

## SPORTS DIRECT INTERNATIONAL PLC

16 December 2019

Interim Results for the 26 weeks to 27 October 2019 ("FY20 H1")

	FY20 H1 IAS 17	FY19 H1 IAS 17 (9)	Change %
	£m	£m	
<b>Group revenue</b>	<b>2,043.5</b>	<b>1,791.8</b>	<b>+14.0</b>
UK Sports Retail <sup>(1)</sup>	1,211.3	1,140.2	+6.2
Premium Lifestyle <sup>(2)</sup>	282.6	157.7	+79.2
European Retail <sup>(3)</sup>	365.5	313.1	+16.7
Rest of World Retail	92.1	100.7	-8.5
Wholesale & licensing	92.0	80.1	+14.9
<b>Group gross margin %</b>	<b>43.8%</b>	<b>41.5%</b>	<b>+230bps</b>
UK Sports Retail gross margin % <sup>(4)</sup>	43.4%	40.6%	+280bps
Underlying EBITDA <sup>(5)</sup>	181.2	148.8	+21.8
<b>Reported profit before tax</b>	<b>193.4</b>	<b>74.4</b>	<b>+160.0</b>
Underlying profit before tax <sup>(5)</sup>	101.8	64.4	+58.1
<b>Reported basic earnings per share</b>	<b>28.7p</b>	<b>8.7p</b>	<b>+229.9</b>
Underlying basic earnings per share <sup>(5)</sup>	15.4p	7.3p	+111.0
Underlying free cash generation <sup>(7)</sup>	162.3	69.0	+135.2
<b>Net debt <sup>(8)</sup></b>	<b>254.4</b>	<b>505.5</b>	<b>-49.7</b>

The financial information on pages 1 – 17 excludes the impact of IFRS 16 Leases (10). The impact of IFRS 16 is disclosed in the statutory information on pages 17 to 39 and accompanying notes (Note 16 – IFRS 16 transition).

### Key highlights

- Group revenue increased by 14.0%. Excluding acquisitions, and on a currency neutral basis <sup>(6)</sup>, Group revenue decreased by 6.4% due to the continued elevation strategy.
- UK Sports Retail revenue increased 6.2%, largely due to acquisitions in the period. Excluding acquisitions revenue fell 8.6% as we continued implementing our elevation strategy. Premium Lifestyle revenue rose 79.2% largely due to new Flannels stores and a full period contribution from House of Fraser.
- House of Fraser FY19 H1 figures included are for the 11-week period from acquisition in August 2018. FY20 H1 figures are for the full period. The prior period for Premium Lifestyle has been re-categorised to include House of Fraser Retail. <sup>(9)</sup>
- Game Digital Plc acquired 27 July 2019, revenue since acquisition was £133.9m.
- European Retail revenue increased by 16.7% due to acquisitions in the period. Excluding acquisitions, and on a currency neutral basis <sup>(6)</sup>, revenue fell 6.1% due to implementation of our elevation strategy.
- Rest of World Retail revenue is down 8.5%. Currency neutral <sup>(6)</sup> Rest of World Retail revenue is down 12.5%, due to the rationalisation of Bob's stores in the US.
- Group Underlying EBITDA is up 21.8% to £181.2m. Excluding acquisitions and on a currency neutral basis, Underlying EBITDA is up 15.1% largely due to improvement in the Premium Lifestyle and European Retail divisions.
- Reported profit before tax is up 160.0% to £193.4m largely due to improved underlying EBITDA and the £84.9m gain (pre IFRS 16) arising from the sale and leaseback of the Shirebrook distribution centre.
- Underlying profit before tax is up 58.1% to £101.8m, largely due to improved underlying EBITDA.
- Profit after tax is up 214.7% to £150.1m from £47.7m in FY19 H1.
- Underlying free cash generation of £162.3m <sup>(6)</sup>
- Net debt has decreased to £254.4m, from £378.5m as at 28 April 2019 (FY19 H1: £505.5m) <sup>(7)</sup>, largely due to improved underlying EBITDA and proceeds from the disposal of the Shirebrook distribution centre. The prior year included House of Fraser acquisition costs and associated working capital requirements.

- (1) *Total UK Sports Retail revenue, including web, Fitness, wholesale and other (Evans Cycles, Jack Wills, Sofa.com and Game Digital UK)*
- (2) *House of Fraser revenue (included within Premium Lifestyle) is turnover of the business, which is the full transaction value of sales of 'Own-bought' stock (net of sales taxes and returns) and commission income earned from Concession sales for which the Group acts as Agent. Margin is the Retail margin based on the 'Gross Transaction value (GTV)' which includes the sales of Own Bought stock (net of VAT), and the full sales transaction value of the Concession sale (net of VAT).*
- (3) *European Retail revenue includes Game Spain from date of acquisition on 27 July 2019.*
- (4) *UK Retail and online. Excludes Wholesale and Other.*
- (5) *Underlying EBITDA, underlying profit before taxation and underlying basic EPS exclude foreign exchange gains/losses in selling and administration costs, exceptional costs, and the profit / loss on disposal of subsidiaries, strategic investments and properties. Underlying EBITDA also excludes any share scheme charges. Underlying profit before taxation also excludes fair value adjustments on foreign exchange contracts.*
- (6) *Sales and margin movements on a currency neutral basis are calculated by revaluing the division's prior period foreign currency denominated sales at the current period average exchange rate.*
- (7) *Underlying free cash generation is defined as operating cash flow after working capital, made up of underlying EBITDA (before share scheme costs) plus foreign exchange gains and losses, less corporation tax paid and movements in working capital, but pre capital expenditure.*
- (8) *Net debt is borrowings less cash and cash equivalents held.*
- (9) *The prior year has been re-categorised due to changes in the reporting segments in FY20. Premium Lifestyle includes the results of House of Fraser Retail (Note 3).*
- (10) *The group applies for the first time IFRS 16 "Leases". IFRS 16 replaces IAS 17 "Leases" and several related interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.*

**Sports Direct International plc**  
Chris Wootton, Chief Financial Officer  
Tom Piper, Company Secretary

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## CHAIR'S STATEMENT

### INTRODUCTION

I have now been Chair for just over a year. It has been an eventful but rewarding time to be involved in the company. We have experienced some challenging events which included a significant tax inquiry in Belgium and the continued integration of a broken House of Fraser business into the Group.

We continue to maintain that the Belgian tax issue will not lead to material liabilities and we are committed to finding a resolution as soon as possible.

I am very proud of the results we have achieved during this half year period and what the Group has achieved during a very tough and challenging retail environment.

### OVERVIEW

The first half of FY20 has shown impressive results across the Group with the Elevation Strategy proving to remain the right plan for the Group's growth and future. New flagship stores have continued to open including our stunning new Flannels flagship store in September 2019. We have had amazing feedback from various stakeholders including the brands and I want to thank everyone involved in making it happen.

Whilst revenue across the Group, excluding acquisitions and currency movements, has declined 6.4%, Underlying EBITDA excluding acquisitions and currency movements has increased 15.1%, and including acquisitions and currency movements has increased 21.8%, which in a very difficult retail environment is a fantastic effort. This is showing the improved product mix we are getting access to driving higher margins with less units, together with improved processes and procedures driving efficiencies, is showing tangible results.

In terms of statutory reporting pre IFRS 16, our profit before taxation has risen 160.0%, driven largely by the improved trading result and profit on sale and leaseback of the Shirebrook campus.

Our net debt at the half year was £254.4m compared to £505.5m a year ago as we continue to generate significant cash flows in the Group, and acquisition expenditure and the investment in those acquisitions reducing year on year, although we would note that completion of the purchase, including the final bullet payment, of the Frasers store in Glasgow will mean expenditure will increase in second half of the year.

### HOUSE OF FRASER

We are starting to see the green shoots of recovery as we continue to integrate the business into the Group. We are bringing new disciplines, experience and skills to bear which is helping the turnaround. Our Frasers strategy is to create a superior shopping experience for the consumer which will be led by the original Frasers. In the coming months and years, Frasers will prove to be a vital and successful part of the Group.

### ACQUISITIONS

We acquired the trade and assets of Jack Wills from administration during the period. We believe in the brand and we think it will be a great asset to the Group, particularly in the House of Fraser and USC fascia's.

We have also taken control of Game Digital plc. We believe the BELONG eSports arenas could be a great fit for the retail space within in the Group will help drive consumer footfall. I would like to welcome our new colleagues to the Group and we look forward to successfully driving the business forward together.

### OUR PEOPLE

Our people have always been and continue to be a priority and the Board is committed to treating all staff with dignity and respect. Despite high profile hysteria from certain politicians, we are one of the only listed companies in the UK to have a workers representative. Cally Price is a statutory director and is manager of our Sports Direct store in Cardiff. Cally does an excellent job of bringing the shop floor reality to the Boardroom and is a fantastic resource to us, enabling us to hear first-hand about issues that are of concern to our employees. The Board have acted on several initiatives which were proposed by Cally and she is a fine example of true and effective Corporate Governance in action. We would thoroughly recommend that other listed companies take the steps to appoint an employee elective representative to the Board. Our experience has been a very positive one.

### DIVIDEND

No dividend was paid during the half year period and the Board has decided not to declare an interim dividend in respect of this period. The Company did undertake a share buyback during the half year with the total number of shares purchased in the market being 14,748,480 since 1 May 2019.

### OUTLOOK

We continue to focus on delivering elevated retail experiences for our consumers. We are on track to complete our stated store elevation plan by the end of the financial year.

The completion of the purchase of the Frasers store in Glasgow will allow us to showcase our elevation strategy and intentions for the remaining portfolio of stores.

As we grow, it is important we continue to recruit new talent. In January 2020, a new Head of Internal Audit will join the Group. We are also committed to promoting our highest achievers and offer a development pathway to our talented employees.

We are hoping that the political waters will be calmer in the coming months which will allow us to move out of this period of market unpredictability. This will enable us to plan appropriately for the future which is critically important.

Despite ongoing challenges, we believe we are getting into a good place, building a solid foundation of elevation and efficiency which will lead to sustainable growth and a successful future.

**David Daly**  
**Non-Executive Chair**  
**16 December 2019**

## CHIEF EXECUTIVE'S REPORT AND BUSINESS REVIEW

### GUIDANCE

I am very pleased with the strong underlying EBITDA growth in the context of the significant challenges facing the High Street. We remain focused on our elevation strategy, which continues to go from strength to strength, benefiting all stakeholders.

At the full year FY19 results, we concluded we could not reasonably predict where our FY20 results were going to land based on the uncertainty caused by the House of Fraser acquisition and the “significant operational and investment issues we are trying to rectify based on the appalling mismanagement of House of Fraser, prior to its acquisition by the Sports Direct Group, that led to its downfall.”

As noted in the Chairman’s statement and below, House of Fraser is all but fully integrated into the Group, and is a work in progress to fix. The longer-term estate is still in the main to be concluded upon. However, given the seasonality of House of Fraser, something in the longer term we hope to address is the reliance on the Christmas period, and the fact our House of Fraser store estate - at least over this Christmas period 2019 - is secure means we are able to give Group guidance as we are confident in the outturn including House of Fraser.

Based on the above we believe our total Group underlying EBITDA (including House of Fraser but pre IFRS 16 adjustments) will grow between 5 to 15% from the FY19 pre-House of Fraser underlying EBITDA figure of £339.4m. This gives a range of between £356.4m to £390.3m for the year ending 26 April 2020.

### AUDITORS

We would like to welcome RSM as our new auditors after the detailed tender process we ran. We focused on finding a firm that had both technical know how, and commercial understanding for what makes our Group tick. We were very impressed by their proposal and the team they brought onsite to meet us a number of times and thus were delighted to award them the responsibility of auditing the Group.

For the avoidance of doubt the tender process was run without any form of government intervention.

### BELGIUM TAX ENQUIRY

Sports Direct has fully engaged and continues to work with the Belgian Tax Authority in order to respond to the queries they have raised regarding VAT. This has led to a very substantial amount of material being provided to the Tax Authority together with electronic access to the relevant stock and accounting systems. Sports Direct has sent technical staff to Belgium in order to show the Authority how to access and review stock movements and VAT accounting across multiple jurisdictions. There is a large amount of material for the Authority to work through and, as with many public departments, their staff resources are limited, however the Tax Authority confirmed in writing on Friday 13 December 2019 that (1) that they are satisfied that they have all the information they require from Sports Direct and (2) that they are satisfied that VAT has been correctly accounted for in the information they have reviewed so far. The Tax Authority also confirmed in writing that it expects to complete its review of Matter 1 early in the New Year. Matter 1 accounts for €491m (or 73%) of the total €674m referred to in the “proces verbal”. The Tax Authority will then review the smaller remaining matters, 2, 3 and 4.

Separately, Sports Direct engaged the services of PwC Belgium in order for them to independently review the same systems and controls and VAT accounting as the Tax Authority. PwC identified some clerical reporting errors, however, most importantly, they have confirmed that they have found no evidence of any material underpayments of VAT.

### STRATEGIC INVESTMENTS

A number of our erstwhile strategic investments continue to attract headlines, and for good reason. We want to continue to highlight the truth behind the downfall of these companies until someone in a position of responsibility is able and willing to take appropriate action.

Through the last weeks and months we have had numerous meetings with those no doubt considered to be able to do something by the public about these scandals. It has become apparent that there is a disconnect between what the politicians think the regulators can do and what they actually can do, thus in our view the politicians must properly empower the regulators to hold to account those guilty of wrongdoing and gross negligence, on a fair and equal basis.

### DEBENHAMS

I noted in detail within my report in our FY19 full year results the extent of the outrageous wiping out of the shareholders of Debenhams. We named this Project Serpico within the Sports Direct Group at the time as everyone directly and indirectly involved should not be afraid of the truth. We would draw attention below to a further instance since we released our FY19 results which underline why ourselves and independent shareholders remain frustrated victims of, in our opinion, financial crime.

As highlighted in our RNS of 28 October 2019, we have noted the parliamentary select committee’s speed with dealing with high profile corporate failures such as Thomas Cook but a seeming reticence to deal with the likes of the Debenhams debacle. As further highlighted by Rachel Reeves MP in her interview with The Times and our response on 6 November 2019 it is apparent she and her Select Committee are in this to win votes, not do the right and fair thing. I have no doubt whatsoever that if the Sports Direct Group had been part of the cabal to wipe out the shareholders of Debenhams, as we were invited to be by Silverpoint the main hedge fund in this plan, I would have been sitting in front of Rachel Reeves MP and her Select Committee before you could say the words “Grand Larceny”. But then of course that would have been an alleged vote winner whereas when its faceless hedge funds the politicians and Rachel Reeves it seems are not interested.

Will Rachel Reeves guarantee stakeholders, such as pensioners and employees, will not lose out further due to unethical sharp practices of some hedge funds?

Very much linked to the Debenhams issue, and how the inept board were complicit in the destruction of shareholder value, we want to especially highlight David Adams who, in his role as audit committee chairman, should take a huge responsibility for the incredibly optimistic and aggressive accounting, which allowed them to carry on paying dividends despite their balance sheet not being worth the paper it was printed on. We noted recently that Halfords Group plc had a £12m accounting scandal of their own and who was audit committee chair? One David Adams. This adds to his glittering CV, which also includes him being chairman of Conviviality during its downfall. How the likes of Mr Adams and others such as him can be continually rewarded for failure by ever more listed board appointments is something that on its own should be investigated. I think this is a microcosm of how the whole system is dishonest, because I understand why Mr Adams would choose not to kick up a fuss and demand appropriate conservative accounting was carried out - this would ensure his pipeline of future appointments dries up and he is clearly not alone, it’s currently regrettably normal.

### GOALS

Goals is another shocking instance whereby various parties are guilty of incompetence or worse, from the auditors to the board, and it is again another example whereby regulators appear to not have enough power to do anything and politicians turn a blind eye. This was as clear as day a fraud from the beginning, yet the

board considered they were carrying out their fiduciary duties by calling in the SFO many months later in October 2019. I can assure them that we, as the largest shareholder, consider that they failed miserably to do so and that it appears “far too little far too late and...a deliberate case of closing the stable door well after the horse has bolted.”

As we have stated a number of times, members of the board, including Michael Bolingbroke the Chairman, were 100% sure that the cause of the accounting irregularities - or fraud as we all knew it was - were confined to one person. Lo and behold it turned out to be more than one person, an admission that was always obvious to us and in our opinion should have been to the Goals board as well.

The Goals board were never keen to truly engage with us during the offer process; access and co-operation was limited and fitful. In particular, we were not even able to access forensic accounting reports until the very end of the process and even then it was our appointed lawyer who was only able to take handwritten notes during a 3 hour period at a lawyer’s office. This is not the behaviour of a board that wanted to be open and transparent with a potential bidder, not to mention its largest shareholder.

We continue to believe that it was very convenient for the board of Goals for this to all go away with the conclusion of the AMA process. They clearly had no desire to have us lifting up the bonnet and having a thorough look at what had gone on.

Yet again, the independent shareholders of a UK listed company get wiped out through the skulduggery of others; as these constant corporate failures show, the current rules and regulations are not fit for purpose in protecting independent shareholders or to prevent fiscal irresponsibility.

