REGISTERED NUMBER: 04730752

SHOP DIRECT LIMITED

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the 6 months ended 31 December 2018

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CONTENTS

INTERIM RESULTS STATEMENT

The directors present their interim results statement of Shop Direct Limited and its subsidiaries ("the Group") for the six month period ended 31 December 2018.

Review of the business

The loss for the period of £7.6m (Q2 FY18 YTD: profit of £45.0m) includes exceptional costs of £49.2m, reflecting regulatory costs of £41.0m (Q2 FY18 YTD: nil) and restructuring costs of £8.2m (Q2 FY18 YTD: £0.3m).

The results for the period include the impact of IFRS 9 – Financial Instruments. As an expected loss model, this changes the profile of the bad debt expense during the course of the year and has resulted in a year-to-date charge of £11.4m relative to accounting under IAS 39 but which is expected to largely reverse as the debtor book falls in the second half of the year.

Group revenue

Group revenue, comprising retail and financial services, increased by 2.7% to £1,128.5m (Q2 FY18 YTD: £1,099.2m) driven by Very which continued to outperform the online retail market[1]. Very revenue grew 8.1% to £831.8m (Q2 FY18 YTD: £769.3m), benefitting from its combination of famous brands, mobile-first customer experience and options to spread the cost of purchases using credit. The controlled decline in Littlewoods continued with revenue down 10.1% to £296.7m (Q2 FY18 YTD: £329.9m).

Retail revenue

Retail revenue grew by 2.7%. We continued to benefit from our multi-category range, which provides resilience against adverse movements in individual product categories.

Clothing and Footwear revenue growth of 2.9% was underpinned by strong full price performance and growth of the Sportswear category. Electrical revenue grew 3.2%, generated from strong demand for mobiles and smart tech, as well as good performances in small domestic appliances and audio visual equipment. Seasonal revenue grew 4.2%, with a strategic focus on Toys driving 14.4% revenue growth in this category. The Furniture and Homeware market continues to be slow and the market continues to have a stronger credit offer in furniture. Revenue trajectory has shown some improvement, resulting from changes to a targeted marketing approach of customers, albeit still in decline at (4.8)%.

Financial Services revenue

Financial Services revenue increased by 2.3%. This was primarily driven by interest income due to growth in Very, partially offset by lower insurance and warranty volumes year-on-year. Interest income as a percentage of the debtor book increased by 0.4%pts to 11.9% (Q2 FY18 YTD: 11.5%) mainly driven by brand mix as Very has a higher financial services attachment than Littlewoods.

Notes:
1. BRC online retail market (non-food).
2. Q2 FY19 YTD is the 6 months ended 31 December 2018.
   Q2 FY18 YTD is the 6 months ended 31 December 2017.

INTERIM RESULTS STATEMENT (continued)

Review of the business (continued)

Gross profit and costs

Gross margin rate decreased by 1.9%pts to 36.5% (Q2 FY18 YTD: 38.4%). This includes the impact of IFRS 9 – Financial Instruments. As an expected loss model, this changes the profile of the bad debt expense during the course of the year and has resulted in a year-to-date charge of £11.4m. Excluding the impact of IFRS 9[3], gross margin rate decreased 0.9%pts to 37.5% (Q2 FY18 YTD: 38.4%) as an improvement in underlying retail margins was partially offset by the continued switch to Very from Littlewoods, and the timing of bad debt provision movements in prior year.

Bad debt as a percentage of the debtor book was adverse to prior year at 4.8% (Q2 FY18 YTD: 3.3%). Excluding the impact of IFRS 9[3], bad debt as a percentage of the debtor book was 4.1% with the increase of 0.8%pts against prior year reflecting the timing of bad debt provision movements in prior year. There has been a continued strong focus on customer quality and customer-centric collections strategies, which have maintained the debtor book's risk profile. Default rates are broadly in line with prior year.

Distribution expenses increased to £125.2m (Q2 FY18 YTD: £116.6m) reflecting volume growth and other cost increases including higher fuel costs, inflation and product mix. Administrative expenses before exceptional items decreased to £177.4m (Q2 FY18 YTD: £190.8m) primarily driven by less marketing spend as we continue to improve efficiency of the marketing to new and existing customers including reducing spend which does not drive demand.

