Annual Report
& Accounts 2018

THG

The Hut Group Limited. Company Number 06539496

For the year ended 31 December 2018

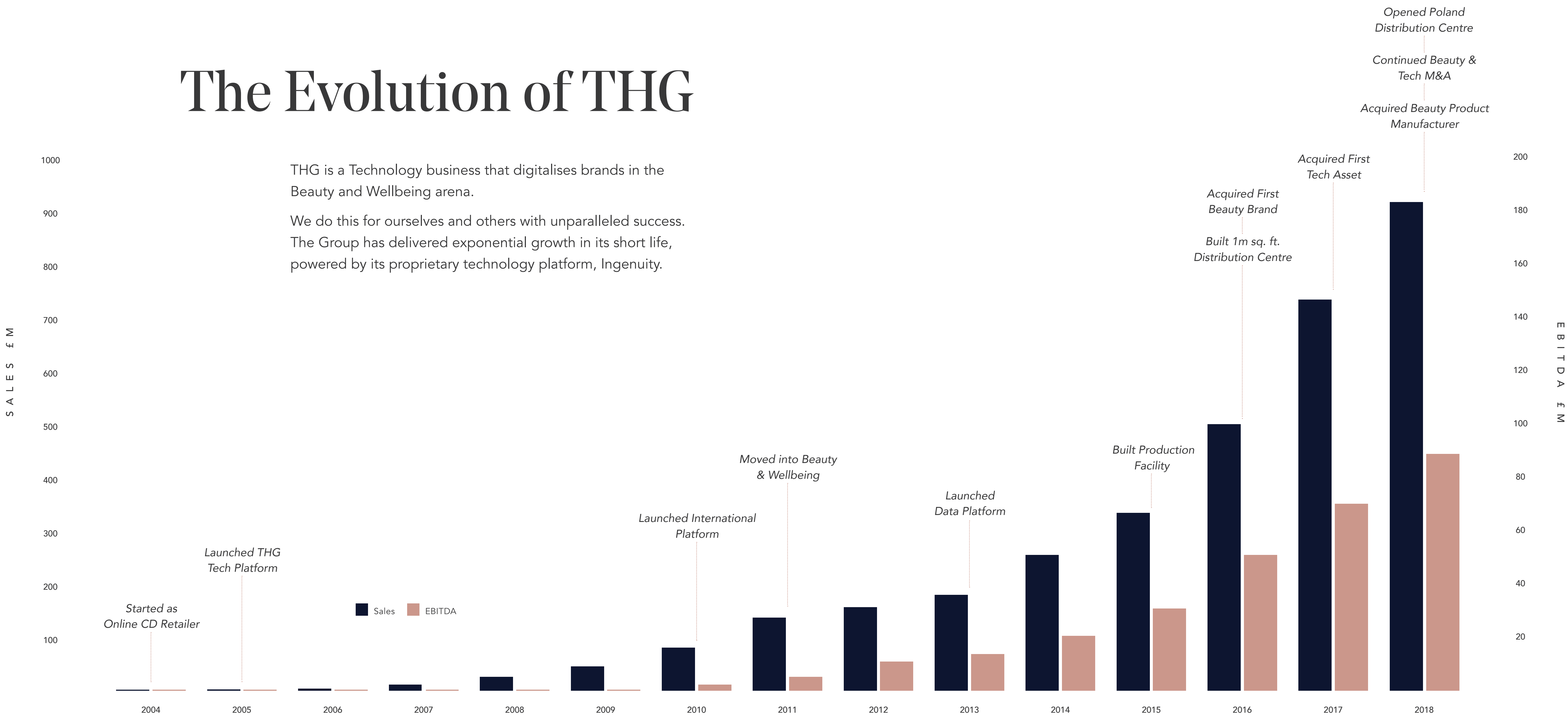

ESPA
ProBiome Eye Cream
ESPA
ESPA
TRI-ACTIVE™ ADVANCED
ProBiome Moisturiser
ProBiome Serum

Contents

The Evolution of THG

THG is a Technology business that digitalises brands in the Beauty and Wellbeing arena.

We do this for ourselves and others with unparalleled success. The Group has delivered exponential growth in its short life, powered by its proprietary technology platform, Ingenuity.



2018 Group Sales By Region

- 34% UK
- 26% EUROPE
- 24% ASIA PACIFIC
- 16% NORTH AMERICA

2018 Group Sales By Brand

- 49% OWN BEAUTY AND WELLBEING BRANDS
- 31% NON–THG BEAUTY BRANDS
- 20% TECHNOLOGY & OTHER

Highlights and Progress in 2018

2018 has been another year of explosive growth and investment for THG, powered by our proprietary technology ecosystem, Ingenuity. We have continued to digitally optimise our brands in the beauty and wellbeing arena, propelling our sales by 24% year on year to £916m (2017: £736m). Our sales remain very well diversified, with 66% international participation across 169 countries and 59% of sales coming from THG branded products.

Whilst sales growth has been strong, profit growth has been even stronger, with a Group EBITDA of 10% equating to £91m of EBITDA, 31% higher than 2017.