#### **STUDIO RETAIL GROUP (FORMERLY FINDEL)**

During the period, using our 36.85% shareholding we voted against the reappointment of Stuart Caldwell, the CFO of Studio Retail Group plc. Although Mr Caldwell was reappointed, our view was that there were a number of decisions and judgements around various matters that did not align with our core accounting principles of being conservative, consistent and simple. We continue to engage with the board of Studio Retail Group with regards to our views and hope to be able to reach agreement on the key matters of concern.

#### **FRENCH CONNECTION**

We continue to have an arms-length supplier/retailer relationship with French Connection, and we consider this relationship to be strong and working well. We do not participate in management decisions nor do we have access to management information and these have not been sought or granted. We would ask them and all of our strategic investments to bear in mind our core principles around appropriate conservative accounting to ensure shareholders such as ourselves retain confidence in the strength of the balance sheet.

We note that French Connection continues to review strategic options, a process which has gone on for more than a year. We believe this has gone on far too long, and urge management to reach a favourable conclusion for all shareholders as soon as possible.

#### **HOUSE OF FRASER**

During this calendar year we have been integrating House of Fraser into the Sports Direct Group and it is safe to say an awful lot of work has been done by many people of all levels to bring what was - due to the deliberate incompetence of previous management and ownership - an unmitigated disaster into a functioning state. We now have the support services including IT, warehouse and logistics fully integrated and hope that this is a solid base to build on. The management, buying, retailing, financial and other departments and functions are integrated and aligned with the rest of the Group and running as one business. I want to thank everybody within the Sports Direct Group, including our new House of Fraser colleagues, for making this happen in very difficult circumstances.

A lot has been made about my comments regarding the “terminal” nature of House of Frasers problems. For absolute clarity, as shown by the fact House of Fraser went into administration and indeed was mere hours from liquidation such was its parlous state, the business was dead, finished, destroyed. It was, and it is only through the incredible efforts of those within the Sports Direct Group, including the remaining House of Fraser teams, that we are tackling these problems and trying to build a business with a future, a future for Frasers that is hopefully “bright”.

To repeat, the terminal issues included serious under investment in stores and appropriate support services, excessive and unsustainable outsourcing and financing, senior team extravagances, the fairy tales around the sustainability of the business told to stakeholders including suppliers and the fraudulent appearance of selling off brands to the Chinese parent shortly before administration.

I reiterate, we are doing as much as we can to realistically save as many jobs and stores as possible however, despite our best efforts, there are still a number of stores which are currently paying zero rent and that are unprofitable and thus not sustainable. We are continuing to review the longer-term portfolio and would expect the number of retained stores to continue to reduce in the next 12 months.

#### **GAME**

We wish to welcome our new Game colleagues onboard after we completed our acquisition during the half year period.

As we noted in our FY19 results statement and offer document, the retail and gaming sectors are fast moving and currently subject to challenging conditions. We believed and still believe that as a standalone business, GAME would struggle to weather the pressures that it is facing in its sector.

We are stepping up the roll out of BELONG eSports arenas now that Game is part of the Group and anticipate opening up to 10 of these during FY20. We continue to believe that BELONG, when looked at against typical retail metrics and in an area where competition is starting to emerge, is not a significant profit-driver on its own. It can only be a viable business proposition as part of the wider group where BELONG can be combined with a focus on experiential retail creating a halo effect within stores and other physical locations

#### **GRADUATED FINDINGS FOR FINANCIAL STATEMENTS**

We have discussed with the Financial Reporting Council our view that Audit Committee chairs should be able to give a view on the judgements and estimates in a set of accounts, whereby they grade the accounts between 1 and 5, with 1 being very aggressive, 2 being aggressive, 3 being normal, 4 being conservative and 5 being very conservative. We have also been made aware by the Financial Reporting Council that work has been done within the sector on the Auditor giving a view on similar lines within the Audit Report.

If this kind of narrative was included in the accounts of the likes of Debenhams for instance, it may have made the board think twice about paying dividends when clearly their accounts would or should have been graded a 1.

## **BUSINESS RATES**

The current business rates regime is clearly helping to kill much of what remains of the UK High Street. A large number of retailers including ourselves have been trying to bring this to the Government's attention and finally it looks like it is getting some focus, I really hope it is not too late already and would urge parliamentarians to expedite reform before it really does become too late.

The current system is unintelligible to almost everyone but true business rates experts, from the transitional relief to revaluation process and effective dates to base liability multipliers.

Transitional Relief phases and limits increases and decreases in rates liability between rating lists. The rate of transition applying downwards relief for a large store is negligible and results in historic values being applicable for the duration of the rates list. The Transitional Relief gives preferential treatment to smaller stores (which are those with premises below a £20,000 rateable value outside London and £28,000 within, a very low level).

The reality is the downwards phasing severely punishes the larger stores. It is the larger stores that are in desperate trouble and need help as can be seen from the constant tsunami of retail administrations and CVAs.

Larger stores bring the footfall to the high streets which benefits all businesses on those high streets. Therefore it would be fairer and more advantageous to all businesses whether directly or indirectly, for there to be a single approach to tapering relief, regardless of a property's size.

Under the current rules for transitional phasing, where rents are increasing those locations benefit from upwards transitional phasing and it ends up being better off against its true base liability. This is compared to where locations see falls in rents whereby the downwards transitional phasing means a large store never gets close to its true base liability and this severely punishes these locations which are already suffering.

There are other crazy offshoots to the current policy such as property improvements increasing rateable value and thus rates, thus a definite lack of incentive for retailers to invest in their stores if they are penalised for it with the indirect mid and longer-term consequences.

I note that there is a clamour in the industry for business rates to be revised much more quickly than the current 5 years, even as regularly as annually. Whilst this is perfect in theory, our knowledge of the rates process leads us to conclude that it would be exceptionally difficult or impossible for this process to be carried out in these timeframes and would be susceptible to delay, error or manipulation.

As I note above there are House of Fraser stores paying no rent but still losing money. A correction to the business rates would dramatically change the situation insofar as we could see light at the end of the tunnel and this could help save stores. Just to make it clear, we are not looking for blanket discounts on rates, we are just looking to pay a correct amount, be that at increased or decreased rates.

## **ADVISOR REGULATION**

I stated at our FY19 full year results that we fundamentally do not believe that the majority of advisors, particularly in the distressed and restructuring space, are in anyway regulated appropriately. Clearly with the continued accounting scandals, overstated balance sheets, unsupportable dividends and continued corporate failures nothing has moved on any further in the last 6 months. We will continue to flag this as a major issue and hope that it becomes apparent to politicians that the appropriate regulators must be furnished with the power to tackle what has become the Wild West in terms of deceit, dishonesty and self interest as they seek to generate significant fees, and generally not work in the best interests of their clients and other relevant stakeholders. Debenhams and its advisors being a recent relevant example in our opinion. I reiterate my stance that advisors that have been shown to act for their own ends should be severely fined.

We noted that a system should be brought in that flags to the appropriate regulator when a situation or transaction becomes higher risk and means they pick up the phone to warn the advisors in particular that this will be looked at very carefully and they are being warned in public. A real time risk of reputational damage through naming and shaming is likely to be the only thing that will make advisors think twice before implementing a course of action that leads to many stakeholders losing out. I was always told by the city that there was an unwritten rule that all things had to pass the smell test, this is clearly no longer the case (if it ever was).

## **CMA**

As part of the CMA's in-depth Phase 2 investigation into the completed acquisition of FootAsylum by JD Sports, Sports Direct has been asked to respond to compulsory information requests by the CMA and will continue to cooperate with the CMA in compliance with the relevant statutory provisions.

## **NEWCASTLE UNITED**

As noted in our annual report and accounts as at April 2019, we will in the ordinary course of business now be charged £2m per season for advertising rights whilst Newcastle United are in the Premier League. Sports Direct still considers this to be value for its shareholders.

## **SHARE BUYBACKS**

We have continued our share buyback programme during the half year to 27 October 2019 to continue to signal to the market our belief in the strength of the Group. We have growing confidence in a successful future for the Group in the mid to long term, thus will be continuing with having a share buy programme in place from Wednesday 18 December 2019 up to the start of the next closed period on 24 April 2020. In line with recent programmes, buy backs will be up to the maximum daily volume allowed under MAR rules, currently 25%. The aggregate purchase price of all shares acquired under the Programme will be no greater than £30m at a maximum of £3 per share. Thus, the maximum number of shares that may be purchased under the Programme will be 10m ordinary shares.

## **PIRC**

As was well documented at the time of our AGM in September 2019, John Gray, the Labour Newham councillor and representative of PIRC supported LAPFF, made a number of misinformed and hysterical comments. I made an offer for him to observe how our board meetings are run to show that his views on our corporate governance are incorrect, an offer he accepted. However, the attacks by Jeremy Corbyn during this election campaign made it completely untenable for anyone associated in any way with the Labour Party - or any of its key supporters and supporting organisations - to be allowed access to such key and confidential meetings and the information divulged within them.

I also want to draw further attention to some absolutely appropriate comments made by Tim Martin, the Chairman of JD Wetherspoon plc in their Q1 update regarding PIRC as a 'hypocritical' organisation. John Gray at our AGM suggested that the board did not have the appropriate skills for a Group such as ours, which to me was an astounding attack on the likes Richard Bottomley OBE, who I staunchly defended as absolutely having the right experience and skills. PIRC seemingly have one NED who just has local authority experience on their CV, so are they an organisation that should be querying what is and is not appropriate on our on anyone else's board?

#### **JEREMY CORBYN**

Mr Corbyn attacked our business during the election campaign, but he really should have checked his facts as he really was shown to be “clueless”. He clearly has zero awareness of the fact we are one of the very few groups, and also one of the first, to have a workers representative as a statutory director of the Group. And I can assure Mr Corbyn it is not a token appointment; Cally Price is a very welcome and effective member of the board, who brings the key messages from the shop floor to the board room for us to make decisions upon. We don’t agree with much that Jeremy Corbyn says however, on this point regarding appointing workers representatives to the board, we wholeheartedly agree and indeed would strongly encourage other businesses large and small to appoint them.

Mr Corbyn is also clearly oblivious to some key facts about our Group, such as us paying our workforce - including those on the shop and warehouse floor - over £300m in bonuses including share schemes. I don’t see many retailers or those who employ lower skilled workers doing that. There is also the fact we have contributed over £500m in Corporation Tax and paid £1,800m of VAT & Duty to HMRC since we listed over a decade ago.

## Overview of Financial Performance

### Summary of Results

	26 Weeks ended 27 October 2019 IAS 17 (£m)	26 Weeks ended 28 October 2018 IAS 17 (£m)	Change %
Revenue	2,043.5	1,791.8	+14.0
Underlying EBITDA	181.2	148.8	+21.8
Reported profit before tax	193.4	74.4	+160.0
Underlying profit before tax	101.8	64.4	+58.1
	<b>Pence per share</b>	<b>Pence per share</b>	
Basic Reported EPS <sup>(1)</sup>	28.7	8.7	+229.9
Basic Underlying EPS <sup>(1)</sup>	15.4	7.3	+111.0

<sup>(1)</sup> Based on 509.1 million and 519.5 million ordinary shares outstanding in FY20 H1 and FY19 H1, respectively.

### Basis of reporting

The financial statements for the Group for the 26 weeks ended 27 October 2019 are presented in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting which has been adopted for use in the EU (IFRS). The Group applies for the first time IFRS 16 “Leases”. IFRS 16 replaces IAS 17 “Leases” and several related interpretations. It completes the IASB’s long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability (Note 16).

Underlying EBITDA, underlying profit before tax and underlying basic EPS are excluding IFRS 16 and so the basis of preparation are directly comparable to prior years.

The Directors have adopted Alternative Performance Measures (APM’s). APM’s should be considered in addition to IFRS measures. The Directors believe that underlying EBITDA, underlying profit before tax and underlying basic earnings per share provide more useful information for shareholders on the underlying performance of the business in addition to the reported numbers and are consistent with how business performance is measured internally. They are not recognised profit measures under IFRS and may not be directly comparable with “adjusted” or “alternative” profit measures used by other companies.

EBITDA is earnings before investment income, finance income and finance costs, tax, depreciation and amortisation and impairment. It includes the Group’s share of profit from associated undertakings. Underlying EBITDA is calculated as EBITDA before the impact of non-hedged foreign exchange, any exceptional or non-trading items, IFRS 16 and costs relating to the share scheme.

### Reconciliation of reported to underlying results

		FY20 H1		FY19 H1	
	Note	EBITDA £m	PBT £m	EBITDA £m	PBT £m
Operating profit (under IAS 17)		208.5		95.4	
Depreciation		67.1		67.8	
Amortisation		3.0		3.8	
Share of loss of associated undertakings	11	(5.6)		(0.6)	
<b>Reported (under IAS 17)</b>		<b>273.0</b>	<b>193.4</b>	<b>166.4</b>	<b>74.4</b>
Exchange gains		(4.7)	(4.7)	(17.6)	(17.6)
Exceptional items	5	3.3	3.3	-	-
Investment Income	6	-	(7.2)	-	(3.0)
Investment Costs	7	-	4.2	-	4.8
IFRS 9 foreign exchange fair value adjustment on unhedged forward and options currency contracts	9	-	3.2	-	5.8
Profit on disposal of properties		(90.4)	(90.4)	-	-
<b>Underlying</b>		<b>181.2</b>	<b>101.8</b>	<b>148.8</b>	<b>64.4</b>

Fair value movement in derivative agreements represents the movement in fair value of equity options in the prior period.

### Reconciliation of selling, distribution and administration costs to operating costs

	FY20 H1 £m IAS 17	FY19 H1 £m IAS 17
<b>Selling, distribution and administrative expenses</b>	789.9	658.3
Depreciation and amortisation	(70.1)	(71.6)
Exchange gains	4.7	17.6
Operating income	(16.5)	(10.3)
<b>Operating expenses</b>	<b>708.0</b>	<b>594.0</b>

Operating costs have increased mainly due to acquisitions and increased property provisions.



## Underlying EBITDA by Business Segment

	FY20 H1	FY19 H1	Change
	£m	£m	%
UK Sports Retail	139.9	147.7	-5.3
Premium Lifestyle	(5.6)	(29.0)	+80.7
European Retail	32.9	19.2	+71.4
Rest of World Retail	(2.5)	(4.9)	+49.0
Wholesale & licensing	16.5	15.8	+4.4
<b>Group Underlying EBITDA</b>	<b>181.2</b>	<b>148.8</b>	<b>+21.8</b>

## Business Review

### Overview of FY20 H1 financial performance

Group revenue was up 14.0% to £2,043.5m, largely due to acquisitions (£222.5m), growth in Premium Lifestyle, growth in Wholesale and Licensing and the full period of revenue from House of Fraser (FY19 H1 – 11 weeks revenue). Excluding acquisitions, and on a currency neutral basis, Group revenue was down 6.4% due to the continued elevation strategy.

Gross margin for the Group increased 230 basis points to 43.8% (FY19 H1: 41.5%) due to better USD purchasing rates and the continued improvement in the product mix. As at 27 October 2019, the Group had hedged its forecast FY20 USD purchases in the UK at USD/GBP 1.42.

During the period, Group operating costs increased by 19.2% to £708.0m (FY19 H1: £594.0m). Excluding acquisitions and on a currency neutral basis, operating costs were down 1.4% largely due to a decrease in retail costs offset by property provisions.

Underlying EBITDA is up 21.8%, largely driven by the growth and improved profitability in the Premium Lifestyle and European Retail divisions. Excluding acquisitions and on a currency neutral basis underlying EBITDA is up 15.1%.

In FY20 H1, depreciation and amortisation decreased by 2.1% to £70.1m and Net Interest decreased to £9.3m from £12.7m. Underlying profit before tax increased by 58.1% to £101.8m (FY19 H1: £64.4m). Underlying basic EPS increased by 111.0% to 15.4p (FY19 H1: 7.3p).

The current period includes the £84.9m gain from the sale and leaseback of the Shirebrook distribution centre on the 8 July 2019 for a cash consideration of £120.0m. The Group intends to continue to operate the Property as a distribution centre, offices and retail units.

Reported Profit Before Tax increased by 160.0% to £193.4m (FY19 H1: £74.4m)

The Group generated underlying free cash flow of £162.3m during the period, up from £69.0m in the prior period.

The Group has a Revolving Credit Facility (RCF) of £913.5m (FY18 H1: £913.5m) as at 27 October 2019, valid until November 2021 and £847.5m to November 2022. The Group continues to operate comfortably within its banking facilities and covenants.

The Group also entered into a further £25.0m uncommitted bi-lateral facility which remains undrawn.

Net debt decreased to £254.4m at the period end (£378.5m at 28 April 2019), equating to 0.8 times LTM Reported EBITDA<sup>(1)</sup> (FY19 H1: 1.5 times on net debt of £505.5m).

(1) LTM EBITDA is the last twelve months historic Reported EBITDA.