EBITDA

Reported EBITDA reduced 4.0% to £111.0m (Q2 FY18 YTD: £115.6m). Reported EBITDA, excluding the impact of IFRS 9[3] increased by 5.9% to £122.4m (Q2 FY18 YTD: £115.6m). As a percentage of Group revenue, the EBITDA margin excluding the impact of IFRS 9[3], increased 0.3%pts to 10.8% compared to the prior year. The higher EBITDA[3] reflects good trading and continued strong cost performance.

Finance costs

Higher net finance costs of £49.7m (Q2 FY18 YTD: £36.6m) driven by £550.0m in senior secured notes issued in November 2017.

Exceptional items

Exceptional items charged to operating profit of £49.2m (Q2 FY18 YTD: £7.0m) include an additional provision of £41.0m to cover customer redress payments for historical shopping insurance sales expected to be made before the FCA's claims deadline of August 2019. The remaining £8.2m (Q2 FY18 YTD: £0.3m) of exceptional items relate to the rationalisation of processes and functions within the Group.

Notes:
3. Q2 FY19 YTD reported under IFRS 9. Q2 FY18 YTD reported under IAS 39. £11.4m adverse bad debt provision movement due to adoption of IFRS 9 has been excluded for comparison purposes

INTERIM RESULTS STATEMENT (continued)

Review of the business (continued)

Taxation

The tax credit in the income statement of £2.4m (Q2 FY18 YTD: charge of £8.8m) includes a current tax charge of £1.0m and a credit of £3.4m in relation to an increase in the deferred tax asset.

Statement of cash flows

The cash and cash equivalents balance increased by £58.1m to £95.8m during the year-to-date (Q2 FY18 YTD: cash and cash equivalents increase of £14.3m to £64.8m) driven by the drawdown of the securitisation facility and the new issue of £5.0m 'B' notes and £40.0m 'C' notes.

Cash flows in respect of capital additions for the period of £33.3m (Q2 FY18 YTD: £43.7m) across business-as-usual and strategic investments. The year-on-year reduction is driven by timing of investment in strategic projects.

Balance sheet

Net assets decreased to £59.5m (June 18: £185.3m) driven by the first time adoption of IFRS 9 - Financial Instruments (£116.2m) during the current financial year and the loss for the period.

Inventory increased to £117.2m (June 18: £101.9m) reflecting seasonality, consistent with Q2 FY18 YTD (£124.8m). Working capital efficiency through inventory management remains a key focus. Trade and other receivables increased to £2,285.0m (June 18: £2,206.0m) driven by an increase in trade debtors reflecting seasonality and year-on-year sales growth. Trade and other payables increased to £757.6m (June 18: £557.8m) reflecting seasonality and year-on-year sales growth.

Securitisation borrowings increased to £1,461.9m (June 18: £1,317.4m), broadly in line with gross trade debtors together with the new issue of £5.0m 'B' notes and £40.0m 'C' notes. The securitisation facility expires in December 2021 with 'A' Notes of £1,325.0m and 'B' and 'C' Notes of £210.0m with a total maximum value of £1,535.0m. The securitisation borrowings also include £29.2m in relation to a new securitisation facility which has been introduced in relation to balance sheet receivables of Shop Direct Ireland Limited.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

		6 months to 31 Dec 2018			6 months to 31 Dec 2017			Year to 30 June 2018		
	Notes	Pre-exceptional items £'m	Exceptional items(5) £'m	Total £'m	Pre-exceptional items £'m	Exceptional items(5) £'m	Total £'m	Pre-exceptional items £'m	Exceptional items(5) £'m	Total £'m
Revenue	4	1,128.5	-	1,128.5	1,099.2	-	1,099.2	1,958.8	-	1,958.8
Operating profit	4	88.9	(49.2)	39.7	97.4	(1.8)	95.6	224.6	(159.6)	65.0
Finance income		-	-	-	-	-	-	0.1	-	0.1
Finance costs		(49.7)	-	(49.7)	(36.6)	(5.2)	(41.8)	(84.6)	(5.2)	(89.8)
Profit/(loss) before tax		39.2	(49.2)	(10.0)	60.8	(7.0)	53.8	140.1	(164.8)	(24.7)
Tax credit/(charge)	8	2.4	-	2.4	(8.8)	-	(8.8)	(6.2)	21.7	15.5
Profit/(loss) for the period/year		41.6	(49.2)	(7.6)	52.0	(7.0)	45.0	133.9	(143.1)	(9.2)
Profit/(loss) attributable to equity holders of the Group		41.6	(49.2)	(7.6)	52.0	(7.0)	45.0	133.9	(143.1)	(9.2)