To accelerate the development of the THG model, we carefully selected acquisitions in key vertical markets, investing £82m in strategic acquisitions in the year.

We enhanced Ingenuity's end to end capability further through the acquisition of Language Connect, a leading language translation and localisation services company that provides THG with the opportunity to deliver a step change in our translation capabilities, supporting our continued international growth. This complements the 2017 investments in Hangar Seven, a digital content studio and UK2, a web hosting business. These investments have super-charged Ingenuity, which is a unified digital solution that brings together all the pieces necessary for global e-commerce into one single ecosystem. As such, we have welcomed several of the world's largest FMCG brands onto the platform, to share in the same explosive growth we have delivered for THG brands.

We expanded our stable of THG Brands, with the acquisition of Eyeko, an award-winning leader in eye cosmetics renowned for its innovative products and boasting a strong cult following of make-up artists and influencers worldwide.

As our portfolio of beauty brands continues to expand the ability to deliver world-class new product development becomes paramount and consequently, in late summer 2018, THG acquired Acheson and Acheson, a pre-eminent British beauty product developer and contract manufacturer. Acheson and Acheson, offers an end-to-end service that delivers pioneering product development and innovation, that will keep THG beauty brands at the forefront of the beauty industry. The acquisition also included Acheson & Acheson's own skincare brand – Ameliorate – which has subsequently been added to THG's own brand portfolio. We continued to invest organically, spending £29m on developing Ingenuity functionality and £38m of capital on infrastructure projects including manufacturing, supply chain and office accommodation.

Further investment was made as part of our Global Fulfilment Centre roll out with the design and build of our freehold warehouse and manufacturing facility in Wrocław, Poland that replicates our state of the art freehold site in Cheshire, England. The Poland facility provides both Brexit contingency optionality and will expedite service levels to much of Europe. The investment in Poland will be further enhanced by smaller, capital light, fulfilment centres in Asia, Australasia, India and a second location in the USA in 2019.

By the end of 2018, THG employed over 4,600 people, approximately double the number employed at the end of 2016. World class talent supports the unparalleled growth that THG has achieved and to this end, we announced the investment in a new landmark business campus – THQ – representing the UK's largest owner-occupier office development outside London.

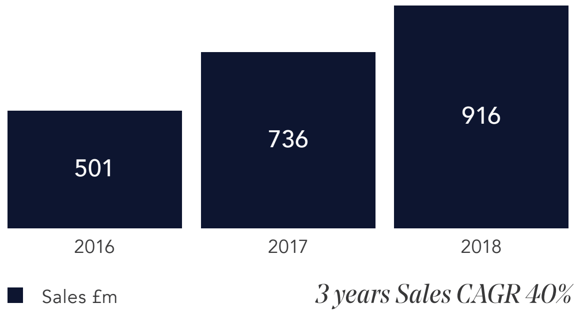
Our Beauty business delivered a stand-out performance in 2018, delivering superb sales and profit growth, with Lookfantastic now the number one global e-commerce beauty retailer by number of brands and number of territories served.

Myprotein is the number one online sports nutrition brand globally and in 2018, we undertook a comprehensive rebrand and repositioning to broaden the appeal of the brand to a wider customer demographic and reposition the brand for the next stage of global expansion. As consumer choice and preference continues to evolve, we remain at the forefront and launched Myvegan, Mypro, Myvitamins and MP clothing as sub-brands to replicate the successes seen in the core sports nutrition market and capitalise on these fast-growing markets.

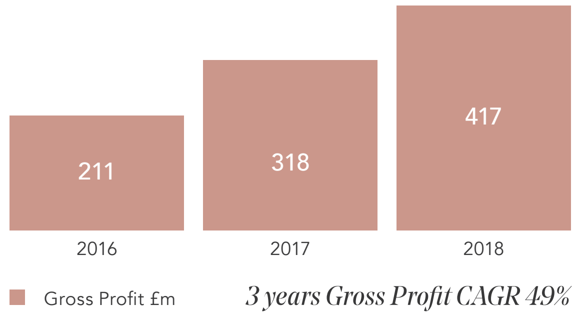
THG was awarded with the prestigious Queen's Award for Enterprise for 2018 as a result of the excellent international sales growth the Group has delivered over recent years. We continue to work closely with our lenders, with total bank facilities now standing at over $1bn following an extension post year end, supporting our continued expansion.

The investments we have made and continue to make, will drive THG onto further heights and break new ground as we continue to digitalise brands in the beauty and wellbeing arena.