## UK Sports Retail financial performance

	26 weeks ended 27 October 2019 (£m)	26 weeks ended 28 October 2018 (£m)	Change %
<b>Retail <sup>(1)</sup></b>			
Revenue	1,197.7	1,123.0	+6.7
Cost of sales	(678.3)	(667.0)	+1.7
<b>Gross profit <sup>(1)</sup></b>	<b>519.4</b>	<b>456.0</b>	<b>+13.9</b>
<b>Gross margin %</b>	<b>43.4%</b>	<b>40.6%</b>	<b>+280 bps</b>
<b>Fitness, wholesale and other gross profit</b>	<b>11.7</b>	<b>12.6</b>	<b>-7.1</b>
Operating costs	(385.6)	(320.3)	+20.4
Associates <sup>(2)</sup>	(5.6)	(0.6)	+833.3
<b>UK Sports Retail Underlying EBITDA</b>	<b>139.9</b>	<b>147.7</b>	<b>-5.3</b>

<sup>(1)</sup> UK Retail and online. Excludes Fitness, Wholesale and Other

<sup>(2)</sup> Associates loss is largely due to the Groups share of pre-acquisition loss of Game Digital's results

The UK Sports Retail segment includes all of the Group's sports retail and USC store and web operations in the UK, all of the Group's sports online business, the Group's Fitness Division, the Group's Shirebrook campus operations, recent acquisitions of Game Digital UK, Jack Wills, Evans Cycles and Sofa.com as well as the Heatons Northern Ireland stores. UK Sports Retail is the main driver of the Group trading performance and accounts for 59% of Group revenue.

Store Portfolio	As at 27 October 2019	As at 28 October 2018	As at 28 April 2019
Stores at period end	879	486	540
Opened	8	4	13
Closed	(8)	(12)	(22)
Acquisitions	339	-	55
Area (sq. ft.)	Approx. 6.5m	Approx. 5.6m	Approx. 5.8m

UK Sports Retail sales increased by 6.7% <sup>(1)</sup>, excluding acquisitions revenue fell 8.6% due to the continuing elevation strategy. We continue on target to open approximately 10 to 15 elevated stores during FY20.

UK Sports Retail gross margin increased by 280 basis points to 43.4% (FY19 H1: 40.6%) <sup>(1)</sup>. This was primarily due to improved USD hedging and an improved product mix.

UK Sports Retail's operating costs increased by 20.4% to £385.6m (FY19 H1: £320.3m), largely due to acquisitions in the period.

The loss from associates totalled £5.6m (FY19 H1: loss £0.6m). The current period loss relates to the Groups share of losses reported from Game Digital in the period prior to obtaining a controlling interest.

UK Sports Retail underlying EBITDA decreased by 5.3% to £139.9m (FY19 H1: £147.7m) as a result of associate losses and acquisitions.

Store acquisitions largely relate to Game Digital UK and Jack Wills, both Game Digital UK and Jack Wills operate from smaller premises than other UK retail stores within the portfolio. Game Digital averaging approximately 1,300 sq. ft per store with Jack Wills stores averaging approximately 3,800 sq. ft.

## Premium Lifestyle financial performance

	26 weeks ended 27 October 2019	26 weeks ended 28 October 2018 <sup>(1)</sup>	Change
	(£m)	(£m)	%
<b>Gross Transaction Value (GTV) <sup>(1)</sup></b>	<b>380.4</b>	210.1	+81.1
Revenue	282.6	157.7	+79.2
Cost of sales	(142.8)	(92.6)	-54.2
<b>Gross profit</b>	<b>139.8</b>	65.1	+114.7
<b>Gross margin %</b>	<b>49.5%</b>	41.3%	+820 bps
<b>GTV Margin % <sup>(1)</sup></b>	<b>36.8%</b>	31.0%	+580 bps
Operating costs	(145.4)	(94.1)	-54.5
<b>Premium Lifestyle Underlying EBITDA</b>	<b>(5.6)</b>	(29.0)	+80.7

<sup>(1)</sup> The prior period has been re-categorised to include House of Fraser within the Premium Lifestyle division. GTV being gross sales net of VAT, discounts and returns and gross sales where the Group acts as Agent.

The Group's Premium Lifestyle division includes the Group's premium lifestyle fascia's in the UK: Flannels, Cruise, van mildert and House of Fraser, along with their ecommerce sites.

Store Portfolio	As at 27 October 2019	As at 28 October 2018	As at 28 April 2019
Flannels	35	26	31
Cruise	6	8	8
van mildert	1	4	2
House of Fraser	52	59	54
	<b>94</b>	<b>97</b>	<b>95</b>

Area (sq. ft.)	Approx. 5.2m	Approx. 5.5m	Approx. 5.3m
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Sales in the period were up by 79.2% to £282.6m (FY19 H1: £157.7m), largely due to the increased sales through new Flannels stores/online and a full 26-week period in FY20 H1 vs since acquisition on 10 August 2018 for House of Fraser in FY19 H1. We are on target to open between 5 to 10 elevated stores during FY20.

GTV Gross margin increased to 36.8% (FY19 H1: 31.0%), due to an improved product mix and an increased move to an own bought model from concessions in House of Fraser.

Operating costs increased by 54.5% to £145.4m (FY19 H1: £94.1m) due to new Flannels stores and a full 26-week period in FY20 H1 vs since acquisition on 10 August 2018 for House of Fraser in FY19 H1.

As a result, Premium Lifestyle underlying EBITDA improved from a loss of £29.0m to a loss of £5.6m.

## European Retail financial performance

	26 weeks ended 27 October 2019 (£m)	26 weeks ended 28 October 2018 (£m)	Change %
Revenue	365.5	313.1	+16.7
Cost of sales	(214.1)	(177.0)	-21.0
<b>Gross profit</b>	<b>151.4</b>	<b>136.1</b>	<b>+11.2</b>
<b>Gross margin %</b>	<b>41.4%</b>	<b>43.5%</b>	-210 bps
Operating costs	(118.5)	(116.9)	-1.4

<b>European Retail Underlying EBITDA</b>	<b>32.9</b>	<b>19.2</b>	<b>+71.4</b>
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The European Retail division includes the Group's sports retail store management and operations in Europe, including the Group's European distribution centres in Belgium and Austria, stores in the Baltic regions and Game Digital stores located in Spain. European Retail accounts for 17.9% of Group revenue.

All of the following stores are operated by companies wholly owned by the Group, except Estonia, Latvia and Lithuania where the Group owns 60.0%.

Store Portfolio – Europe	As at 27 October 2019	As at 28 October 2018	As at 28 April 2019
Spain <sup>(3)</sup>	265	2	2
Republic of Ireland <sup>(1)</sup>	40	33	33
Belgium	35	35	35
Austria	25	27	26
Estonia <sup>(2)</sup>	26	26	26
Lithuania <sup>(2)</sup>	18	17	18
Latvia <sup>(2)</sup>	19	18	18
Portugal	20	17	19
Poland	16	16	16
Slovenia	14	14	14
Czech Republic	12	11	11
Hungary	8	8	8
Cyprus	6	6	6
Holland	5	6	5
Slovakia	5	6	5
France	4	5	4
Germany	2	2	2
Luxembourg	2	2	2
Iceland	1	1	1
<b>Total</b>	<b>523</b>	<b>252</b>	<b>251</b>
Area (sq. ft.)	Approx. 3.8m	Approx. 3.5m	Approx. 3.6m

(1) Excludes Heatons fascia stores

(2) Includes only stores with SPORTSDIRECT.com and Sportland fascias

(3) Includes 263 Game Digital stores acquired 27 July 2019

In addition to the above we operate 5 (FY19 H1: 10) standalone Heatons stores in the Republic of Ireland.

European Retail sales increased by 16.7%, on a currency neutral basis and excluding acquisitions revenue fell 6.1%, due to moving towards a higher price point and higher margin product.

During the period, gross margin decreased by 210 basis points to 41.4% (FY19 H1: 43.5%), excluding acquisitions gross margin is up 180 basis points.

European Retail's operating costs increased by 1.4% in FY20 H1. On a currency neutral basis and excluding acquisitions, European Retail's operating costs decreased by 13.1%, mainly due to property provisions in the prior year and the effects of the rationalisation programme in place over the last few years.

European Retail underlying EBITDA increased by 71.4% to £32.9m (FY19 H1: £19.2m), excluding acquisitions and on a currency neutral basis, underlying EBITDA increased 64.7%.

Game Digital stores in Spain operate from smaller premises than other European retail stores, averaging 800 sq. ft per store.

## Rest of World Retail financial performance

Rest of World Retail includes the Group's retail activities in the US under the combined Bob's, Sports Direct and Eastern Mountain Sports fascia and also the Sports Direct fascia in Malaysia, along with their e-commerce sites.

	26 weeks ended 27 October 2019 (£m)	26 weeks ended 28 October 2018 (£m)	Change %
Revenue	92.1	100.7	-8.5
Cost of sales	(55.8)	(60.5)	+7.8
<b>Gross profit</b>	<b>36.3</b>	<b>40.2</b>	<b>-9.7</b>
<b>Gross margin %</b>	<b>39.4%</b>	<b>39.9%</b>	<b>-50 bps</b>
Operating costs	(38.8)	(45.1)	+14.0
<b>Rest of World Retail Underlying EBITDA</b>	<b>(2.5)</b>	<b>(4.9)</b>	<b>+49.0</b>

Store Portfolio – Rest of World	As at 27 October 2019	As at 28 October 2018	As at 28 April 2019
SD Malaysia	33	30	33
Bob's Stores	27	30	28
Eastern Mountain Sports	21	20	23
	<b>81</b>	<b>80</b>	<b>84</b>

Rest of World retail sales have decreased by 8.5%, on a currency neutral basis revenue fell 12.5% largely due to the rationalisation of the Bobs retail estate combined with implementing the elevation strategy. Operating costs have decreased by 14.0% with the prior period containing additional provisions.

## Wholesale & Licensing financial performance

	26 weeks ended 27 October 2019 (£m)	26 weeks ended 28 October 2018 (£m)	Change %
Wholesale revenue	77.8	65.4	+19.0
Licensing revenue	14.2	14.7	-3.4
<b>Total Revenue</b>	<b>92.0</b>	<b>80.1</b>	<b>+14.9</b>
Cost of sales	(55.8)	(46.7)	-19.5
<b>Gross profit</b>	<b>36.2</b>	<b>33.4</b>	<b>+8.4</b>
<b>Wholesale gross margin %</b>	<b>28.3%</b>	<b>28.6%</b>	<b>-30 bps</b>
<b>Total gross margin %</b>	<b>39.3%</b>	<b>41.7%</b>	<b>-240 bps</b>
Operating costs	(19.7)	(17.6)	-11.9
<b>Wholesale &amp; Licensing Underlying EBITDA</b>	<b>16.5</b>	<b>15.8</b>	<b>+4.4</b>

The Wholesale & Licensing division operates our globally renowned heritage Group brands, and our wholesale and licensing relationships across the world, as well as our partnerships with third party brands that we license-in to sell in Sports Retail and Premium Lifestyle divisions.

Wholesale & Licensing division total revenue increased by 14.9% to £92.0m (FY19 H1: £80.1m). Wholesale revenues are up 19.0% to £77.8m (FY19 H1: £65.4m), excluding acquisitions wholesale revenue is up 9.8%.

Licensing revenues in FY20 H1 decreased 3.4% to £14.2m (FY19 H1: £14.7m).

Wholesale gross margin decreased by 30 bps to 28.3% (FY19 H1: 28.6%). Total gross margin therefore decreased to 39.3% (FY19 H1: 41.7%) with a fall in licensing revenue which is at 100% margin.

As a result, underlying EBITDA in the division increased 4.4% to £16.5m (FY19 H1 £15.8m).

## Acquisitions

### Game Digital

On 27 July 2019, the Group acquired the remaining share capital of Game Digital. The business operates from 257 stores in the UK and 263 stores in Spain as well as its ecommerce platforms. The post-acquisition results of the UK business have been included within the UK Retail segment and the results from the Spanish business have been included within the European Retail segment. Results for the three-month period to 27 October are shown below.

### Other

On the 24 June 2019 the Group acquired the entire share capital of Sofa.com and on the 5 August the Group acquired the trade and assets of Jack Wills, the results since acquisition are shown below.

	Game Digital (£m)	Other (£m)
Revenue	133.9	23.2
Cost of sales	(99.8)	(12.7)
<b>Gross profit</b>	<b>34.1</b>	<b>10.5</b>
<b>Margin %</b>	<b>25.5%</b>	<b>45.3%</b>
Operating costs	(38.0)	(12.5)
<b>Underlying EBITDA</b>	<b>(3.9)</b>	<b>(2.0)</b>

### Foreign exchange and treasury

The Group reports its results in GBP but trades internationally and is therefore exposed to currency fluctuations on currency cash flows in various ways. These include purchasing inventory from overseas suppliers, making sales in currencies other than GBP and holding overseas assets in other currencies. The Board mitigates the cash flow risks associated with these fluctuations with the careful use of currency forwards for hedging purposes, and various other currency products including spots, swaps and options for non-hedged currency management.

The Group uses forward contracts that qualify for hedge accounting in two main ways – to hedge highly probable Euro sales income and US dollar stock purchases. This introduces a level of certainty into the Group's planning and forecasting process. Management have reviewed detailed forecasts and the growth assumptions within them and are satisfied that the forecasts meet the criteria as being highly probable forecast transactions.

As at 27 October 2019, the Group had the following forward contracts that qualified for Hedge Accounting under IFRS 9 Financial Instruments, meaning that fluctuations in the value of the effective contracts before maturity are recognised in the Hedging Reserve through Other Comprehensive Income. After maturity, the sales and purchases are then valued at the Hedge rate.

Currency	Hedging against	Currency value	Timing	Rates
EUR / GBP	Euro sales	EUR 743m	FY20 – FY21, FY23	0.990 – 1.140
AUD / GBP	Australian dollar sales	AUD 5m	FY20	1.690
USD / GBP	USD stock purchases	USD 360m	FY20	1.410 – 1.430
USD / EUR	USD stock purchases	USD 165m	FY20 – FY21	1.210 – 1.320

The Group also uses currency options for more flexibility against cash flows that are less than highly probable and therefore do not qualify for hedge accounting under IFRS 9 Financial Instruments. The fair valuations before maturity are recognised in the Income Statement.

The Group has the following currency swaps, options and unhedged forwards:

Currency	Expected use	Currency value	Timing	Rates
EUR / GBP	Euro sales	EUR 743m	FY20 – FY21, FY23	0.990 – 1.140
AUD / GBP	Australian dollar sales	AUD 5m	FY20	1.690 – 1.740
USD / EUR	USD stock purchases	USD 45m	FY20 – FY21	1.210
USD / GBP	USD sale – cash management	USD 200m	FY20	1.24
EUR / GBP	EUR purchase – cash management	EUR 200m	FY20	1.15
USD / EUR	Euro sale – cash management	EUR 210m	FY20	1.096 – 1.115

The Group is proactive in managing its currency requirements, the Group Treasury team work closely with senior management to understand the Group's plans and forecasts and appropriately discuss and understand financial products with reputable financial institutions including those within the Group Revolving Credit Facility. This information is then used to implement suitable currency products to align with the Groups strategies and forecasts.

Regular reviews are performed by the Group Treasury team alongside senior management to ensure the continued appropriateness of the currency hedging in place, and where suitable either implementing additional strategies and/or restructuring existing approaches in conjunction with our financial institution partners.

In addition to the above the Group has also entered into two interest rate swap contracts whereby the monthly floating interest payments (LIBOR) are replaced with fixed payments (£100m at 0.45% and £250m at 0.985%).

The amounts recognised within Other Comprehensive Income in relation to exchange difference totalled £7.0m loss (FY19 H1: £78.3m gain). The movement largely relates to less hedged contracts in place in the current period and fair value movements on USD contracts in the prior year.

## Taxation

The effective tax rate on profit before tax for FY20 H1 was 22.4% (FY19 H1: 35.9%). The underlying effective tax rate for FY20 H1 was 28.5% (FY19 H1: 25.9%). The difference between the prevailing corporate tax rate of 19.0% and the effective rate reflects depreciation on non-qualifying assets, exchange adjustments and differences in overseas tax rates.

## Strategic investments

Strategic investments are an integral part of the Group's overall strategy. Against a backdrop of a challenged retail market, we believe innovative strategic partnerships will help to differentiate our offer and enhance the consumer experience. We look for ways to extend our reach into new retail channels and geographies, as well as selectively grow our market share. We maintain an active dialogue with the management teams of each of our investments, continually looking to explore new ways of working together. Given the breadth of our business, the strategic benefits can be varied and extensive.

As at 27 October 2019, the Group holds the following Strategic Investments:

<u>Issuer</u>	<u>% of issued share capital</u>
Studio Retail Group - (Formerly Findel plc)	36.85%
French Connection plc	26.09%

The Group continues to hold various other interests, none of which represent more than 5.0% of the voting power of the investee.

## Cash flow and net debt

The Group has a Revolving Credit Facility (RCF) of £913.5m as at 27 October 2019, valid until November 2021 and £847.5m to November 2022.

The Group also entered into a further £25.0m uncommitted bi-lateral facility which remains undrawn.

Net debt reduced during the period to £254.4m (28 April 2019: £378.5m), which is 0.8 times the last 12 months historic reported EBITDA (FY19 H1: 1.5 times) and is in line with management expectations.

Capital expenditure amounted to £134.6m (FY19 H1: £98.2m).