5. – See note 5 - Exceptional items

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months to 31 Dec 2018 £'m	6 months to 31 Dec 2017 £'m	Year to 30 June 2018 £'m
(Loss)/profit for the period/year	(7.6)	45.0	(9.2)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement on retirement benefit obligations before tax	(1.1)	(3.0)	121.8
Impact of pension scheme buy-ins	-	-	(124.6)
Income tax effect	(1.2)	(2.0)	(2.7)
Other comprehensive expense	(2.3)	(5.0)	(5.5)
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation gains	0.3	0.1	0.1
Other comprehensive expense	(2.0)	(4.9)	(5.4)
Total comprehensive (expense)/income attributable to:			
Owners of the company	(9.6)	40.1	(14.6)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	31 Dec 2018 £'m	31 Dec 2017 £'m	30 June 2018 £'m
Assets				
Non-current assets				
Goodwill		252.5	252.5	252.5
Other intangible assets		213.4	178.8	201.5
Property, plant and equipment		11.3	12.5	12.7
Deferred tax asset		130.9	82.8	104.4
		608.1	526.6	571.1
Current assets				
Inventories		117.2	124.8	101.9
Trade and other receivables	7	2,285.0	2,413.0	2,206.0
Income tax asset		0.4	-	0.8
Cash and bank balances		97.9	103.2	140.5
Derivative financial instruments	6	4.4	-	2.5
		2,504.9	2,641.0	2,451.7
Total assets		3,113.0	3,167.6	3,022.8
Equity and liabilities				
Equity				
Share capital		(100.0)	(100.0)	(100.0)
Accumulated deficit/(retained earnings)		40.5	(140.0)	(85.3)
Total equity		(59.5)	(240.0)	(185.3)
Non-current liabilities				
Loans and borrowings	10	(550.0)	(550.0)	(550.0)
Securitisation facility	10	(1,461.9)	(1,371.3)	(1,317.4)
Retirement benefit obligations		(66.3)	(79.5)	(72.3)
Deferred income		(43.4)	(48.7)	(35.8)
Obligations under finance leases		(2.2)	(3.6)	(3.1)
Provisions	9	(22.2)	(5.0)	(39.3)
		(2,146.0)	(2,058.1)	(2,017.9)
Current liabilities				
Trade and other payables		(757.6)	(711.7)	(557.8)
Loans and borrowings	10	(2.1)	(38.4)	(102.8)
Income tax liability		-	(3.1)	-
Obligations under finance leases		(1.7)	(1.4)	(1.5)
Deferred income		(63.8)	(63.3)	(69.0)
Provisions	9	(82.3)	(47.0)	(88.5)
Derivative financial instruments	6	-	(4.6)	-
		(907.5)	(869.5)	(819.6)
Total liabilities		(3,053.5)	(2,927.6)	(2,837.5)
Total equity and liabilities		(3,113.0)	(3,167.6)	(3,022.8)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £'m	Retained earnings £'m	Total £'m
Changes in equity for the 6 months to 31 December 2018			
Balance as at 1 July 2018 as previously reported	100.0	85.3	185.3
Changes on transition to IFRS 9 (note 3)	-	(116.2)	(116.2)
Balance as at 1 July 2018 as restated	100.0	(30.9)	69.1
Loss for the period	-	(7.6)	(7.6)
Other comprehensive expense	-	(2.0)	(2.0)
Total comprehensive income	-	(9.6)	(9.6)
Balance at 31 December 2018	100.0	(40.5)	59.5
Changes in equity for the 6 months to 31 December 2017			
Balance as at 1 July 2017	100.0	99.9	199.9
Profit for the period	-	45.0	45.0
Other comprehensive expense	-	(4.9)	(4.9)
Total comprehensive income	-	40.1	40.1
Balance at 31 December 2017	100.0	140.0	240.0
Changes in equity for the year to 30 June 2018			
Balance as at 1 July 2017	100.0	99.9	199.9
Loss for the year	-	(9.2)	(9.2)
Other comprehensive expense	-	(5.4)	(5.4)
Total comprehensive expense	-	(14.6)	(14.6)
Balance at 30 June 2018	100.0	85.3	185.3

