.0)**	(5.0)
	(131.9)	(136.5)

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

	2017 £m	2016 £m
Amounts due from fellow Group undertakings		
Shop Direct Holdings Limited	**452.6**	722.9
Yodel Delivery Network Limited	**2.1**	1.4
Arrow XL Limited	**0.9**	–
	455.6	724.3

	2017 £m	2016 £m
Amounts due to fellow Group undertakings		
Arrow XL Limited	–	0.1

30 RELATED PARTY TRANSACTIONS (CONTINUED)

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.

The 2007 income statement of Shop Direct Home Shopping Limited (SDHSL) included under the heading “Exceptional Items” repayments of VAT and simple interest from HMRC amounting to £129.7m. In 2010, a claim was made to the High Court for the difference between simple and compound interest. The claim was successful and granted in full. In 2015 HMRC failed in their appeal to the Court of Appeal, and the High Court’s decision was upheld. On 27th January 2017 HMRC paid the full amount of the claim amounting to £318.5m which included related judgement debt interest. A further appeal by HMRC to the Supreme Court was heard in July 2017, and this sum has been retained by a parent company pending the Supreme Court’s decision. If the Supreme Court upholds the lower court’s decision, there will be a credit to the income statement of SDHSL, which will then be accounted for under the heading “Exceptional Items”. However, if HMRC are successful in their appeal then the £318.5m, together with interest, will be repayable to HMRC and a parent company has undertaken to provide the funds to make that repayment.

31 PARENT AND ULTIMATE PARENT UNDERTAKING

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

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

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

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

as at 30 June 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Investments in subsidiaries, joint ventures and associates	34	**991.9**	995.0
Current assets			
Trade and other receivables	35	**1,216.8**	1,412.0
Total assets		**2,208.7**	2,407.0
Equity and liabilities			
Equity			
Share capital	37	**(100.0)**	(100.0)
Retained earnings		**(354.4)**	(759.1)
Total equity		**(454.4)**	(859.1)
Current liabilities			
Trade and other payables	36	**(1,754.3)**	(1,546.8)
Income tax liability		**–**	(1.1)
		(1,754.3)	(1,547.9)
Total equity and liabilities		**(2,208.7)**	(2,407.0)

The loss on ordinary activities after taxation for the year ended 30 June 2017 attributable to the Company amounted to £4.7m (2016: profit of £4.4m). The Company has taken advantage of Section 408 of the Companies Act 2006 and has not published its own income statement.

Approved by the Board on 29 September 2017 and signed on its behalf by:

A D BALDOCK
Director

D KERSHAW
Director

STATEMENT OF CHANGES IN EQUITY FOR COMPANY

	Share capital £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 July 2015	100.0	500.0	254.7	854.7
Profit for the year and other comprehensive income	–	–	4.4	4.4
Total comprehensive income	–	–	4.4	4.4
New share capital subscribed	500.0	(500.0)	–	–
Capital reduction	(500.0)	–	500.0	–
At 30 June 2016	100.0	–	759.1	859.1

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

The capital contribution reserve related to the acquisition of LW Finance Limited from Shop Direct Holdings Limited in 2008 for nil consideration. The directors fair valued the investment at £500.0m and as such created a capital contribution reserve of £500.0m.

During the prior year there was a bonus issue of 500m ordinary shares of £1 each fully paid up using the capital contribution reserve. Subsequent to this there was a capital reduction of £500.0m.

32 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

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

The Company has no employees (2016: same)

There are no critical judgements or estimates.

33 (LOSS)/PROFIT OF THE PARENT COMPANY

The loss on ordinary activities after taxation for the year ended 30 June 2017 attributable to the Company amounted to £4.7m (2016: profit of £4.4m). The Company has taken advantage of Section 408 of the Companies Act 2006 and has not published its own income statement.

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

34 INVESTMENTS

Group subsidiaries

Details of the Group subsidiaries as at 30 June 2017 are as below.