The analysis of net debt at 27 October 2019 and at 28 April 2019 is as follows:

	<b>At 27 October 2019</b>	<b>At 28 October 2018</b>	<b>At 28 April 2019</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash and cash equivalents	326.0	181.5	448.0
Borrowings	(580.4)	(687.0)	(826.5)
<b>Net debt</b>	<b>(254.4)</b>	<b>(505.5)</b>	<b>(378.5)</b>

<b>Cash Flow – IAS 17 (excludes the impact of IFRS 16)</b>	<b>26 weeks ended 27 October 2019</b>	<b>26 weeks ended 28 October 2018</b>
	<b>£m</b>	<b>£m</b>
Underlying EBITDA	181.2	148.8
Exchange gains and losses	4.6	17.6
Taxes paid	(50.7)	(17.7)
Working capital:		
Inventory	(161.3)	(93.0)
Receivables, Payables and Other	188.5	13.3
<b>Underlying free cash flow</b>	<b>162.3</b>	<b>69.0</b>
Invested In:		
Acquisitions (including cash and debt)	16.1	(90.0)
Purchase of associate	(5.0)	-
Purchase of listed investments	-	(47.1)
Net proceeds from investments	-	52.7
Investment income received	6.3	3.1
Purchase of freehold properties	(49.0)	(39.8)
Other capital expenditure	(85.6)	(58.4)
Disposal of freehold property	125.8	-
Finance costs and other financing activities	(9.3)	(8.4)
Purchase of own shares (incl. vesting)	(38.4)	-
Exchange movement on cash balances	0.9	10.5
<b>Net decrease in net debt <sup>(1)</sup></b>	<b>124.1</b>	<b>(108.4)</b>

<sup>(1)</sup> Net decrease in net debt reconciled to year ending 28 April 2019 (FY19 net debt: 378.5m)

Free cash flow is considered to be an important indicator for the business of the cash available for investment in the elevation strategy.

### Principal risks and uncertainties

There have been no changes to the principal risks identified at year end 28 April 2019, details of which can be found in the FY19 Annual Report.

The principal risks and uncertainties affecting the group are:

- Key suppliers and third-party brand relationships
- Market forces
- Treasury and financial risk
- Brexit – The UK is now due to leave the EU on 31 January 2020 with the transition period expected to last until 31 December 2020
- Supply Chain
- Credit and liquidity risk
- Professional advisors
- Taxation
- Succession planning
- Operational
- Cyber Failures and attacks
- Health and safety
- Legal
- Sales

### Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU;
- The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by DTR 4.2.4R;
- The interim management report includes a fair review of the information required by:
  - a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events during the first 26 weeks of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining 26 weeks of the year; and
  - b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The summary of results for the 52 weeks ended 28 April 2019 is an extract from the published Annual Report and Financial Statements which have been reported on by the Group's auditors at the time and delivered to the Registrar of Companies. The audit report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or s498 (3) of the Companies Act 2006.

On behalf of the Board

**Mike Ashley**  
**Chief Executive**  
**16 December 2019**



**UNAUDITED CONSOLIDATED INCOME STATEMENT**  
**FOR THE 26 WEEKS ENDED 27 OCTOBER 2019**

		<i>26 weeks ended 27 October 2019 IAS 17</i>	<i>Impact of IFRS 16 (Note 16)</i>	<b>26 weeks ended 27 October 2019 IFRS 16</b>	<b>26 weeks ended 28 October 2018 IAS 17</b>	<b>52 weeks ended 28 April 2019 IAS 17</b>
	<b>Notes</b>	<i>£m</i>	<i>£m</i>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Continuing operations:</b>						
<b>Revenue</b>	3	2,043.5		<b>2,043.5</b>	1,791.8	3,701.9
Cost of sales		(1,148.6)		<b>(1,148.6)</b>	(1,048.4)	(2,118.4)
<b>Gross profit</b>		894.9		<b>894.9</b>	743.4	1,583.5
Selling, distribution and admin expenses		(789.9)	(35.2)	<b>(825.1)</b>	(658.3)	(1,413.8)
Other operating income		16.4		<b>16.4</b>	10.3	23.4
Profit on sale of properties	4	90.4	(67.1)	<b>23.3</b>	-	8.4
Exceptional items	5	(3.3)		<b>(3.3)</b>	-	(41.0)
<b>Operating profit</b>	3	208.5	(102.3)	<b>106.2</b>	95.4	160.5
Investment income	6	7.2		<b>7.2</b>	3.0	15.0
Investment costs	7	(4.2)		<b>(4.2)</b>	(4.8)	(8.3)
Finance income	8	1.0	5.2	<b>6.2</b>	0.7	40.0
Finance costs	9	(13.5)	(6.1)	<b>(19.6)</b>	(19.3)	(19.4)
Share of loss of associated undertakings	11	(5.6)		<b>(5.6)</b>	(0.6)	(8.6)
<b>Profit before taxation</b>		193.4	(103.2)	<b>90.2</b>	74.4	179.2
Taxation		(43.3)	18.5	<b>(24.8)</b>	(26.7)	(63.2)
<b>Profit for the period</b>	3	150.1	(84.7)	<b>65.4</b>	47.7	116.0
<b>Attributable to:</b>						
Equity holders of the Group		146.0	(84.7)	<b>61.3</b>	45.1	112.0
Non-controlling interests		4.1		<b>4.1</b>	2.6	4.0
<b>Profit for the period</b>	3	150.1	(84.7)	<b>65.4</b>	47.7	116.0

**Earnings per share from total and continuing operations attributable to the equity shareholders**

		<i>26 weeks ended 27 October 2019 IAS 17</i>	<i>Impact of IFRS 16 (Note 16)</i>	<b>26 weeks ended 27 October 2019 IFRS 16</b>	<b>26 weeks ended 28 October 2018 IAS 17</b>	<b>52 weeks ended 28 April 2019 IAS 17</b>
		<i>Pence per Share</i>	<i>Pence per Share</i>	<b>Pence per Share</b>	<b>Pence per share</b>	<b>Pence per share</b>
<b>Basic earnings per share</b>	10	28.7	(16.7)	12.0	8.7	21.6
<b>Diluted earnings per share</b>	10	28.6	(16.6)	12.0	8.6	21.5

The accompanying notes form an integral part of this interim financial report.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE 26 WEEKS ENDED 27 OCTOBER 2019

		26 weeks ended 27 October 2019 IFRS 16	26 weeks ended 28 October 2018 IAS 17	52 weeks ended 28 April 2019 IAS 17
	Notes	£m	£m	£m
Profit for the period	3	65.4	47.7	116.0
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified subsequently to the Income Statement</b>				
Fair value adjustment in respect of long-term financial assets – recognised in the period		12.5	(76.7)	(158.0)
<b>Items that will be reclassified subsequently to the Income Statement</b>				
Exchange differences on translation of foreign operations		3.7	21.5	(10.3)
Exchange differences on hedged contracts – recognised in the period	14	13.4	81.7	91.5
Exchange differences on hedged contracts – ineffectiveness	14	(1.5)	-	(4.5)
Exchange differences on hedged contracts – reclassified and reported in sales	14	(1.2)	9.7	19.7
Exchange differences on hedged contracts – reclassified and reported in cost of sales	14	(19.4)	6.1	14.5
Exchange differences on hedged contracts – taxation taken to reserves	14	1.7	(19.1)	(22.7)
		(3.3)	99.9	88.2
<b>Other comprehensive income for the period, net of tax</b>		9.2	23.2	(69.8)
<b>Total comprehensive income for the period</b>		74.6	70.9	46.2
<b>Attributable to:</b>				
Equity holders of the Parent		70.5	68.2	42.2
Non-controlling interests		4.1	2.7	4.0
		74.6	70.9	46.2

The accompanying notes form an integral part of this interim financial report.

**UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 27 OCTOBER 2019**

		27 October 2019 IAS 17	Impact of IFRS 16 (Note 16)	27 October 2019 IFRS 16	28 October 2018 IAS 17 Restated*	28 April 2019 IAS 17
	Note	£m	£m	£m	£m	£m
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment		872.4		872.4	892.4	823.2
Right of use asset	16	-	391.5	391.5	-	-
Investment properties		46.2		46.2	30.0	22.2
Intangible assets		170.9		170.9	188.8	153.0
Investments in associated undertakings	11	0.3		0.3	5.6	11.0
Long-term financial assets	14	86.2		86.2	164.3	84.6
Deferred tax assets		5.1	24.2	29.3	18.2	23.7
		1,181.1	415.7	1,596.8	1,299.3	1,117.7
<b>Current assets</b>						
Assets held for sale		-		-	-	68.0
Inventories	12	1,231.4		1,231.4	1,049.2	978.4
Trade and other receivables		439.8	(2.3)	437.5	440.6	432.5
Derivative financial assets	14	83.1		83.1	74.7	104.2
Cash and cash equivalents		326.0		326.0	181.5	448.0
		2,080.3	(2.3)	2,078.0	1,746.0	2,031.1
<b>TOTAL ASSETS</b>		<b>3,261.4</b>	<b>413.4</b>	<b>3,674.8</b>	<b>3,045.3</b>	<b>3,148.8</b>
<b>EQUITY AND LIABILITIES</b>						
Share capital		64.1		64.1	64.1	64.1
Share premium		874.3		874.3	874.3	874.3
Treasury shares		(320.2)		(320.2)	(250.0)	(281.7)
Permanent contribution to capital		0.1		0.1	0.1	0.1
Capital redemption reserve		8.0		8.0	8.0	8.0
Foreign currency translation reserve		70.2	1.6	71.8	99.9	68.1
Reverse combination reserve		(987.3)		(987.3)	(987.3)	(987.3)
Own share reserve		(67.0)		(67.0)	(69.4)	(67.2)
Hedging reserve		39.7		39.7	26.4	46.7
Retained earnings		1,680.0	(111.4)	1,568.6	1,536.0	1,521.5
<b>Issued capital and reserves attributable to the owners of the parent</b>		<b>1,361.9</b>	<b>(109.8)</b>	<b>1,252.1</b>	<b>1,302.1</b>	<b>1,246.6</b>
Non-controlling interests		9.9		9.9	4.4	5.8
<b>Total equity</b>		<b>1,371.8</b>	<b>(109.8)</b>	<b>1,262.0</b>	<b>1,306.5</b>	<b>1,252.4</b>
<b>Non-current liabilities</b>						
Borrowings	14	580.4		580.4	687.0	826.5
Lease Liabilities	16	-	507.2	507.2	-	-
Retirement benefit obligations		1.9		1.9	1.9	1.9
Deferred tax liabilities		13.1		13.1	21.2	29.0
Provisions	13	490.5	(140.3)	350.2	251.8	440.5
		1,085.9	366.9	1,452.8	961.9	1,297.9
<b>Current liabilities</b>						
Derivative financial liabilities	14	19.9		19.9	60.6	16.3
Trade and other payables		754.4	(6.2)	748.2	694.6	541.1
Lease Liabilities	16	-	162.5	162.5	-	-
Current tax liabilities		29.4	-	29.4	21.7	41.1
		803.7	156.3	960.0	776.9	598.5
<b>Total liabilities</b>		<b>1,889.6</b>	<b>523.2</b>	<b>2,412.8</b>	<b>1,738.8</b>	<b>1,896.4</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,261.4</b>	<b>413.4</b>	<b>3,674.8</b>	<b>3,045.3</b>	<b>3,148.8</b>

The accompanying notes form an integral part of this interim financial report.

\*See note 1 for prior period restatement

**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE 26 WEEKS ENDED 27 OCTOBER 2019**

		<b>26 Weeks ended 27 October 2019 IAS 17</b>	<b>26 Weeks ended 27 October 2019 Impact of IFRS 16</b>	<b>26 Weeks ended 27 October 2019 IFRS 16</b>	<b>26 Weeks ended 28 October 2018 IAS 17</b>	<b>52 Weeks ended 28 April 2019 IAS 17</b>
	<b>Note</b>			<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cash inflow from operating activities</b>	17	212.9	57.9	<b>270.8</b>	86.7	313.3
Income taxes paid		(50.6)		<b>(50.6)</b>	(17.7)	(40.0)
<b>Net cash inflow from operating activities</b>		162.3	57.9	<b>220.2</b>	69.0	273.3
<b>Cash flow from investing activities</b>						
Proceeds on disposal of property, plant and equipment		125.8		<b>125.8</b>	-	20.8
Proceeds on disposal of listed investments		-		<b>-</b>	52.7	54.9
Cash acquired through / (purchase of) subsidiaries	15	16.1		<b>16.1</b>	(90.0)	(98.7)
Purchase of associate	11	(5.0)		<b>(5.0)</b>	-	-
Purchase of property, plant and equipment		(134.6)		<b>(134.6)</b>	(98.2)	(158.5)
Purchase of investment properties		-		<b>-</b>	-	(0.7)
Purchase of intangible assets		-		<b>-</b>	-	(1.1)
Purchase of listed investments		-		<b>-</b>	(47.1)	(57.9)
Investment income received		6.3		<b>6.3</b>	3.1	3.4
Finance income received		1.0		<b>1.0</b>	0.7	0.3
<b>Net cash inflow / (outflow) from investing activities</b>		9.6	-	<b>9.6</b>	(178.8)	(237.5)
<b>Cash flow from financing activities</b>						
IFRS 16 Lease payments	16	-	(51.8)	<b>(51.8)</b>	-	-
IFRS 16 Interest payments	16	-	(6.1)	<b>(6.1)</b>	-	-
Finance costs paid		(10.3)		<b>(10.3)</b>	(9.1)	(13.0)
Borrowings drawn down		63.8		<b>63.8</b>	194.8	464.4
Borrowings repaid		(310.0)		<b>(310.0)</b>	(264.9)	(395.0)
Purchase of own shares		(38.4)		<b>(38.4)</b>	-	(7.3)
<b>Net cash (outflow) / inflow from financing activities</b>		(294.9)	(57.9)	<b>(352.8)</b>	(79.2)	49.1
<b>Net (decrease) / increase in cash and cash equivalents including overdrafts</b>		(123.0)	-	<b>(123.0)</b>	(189.0)	84.9
Exchange movement on cash balances		1.0		<b>1.0</b>	10.5	3.1
<b>Cash and cash equivalents including overdrafts at beginning of period</b>		448.0	-	<b>448.0</b>	360.0	360.0
<b>Cash and cash equivalents including overdrafts at the period end</b>		326.0	-	<b>326.0</b>	181.5	448.0

The accompanying notes form an integral part of this interim financial report.

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 26 WEEKS ENDED 27 OCTOBER 2019**

	Treasury shares £m	Foreign currency translation £m	Own share reserve £m	Retained earnings £m	Other reserves £m	Total attributable to owners of the parent £m	Non- controlling interests £m	Total £m
<b>At 29 April 2019</b>	<b>(281.7)</b>	<b>68.1</b>	<b>(67.2)</b>	<b>1,521.5</b>	<b>5.9</b>	<b>1,246.6</b>	<b>5.8</b>	<b>1,252.4</b>
IFRS 16 transition adjustments	-	-	-	(26.7)	-	(26.7)	-	(26.7)
<b>At 29 April 2019</b>	<b>(281.7)</b>	<b>68.1</b>	<b>(67.2)</b>	<b>1,494.8</b>	<b>5.9</b>	<b>1,219.9</b>	<b>5.8</b>	<b>1,225.7</b>
Fair value of share buyback reversal	30.0	-	-	-	-	30.0	-	30.0
Fair value of share buyback contractual obligation	(30.0)	-	-	-	-	(30.0)	-	(30.0)
Purchase of own shares	(38.5)	-	0.2	-	-	(38.3)	-	(38.3)
<b>Transactions with owners</b>	<b>(38.5)</b>	<b>-</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>(38.3)</b>	<b>-</b>	<b>(38.3)</b>
<b>Other comprehensive income:</b>								
Profit for the financial period	-	-	-	61.3	-	61.3	4.1	65.4
Cash flow hedges								
– recognised in the period	-	-	-	-	13.4	13.4	-	13.4
– reclassified and reported in the period	-	-	-	-	(20.6)	(20.6)	-	(20.6)
– taxation	-	-	-	-	1.7	1.7	-	1.7
– Ineffectiveness	-	-	-	-	(1.5)	(1.5)	-	(1.5)
Fair value adjustment in respect of long-term financial assets	-	-	-	12.5	-	12.5	-	12.5
Translation differences – group	-	3.7	-	-	-	3.7	-	3.7
<b>Total comprehensive income</b>	<b>-</b>	<b>3.7</b>	<b>-</b>	<b>73.8</b>	<b>(7.0)</b>	<b>70.5</b>	<b>4.1</b>	<b>74.6</b>
<b>At 27 October 2019</b>	<b>(320.2)</b>	<b>71.8</b>	<b>(67.0)</b>	<b>1,568.6</b>	<b>(1.1)</b>	<b>1,252.1</b>	<b>9.9</b>	<b>1,262.0</b>

Consolidated Statement Of Changes In Equity for the period ending 28 October 2018 :

	Treasury shares £m	Foreign currency translation £m	Own share reserve £m	Retained earnings £m	Other reserves £m	Total attributable to owners of the parent £m	Non- controlling interests £m	Total £m
<b>At 29 April 2018 (Restated see note 1)</b>	<b>(290.0)</b>	<b>78.4</b>	<b>(69.0)</b>	<b>1,567.5</b>	<b>(92.6)</b>	<b>1,194.3</b>	<b>1.7</b>	<b>1,196.0</b>
Share-based payments	-	-	(0.4)	-	-	(0.4)	-	(0.4)
Fair value of share buyback reversal	40.0	-	-	-	-	40.0	-	40.0
<b>Transactions with owners</b>	<b>40.0</b>	<b>-</b>	<b>(0.4)</b>	<b>-</b>	<b>-</b>	<b>39.6</b>	<b>-</b>	<b>39.6</b>
<b>Other comprehensive income:</b>								
Profit for the financial period	-	-	-	45.1	-	45.1	2.6	47.7
Cash flow hedges								
– recognised in the period	-	-	-	-	97.3	97.3	-	97.3
– taxation	-	-	-	-	(19.1)	(19.1)	-	(19.1)
Fair value adjustment in respect of long-term financial assets	-	-	-	(76.6)	-	(76.6)	-	(76.6)
Translation differences – group	-	21.5	-	-	-	21.5	0.1	21.6
<b>Total comprehensive income</b>	<b>-</b>	<b>21.5</b>	<b>-</b>	<b>(31.5)</b>	<b>78.2</b>	<b>68.2</b>	<b>2.7</b>	<b>70.9</b>
<b>At 28 October 2018</b>	<b>(250.0)</b>	<b>99.9</b>	<b>(69.4)</b>	<b>1,536.0</b>	<b>(14.4)</b>	<b>1,302.1</b>	<b>4.4</b>	<b>1,306.5</b>

The Own Share Reserve, held by Sports Direct International plc Employee Benefit Trust, and Treasury Share Reserve represent the cost of shares in Sports Direct International plc purchased in the market and to satisfy options under the Group's share scheme.