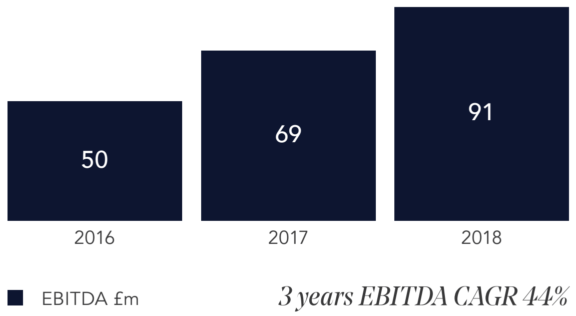
Revenue



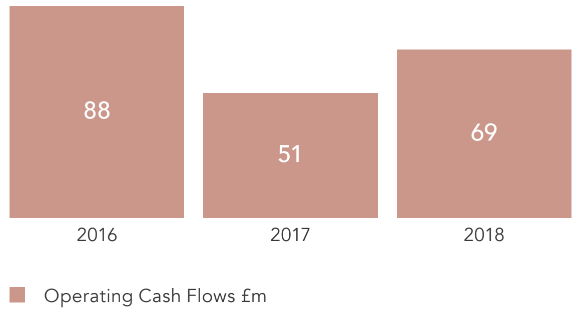
Gross Profit



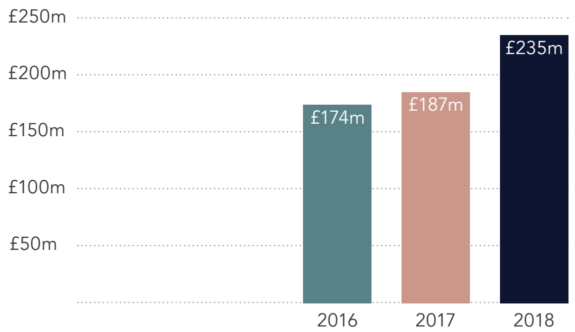
EBITDA



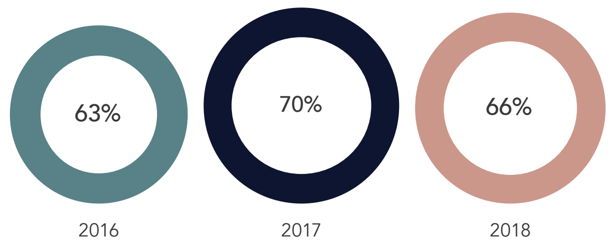
Operating Cash Flows



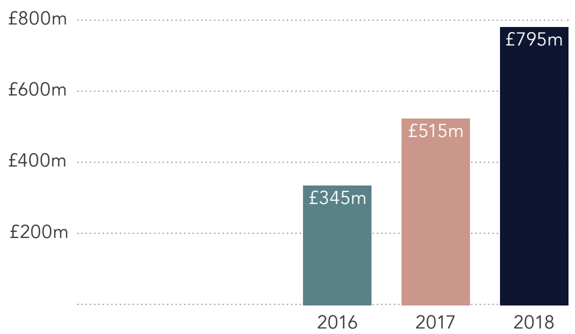
Cash in Hand



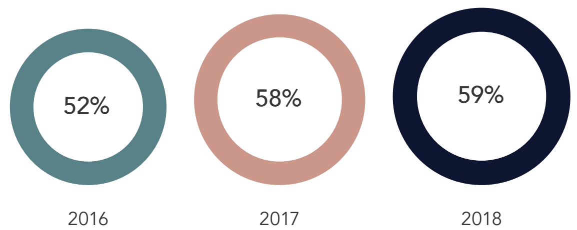
International Sales Mix



Banking Facility



Sales from Own Brands



Strategic Report

Shareholders

Fully diluted shareholding of any party with a 5% or greater shareholding in THG (as at 31 December 2018)

Name	*%*
Matthew Moulding & Controlled Management Equity[1]	25.7
Kohlberg Kravis Roberts & Co	15.2
Balderton Capital	14.4
Sofina Capital S.A.	9.1
Merian Funds	8.0
Oliver Nobahar-Cookson (held via Offshore Trust)	7.7
BlackRock Funds	7.5
Others	12.4
	100.0

[1] *Matthew Moulding has the beneficial interest in 20.2% of the 25.7% shareholding, although he has full control of the whole 25.7%.*

Ideas with Momentum

Our Business Model

THG is an international technology company that digitalises brands in the Beauty and Wellbeing sectors. Founded in 2004 by CEO Matthew Moulding, to develop an e-commerce technology platform, THG now operates 178 localised websites, retailing to customers in 169 countries.

THG is powered by Ingenuity, our proprietary global technology ecosystem. We wholly own and operate a globally integrated end-to-end technology stack that spans hosting, warehousing and fulfilment, data science, digital marketing, content production and language translation through to integrated couriers and payment solutions with customer service.

This seamless integration makes Ingenuity a unique technology platform proven to power brand growth on a global scale; both for THG and for some of the world's most innovative organisations.

By owning the whole customer journey from operating warehouses, manufacturing our products, and selling them direct to consumers via our own websites we can deliver high quality products and experiences to customers whilst maintaining an industry leading cost base.