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

			Proportion of ownership interest and voting rights held in ordinary shares	
Name of subsidiary	**Principal activity**	**Registered office**	**2017**	**2016**
Shop Direct Home Shopping Limited	Retail	Skyways House, L70 1AB	100%	100%
Shop Direct Licensing Limited	Retail	Skyways House, L70 1AB	100%	100%
Littlewoods Clearance Limited*	Retail	Skyways House, L70 1AB	100%	100%
Source Direct International Limited	Merchandise sourcing	116 One Pacific Place, 88 Queensway, 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%
Shop Direct Financial Services 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%
Douglas Insurance (Gibraltar) Limited*	Insurance company		0%	100%
Shoppers Universe Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Contact Centres Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Abound Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Brian Mills Limited	Dormant	Skyways House, L70 1AB	100%	100%

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held in ordinary shares 2017	2016
Burlington Warehouses Limited	Dormant	Skyways House, L70 1AB	100%	100%
Business Express Network Limited	Dormant	Skyways House, L70 1AB	100%	100%
Catalogue Bargain Shop Limited	Dormant	Skyways House, L70 1AB	100%	100%
Exind Limited	Dormant	Skyways House, L70 1AB	100%	100%
Family Album Limited*	Dormant	Skyways House, L70 1AB	100%	100%
GCC Debt Recovery Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Innovations Group Limited	Dormant	Skyways House, L70 1AB	100%	100%
Janet Frazer Limited	Dormant	Skyways House, L70 1AB	100%	100%
J&C Moores (Direct) Limited	Dormant	Skyways House, L70 1AB	100%	100%
John Moores Home Shopping Service Limited	Dormant	Skyways House, L70 1AB	100%	100%
Kay & Company Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Kays Personal Selection Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Lewis UK Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Finance Company Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Home Shopping Finance Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Home Shopping Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Retail Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods Warehouses Limited	Dormant	Skyways House, L70 1AB	100%	100%
Littlewoods7 Limited	Dormant	Skyways House, L70 1AB	100%	100%
Love Label Limited	Dormant	Skyways House, L70 1AB	100%	100%
Marshall Ward Limited*	Dormant	Skyways House, L70 1AB	100%	100%
M C Hitchen & Sons Limited	Dormant	Skyways House, L70 1AB	100%	100%
Nationwide Debt Recovery Limited	Dormant	Skyways House, L70 1AB	100%	100%
Peter Craig Limited	Dormant	Skyways House, L70 1AB	100%	100%
Reality Group Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Reality Ventures Limited*	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Company Director Limited	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Secretarial Services Limited	Dormant	Skyways House, L70 1AB	100%	100%
Shop Direct Trustees Limited*	Dormant	Skyways House, L70 1AB	100%	100%
St James' Street Properties Limited	Dormant	Skyways House, L70 1AB	100%	100%
Swan Housewares Limited	Dormant	Skyways House, L70 1AB	100%	100%
The Royal Welsh Warehouse Limited*	Dormant	Skyways House, L70 1AB	100%	100%
White Arrow Express Limited	Dormant	Skyways House, L70 1AB	100%	100%
White Arrow Leasing Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworth Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Cinema Club Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Entertainment Group Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Group Finance Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Holdings Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Marketing Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Media Limited		Skyways House, L70 1AB	100%	100%
Woolworths Nominees Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths On Line Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths On Line Shopping Limited	Dormant	Skyways House, L70 1AB	100%	100%
Woolworths Publishing Limited	Dormant	Skyways House, L70 1AB	100%	100%

* indicates direct investment of Shop Direct Limited

During the year, the Company disposed of Douglas Insurance (Gibraltar) Limited to a company controlled by the same ultimate controlling party for a consideration of £4m.

34 INVESTMENTS (CONTINUED)

Summary of the company investments

	2017 £m	2016 £m
Investments in subsidiaries	**991.9**	995.0

Subsidiaries	£m
Cost or valuation	
At 1 July 2015 and 30 June 2016	1,435.5
Disposals	(3.1)
At 30 June 2017	1,432.4
Provision	
At 1 July 2015, 30 June 2016 and 30 June 2017	440.5
Carrying amount	
At 30 June 2017	991.9
At 1 July 2015 and 30 June 2016	995.0

35 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Amounts owed by group undertakings	**1,216.8**	1,412.0

36 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Amounts due to group undertakings	**1,754.3**	1,546.8

37 SHARE CAPITAL

	2017 £m	2016 £m
Allotted, called-up and fully paid:		
100,000,000 ordinary shares of £1 each	**100.0**	100.0

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