As at 27 October 2019, the Company held 118,942,674 ordinary shares in Treasury, a movement of 15,309,625 from FY19 H1 (FY19 H1: 103,633,049), and the Sports Direct Employee Benefit Trust held 17,388,755 (FY19 H1: 17,388,755) shares. The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.

On 25 October 2019, the Company announced an irrevocable non-discretionary share buyback programme. In line with IAS32, the Company recognised the full redemption amount of £30m in the FY20 H1 accounts. In FY19 this fair value will be reversed and replaced with the actual value purchased under the programme. As at 13 December 2019, the total value purchased under the program was nil.

# 1. General information and basis of preparation

## Non-Statutory

The results for the first half of the financial year have not been audited or reviewed by external auditors. The financial information in the Group's Annual Report and Financial Statements is prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The Interim Results have been prepared in accordance with International Accounting Standard (IAS) 34 - "Interim Financial Reporting" as endorsed by the European Union and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (DTR). The principal accounting policies have remained unchanged from the prior financial information for the 52 weeks ended 28 April 2019 except for the adoption of new standards as set out below. This consolidated financial information for the 26 Weeks ended 27 October 2019 and 28 October 2018, and for the 52 Weeks ended 28 April 2019 does not constitute statutory financial statements within the meaning of s434 of the Companies Act 2006.

The summary of results for the 52 weeks ended 28 April 2019 is an extract from the published Annual Report and Financial Statements which have been reported on by the Groups auditors at the time and delivered to the Registrar of Companies. The audit report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or s498 (3) of the Companies Act 2006.

## Restatements to prior periods

As reported in the FY19 Financial Statements, the period ended 30 April 2017 and 29 April 2018 financial statements were restated following a review by management into:

### Restatement of deferred tax

- Deferred tax at 30 April 2017 was understated by £16.0m due to the application of incorrect tax rates against a US brand intangible asset
- Deferred tax at 29 April 2018 was understated by £1.6m following a £14.4m release in the period due to the change in corporation tax rates to 23.1% in the US

### Restatement of reimbursement asset & accruals and provisions

- A reimbursement asset totalling £37.2m was reclassified from accruals and provisions to trade and other receivables at 30 April 2017
- A reimbursement asset totalling £57.9m was reclassified from accruals and provisions to trade and other receivables at 29 April 2018
- A reimbursement asset totalling £1.6m was reclassified from accruals and provisions to trade and other receivables at 28 October 2018
- A reclassification totalling £20.0m was made between accruals and provisions at 30 April 2017
- A reclassification totalling £18.0m was made between accruals and provisions at 29 April 2018
- A reclassification totalling £9.1m was made between accruals and provisions at 28 October 2018

### Restatement of Property, Plant and Equipment

- A prior period adjustment has been made to correct the prior period balance sheet resulting in an impairment to Freehold land and Buildings assets of £16.4m

		FY17 restatement			FY18 restatement				FY19 H1 restate ment	
	FY19 H1 Reported	Deferred Tax	Accruals - provision	Reimburs ement asset	Deferred Tax	PPE	Accruals- provision	Reimburs ement asset	Reimburse ment, accr & provns	FY19 H1 Restated
Property, plant and equipment	908.8	-	-	-	-	(16.4)	-	-	-	892.4
Deferred tax assets	18.2	-	-	-	(0.1)	-	-	-	0.1	18.2
<b>Non-current assets</b>	<b>1,315.7</b>	-	-	-	<b>(0.1)</b>	<b>(16.4)</b>	-	-	<b>0.1</b>	<b>1,299.3</b>
Trade and other receivables	381.1	-	-	37.2	-	-	-	20.7	1.6	440.6
<b>Current assets</b>	<b>1,686.5</b>	-	-	<b>37.2</b>	-	-	-	<b>20.7</b>	<b>1.6</b>	<b>1,746.0</b>
<b>TOTAL ASSETS</b>	<b>3,002.2</b>	-	-	<b>37.2</b>	<b>(0.1)</b>	<b>(16.4)</b>	-	<b>20.7</b>	<b>1.7</b>	<b>3,045.3</b>
Foreign currency translation reserve	97.7	-	-	-	2.2	-	-	-	-	99.9
Retained earnings	1,556.4	(16.0)	-	-	12.1	(16.4)	-	(0.1)	-	1,536.0
<b>TOTAL EQUITY</b>	<b>1,324.7</b>	<b>(16.0)</b>	-	-	<b>14.3</b>	<b>(16.4)</b>	-	<b>(0.1)</b>	-	<b>1,306.5</b>
Deferred tax liabilities	19.6	16.0	-	-	(14.4)	-	-	-	-	21.2
Provisions	200.7	-	20.0	19.3	-	-	18.0	1.2	(7.4)	251.8
<b>Non-current liabilities</b>	<b>909.2</b>	<b>16.0</b>	<b>20.0</b>	<b>19.3</b>	<b>(14.4)</b>	-	<b>18.0</b>	<b>1.2</b>	<b>(7.4)</b>	<b>961.9</b>
Trade and other payables	686.0	-	(20.0)	17.9	-	-	(18.0)	19.6	9.1	694.6
<b>Current liabilities</b>	<b>768.3</b>	-	<b>(20.0)</b>	<b>17.9</b>	-	-	<b>(18.0)</b>	<b>19.6</b>	<b>9.1</b>	<b>776.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,002.2</b>	-	-	<b>37.2</b>	<b>(0.1)</b>	<b>(16.4)</b>	-	<b>20.7</b>	<b>1.7</b>	<b>3,045.3</b>

#### New accounting standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim financial statements are the same as those set out in the Group's 2019 Annual Report and Financial Statements, except for the adoption of new standards. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not effective.

The Group applies for the first time the following new standards:

- IFRS 16 "Leases"

#### IFRS 16

IFRS 16 "Leases" replaces IAS 17 "Leases" and several related interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

#### *Transition*

The Group adopted IFRS 16 on 29 April 2019 (date of initial application) using the modified retrospective approach for its portfolio of leases. As a result, the lease liability has been calculated as the present value of future lease payments from the date of initial application. The Group has applied the practical expedient under the modified retrospective approach for the initial right-of-use asset values to equal the present value of the future lease payments as at the date of initial application adjusted by the amount of any prepaid or accrued lease payments. An impairment review has been carried out at the date of transition. The right-of-use asset will be depreciated over the life of the lease. Comparative information is not restated.

The group has applied the following transition expedients:

- To not reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to existing leases at the date of initial application.
- Single discount rate for portfolio of similar leases
- Treat long term leases with less than 12 months remaining at the date of initial application as short-term leases.
- Exclude direct costs from ROU asset measurement
- Hindsight to determine lease term

In addition to the two recognition exemptions:

- Short term leases
- Low value leases

The Group has used the incremental borrowing rate rather than the interest rate implicit in the lease, as the interest rate implicit in the lease cannot be readily determined. The weighted average discount rate, based on incremental borrowing rates at the date of initial application, across the Group lease portfolio is shown below. The discount rate for each lease is dependent on lease start date, term and location.

Lease Term	UK	Europe	Rest of World
Up to 5 years	1.8%	0.3%	3.3%
Greater than 5 years and up to 10 years	2.0%	0.5%	3.5%
Greater than 10 years and up to 15 years	2.2%	0.8%	3.7%
Greater than 15 years and up to 20 years	2.5%	1.1%	3.8%
Greater than 20 years and up to 25 years	2.5%	1.1%	3.8%
Greater than 25 years	2.5%	1.1%	3.8%

#### *Impact*

The Group only has property leases.

The full impact IFRS 16 is detailed in Note 16. Within the Statement of Financial Position the group has recognised a right-of-use asset of £464.5m and £613.9m of lease liabilities at transition. Profit before tax within the Income Statement has decreased by £103.2m during the 26 weeks ending 27 October 2019.

There has been no impact on cash flows, although the presentation of the Cash Flow Statement has changed significantly, with an increase in cash inflows from operating activities being offset by an increase in cash outflows from financing activities.

#### *Accounting policies*

##### *Leases*

The Group assesses whether a contract is or contains a lease, at inception of the contract. Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments such as revenue linked property leases are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

The lease liability is presented as a separate line in the consolidated statement of financial position.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received or impairment, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset, providing it meets the Groups property, plant and equipment capitalisation policy.

Right of use assets are tested for impairment at each reporting date in line with IAS 36 Impairment. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Subsequent to initial measurement right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

#### *Sale and leaseback*

On entering into a sale and leaseback transaction the Group determines whether the transfer of the assets qualifies as a sale (satisfying a performance obligation in IFRS 15 'Revenue from Contracts with Customers'). Where the transfer is a sale and providing the transaction is on market terms then the previous carrying amount of the underlying asset is split between:

- a right-of-use asset arising from the leaseback, and
- the rights in the underlying asset retained by the buyer-lessor at the end of the leaseback.

The Group recognises a portion of the total gain or loss on the sale. The amount recognised is calculated by splitting the total gain or loss into:

- an unrecognised amount relating to the rights retained by the seller-lessee, and
- a recognised amount relating to the buyer-lessor's rights in the underlying asset at the end of the leaseback.

The leaseback itself is then accounted for under IFRS 16.

## **2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES**

The critical accounting estimates and judgements made by the Group regarding the future or other key sources of estimation, uncertainty and judgement that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial period are:

### **KEY JUDGEMENTS**

#### **DETERMINING RELATED PARTY RELATIONSHIPS**

Management determines whether a related party relationship exists by assessing the nature of the relationship by reference to the requirements of IAS 24, Related Party Disclosures. This is in order to determine whether significant influence exists as a result of control, shared directors or parent companies, or close family relationships. The level at which one party may be expected to influence the other is also considered for transactions involving close family relationships.

#### **CONTROL AND SIGNIFICANT INFLUENCE OVER CERTAIN ENTITIES**

Under IAS 28 Investments in Associates and Joint Ventures if an entity holds 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can clearly demonstrate that this is not the case. The Group holds greater than 20% of the voting rights of Studio Retail Group Plc and French Connection Group Plc, whereby management consider that the Group does not have significant influence over these entities for combinations of the following reasons:

- The Group does not have any representation on the board of directors of the investee other than an SDI representative having an observer role on the board of Studio Retail Group Plc. Management have reviewed the terms of the observer arrangement and have concluded that this does not give them the right to participate in or influence the financial or operating decisions of Studio Retail Group plc. Studio Retail Group plc can terminate this arrangement at any time, and can determine which parts of the Board meetings the representative can be present at and what information they are given access to;
- There is no participation in decision making and strategic processes, including participation in decisions about dividends or other distributions;
- There have been no material transactions between the entity and its investee companies;
- There has been no interchange of managerial personnel;
- No non-public essential technical management information is provided to the investee



In assessing the level of control that management have over certain entities, management will consider the various aspects that allow management to influence decision making. This includes the level of share ownership, board membership, the level of investment and funding and the ability of the Group to influence operational and strategic decisions and effect its returns through the exercise of such influence.

#### CASH FLOW HEDGING

The Group uses a range of forward and option contracts that are entered into at the same time, they are in contemplation with one another and have the same counterparty. A judgement is made in determining whether there is an economic need or substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction. Management are of the view that there is a substantive distinct business purpose for entering into the options and a strategy for managing the options independently of the forward contracts. The forward and options contracts are therefore not viewed as net written options and hedge accounting for the forwards is permitted.

Under IFRS 9 in order to achieve cash flow hedge accounting, forecast transactions (primarily Euro denominated sales and USD denominated purchases) must be considered to be highly probable. The hedge must be expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk. The forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss. Management have reviewed the detailed forecasts and growth assumptions within them, and are satisfied that forecasts in which the cash flow hedge accounting has been based meet the criteria per IFRS 9 as being highly probable forecast transactions. Should the forecast levels not pass the highly probable test, any cumulative fair value gains and losses in relation to either the entire or the ineffective portion of the hedged instrument would be taken to the Income Statement.

#### DEFINING OPERATING SEGMENTS

Management determines its operating segments with reference to the Chief Operational Decision Maker's process for making key decisions over allocation of resources to the segment and in assessing a segment's performance. This is based on:

- The nature of the operation type and products sold
- The type of class of customer targeted
- Product distribution methods

Similar operations are amalgamated into operating segments for the purposes of segmental reporting. See also note 3.

#### KEY ESTIMATES

##### PROVISION FOR OBSOLETE, SLOW MOVING OR DEFECTIVE INVENTORIES

The Directors have applied their knowledge and experience of the retail industry in determining the level and rates of provisioning required in calculating the appropriate inventory carrying values. Specific estimates and judgements applied in relation to assessing the level of inventory provisions required are considered in relation to the following areas:

- a) Core inventory
- b) Seasonal inventory lines – specifically seasons that have now finished
- c) Third party versus own brand inventory
- d) Ageing of inventory
- e) Sports Retail or Premium Lifestyle
- f) Local economic conditions
- g) Divisional specific factors
- h) Increased cost of inventory and lower margins with the devaluation of the pound

Inventory is categorised in order to calculate an appropriate level of provision. Key categories are:

- i. Loss making products
- ii. Clearance inventory
- iii. Slow moving inventory
- iv. Seasonal over-stock
- v. Core over-stock

Provision estimates are forward looking and are formed using a combination of factors including historical experience, management's knowledge of the industry, group discounting, sales pricing protocols and the overall assessment made by management of the risks in relation to inventory. Management use a number of internally generated reports to monitor and continually re-assess the adequacy and accuracy of the inventory provision. The additional cost of repricing inventory and handling charges in relation to relocating inventory (tunnelling) are considered in arriving at the appropriate percentage provision. The testing performed by management to check that the assumptions applied remain valid produces a range of outcomes and the provision is set within this range. Key assumptions used to create the estimates are:

- Tunnelling - Cost of handling stock for reworking, repacking and repricing
  - £3 per unit handled
  - 50p per unit for repricing
- Shrinkage – 2% of total stock lost through damage and theft
- Discounting assumptions by category:

Category					
Clearance		Slow moving stock		Seasonal over-stock	
% over Budget	Discounted by	% over Budget	Discounted by	% over Budget	Discounted by
25%	20%	10-20%	0%	0-20%	0%
50%	40%	20-30%	25%	20-50%	25%
75%	60%	30-40%	30%	50-100%	30%
100%	80%	>40%	40%	100-120%	40%
				>120%	60%

Total Group inventory provision at 27 October 2019 is 14.1% (2018: 15.6%), the reduction in the provision is largely due to the acquisition of Game Digital plc. A 1% change in the total provision would impact underlying EBITDA by approx. £11.5m.

## PROPERTY RELATED PROVISIONS

Property related estimates and judgements are continually evaluated and are based on historical experience, external advice and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Onerous lease provision

Provisions for onerous lease contracts are recognised when the unavoidable costs of meeting lease obligations exceed the economic benefits expected to be received over the term of the lease. Where an onerous lease has been identified, the fixed assets associated to that store are also reviewed for impairment.

Management use store EBITDA in order to determine whether an onerous lease exists, specific assumptions which involve the use of estimates to determine the appropriate level of provision include:

- a. Forecast sales and margin in stores, reflecting historic and expected future performance including the impact of the Elevation of Sports Retail strategy across the Group
  - a. UK forecasts are currently expecting a sales drop of -5% in FY20 and then -1% for future years and a margin impact of -2.5%
  - b. European forecasts are currently expecting a sales drop of -2% and a margin impact of -2%
- b. Forecast wages and direct store cost inflation
  - a. UK wage and operating costs inflation assumes 3% and Europe assumes 2%
  - b. Rent increases are expected at 16%
- c. Other:
  - a. Discount rate 3% across the Group
  - b. Store profitability includes 100% contribution towards central overheads
- d. Planned store closures, relocations and re-brandings
- e. Lease obligations calculated to the end of the lease or where applicable break clause, or earlier estimate of expected exit date where this can be reliably estimated

### Dilapidations

The Group provides for its legal responsibility for dilapidation costs following advice from chartered surveyors and previous experience of exit costs (including strip out costs and professional fees). The estimated cost of fulfilling the leasehold dilapidations obligations is discounted to present value and analysed between non-capital and capital components. Management use a reference estimate of £100,000 (2019: £80,000) for large leasehold stores, £50,000 for small leasehold stores and £50,000 for European stores.