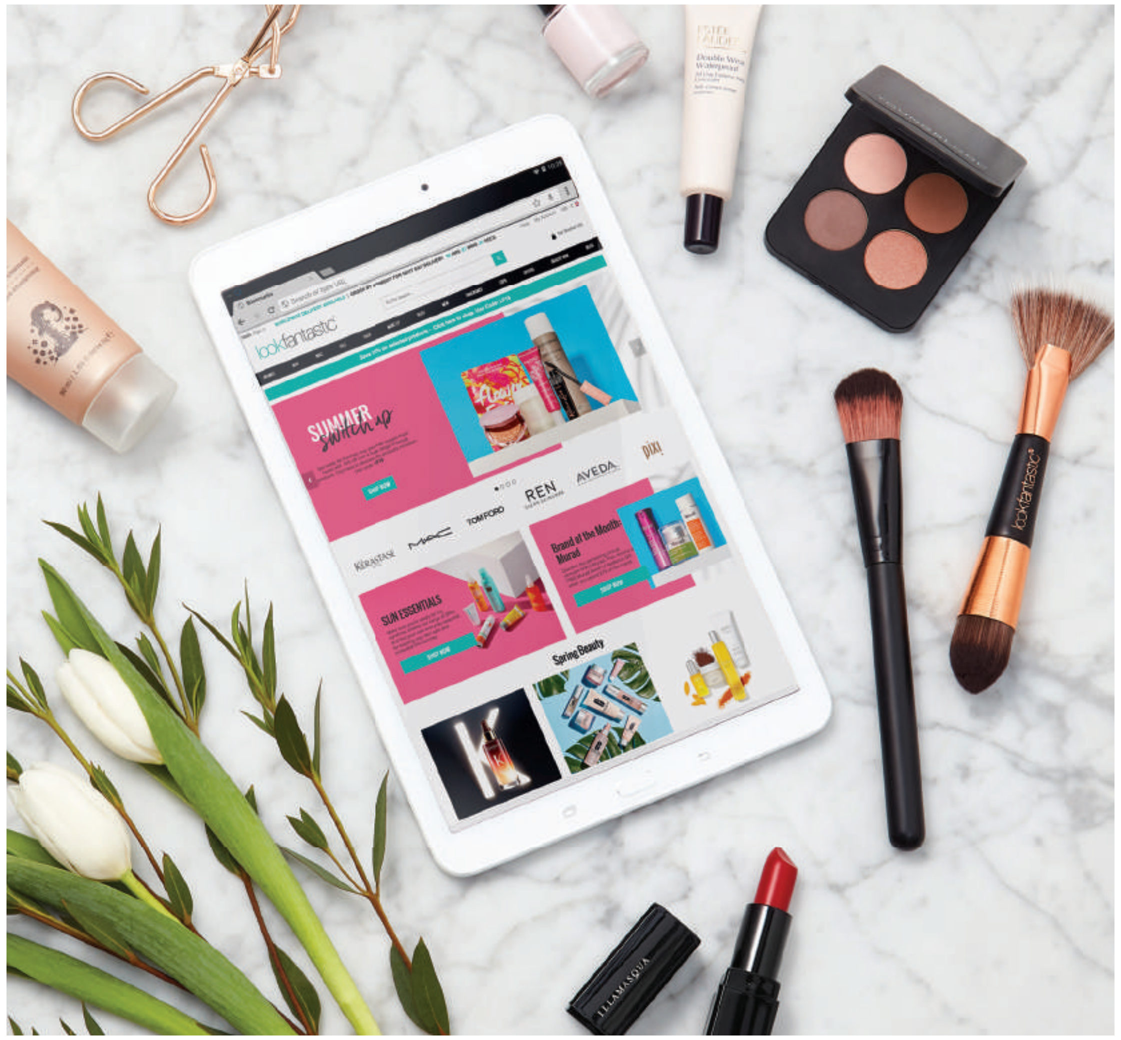
We will continue to invest in our business model and infrastructure to ensure we continue to be a global leader in online beauty and wellbeing.

End-to-end proprietary

THG powered by Ingenuity

Ingenuity is the proprietary technology platform that powers THG. End-to-end and wholly-owned, it has been engineered to enable scalable growth and seamless customer engagement at every touchpoint.

Ingenuity provides brands with a unified digital solution by bringing all the elements necessary for global e-commerce into one single ecosystem. It has been subject to continuous investment and innovation for over 14 years, and today comprises a number of high-value strategic assets that allow for seamless internationalisation and best-in-class customer experiences.



The Ingenuity platform is responsible for driving all our own brands and retail sites and has been the foundation for our success over the last 14 years. Its extensive global network of data centres and distribution facilities underpins a full-service global team comprising solution engineers, marketing and merchandising experts, and supply-chain specialists.

By maintaining our own hosting infrastructure, we have been able to increase capacity, speed and resilience for our growing suite of brands and global customer base. Our bespoke content creation (6 Studios) and localisation services supplement our integrated digital commerce platform to allow for first-class brand experiences and sustainable global growth. By drawing this full range of services into one single ecosystem, we are able to retain a golden thread of data that can be interpreted and analysed.

Commercialising Ingenuity has been a major focus for the Group over the last eighteen months and we have welcomed a number of major third-party FMCG brands onto the platform. Our ambition is to see more external partners harness the power of Ingenuity to construct efficient, global e-commerce operations.