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	**6 months to 31 Dec 2018 £'m**	**6 months to 31 Dec 2017 £'m**	**Year to 30 June 2018 £'m**
Net cash flows from operating activities		(52.4)	(135.1)	(65.5)
Investing activities				
Interest received		-	-	0.1
Acquisitions of property, plant and equipment		(0.6)	(2.9)	(4.7)
Acquisitions of intangible assets		(32.7)	(40.8)	(81.4)
Net cash used in investing activities		(33.3)	(43.7)	(86.0)
Financing activities				
Repayments of bank borrowings		-	(500.0)	(500.0)
Proceeds from issue of senior secured notes		-	550.0	550.0
(Repayments of)/draw downs from finance leases		(0.7)	0.6	0.1
Drawdowns from securitisation facility		144.5	142.5	88.6
Net cash flows from financing activities		143.8	193.1	138.7
Net increase/(decrease) in cash and cash		58.1	14.3	(12.8)
Opening cash and cash equivalents		37.7	50.5	50.5
Closing cash and cash equivalents	11	95.8	64.8	37.7

UNAUDITED RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH FROM OPERATING ACTIVITIES

	6 months to 31 Dec 2018 £'m	**6 months to 31 Dec 2017 £'m**	**Year to 30 June 2018 £'m**
(Loss)/profit for the period/year	(7.6)	45.0	(9.2)
Adjustments for:			
Depreciation	1.3	1.3	2.9
Amortisation	20.8	16.9	34.8
Impairment loss on fixtures and equipment	0.6	-	-
Financial instrument net (gains)/losses through profit and loss	(1.9)	2.6	(4.5)
Finance income	-	-	(0.1)
Finance costs	48.7	41.8	87.8
Income tax (credit)/expense	(2.4)	8.8	(15.5)
(Decrease)/increase in provisions	(23.3)	(45.8)	30.0
Adjustments for pensions	(7.1)	(10.6)	(15.4)
Operating cash flows before movements in working capital	29.1	60.0	110.8
(Increase)/decrease in inventories	(15.3)	(10.5)	12.4
(Increase)/decrease in trade and other receivables	(220.5)	(333.0)	(131.3)
Increase in trade and other payables	201.9	193.9	31.5
Cash (absorbed)/generated by operations	(4.8)	(89.6)	23.4
Income taxes received/(paid)	0.1	(3.7)	(0.5)
Interest paid	(47.7)	(41.8)	(88.4)
Net cash flows from operating activities	(52.4)	(135.1)	(65.5)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Shop Direct Limited is a private company limited by share capital incorporated and domiciled in England and Wales under the Companies Act. The address of its registered office is First Floor, Skyways House, Speke Road, Speke, Liverpool L70 1AB.

These condensed consolidated interim financial statements were approved for issue on 12 February 2019.

2. Summary of accounting policies

Basis of preparation

This condensed set of financial statements for the six months ended 31 December 2018 should be read in conjunction with the annual financial statements for the year ended 30 June 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

The annual financial statements of the Group for the year ended 30 June 2019 will be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. This condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's consolidated financial statements for the year ended 30 June 2018, and will be applied in the preparation of the company's consolidated financial statements for the year ended 30 June 2019.

The financial statements are drawn up to the Saturday nearest to 30 June or 31 December, or to 30 June or 31 December where this falls on a Saturday.

New and revised standards

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

IFRS 9 Financial Instruments

During the current financial year, the Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition for periods beginning from or after 1 January 2018. The new standard is split into three phases: classification and measurement, impairment and hedge accounting, and has resulted in changes in accounting policies and adjustments to the amounts previously recognised in the Group financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Summary of accounting policies (continued)

IFRS 9 Financial Instruments (continued)

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

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

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

Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 3.