## OTHER PROVISIONS

Provisions are made for items where the Group has identified a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Legal and regulatory provisions relate to management's best estimates of provisions required for legal and regulatory claims and ongoing non-UK tax enquiries. Other provisions relate to management's best estimates of provisions required for restructuring and employment (non-retirement related). Where applicable these are inclusive of any estimated penalties, interest and legal costs.

In relation to the non-UK tax enquiries during FY20 management have made a judgement to consider all claims collectively, applying the following estimates:

- 10% penalty
- 3% interest on the liability

## OTHER RECEIVABLES AND AMOUNTS OWED BY RELATED PARTIES

Other receivables and amounts owed by related parties are stated net of provision for any impairment. Management have applied estimates in assessing the recoverability of working capital and loan advances made to investee companies. Matters considered include the relevant financial strength of the underlying investee company to repay the loans, the repayment period and underlying terms of the monies advanced, forecast performance of the underlying borrower, and where relevant, the Group's intentions for the companies to which monies have been advanced.

## IFRS 16

The key areas of judgment in relation to property leases recognised under IFRS 16 are below:

1. IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. The Group will assess the likelihood of extending lease contracts beyond the break date by taking into account current economic and market conditions, current trading performance, forecast profitability and the level of capital investment in the property.
2. IFRS 16 states that the lease payments shall be discounted using the lessee's incremental borrowing rate where the rate implicit in the lease cannot be readily determined. Accordingly, all lease payments have been discounted using the Groups incremental borrowing rate (IBR). The IBR has been determined by using a synthetic credit rating for the Group which is used to obtain market data on debt instruments for companies with the same credit rating, this is split by currency to represent each of the geographical areas the Group operates within and adjusted for the lease term.
3. Exit costs have not been capitalised within the right of use asset, this is in line with the Groups property, plant and equipment capitalisation policy.
4. The right of use asset will be reviewed for impairment at each reporting period in line with IAS 36 impairment to review whether the carrying amount exceeds its recoverable amount.

### 3. Segmental analysis

#### Operating segments

Management have determined to present its segmental disclosures consistently with the presentation in the 2019 Annual Report with the exception that the House of Fraser fascia has been included within Premium Lifestyle. This is due to management's assessment of the operating characteristics of the House of Fraser Retail activities. Management consider operationally that the UK Retail divisions (UK Sports Retail and Premium Lifestyle) are run as one business unit in terms of allocating resources, inventory management and assessing performance. Under IFRS 8 we have not at this reporting date met the required criteria with enough certainty to aggregate these reporting segments. We will continually keep this under review at subsequent reporting dates. We continue to monitor the impacts of Brexit, and the continued uncertainties this has brought relating to the political and economic environments, and market and currency volatility in the countries we operate in. European countries have been identified as operating segments and have been aggregated into a single operating segment as permitted under IFRS 8. The decision to aggregate these segments was based on the fact that they each have similar economic characteristics, similar long-term financial performance expectations, and are similar in each of the following respects:

- The nature of the products
- The type or class of customer for the products; and
- The methods used to distribute the products

In accordance with paragraph 12 of IFRS 8 the Group's operating segments have been aggregated into the following reportable segments:

1. UK Retail:
  - a. UK Sports Retail – includes the results of the UK retail network of sports stores, USC stores, Game UK stores and concessions, along with related websites;
  - b. Premium Lifestyle – includes the results of the premium retail businesses such as Flannels, Cruise, van mildert and House of Fraser, along with related websites;
2. European Retail - includes the results of the European retail network (including Game Spain);
3. Rest of World Retail – includes the results of US based retail activities, Asia based retail activities along with their e-commerce sites; and
4. Wholesale & licensing – includes the results of the Group's portfolio of internationally recognised brands such as Everlast, Lonsdale and Slazenger.

Information regarding the Group's reportable segments for the period ended 27 October 2019, as well as a reconciliation of reported profit for the period to underlying EBITDA, is presented below:

Segmental information for the 26 weeks ended 27 October 2019:

	UK Sports Retail (£m)	Premium Lifestyle (£m)	UK Retail Total (£m)	European Retail (£m)	Rest of World (£m)	Retail Total (£m)	Wholesale & Licensing (£m)	Eliminations (£m)	Group Total (£m)
Sales to external customers	1,211.3	282.6	1,493.9	365.5	92.1	1,951.5	92.0	-	2,043.5
Sales to other segments	-	-	-	-	-	-	8.7	(8.7)	-
<b>Revenue</b>	<b>1,211.3</b>	<b>282.6</b>	<b>1,493.9</b>	<b>365.5</b>	<b>92.1</b>	<b>1,951.5</b>	<b>100.7</b>	<b>(8.7)</b>	<b>2,043.5</b>
Gross profit	531.2	139.8	671.0	151.4	36.3	858.7	36.2	-	894.9
Operating profit/(loss) before FX, profit on sale of properties and exceptional items	96.2	(9.4)	86.8	19.8	(5.1)	101.5	15.3	-	116.8
<b>Operating profit/(loss)</b>	<b>90.4</b>	<b>(15.9)</b>	<b>74.5</b>	<b>21.3</b>	<b>(4.3)</b>	<b>91.5</b>	<b>14.7</b>	<b>-</b>	<b>106.2</b>
Investment income									7.2
Investment costs									(4.2)
Finance income									6.2
Finance costs									(19.6)
Share of loss of associated undertakings									(5.6)
<b>Profit before taxation</b>									<b>90.2</b>
Taxation									(24.8)
<b>Profit for the period</b>									<b>65.4</b>

Segmental information regarding assets and liabilities as at 27 October 2019 and capital expenditure for the 26 weeks then ended:

	UK Sports Retail (£m)	Premium Lifestyle (£m) <sup>(1)</sup>	UK Retail Total (£m)	European Retail (£m)	Rest of World (£m)	Retail Total (£m)	Wholesale & Licensing (£m)	Eliminations (£m)	Group Total (£m)
Investments in associates	-	-	-	-	-	-	0.3	-	0.3
Other Assets	3,076.6	387.7	3,464.3	549.4	146.3	4,160.0	338.1	(823.6)	3,674.5
<b>Total Assets</b>	<b>3,076.6</b>	<b>387.7</b>	<b>3,464.3</b>	<b>549.4</b>	<b>146.3</b>	<b>4,160.0</b>	<b>338.4</b>	<b>(823.6)</b>	<b>3,674.8</b>
Total Liabilities	(1,778.4)	(459.6)	(2,238.0)	(733.7)	(190.5)	(3,162.2)	(74.2)	823.6	(2,412.8)
Tangible asset additions	88.9	14.2	103.1	28.2	2.4	133.7	0.9	-	134.6
Intangible asset additions	-	-	-	-	-	-	-	-	-
<b>Total capital expenditure</b>	<b>88.9</b>	<b>14.2</b>	<b>103.1</b>	<b>28.2</b>	<b>2.4</b>	<b>133.7</b>	<b>0.9</b>	<b>-</b>	<b>134.6</b>

Reconciliation of operating profit to underlying EBITDA for the 26 weeks ending 27 October 2019:

	UK Sports Retail (£m)	Premium Lifestyle (£m) <sup>(1)</sup>	UK Retail Total (£m)	European Retail (£m)	Rest of World (£m)	Retail Total (£m)	Wholesale & Licensing (£m)	Group Total (£m)
<b>Operating profit</b>	<b>90.4</b>	<b>(15.9)</b>	<b>74.5</b>	<b>21.3</b>	<b>(4.3)</b>	<b>91.5</b>	<b>14.7</b>	<b>106.2</b>
IFRS 16 Adjustments	83.3	6.5	89.8	25.0	4.6	119.4	-	119.4
Depreciation	38.3	3.7	42.0	12.0	2.7	56.7	0.9	57.6
Amortisation	2.3	-	2.3	0.4	-	2.7	0.2	2.9
Impairment	8.7	-	8.7	0.8	-	9.5	-	9.5
Associates	(5.6)	-	(5.6)	-	-	(5.6)	-	(5.6)
<b>Reported EBITDA</b>	<b>217.4</b>	<b>(5.7)</b>	<b>211.7</b>	<b>59.5</b>	<b>3.0</b>	<b>274.2</b>	<b>15.8</b>	<b>290.0</b>
Exceptional Items	0.1	3.0	3.1	-	-	3.1	0.2	3.3
Property Disposal	(84.9)	-	(84.9)	(5.5)	-	(90.4)	-	(90.4)
IFRS 16 Adjustments	10.3	(3.6)	6.7	(18.8)	(5.1)	(17.2)	0.3	(16.9)
Exchange (gains)/losses	(3.0)	0.7	(2.3)	(2.3)	(0.4)	(5.0)	0.2	(4.8)
<b>Underlying EBITDA</b>	<b>139.9</b>	<b>(5.6)</b>	<b>134.3</b>	<b>32.9</b>	<b>(2.5)</b>	<b>164.7</b>	<b>16.5</b>	<b>181.2</b>

Sales to other segments are priced at cost plus a 10-20% mark-up.

Segmental information for the 26 weeks ended 28 October 2018 <sup>(1)</sup>:

	UK Sports Retail (£m)	Premium Lifestyle (£m)	UK Retail Total (£m)	European Retail (£m)	Rest of World (£m)	Retail Total (£m)	Wholesale & Licensing (£m)	Eliminations (£m)	Group Total (£m)
Sales to external customers	1,140.2	157.7	1,297.9	313.1	100.7	1,711.7	80.1	-	1,791.8
Sales to other segments	-	-	-	-	-	-	8.5	(8.5)	-
<b>Revenue</b>	<b>1,140.2</b>	<b>157.7</b>	<b>1,297.9</b>	<b>313.1</b>	<b>100.7</b>	<b>1,711.7</b>	<b>88.6</b>	<b>(8.5)</b>	<b>1,791.8</b>
Gross profit	468.6	65.1	533.7	136.1	40.2	710.0	33.4	-	743.4
Operating profit/(loss) before FX, profit on sale of properties and exceptional items	100.4	(34.8)	65.6	7.2	(6.5)	66.3	11.5	-	77.8
<b>Operating profit/(loss)</b>	<b>112.7</b>	<b>(34.8)</b>	<b>77.9</b>	<b>10.5</b>	<b>(7.0)</b>	<b>81.4</b>	<b>14.0</b>	<b>-</b>	<b>95.4</b>
Investment income									3.0
Investment costs									(4.8)
Finance income									0.7
Finance costs									(19.3)
Share of loss of associated undertakings									(0.6)
<b>Profit before taxation</b>									<b>74.4</b>
Taxation									(26.7)
<b>Profit for the period</b>									<b>47.7</b>

(1) The period has been re-categorised to include House of Fraser within the Premium Lifestyle segment

Segmental information regarding assets and liabilities as at 28 October 2018 and capital expenditure for the 26 weeks then ended :

	UK Sports Retail (£m)	Premium Lifestyle (£m) <sup>(1)</sup>	UK Retail Total (£m)	European Retail (£m)	Rest of World (£m)	Retail Total (£m)	Wholesale & Licensing (£m)	Eliminations (£m)	Group Total (£m)
Investments in associates	5.6	-	5.6	-	-	5.6	-	-	5.6
Other Assets	2,613.2	209.9	2,823.1	471.5	136.8	3,431.4	384.2	(775.9)	3,039.7
Total Assets	2,618.8	209.9	2,828.7	471.5	136.8	3,437.0	384.2	(775.9)	3,045.3
Total Liabilities	(1,360.6)	(251.7)	(1,612.3)	(621.2)	(173.0)	(2,406.5)	(108.2)	775.9	(1,738.8)
Tangible asset additions	81.6	12.9	94.5	4.4	1.1	100.0	-	-	100.0
Intangible asset additions	1.5	-	1.5	-	-	1.5	-	-	1.5
Total capital expenditure	83.1	12.9	96.0	4.4	1.1	101.5	-	-	101.5

Reconciliation of operating profit to underlying EBITDA for the 26 weeks ending 28 October 2018:

	UK Sports Retail (£m)	Premium Lifestyle (£m)	UK Retail Total (£m)	European Retail (£m)	Rest of World (£m)	Retail Total (£m)	Wholesale & Licensing (£m)	Group Total (£m)
<b>Operating profit</b>	<b>112.7</b>	<b>(34.8)</b>	<b>77.9</b>	<b>10.5</b>	<b>(7.0)</b>	<b>81.4</b>	<b>14.0</b>	<b>95.4</b>
Depreciation	48.1	5.8	53.9	11.6	1.6	67.1	0.7	67.8
Amortisation	-	-	-	0.4	-	0.4	3.4	3.8
Associates	(0.6)	-	(0.6)	-	-	(0.6)	-	(0.6)
<b>Reported EBITDA</b>	<b>160.2</b>	<b>(29.0)</b>	<b>131.2</b>	<b>22.5</b>	<b>(5.4)</b>	<b>148.3</b>	<b>18.1</b>	<b>166.4</b>
Exchange (gains)/losses	(12.5)	-	(12.5)	(3.3)	0.5	(15.3)	(2.3)	(17.6)
<b>Underlying EBITDA</b>	<b>147.7</b>	<b>(29.0)</b>	<b>118.7</b>	<b>19.2</b>	<b>(4.9)</b>	<b>133.0</b>	<b>15.8</b>	<b>148.8</b>

Sales to other segments are priced at cost plus a 10% mark-up.

Segmental information for the 52 weeks ended 28 April 2019:

This information is available in the 2019 Annual Report

4. Profit on sale of properties

	26 weeks ended 27 October 2019 IFRS 16 (£m)	26 weeks ended 28 October 2018 IAS 17 (£m)	52 weeks ended 28 April 2019 IAS 17 (£m)
Gain on disposal	23.3	-	8.4

The profit on sale of properties in the period largely relates to the gain on the sale and lease back of the Shirebrook distribution centre.

5. Exceptional

	26 weeks ended 27 October 2019 IFRS 16 (£m)	26 weeks ended 28 October 2018 IAS 17 (£m)	52 weeks ended 28 April 2019 IAS 17 (£m)
Impairment	3.3	-	41.0

In FY19, following the loss of a licensee the majority of the impairment recognised relates to goodwill where the discounted present value of future cash flows did not support the full value of the asset.

6. Investment income

	26 weeks ended 27 October 2019 IFRS 16 (£m)	26 weeks ended 28 October 2018 IAS 17 (£m)	52 weeks ended 28 April 2019 IAS 17 (£m)
Profit on disposal of financial assets and equity derivative financial instruments	-	-	11.6
Premium received on derivative instruments	5.9	-	-
Dividend income from investments	0.3	3.0	3.4
Fair value gain on derivative instruments	1.0	-	-
	7.2	3.0	15.0

7. Investment costs

	26 weeks ended 27 October 2019 IFRS 16 (£m)	26 weeks ended 28 October 2018 IAS 17 (£m)	52 weeks ended 28 April 2019 IAS 17 (£m)
Loss on disposal of financial assets and equity derivative financial instruments	-	3.2	-
Fair value loss on derivative financial instruments	4.2	1.6	8.3
	4.2	4.8	8.3

8. Finance income

	26 weeks ended 27 October 2019 IFRS 16	26 weeks ended 28 October 2018 IAS 17	52 weeks ended 28 April 2019 IAS 17
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	(£m)	(£m)	(£m)
IFRS 16 adjustment (Note 16)	5.2	-	-
Bank interest receivable	0.9	0.5	0.2
Other interest receivable	0.1	0.2	0.1
Fair value adjustment to unhedged foreign currency contracts	-	-	39.7
	6.2	0.7	40.0

The fair value adjustment to forward and option foreign exchange contracts relates to differences between the fair value of forward foreign currency contracts and written options not designated for hedge accounting from one period to the next.

## 9. Finance costs

	26 weeks ended 27 October 2019 IFRS 16 (£m)	26 weeks ended 28 October 2018 IAS 17 (£m)	52 weeks ended 28 April 2019 IAS 17 (£m)
Interest on bank loans and overdrafts	8.0	6.4	14.5
Interest on finance leases and other interest	2.3	7.0	4.8
Interest on retirement benefit obligations	-	-	0.1
Fair value adjustment to forward foreign exchange contracts	3.2	5.9	-
	13.5	19.3	19.4
IFRS 16 Lease Interest (Note 16)	6.1	-	-
	19.6	19.3	19.4

The fair value adjustment to forward and option foreign exchange contracts relates to differences between the fair value of forward foreign currency contracts and written options not designated for hedge accounting from one period to the next.

## 10. Earnings per share

For diluted earnings per share, the weighted average number of shares, 509,095,427 (FY19 H1: 519,468,336), is adjusted to assume conversion of all dilutive potential ordinary shares under the Group's share schemes, being 1,239,075 (FY19 H1: 2,463,370) to give the diluted weighted average number of shares of 510,334,502 (FY19 H1: 521,931,706).

The number of dilutive ordinary shares under the Group's share schemes has been calculated on a weighted average basis to take account of any shares that vested during the period.