Full proprietary end-to-end model

Digital Platform	Digital Marketing and Creative	Data Science	Translation & Language Services	Fulfilment & Operations	THG Hosting	Customer Support
A proprietary e-commerce platform continuously optimised by the THG Digital and Tech teams.	THG create online impact with our world class Studio capability powered by data and insight driven marketing.	THG refine big data into actionable insights that deliver tangible benefits to end users.	A network of over 6,000 linguists that provide high quality content and marketing translations for brands and retailers.	A proprietary end-to-end fulfilment network, with multiple locations ensuring speed and accessibility with efficiency.	26 global data centres situated in strategic locations with access to multiple, high quality transit and peering providers.	Combining digital support optimising our networks alongside a team of 300 customer service specialists focused on delivering a 24/7 service to our customers.

Language Connect

In July 2018, THG acquired Language Connect, an award winning translation and transcreation provider.

This acquisition is part of the Ingenuity proposition providing rapid quality content and marketing translations for brands and retailers expanding into new territories.

Through a network of over 6,000 linguists, covering 150 languages, Language Connect has delivered a step change in translation and SEO optimisation capabilities for the Group. With a global footprint, which includes London, New York and Singapore, servicing multiple product verticals including Retail and Market Research.

Language Connect has been instrumental in optimising translations for THG brands and core retail sites. In October 2018, 208 linguists supported the Myprotein rebrand, transcreating 2.1 million words across 20 languages in just 15 days and leading to a strong sales uplift. Language Connect will serve as a key international growth catalyst for THG's brands and partners as part of the Ingenuity Platform.

The acquisition complements that of Hangar Seven (April 2017), a leading content provider, that enables the Ingenuity Platform to provide leading digital first content at speed and scale. Across 6 Studios in the UK, USA and Europe, content is produced in an efficient way for all digital channels in a variety of format for THG Brands and Ingenuity clients. THG recently commenced an £80m investment in the design and build of a freehold flagship content production centre of excellence, Icon, 165k sq. ft. of dedicated video and photographic studio space which will be operational in 2020.

Language Connect will serve as a key international growth catalyst for THG's brands and partners as part of the Ingenuity Platform.

6,000
Linguists

150
Languages

24
Hour Global Coverage

INGENUITY POWERING

Global Brands

THG Ingenuity offers an international end to end e-commerce solution with the knowledge and experience of the THG retail model.

The Ingenuity platform is a leading global strategic provider to brands and retailers looking to scale an international direct to consumer offering. A simple unique end-to-end offering, including demand generation, digital content creation, localised customer experience, payments and international fulfilment network.

THG Ingenuity offers its retail partners solutions to scale at speed, simplifying the direct to consumer channel.

Partners include:

- Procter and Gamble
- Nestle
- Daily Mail Group
- Nintendo
- Honda

Global Fulfilment Solutions

We continued to invest in our global fulfilment network roll out with a warehouse and manufacturing facility in Wrocław, Poland that replicates our state of the art site in Cheshire, England. Our network expansion is enabling THG to optimise the balance between customer service and the cost to serve our customers.

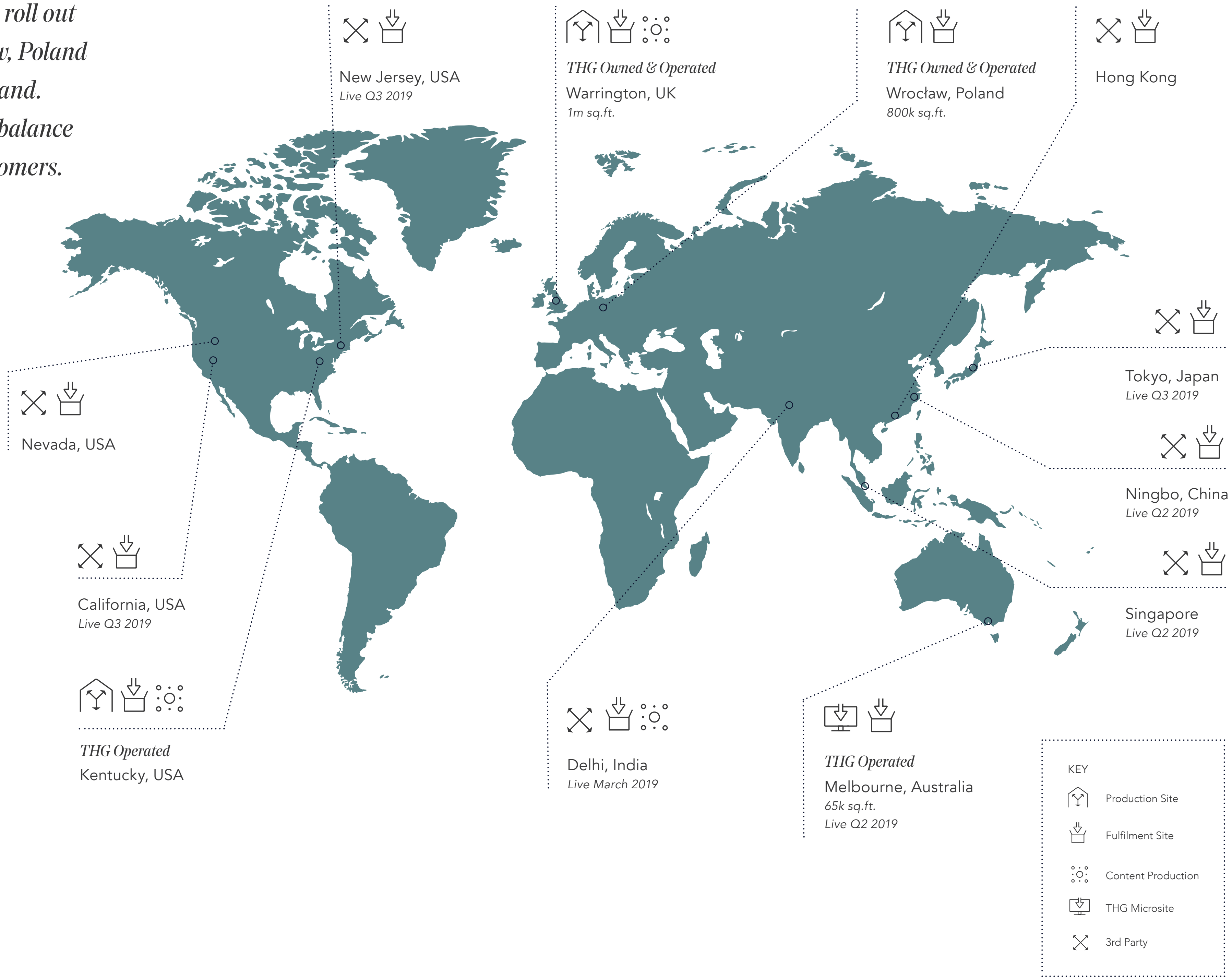
The initial foundations of the network were laid in 2016, when our wholly owned and automated 1m sq. ft. Cheshire based production and distribution facility was fully commissioned. The facility is powered by our proprietary Warehouse Management Software, Voyager which our on-site engineers are continually enhancing to improve process efficiency and further reduce our cost to fulfil.