New standards, interpretations and amendments not yet effective

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

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

The directors expect that the adoption of IFRS 16 will have a material impact on the treatment and recognition of leases in future periods and a detailed review is in progress by the Group. It is not practical to provide a reasonable estimate of the effect of IFRS 16 until the detailed review has been completed. None of the other standards, interpretation or amendments noted above are material.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. IFRS 9 transition

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

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

	£'m
Opening retained earnings under IAS 39	85.3
Increase in provision for trade and other receivables (see note 9)	(140.5)
Increase in deferred tax assets relating to impairment provisions	24.3
Adjustment to retained earnings from adoption of IFRS 9	(116.2)
Opening retained earnings under IFRS 9	(30.9)

The impact of the transition on the current year consolidated income statement is as follows:

	Under IFRS 9 6 months to 31 Dec 2018 £'m	**Under IAS 39 6 months to 31 Dec 2018 £'m**
Revenue	1,128.5	1,128.5
Gross Profit	412.2	423.6
Pre-exceptional EBITDA*	111.0	122.4
Operating Profit	39.7	51.1
(Loss)/profit before taxation	(10.0)	1.4

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. IFRS 9 transition (continued)

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

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

	Measurement category		Carrying amount		
	IAS 39	IFRS 9	IAS 39 £'m	IFRS 9 £'m	Difference £'m
Current financial assets:					
Trade and other receivables	Amortised cost	Amortised cost	2,206.0	2,065.5	(140.5)
Cash and bank balances	Amortised cost	Amortised cost	140.5	140.5	-
Derivatives	FVTPL	FVTPL	2.5	2.5	-

Impairment of financial assets

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

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

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

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. IFRS 9 transition (continued)

Impairment of financial assets (continued)

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segmental analysis

By business segment

	6 months to 31 Dec 2018 £'m	6 months to 31 Dec 2017 £'m	Year to 30 June 2018 £'m
Analysis of revenue:			
Very†	831.8	769.3	1,389.1
Littlewoods◊	296.7	329.9	569.7
	1,128.5	1,099.2	1,958.8
Gross profit	412.2	422.6	780.7
Distribution costs	(125.2)	(116.6)	(215.8)
Administrative costs excluding depreciation and amortisation	(177.4)	(190.8)	(304.3)
Other operating income	1.4	0.4	1.7
Pre-exceptional EBITDA*:			
Very†	161.7	155.1	325.0
Littlewoods◊	70.4	80.5	142.4
Central costs	(121.1)	(120.0)	(205.1)
	111.0	115.6	262.3
Exceptional items	(49.2)	(1.8)	(159.6)
Depreciation	(1.3)	(1.3)	(2.9)
Amortisation	(20.8)	(16.9)	(34.8)
Operating profit	39.7	95.6	65.0
Finance income	-	-	0.1
Finance costs	(49.7)	(36.6)	(84.6)
Exceptional finance costs	-	(5.2)	(5.2)
(Loss)/profit before taxation	(10.0)	53.8	(24.7)

The analysis above is in respect of continuing operations. See note 3 for the impact of IFRS 9.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segmental analysis (continued)

By geographical location of destination

	6 months to 31 Dec 2018 £'m	6 months to 31 Dec 2017 £'m	Year to 30 June 2018 £'m
Revenue:			
United Kingdom	1,083.5	1,057.4	1,886.3
Rest of World	45.0	41.8	72.5
	1,128.5	1,099.2	1,958.8
Operating profit:			
United Kingdom	36.8	93.5	60.6
Rest of World	2.9	2.1	4.4
	39.7	95.6	65.0

The analysis above is in respect of continuing operations.

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

Non-GAAP measures

	6 months to 31 Dec 2018 £'m	6 months to 31 Dec 2017 £'m	Year to 30 June 2018 £'m
Reconciliation of pre-exceptional earnings before interest, tax, depreciation and amortisation ("EBITDA") to underlying EBITDA			
Pre-exceptional EBITDA	111.0	115.6	262.3
Adjusted for:			
Fair value adjustments to financial instruments	(1.9)	2.6	(4.5)
Foreign exchange translation movements on trade creditors	2.2	0.3	0.4
IAS19 and IFRIC14 pension adjustments	1.0	(0.1)	2.0
Underlying EBITDA	112.3	118.4	260.2