### Basic and diluted earnings per share

	26 weeks ended 27 October 2019	26 weeks ended 27 October 2019	26 weeks ended 28 October 2018	26 weeks ended 28 October 2018	52 weeks ended 28 April 2019	52 weeks ended 28 April 2019
	Basic (£m)	Diluted (£m)	Basic (£m)	Diluted (£m)	Basic (£m)	Diluted (£m)
Profit for the period attributable to the equity holders of the Group	61.3	61.3	45.1	45.1	112.0	112.0
Weighted average number of shares (Thousands)	509,095	510,335	519,468	521,932	519,468	520,749
<b>Earnings per share</b>	<b>12.0p</b>	<b>12.0p</b>	<b>8.7p</b>	<b>8.6p</b>	<b>21.6p</b>	<b>21.5p</b>

### Underlying earnings per share

The underlying earnings per share reflects the underlying performance of the business compared with the prior year and is calculated by dividing underlying earnings by the weighted average number of shares. Underlying earnings is used by management as a measure of profitability within the Group. Underlying earnings is defined as profit for the period attributable to equity holders of the parent for each financial period but excluding the post-tax effect of realised foreign exchange in selling and administration costs, the IFRS 9 fair value adjustment on derivative financial instruments in finance income/costs, exceptional costs, profit/loss on sale of properties, IFRS 16 and the profit/loss on sale of strategic investments and subsidiaries.

	26 weeks ended 27 October 2019	26 weeks ended 27 October 2019	26 weeks ended 28 October 2018	26 weeks ended 28 October 2018	52 weeks ended 28 April 2019	52 weeks ended 28 April 2019
	Basic (£m)	Diluted (£m)	Basic (£m)	Diluted (£m)	Basic (£m)	Diluted (£m)
Profit for the period	61.3	61.3	45.1	45.1	112.0	112.0
Post tax adjustments to profit for the period for the following exceptional items:						
Realised gain on forward foreign exchange contracts	(3.5)	(3.5)	(13.7)	(13.7)	(17.2)	(17.2)
Fair value adjustment to forward foreign exchange contracts	2.4	2.4	4.6	4.6	(31.0)	(31.0)
Fair value adjustment to derivative financial instruments	(1.0)	(1.0)	1.7	1.7	-	-
Loss on disposal of listed investments	(2.0)	(2.0)	-	-	(6.7)	(6.7)
Profit on disposal of property	(15.0)	(15.0)	-	-	(6.5)	(6.5)

Impairment of intangible assets	-	-	-	-	40.9	40.9
IFRS 16 Adjustments	36.0	36.0				
<b>Underlying profit for the period</b>	<b>78.2</b>	<b>78.2</b>	<b>37.7</b>	<b>37.7</b>	<b>91.5</b>	<b>91.5</b>
Weighted average number of shares (Thousands)	509,095	510,335	519,468	521,932	519,468	520,749
<b>Underlying earnings per share</b>	<b>15.4p</b>	<b>15.3p</b>	<b>7.3p</b>	<b>7.2p</b>	<b>17.6p</b>	<b>17.6p</b>

## 11. Investments in associated undertakings

The Group uses the equity method of accounting for associates and joint ventures. The following table shows the aggregate movement in the Group's investment in associates and joint ventures:

	27 October 2019 (£m)	28 October 2018 (£m)	28 April 2019 (£m)
Brought forward	11.0	6.2	6.2
Additions	5.0	-	13.4
Dividends paid	-	-	-
Share of loss <sup>(1)</sup>	(5.6)	(0.6)	(3.8)
Impairments	-	-	(4.8)
Fair value adjustment <sup>(2)</sup>	10.2	-	-
Disposal <sup>(3)</sup>	(20.3)	-	-
<b>Carried forward</b>	<b>0.3</b>	<b>5.6</b>	<b>11.0</b>

<sup>(1)</sup> The share of losses in FY20 H1 relates to Game Digital for the 3 month period ending 27 July 2019 prior to obtaining full control

<sup>(2)</sup> The fair value adjustment relates to the increase in the fair value of the previously held 38.1% equity interest held in Game Digital at the acquisition date (27 July 2019)

<sup>(3)</sup> The disposal relates to the de-recognition of Game Digital as an associate due to obtaining a controlling interest.

## 12. Inventories

	27 October 2019 (£m)	28 October 2018 (£m)	28 April 2019 (£m)
Goods for resale	1,231.4	1,049.2	978.4

As at 27 October, goods for resale include

The following inventory costs have been recognised in cost of sales:

	26 weeks ended 27 October 2019 (£m)	26 weeks ended 28 October 2018 (£m)	52 weeks ended 28 April 2019 (£m)
Cost of inventories recognised as an expense	1,148.6	1,048.4	2,118.4

The directors have reviewed the opening and closing provisions against inventory and have concluded that these are fairly stated. Inventory provision at 27 October 2019 is £201.7m (£179.9m at 28 April 2019 and £194.3m as at 28 October 2018).

## 13. Provisions

	Legal and regulatory (£m)	Property related (£m)	Other (£m)	Total (£m)
At 28 April 2019	234.0	198.5	8.0	440.5
Amounts provided	13.0	34.7	1.1	48.8
Amounts utilised / reversed	(2.7)	(6.0)	(3.0)	(11.7)
Acquisitions	-	12.9	-	12.9
At 27 October 2019 (Excluding IFRS 16)	244.3	240.1	6.1	490.5
IFRS 16 adjustments – transition (Note 16)	-	(112.6)	-	(112.6)
IFRS 16 adjustments – during the period (Note 16)	-	(27.7)	-	(27.7)
<b>At 27 October 2019 (Including IFRS 16)</b>	<b>244.3</b>	<b>99.8</b>	<b>6.1</b>	<b>350.2</b>

Legal and regulatory provisions relate to management's best estimate of the potential impact of claims including legal, commercial and regulatory claims and ongoing non-UK tax enquiries.

The Group provides for its legal responsibility for dilapidation costs following advice from chartered surveyors and previous experience of exit costs (including strip out costs and professional fees). The estimated cost of fulfilling the leasehold dilapidations obligations is discounted to present value and analysed between

non-capital and capital components. Management use a reference estimate of £100,000 (2019: £80,000) for large leasehold stores, £50,000 for small leasehold stores and €50,000 for European stores.

During the period, onerous lease provisions (Excluding IFRS 16 adjustments) were recognised due to an ongoing management review of the Group's store profile and strategy including current and anticipated freehold acquisitions, resulting in additional provisions being made of £25.2m in the period. The balance of the charge relates to dilapidation provisions in respect of UK stores.

Other provisions relate to provisions for restructuring and employment (non-retirement related).

#### 14. Financial Instruments

##### (a) Financial assets and liabilities by category

The carrying values of financial assets and liabilities for the period ending 27 October 2019, which are principally denominated in Sterling, Euros or US dollars, were as follows:

	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Other (£m)	Total (£m)
<b>Financial Assets – at 27 October 2019</b>					
<b>Amortised cost:</b>					
Trade & other receivables*	-	-	-	337.7	<b>337.7</b>
Cash & cash equivalents	-	-	-	326.0	<b>326.0</b>
<b>FVTPL:</b>					
Amount owed by related parties	-	-	33.8	-	<b>33.8</b>
<b>FVOCI:</b>					
Long-term financial assets (Equity instruments)	86.2	-	-	-	<b>86.2</b>
<b>Derivatives used for hedging (FV):</b>					
Foreign forward purchase and sales contracts	-	80.2	-	-	<b>80.2</b>
Derivative financial assets – equity	-	2.9	-	-	<b>2.9</b>
	-	<b>83.1</b>	-	-	<b>83.1</b>
<b>Financial Liabilities – at 27 October 2019</b>					
<b>Amortised cost:</b>					
Non-current borrowings	-	-	-	(580.4)	<b>(580.4)</b>
Trade & other payables**	-	-	-	(707.4)	<b>(707.4)</b>
<b>Derivative financial liabilities (FV):</b>					
Foreign forward and written options: purchase & sales contracts - unhedged	-	(18.0)	-	-	<b>(18.0)</b>
Contracts for difference	(1.9)	-	-	-	<b>(1.9)</b>
	<b>(1.9)</b>	<b>(18.0)</b>	-	-	<b>(19.9)</b>

\* Prepayments of £65.7m are not included as a Financial Asset

\*\* Other taxes including social security costs of £40.8m are not included as a Financial Liability

The financial instrument classifications for the period ending 28 October 2018 were as follows (restated):

	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Other (£m)	Total (£m)
<b>Financial Assets – at 28 October 2018</b>					
<b>Amortised cost:</b>					
Trade & other receivables*	-	-	-	321.3	<b>334.0</b>
Cash & cash equivalents	-	-	-	181.5	<b>181.5</b>
<b>FVTPL:</b>					
Amount owed by related parties	-	-	68.2	-	<b>68.2</b>
<b>FVOCI:</b>					
Long-term financial assets (Equity instruments)	164.3	-	-	-	<b>164.3</b>
<b>Derivatives used for hedging (FV):</b>					
Foreign forward purchase and sales contracts	-	74.7	-	-	<b>74.7</b>
<b>Financial Liabilities – at 28 October 2018</b>					
<b>Amortised cost:</b>					
Non-current borrowings	-	-	-	(687.0)	<b>(687.0)</b>
Trade & other payables**	-	-	-	(624.2)	<b>(624.2)</b>
<b>Derivative financial liabilities (FV):</b>					
Foreign forward purchase & sales contracts – Hedged	-	(13.8)	-	-	<b>(13.8)</b>



Foreign forward and written options: purchase & sales contracts - unhedged	-	(42.4)	-	-	(42.4)
Contracts for difference	(4.4)	-	-	-	(4.4)
	(4.4)	(56.2)	-	-	(60.6)

\* Prepayments of £51.1m are not included as a Financial Asset

\*\* Other taxes including social security costs of £70.4m are not included as a Financial Liability

#### *Financial instrument classifications for the 52 weeks ended 28 April 2019:*

This information is available in the 2019 Annual Report.

#### **Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The fair values of each class of financial asset and liability is the carrying amount based on the following assumptions:

Trade & other receivables, trade & other payables - The fair value approximates to the carrying amount because of the short maturity of these instruments.

Non-current borrowings – The fair value of the Revolving Credit Facility ('RCF') approximates to the carrying amount because it is drawn down/repaid on a monthly basis. The interest rate varies depending on the amount the facility is drawn.

Amounts owed by related parties – The fair value has been determined by assessing the recoverability of the receivable balance, discounted at an appropriate market rate of interest.

Contracts for difference - are classified as Level 1 as the fair value is calculated referencing quoted prices for listed shares and commodities at contract inception and the period end.

Foreign forward purchase and sales contracts and options - are classified as Level 2 as the fair value is calculated using models based on inputs which are observable directly or indirectly at the period-end (these inputs include but are not restricted to the following – maturity date, quoted forward/option prices).

Long-term financial assets such as equity instruments - are classified as Level 1 as the fair value is calculated using quoted prices.

Other equity derivatives - are calculated using a model with inputs which are directly observable and inputs which are not based on observable market data and are therefore classified as Level 3. The valuations are calculated using an equity valuation model of which the output is the result of a number of inputs including, the terms of the option, the share price, interest rates, the volatility of the underlying stock, and dividends paid by the underlying company. The volatility of the underlying stock is a significant input into the valuation model. Volatility is considered an unobservable input. To the extent that the market price of these shares is less than an agreed price on expiry of the put options, the counterparty has the right to settle the put option by selling the ordinary shares to the Group. If the market price of the shares is greater than an agreed price on expiry of the put option the counterparty will not exercise the option and the group will receive the premium. Sports Direct is required to transfer cash collateral to cover its obligations under put options. The amount of collateral required during the life of the put options can increase or decrease by reference to the underlying market price of the shares.

#### **(b) DERIVATIVES: FOREIGN CURRENCY FORWARD CONTRACTS**

##### **(b)(i) Hedging**

The most significant exposure to foreign exchange fluctuations relates to purchases made in foreign currencies, principally the US Dollar, and online sales in Euros and Australian Dollars. The Group's policy is to reduce substantially the risk associated with foreign currency spot rates by using forward fixed rate currency purchase contracts, taking into account any foreign currency cash flows. The Group does not hold or issue derivative financial instruments for trading purposes, however if derivatives, including both forwards and written options, do not qualify for hedge accounting they are accounted for as such and accordingly any gain or loss is recognised immediately in the income statement. Management are of the view that there is a substantive distinct business purpose for entering into the written options and a strategy for managing the written options independently of the forward contracts. The forward and written options contracts are therefore not viewed as net written options and hedge accounting for the forwards is permitted under IFRS 9.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two.

The critical terms of the foreign currency forwards entered into exactly match the terms of the terms of the hedged item. As such the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative where appropriate. Hedge ineffectiveness may arise where the critical terms of the forecast transaction no longer meet those of the hedging instrument, for example if there was a change in the timing of the forecast sales transactions from what was initially estimated or if the volume of currency in the hedged item was below expectations leading to over-hedging. Differences can arise when the initial value on the hedging instrument is not zero.

The hedged items and the hedging instrument are denominated in the same currency and as a result the hedging ratio is always one to one.

All derivative financial instruments used for hedge accounting are recognised initially at fair value and reported subsequently at fair value in the statement of financial position. To the extent that the hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued, and the related gain or loss is held in the equity reserve until the forecast transaction occurs. Over hedging has occurred in the period leading to ineffectiveness that has been reclassified out of the hedging reserve. This is due to changes in the online Euro sales forecasts and impacts of business changes.

The fair value of hedged contracts as at 27 October 2019 was:

	27 October 2019 (£m)	28 April 2019 (£m)
<b>Assets</b>		
US Dollar purchases – GBP	26.4	45.6
US Dollar purchases – EUR	15.7	15.0
Euro sales	37.6	41.3
AUD sales	0.3	0.4
<b>Total</b>	<b>80.0</b>	<b>102.3</b>

The details of hedged forward foreign currency purchase contracts and contracted forward rates were as follows:

	27 October 2019 (£m)		28 April 2019 (£m)	
	Currency	GBP	Currency	GBP
US Dollar purchases	360.0	253.5	720.0	507.0
Contracted rates USD / GBP		1.410 – 1.430		1.410 – 1.430
US Dollar purchases	165.0	128.1	210.0	165.3
Contracted rates USD / EUR		1.210 – 1.320		1.110 – 1.320
Euro sales	(742.8)	(688.2)	(1,012.8)	(930.0)
Contracted rates EUR / GBP		0.990 – 1.140		1.069 – 1.190
AUD sales	(4.9)	(2.9)	(8.4)	(5.0)
Contracted rates AUD / GBP		1.690		1.690 – 1.74

The timing of the contracts is as follows:

Currency	Hedging against	Currency value	Timing	Rates
USD / GBP	USD inventory purchases	USD 360.0m	FY20	1.410 – 1.430
USD / EUR	USD inventory purchases	USD 165.0m	FY20 – FY21	1.210 – 1.320
EUR / GBP	Euro sales	EUR 742.8m	FY20 – FY21, FY23	0.99 – 1.140
AUD / GBP	Australian Dollar sales	AUD 4.9m	FY20	1.6896

Hedge ineffectiveness may arise where the critical terms of the forecast transaction no longer meet those of the hedging instrument, for example if there was a change in the timing of the forecast sales transactions from what was initially estimated or if the volume of currency in the hedged item was below expectations leading to over-hedging.

The movements through the Hedging reserve are:

	USD	EUR	AUD	USD/EUR	Total Hedge movement	Deferred Tax	Total Hedging Reserve
<b>As at 29 April 2018</b>	<b>(9.2)</b>	<b>(48.0)</b>	<b>0.3</b>	<b>(8.1)</b>	<b>(65.0)</b>	<b>13.1</b>	<b>(51.9)</b>
Recognised	43.8	30.2	-	17.5	91.5	-	91.5
Ineffectiveness	(10.5)	6.1	-	-	(4.4)	-	(4.4)
Reclassified in sales	-	19.7	-	-	19.7	-	19.7
Reclassified in inventory / cost of sales	10.8	-	-	3.7	14.5	-	14.5
Deferred Tax	-	-	-	-	-	(22.7)	(22.7)
<b>As at 28 April 2019</b>	<b>34.9</b>	<b>8.0</b>	<b>0.3</b>	<b>13.1</b>	<b>56.3</b>	<b>(9.6)</b>	<b>46.7</b>
Recognised	4.9	5.5	(0.1)	3.1	13.4	-	13.4
Ineffectiveness	(1.0)	(0.5)	-	-	(1.5)	-	(1.5)
Reclassified in sales	-	(1.1)	(0.1)	-	(1.2)	-	(1.2)
Reclassified in inventory / cost of sales	(18.1)	-	-	(1.3)	(19.4)	-	(19.4)
Deferred Tax	-	-	-	-	-	1.7	1.7
<b>As at 27 October 2019</b>	<b>20.7</b>	<b>11.9</b>	<b>0.1</b>	<b>14.9</b>	<b>47.6</b>	<b>(7.9)</b>	<b>39.7</b>

(b)(ii) The sterling principal amounts of unhedged written currency option contracts and contracted rates were as follows:

	27 October 2019 (£m)	28 April 2019 (£m)
US Dollar purchases	45.0	74.4
Contracted rates USD / EUR	1.210	1.210
US Dollar sales	(200.0)	74.4
Contracted rates USD / GBP	1.24	
Euro sales	(743.0)	(930.0)
Contracted rates EUR / GBP	0.990 – 1.140	0.990 – 1.140
Euro purchases	200.0	
Contracted rates EUR / GBP	1.15	
Euro sales	210.0	
Contracted rates USD / EUR	1.096 – 1.15	
- AUD sales	(5.0)	(5.0)
Contracted rates AUD / GBP	1.6896	1.6896

The loss on fair value of the written options and swaps of £3.2m has been included within finance costs (FY19 H1: £5.9m).