2018 was another year of unprecedented operational improvement and our facility in Poland provides both Brexit contingency optionality and faster, more efficient access to almost 300 million online shoppers. The facility in Poland is 800,000 sq. ft., powered by Voyager (our proprietary warehouse management software) and includes food manufacturing facilities for our Wellbeing products, to supplement our existing facilities in Cheshire and Kentucky, USA.

To support our production and distribution facility in Kentucky, USA, in 2017 we opened a satellite fulfilment centre in Reno, Nevada, to service the West Coast and in 2019, these sites will be supported by smaller, capital light, fulfilment centres in New Jersey and Los Angeles to improve speed of delivery across North America.

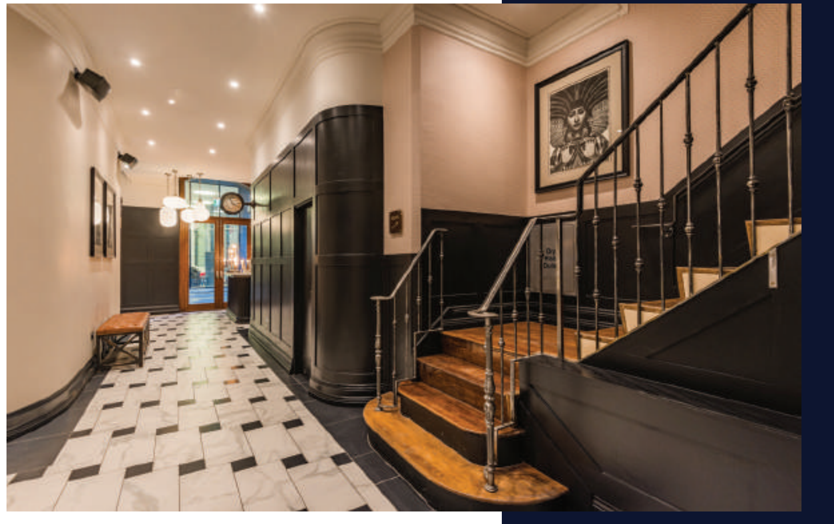
Asia is now one of THG's largest and fastest growing markets, across both Beauty and Wellbeing. To expedite customer service here, we opened a capital-light fulfilment centre in Singapore in the second quarter of 2019. This will be supported by further Asian microsites in the future and complements a small fulfilment centre in Delhi, India opened with a trusted partner, to enable more efficient access to this rapidly expanding market.

Our global network expansion provides the capacity THG requires to support its top-line growth as well as improving delivery times to customers.



THG Property

Management has long held the view that ownership of key business and platform assets is fundamental to the development of THG's culture, its growth, profitability and defensibility.



Over the last three years, THG has invested c. £270m into ownership of critical business assets and building a proprietary technology and operating ecosystem that is at the core of each element of the business. Investment into the freehold environment is a direct continuation of this investment-first, long term strategy.