See note 3 for the impact of IFRS 9

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Exceptional items

	6 months to 31 Dec 2018 £'m	6 months to 31 Dec 2017 £'m	Year to 30 June 2018 £'m
Regulatory costs and associated administrative expenses	(41.0)	-	(128.0)
Restructuring costs	(8.2)	(0.3)	(27.9)
Professional fees	-	(1.5)	(3.7)
Charged to operating profit	(49.2)	(1.8)	(159.6)
Accelerated amortisation of loan issue costs	-	(5.2)	(5.2)
	(49.2)	(7.0)	(164.8)

During the financial year ended 30 June 2018, the Group recognised regulatory charges of £128.0m to cover the estimated cost of customer redress claims in the year and of future customer redress payments for historical shopping insurance sales and associated processing costs. A further £41.0m has been recognised in the six months ended 31 December 2018.

The restructuring costs reflect expenditure on the rationalisation of processes and functions within the Shop Direct Group. On 10 October 2018 the Group announced plans to close its standalone clearance operation, Littlewoods Clearance, which comprises seven UK outlets, websites, and a Bolton-based fulfilment centre and head office team. On 11 April 2018 the Group announced proposals to upgrade its fulfilment capabilities by creating an automated, 850,000 square foot distribution and returns centre in the East Midlands. The Group plans to begin exiting its existing fulfilment sites in Greater Manchester from mid-2020.

The professional fees relate to corporate projects.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Derivative financial instruments

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

	31 Dec 2018 £'m	31 Dec 2017 £'m	30 June 2018 £'m
Notional amount – sterling contract value	120.8	269.3	161.7
Fair value of asset/(liability) recognised	4.4	(4.6)	2.5

Changes in the fair value of derivative financial instruments amounted to a profit of £1.9m in the period (6 months to 31 December 2017: loss of £2.6m), which is included in administrative expenses.

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

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

7. Trade and other receivables

	31 Dec 2018 £'m	31 Dec 2017 £'m	30 June 2018 £'m
Trade receivables	1,539.1	1,662.4	1,516.3
Amounts owed by group undertakings	503.7	561.8	500.4
Prepayments	196.8	143.3	156.6
Other receivables	45.4	45.5	32.7
	2,285.0	2,413.0	2,206.0

Impact of IFRS 9 transition

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

	£'m
Trade receivables as at 30 June 2018 under IAS 39	1,516.3
Increase in provision for trade and other receivables (see note 3)	(140.5)
Trade receivables as at 1 July 2018 under IFRS 9	1,375.8

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Taxation

The taxation charge for the 6 months to 31 December 2018 is based on the estimated tax rate for the full year to 30 June 2019 of 19.0% (6 months to 31 December 2017: 19.0%).

	6 months to 31 Dec 2018 £'m	6 months to 31 Dec 2017 £'m	Year to 30 June 2018 £'m
Current taxation			
UK corporation tax	(0.5)	(3.6)	(0.7)
Foreign tax	(0.5)	-	(1.0)
Total current income tax	(1.0)	(3.6)	(1.7)
Deferred tax			
Arising from origination and reversal of temporary differences	3.4	(5.2)	17.2
Tax credit/(charge) in the income statement	2.4	(8.8)	15.5

9. Provisions

	Warranties £'m	Restructuring £'m	Regulatory £'m	Total £'m
At 1 July 2018	0.8	26.6	100.4	127.8
Increase in provisions	-	5.0	41.0	46.0
Provisions utilised	-	(1.8)	(67.5)	(69.3)
At 31 December 2018	0.8	29.8	73.9	104.5
Non-current	-	22.2	-	22.2
Current	0.8	7.6	73.9	82.3
	0.8	29.8	73.9	104.5

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Provisions (continued)

	Warranties £'m	Restructuring £'m	Regulatory £'m	Total £'m
At 1 July 2017	0.8	9.0	88.0	97.8
Provisions utilised	-	(3.8)	(42.0)	(45.8)
At 31 December 2017	0.8	5.2	46.0	52.0
Non-current	-	-	5.0	5.0
Current	0.8	5.2	41.0	47.0
	0.8	5.2	46.0	52.0

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Borrowings

	31 Dec 2018 £'m	31 Dec 2017 £'m	30 June 2018 £'m
Secured non-current loans and borrowings at amortised cost			
Securitisation facility	1,461.9	1,371.3	1,317.4
Senior secured notes	550.0	550.0	550.0
	2,011.9	1,921.3	1,867.4
Current loans and borrowings at amortised cost			
Secured revolving credit facility	-	-	95.0
Unsecured bank overdrafts	2.1	38.4	7.8
	2.1	38.4	102.8

The underlying currency of the unsecured bank overdrafts of £2.1m (31 December 2017: £3.4m) is Euros. The underlying currency of the other borrowings and overdrafts set out above is Sterling.