These contracts form part of the Treasury management activities, which incorporates the risk management strategy for areas that are not reliable enough in timing and amount to qualify for hedge accounting. This includes acquisitions, disposals of overseas subsidiaries, related working capital requirements, dividends and loan repayments from overseas subsidiaries and purchase and sale of overseas property. Written options carry additional risk as the exercise of the option lies with the purchaser. The options involve the group receiving a premium on inception in exchange for accepting that risk and the outcome is that the bank may require the group to sell Euros or buy USD. However, the Group is satisfied that the use of options as a Treasury management tool is appropriate.

### (c) SENSITIVITY ANALYSIS

The Group's principal foreign currency exposures are to US Dollars and Euros. The table below illustrates the hypothetical sensitivity of the Group's reported profit and equity to a 10% increase and decrease in the US Dollar / Sterling and Euro / Sterling exchange rates at the year-end date, assuming all other variables remain unchanged. The figures have been calculated by comparing the fair values of outstanding foreign currency contracts at the current exchange rate to those if exchange rates moved as illustrated. The income statement figures include the profit effect of any relevant derivatives which are not in a designated cash flow hedge. The impact on US Dollar and Euro related hedging instruments is included in equity.

Positive figures represent an increase in profit or equity:

	Income statement		Equity	
	27 October 2019 (£m)	28 April 2019 (£m)	27 October 2019 (£m)	28 April 2019 (£m)
Sterling strengthens by 10%				
US Dollar	(3.3)	(12.3)	-	0.5
Euro	6.5	(12.8)	24.1	0.8
Sterling weakens by 10%				
US Dollar	4.0	15.1	-	(0.5)
Euro	(7.9)	15.7	29.5	(0.9)

## 15. Acquisitions

The Group acquired the trade and assets of Jack Wills, the entire share capital of Game Digital and the entire share capital of Sofa.com limited in the 26 weeks ending 27<sup>th</sup> October 2019. The tables below summarise the provisional fair values of the net assets acquired and consideration:

Purchase consideration:

	Game Digital	Other
	(£m)	(£m)
Cash consideration	33.0	14.7
Fair value of equity interest held immediately before the acquisition	20.3	-
<b>Total purchase consideration</b>	<b>53.3</b>	<b>14.7</b>

The gain recognised as a result of remeasuring the equity interest to fair value was £10.2m (Note 11).

The assets and liabilities recognised as a result of the acquisitions are as follows:

	Game Digital			Other		
	Book Value	Fair Value Adjustment	Fair Value	Book Value	Fair Value Adjustment	Fair Value
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Property plant and equipment	2.7	(0.7)	2.0	2.4	2.0	4.4

Intangible assets	10.2	(10.2)	-	2.0	-	2.0
Inventories	79.4	7.2	86.6	12.4	4.0	16.4
Cash and cash equivalents	62.7	-	62.7	1.0	-	1.0
Borrowings	(0.6)	-	(0.6)	(14.2)	7.7	(6.5)
Working capital	(99.4)	-	(99.4)	(4.4)	-	(4.4)
Goodwill	-	2.0	2.0		1.8	1.8
<b>Net assets acquired</b>			<b>53.3</b>			<b>14.7</b>

Outflow of cash to acquire subsidiary, net of cash acquired:

	Game Digital	Other
	(£m)	(£m)
Cash consideration	33.0	14.7
Less: cash acquired	(62.8)	(1.0)
<b>Net Cash (inflow) / Outflow</b>	<b>(29.8)</b>	<b>13.7</b>

Revenue since acquisition was £157.1m and the loss before tax was £8.9m. Had the acquisitions been included from the start of the period, £252.3m of revenue and £29.6m of losses before tax would have been shown in the Groups Financial Statements.

Acquisition fees of £0.4m have been expensed relating to these acquisitions.

## 16. IFRS 16 transition note

### Income statement

Under IFRS 16 the Group now recognises depreciation and interest in relation to previously recognised operating leases within the income statement rather than rental charges. During the period £119.4m of depreciation was charged to the selling, distribution and admin expenses and £6.1m of interest was charged to finance costs. In addition, there were disposals/re-measurements generating a gain to finance income totalling £5.0m.

### Right of use (ROU) asset

The Group has recognised a right of use asset under IFRS 16 which represents the Group's contractual right to access an identified asset under the terms of the lease contract.

### Lease liability

The Group has recognised a lease liability under IFRS 16, the lease liability represents the contractual obligation to minimum lease payments during the lease term or the option to terminate date. An entity shall determine the lease term as the non-cancellable period of a lease, together with both:

- (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The liability payable in next 12 months is recognised as a current liability, and the amounts payable greater than 12 months is recognised in non-current liabilities.

### Impairment review

On transition the group have performed an impairment review, recognising an impairment totalling £146.5m to the ROU asset with the difference going to retained earnings. A subsequent impairment review was performed as at 27 October 2019 and an impairment loss totalling £63.8m has been recognised in the income statement.

### Onerous lease provision

Under IFRS 16 the rent element of onerous lease provisions no longer exists, therefore the Groups property provisions have been adjusted to reflect this, with the difference going to retained earnings on transition.

### Working capital

Under IFRS 16 there are certain balances such as rent prepayments/accruals, rent free incentives and landlord contributions that no longer exist as these are reflected in either the ROU or the lease liability.

### Deferred tax

A deferred tax asset has been recognised due to the timing difference of rent payments, depreciation and lease interest under IFRS 16.

### Sale and leaseback

Under IFRS 16 the gain on disposal is limited to only represent the gain on the portion of the asset sold recognising that the seller has retained an interest in the asset.

### Cash Flow

There is no cash flow impact as a result of IFRS 16. There is only a movement between cash inflow from operating activities and cash flow from financing activities due to the derecognition of rent prepayments/accruals, rent free incentives and landlord contributions and the recognition of a lease liability and right of use asset. Lease payments and interest payments are shown separately on the Cash Flow Statement.

Impact of IFRS 16 on the Financial Statements is shown in the table below:

	Under IAS 17	IFRS 16 Transition Impact	IFRS 16 Impact in Period	Under IFRS 16
	(£m)	(£m)	(£m)	(£m)
Selling, distribution and admin expenses	(789.9)	-	(35.2)	(825.1)
Profit on sale of properties	90.4	-	(67.1)	23.3
Finance income	1.0	-	5.2	6.2
Finance costs	(13.5)	-	(6.1)	(19.6)
Taxation	(43.3)	-	18.5	(24.8)
Taxation on transition	-	5.7	-	5.7
Impairment of right of use asset – Transition	-	(146.5)	-	(146.5)
Reversal of onerous lease provision – Transition	-	114.2	-	114.2
Right of use asset	-	464.5	(73.0)	391.5
Deferred tax	5.1	5.7	18.5	29.3
Receivables	439.8	(2.3)	-	437.5
Forex Reserve	(70.2)	-	(1.6)	(71.8)
Retained Earnings	1,680.0	(26.7)	(84.7)	1,568.6
Lease liability	-	(613.4)	(56.3)	(669.7)
Provisions	(490.5)	112.6	27.7	(350.2)
Payables	(754.4)	6.2	-	(748.2)

#### Right of use asset

The table below show a reconciliation of the right of use asset from transition to closing for the 26 weeks ending 27 October 2019:

	Property (£m)
Transition	464.5
Additions	46.4
Depreciation	(55.6)
Impairment	(63.8)
<b>27 October 2019</b>	<b>391.5</b>

#### Lease Liability

The table below show a reconciliation of the lease liability from transition to closing for the 26 weeks ending 27 October 2019:

Lease liabilities	Property (£m)
Transition	613.9
Additions	112.7
Disposals / re-measurement	(5.0)
Lease payments (Including Interest)	(57.9)
Interest expense	6.0
<b>27 October 2019</b>	<b>669.7</b>

The amount of lease liability recognised in the accounts immediately after transition differs from the operating lease commitments at 29 April 2019 due to the discount rate used in calculating the lease liability under IFRS 16, the lease term, low value leases and short-term leases.

## 17. Cash inflow from operating activities

	26 weeks ended 27 October 2019 IAS 17 £m	26 weeks ended 27 October 2019 IFRS 16 adjustments £m	26 weeks ended 27 October 2019 IFRS 16 £m	26 weeks ended 28 October 2018 (restated) £m	52 weeks ended 28 April 2019 £m
Profit before taxation	193.4	(103.2)	90.2	74.4	179.2
Net finance costs/(income)	12.5	0.9	13.4	18.6	(20.6)
Net other investment (income)/costs	(3.0)	-	(3.0)	1.8	(6.7)
Share of loss of associated undertakings and joint ventures	5.6	-	5.6	0.6	8.6
Operating profit	208.5	(102.3)	106.2	95.4	160.5
Depreciation and impairment	67.1	119.4	186.5	67.7	165.3
Amortisation charge	3.0	-	3.0	3.8	1.1
Profit on disposal of property, plant and equipment	(90.4)	67.1	(23.3)	-	(8.4)
Operating cash inflow before changes in working capital	188.2	84.2	272.4	166.9	318.5
Decrease/(increase) in receivables	79.9	2.4	82.3	(147.8)	(139.3)
Increase in inventories	(161.3)	-	(161.3)	(93.0)	(14.5)
Increase/(decrease) in provisions	37.1	(140.3)	(103.2)	36.4	225.1
Increase/(decrease) in payables	69.0	111.6	180.6	124.2	(76.5)
Cash inflows from operating activities	212.9	57.9	270.8	86.7	313.3

Included within the movement in receivables are amounts held as collateral against equity derivatives.

## 18. Related party transactions

The Group has taken advantage of the exemptions contained within IAS 24 - "Related Party Disclosures" from the requirement to disclose transactions between Group companies as these have been eliminated on consolidation.

All related party transactions were undertaken on an arm's length basis and were made in the ordinary course of business.

26 weeks ended 27 October 2019:

Related party	Relationship	Sales £m	Purchases £m	Trade and other receivables £m	Trade and other payables £m
Four (Holdings) Ltd & subsidiaries <sup>(1)</sup>	Associate	-	15.2	35.5	2.0
Mash Holdings Ltd	Parent company	-	-	0.2	-
Mike Ashley <sup>(2)</sup>	Director	1.2	-	-	-
MM Prop Consultancy Limited	Connected person	-	-	-	5.4
N M Design London Limited	Connected person	-	0.4	-	-
Rangers Retail Ltd	Associate	-	-	-	0.1
Newcastle United Football Club & St James Holdings Ltd	Connected persons	0.4	1.0	0.2	-

26 weeks ended 28 October 2018:

Related party	Relationship	Sales £m	Purchases £m	Trade and other receivables £m	Trade and other payables £m
Four (Holdings) Ltd & subsidiaries <sup>(1)</sup>	Associate	0.1	11.9	68.2	0.5
Mash Holdings Ltd	Parent company	-	0.4	0.2	-
Mike Ashley <sup>(2)</sup>	Director	1.1	-	-	-
Rangers Retail Ltd	Associate	0.1	-	0.1	0.3
Newcastle United Football Club & St James Holdings Ltd	Connected persons	0.4	1.1	0.5	-

<sup>(1)</sup> The outstanding balance with Four (Holdings) Limited reflects the funding related to Agent Provocateur. Management consider that the underlying results of Four (Holdings) Limited supports the recoverability of the receivables balance. The results of Four (Holdings) Limited do not meet the thresholds requiring more detailed disclosures under IFRS 12.

<sup>(2)</sup> Use of the Company jet and helicopter are charged at commercial rates.

An agreement has been entered into with Double Take Limited, a company owned by Mash Holdings Limited in which Matilda Ashley, Mike Ashley's daughter, is a director. Under the agreement, Double Take Limited licenses the Group the exclusive rights to the cosmetic brand SPORT FX. During the period a review has been undertaken and no royalties or other fees are expected to be payable to Double Take Limited for these rights until at least September 2020, the fee arrangement will continue to be reviewed on an ongoing basis, no provision is required in the financial statements. It should be noted that the Group (rather than Double Take Limited) owns the rights to SPORT FX for clothing, footwear and sports equipment.

During the period the Group engaged N M Design London Limited a company in which Nicola Murray, Michael Murray's mother, is a director. N M Design London Limited perform design work for the Group in relation to some of the Group's sites.

There is an agreement with Newcastle United Football Club Limited in relation to the Group's advertising at Newcastle United Football Club Limited. Providing that certain criteria are met the Group will be charged £2.0m for the 2019/20 season (2019: £1.0m for the 2018/19 season). The Group considers this transaction to be in the normal course of business.

The trade and other receivables balance with Four (Holdings) Limited includes a loan balance of £67.5m which attracts interest at a rate of 3%. The payment profile of the receivable was modified in the year. This has been accounted for at fair value through profit and loss in accordance with IFRS 9. The fair value has been determined by assessing the recoverability of the receivable balance, discounted at an appropriate market rate of interest. £13.0m was recognised in the period in respect of doubtful debts.

The Group holds greater than 20% of the voting rights of Studio Retail Group plc and French Connection Group plc. but does not consider that it has significant influence over them. Studio Retail Group plc and French Connection Group plc have disclosed transactions with the Group as a related party within their most recent Financial Statements. Transactions between Studio Retail Group plc, and French Connection Group plc and the Group related to normal commercial trading arrangements and are not considered material to the results of the Group.

The Group does not consider it has the power to participate in the financial and operating policy decisions of the entities and so management do not consider the Group to be able to exert significant influence over these entities as per IAS 28 Investments in Associates and Joint Ventures and IAS 24 Related Party Disclosures.

All related party transactions were undertaken on an arms-length basis.

MM Prop Consultancy Ltd, a company owned and controlled by Michael Murray (domestic partner of Anna Ashley, daughter of Mike Ashley), continues to provide property consultancy services to the Group. MM Prop Consultancy Ltd is primarily tasked with finding and negotiating the acquisition of new sites in the UK, Europe and rest of the world for both our larger format stores and our combined retail and gym units but it also provides advice to the Company's in-house property team in relation to existing sites in the UK, Europe and rest of the world.

In the year all properties are assessed and those that are considered by the Group's independent non-executive directors to have been completed and be eligible for review at the year end are assessed and valued by an independent valuer who confirms the value created by MM Prop Consultancy Ltd. The Group's independent non-executive directors then review and agree the value created and have full discretion to approve a payment to MM Prop Consultancy Ltd of up to 25% of the value created. There is a current pipeline of properties that may be eligible to be assessed both positively and negatively by the Group's non-executive directors in future years.

At the period end £5.35m has been accrued (HY19 - £5.0m provided, subsequently £5.2m paid in FY19) as payable to MM Prop Consultancy Ltd and agreed by the Independent Non-Executive Directors. Michael Murray has agreed to waive a proportion of his fee and settle on 20% of the final agreed value created, subsequent to the period end £4.3m was paid to MM Prop Consultancy.

## **18. Capital commitments**

The Group has agreed to acquire the heritable interest in 21/31 Buchanan Street, 8 & 24/28 Mitchell Street, 140/142 Argyle Street, 148/152 Argyle Street, 35/53 Buchanan Street and 34/50 Mitchell Street, Glasgow (the "Property") from Glasgow City Council.

The consideration payable for the property is £85.0m, which will be funded from the Group's cash resources. As at the reporting date £10.0m had been paid with completion due to take place in January 2020.

## **19. Contingent Assets and Liabilities**

The Group has been the subject of a tax audit in Belgium and, on 25 July 2019, received a payment notice from the Belgian tax authorities in the amount of €674 million (including 200% penalties and interest) and requesting further information in relation to, amongst other things, the tax treatment of goods being moved intra-Group throughout the EU via Belgium. The payment notice is not a formal tax assessment but a "proces verbal" whereby the Group will enter a "fiscal mediation" in order to respond to the tax authorities questions and provide them with documentation.

Sports Direct has fully engaged and continues to work with the Belgian Tax Authority in order to respond to the queries they have raised regarding VAT. This has led to a very substantial amount of material being provided to the Tax Authority together with electronic access to the relevant stock and accounting systems. Sports Direct has sent technical staff to Belgium in order to show the Authority how to access and review stock movements and VAT accounting across multiple jurisdictions. There is a large amount of material for the Authority to work through and, as with many public departments, their staff resources are limited, however the Tax Authority confirmed in writing on Friday 13 December 2019 that (1) that they are satisfied that they have all the information they require from Sports Direct and (2) that they are satisfied that VAT has been correctly accounted for in the information they have reviewed so far. The Tax Authority also confirmed in writing that it expects to complete its review of Matter 1 early in the New Year. Matter 1 accounts for €491m (or 73%) of the total €674m referred to in the "proces verbal". The Tax Authority will then review the smaller remaining matters, 2, 3 and 4.

Separately, Sports Direct engaged the services of PwC Belgium in order for them to independently review the same systems and controls and VAT accounting as the Tax Authority. PwC identified some clerical reporting errors, however, most importantly, they have confirmed that they have found no evidence of any material underpayments of VAT.

Based on the above, management still believe that it is less than probable that material VAT and penalties will be due in Belgium as a result of the tax audit.