This freehold investment approach has several benefits including enabling THG to control and provide every stage of the consumer retailing environment, deliver change without restriction or delay from third parties and enabling THG to operate at high growth rates, globally across multiple categories.

In April 2019, THG acquired two prestige boutique hotels - King Street Townhouse and Great John Street Hotel - in Manchester. The acquisition of the hotels represents a continuation of THG's ambition to invest in prestige offline assets to support the Group's online health and beauty businesses, following the acquisition of Hale Country Club in 2016. These bespoke facilities will enable THG to host influencers from across the globe, providing a deep immersion into THG's brands and culture, differentiating and super-charging our marketing, driving outreach to hundreds of millions of followers around the world.

THG's existing freehold real estate portfolio includes:

- 2 million sq. ft. of production and distribution freeholds in the UK and Poland*;
- World class Wellness and Beauty production facilities in Cheshire and Somerset respectively;
- THG Cheshire Campus of five freehold office buildings (53k sq. ft.);
- Boutique hotels: King Street Townhouse and Great John Street Hotel, providing 70 bedrooms and bespoke environments to host our influencer marketing events driving brand awareness and online traffic**; and
- Hale Country Club: a 56k sq. ft. prestige beauty, spa, fitness and leisure facility in Manchester.

** Poland freehold acquired March 2019*
*** Hotels acquired May 2019*

Future
Property Investments

ICON - Architectural illustration

Largest owner-occupier office development outside London

ICON

Following THG's 2017 acquisition and integration of the UK's leading content studio, Hangar 7, THG has acquired seven acres of land adjacent to Manchester Airport to create a centralised content campus. ICON will house c. 2,000 people who will be focused on video production and photography, to be used across THG's digital offering.

Workspace centralisation and freehold ownership ensure a singular business culture best placed to scale and excel. Campus style, centralised working pools knowledge and enables best practices to be attained across all functions. Historically, THG employees were centralised within our Cheshire campus. However, in 2018 the head office relocated to 85,000 sq. ft. of short-term leased offices at Manchester airport in preparation for the commencement of the Group's new campus build.

THQ

Adjacent to the UK's third ranked airport, the largest of the two sites, 'THQ', is a new landmark business campus. The site will be built over 16.8 acres in four phases, with phase one comprising office buildings totalling 280,000 sq. ft. and housing 3,500 employees. An option agreement has been reached between THG and Airport City Manchester for phases two, three and four of the business campus. Ultimately supporting up to 10,000 jobs and c. 1m sq. ft., THQ represents the UK's largest owner-occupier office development outside London.

THQ - Architectural illustration

THG Brands

THG is a technology business that digitalises brands in the Beauty and Wellbeing arena. Both of these markets are being transformed by digital channel shift and the explosion of high growth brands and THG is perfectly positioned to take maximum advantage of these market dynamics.

THG is committed to building a portfolio of Beauty and Wellbeing brands and is uniquely well-placed to become the digital online global leader, more nimble and agile than traditional brand powerhouses that are often channel and country land-locked and less able to respond to disruption.

Long established acquisitions such as Lookfantastic and Myprotein (both acquired in 2011) demonstrate our ability to scale businesses, direct to the consumer, having seen sales increase more than 10 times over and 15 times over respectively.

Our global retail sites provide a platform to fuel growth. We manufacture in-house at facilities around the world and Ingenuity delivers operational efficiencies whilst we internationalise rapidly through our global fulfilment network, supported by a multitude of final-mile courier integrations.

We plan to continue acquiring brands, product development know-how and manufacturing expertise in Beauty and Wellbeing and plug them into Ingenuity's technology ecosystem to:

- Drive sales direct to the consumer through both own brand and THG reseller websites;
- Increase international sales mix through data driven insight;
- Improve efficiency and profitability;
- Drive education and brand adoption through targeted sampling and subscription services; and
- Improve quality and deliver cost synergies through in-house manufacturing.

We expanded our brand portfolio with the acquisition of ESPA, Illamasqua and GLOSSYBOX in 2017 and in the last year supplemented this with the acquisition of Eyeko, a specialist eye cosmetics brand and Ameliorate, a skincare brand. In 2018, we also acquired Acheson and Acheson, a pre-eminent British beauty product developer and contract manufacturer, uniquely positioning THG to innovate with world-class products, delivered through operational excellence, whilst Language Connect optimises brand websites for local markets across the globe.

THG Beauty

THG has a multi-faceted beauty model, uniquely well-placed to become a global leader, competing with less nimble and more constrained traditional beauty powerhouses.

The model comprises third party retail, own brand beauty, subscription boxes and in-house manufacturing and new product development.

The THG third party beauty offering constitutes 40 retail websites that sell over 1,100 brands with 100% authorised and direct supply. Our data driven approach and the Ingenuity platform, has enabled us to become one of the world's biggest online resellers of branded beauty and the largest in the world by number of brands. We continue to enhance our prestigious brand offering with 2018 additions including Tom Ford, YSL, Burberry, Jo Malone, Giorgio Armani and Dolce & Gabbana.

The acquisition of Language Connect, enabled the translation of a back catalogue of 4.6 million words to finesse individual country websites for the local customer and improve search engine optimisation.