	31 Dec 2018 £'m	31 Dec 2017 £'m	30 June 2018 £'m
The borrowings are repayable as follows:			
Within one year	2.1	38.4	102.8
In the second year	-	-	-
In the third to fifth year	2,011.9	1,921.3	1,867.4
Over five years	-	-	-
Amount due for settlement after 12 months	2,011.9	1,921.3	1,867.4

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Borrowings (continued)

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

(a) The Group has a UK securitisation facility against which it has drawn £1,432.7m (31 December 2017: £1,371.3m), secured by a charge over certain eligible trade debtors of the Group. The facility is composed of 'A-S' Notes (£1,143.3m), 'A-J' Notes (£181.7m) and 'B' and 'C' Notes (£210.0m), a total maximum commitment of £1,535.0m which expires in December 2021.

(b) On 3rd November 2017, the Group completed a refinancing. £575.0m senior debt facility was repaid and new senior secured notes of £550.0m, at 7.75%, due 2022 were put in place together with a new secured revolving credit facility of £150.0m. Transaction costs associated with the new senior secured notes of £8.9m were prepaid on the balance sheet. The existing debt repaid was £560.0m and £5.2m accelerated amortisation of outstanding issue costs associated with this debt were recognised in the income statement as exceptional interest costs.

(c) The Group has an Irish securitisation facility against which it has drawn €33.2m (31 December 2017: nil), secured by a charge over certain eligible trade debtors of the Group. The facility has a total maximum commitment of €35.0m which expires in December 2021.

11. Cash and cash equivalents

	31 Dec 2018 £'m	31 Dec 2017 £'m	30 June 2018 £'m
Cash at bank	97.9	103.2	140.5
Secured revolving credit facility	-	-	(95.0)
Bank overdrafts	(2.1)	(38.4)	(7.8)
Cash and cash equivalents in statement of cash flows	95.8	64.8	37.7

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of 12 months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to fair value. The revolving credit facility, which expires in May 2022, rolls over on a monthly basis and hence is classified within cash and cash equivalents, and is classified as repayable within one year (see note 10).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Related party transactions

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

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

Recharged costs

	31 Dec 2018 £'m	31 Dec 2017 £'m	30 June 2018 £'m
Yodel Delivery Network Limited	2.4	2.3	4.8
Arrow XL Limited	0.3	0.4	0.7
	2.7	2.7	5.5

Purchase of services

	31 Dec 2018 £'m	31 Dec 2017 £'m	30 June 2018 £'m
Yodel Delivery Network Limited	(35.3)	(30.8)	(58.0)
Drop & Collect Limited	(13.9)	(14.2)	(24.9)
Arrow XL Limited	(21.5)	(18.7)	(40.3)
Trenport Property Holdings Limited	(0.8)	(0.8)	(1.6)
Shop Direct Holdings Limited	(2.5)	(2.5)	(5.0)
	(74.0)	(67.0)	(129.8)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Related party transactions (continued)

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

Amounts due from fellow Group undertakings

	31 Dec 2018 £'m	**31 Dec 2017 £'m**	**30 June 2018 £'m**
Shop Direct Holdings Limited	475.5	551.0	476.5
Yodel Delivery Network Limited	0.4	4.0	-
Drop & Collect Limited	0.3	4.5	-
Arrow XL Limited	-	2.3	3.7
Primevere Limited	13.0	-	5.0
Primevere Equipment Limited	14.5	-	15.2
	503.7	561.8	500.4

Amounts due to fellow Group undertakings

	31 Dec 2018 £'m	**31 Dec 2017 £'m**	**30 June 2018 £'m**
Yodel Delivery Network Limited	-	-	(1.5)
Drop & Collect Limited	-	-	(2.1)
	-	-	(3.6)

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

13. Seasonality

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