International participation is over 67%, as our international sites are optimised linguistically, by currency, payment solutions and courier integrations, then further supported by local influencers and affiliates.

Lookfantastic is a world leading platform for prestige beauty brands, offering extensive range and scaling exponentially. Acquired in 2011, Lookfantastic has seen sales increase ten-fold post acquisition, now has a range of more than 50,000 products and on Black Friday this year we sold a mascara every 1.6 seconds.

We invested in our subscription offering, acquiring GLOSSYBOX in August 2017 to complement the Lookfantastic subscription box. Our monthly boxes enhance our ability to test innovation and drive brand adoption, with over 300,000 active subscribers each month. We have migrated thousands of GLOSSYBOX customers across to Lookfantastic, whilst both boxes provide a global sampling opportunity for prestige beauty brands.

lookfantastic

SkinCareRx

RECREATE YOURSELF

SkinStore

BEAUTY EXPERT

MANKIND

HQhair.com

GLOSSYBOX

Eyeko

In May 2018, THG acquired the specialist eye cosmetics brand, Eyeko, which is an award-winning leader in eye products renowned for its innovative, high quality mascaras, liquid liners and brow gels.

Eyeko takes it British heritage and utilises Korean expertise to deliver an innovative range of products. It also boasts a strong cult following from a host of editors, make-up artists and influencers worldwide.

Eyeko products are stocked in multiple countries including the UK, US and Europe through notable retailers such as Selfridges, Space NK, Ulta and Sephora. The brand is also available direct to consumers through THG-owned lookfantastic.com and eyeko.com.

Eyeko was swiftly integrated into the THG beauty brand stable and we have made very strong progress delivering cost synergies. The THG global marketing infrastructure and world class e-commerce platform, Ingenuity, have helped significantly accelerate sales direct to the consumer. Additionally, the extensive distribution channels that Eyeko has, have provided a platform to expand sales of existing THG beauty brands.

STRATEGIC INVESTMENT

Acheson & Acheson

At the end of August 2018, THG acquired Acheson & Acheson, a pre-eminent British beauty contract manufacturer and product developer. This significant investment uniquely positions THG to make a step-change in its innovation, operational excellence and manufacturing capacity.

Established in 1992, Acheson & Acheson has grown at rapid pace to its position as a distinguished manufacturer for prestige beauty brands, supported by its best-in-class R&D, manufacturing, regulatory compliance, product design and product development functions. Acheson & Acheson has over 380 employees, which includes more than 50 people working exclusively on pioneering product development and innovation, keeping its clients at the forefront of the beauty industry.

The business offers an end-to-end service that runs from product/packaging design & development, formulation development, international sourcing, product testing to UK manufacturing, warehouse and distribution. The company also holds numerous high value accreditations, including being a certified BRC Grade A Supplier and compliant with SEDEX.

Acheson & Acheson has a state-of-the-art 78,000 sq. ft. manufacturing facility in Somerset along with two other sites nearby – one being its head office and the other, a site for product packaging, storage and distribution.

The investment represents long-term strategic benefits for THG as it reinforces its ambition of becoming the fully integrated, global digital leader in the beauty and wellbeing sectors.

Acheson & Acheson's own skincare brand, Ameliorate was included in the purchase and has subsequently been added to THG's own brand portfolio. Targeted at sufferers of Keratosis Pilaris, the specialist brand is sold globally through leading prestige and specialty retailers including Space NK Apothecary, Selfridges, Boots, Harvey Nichols, Liberty's and Marks & Spencer.

THG Wellbeing

Myprotein

THG is a global leader in e-commerce, operating a vertically integrated, digital model that is proven to deliver growth.

Myprotein was acquired in 2011, sales have increased 15-fold as we have harnessed the power of our technology ecosystem to drive rapid growth in direct to consumer sales and delivered aggressive international expansion, with 75% of Myprotein sales now coming from outside the UK.

Our business model allows us to localise our offering for high growth international markets, with in-house production facilitating products that are catered for the local palette, supported by a localised marketing, trading strategies and an international ambassador and affiliate network that ensures a location specific customer experience.

In 2018, we continued to deliver exceptional international growth, particularly in Asia, where our 3-year CAGR is now 370%.

In the fourth quarter of 2018, we delivered a complete repositioning of the very successful Myprotein brand to broaden its appeal to a wider customer demographic, increase accessibility and drive growth into new emerging markets. These changes will power the next stage of global expansion. This involved a complete repackage of all brand assets and consumer touch points as well as re-platforming all 52 localised websites with improved features and navigation to enhance the customer experience.

43%

8-Year CAGR

75%

International Sales

52

Localised Websites

New sub-brands have been launched to tailor to evolving consumer trends and needs, with marketing strategies implemented for each sub-brand to effectively communicate with the customer and demonstrate how we are meeting their needs. Sub-brands include Myvegan, Mypro (premium offering), Myvitamins, MP clothing and a completely new bars and snacks range, in order to replicate the success of Myprotein in the core sports nutrition market in these fast-growing categories that meet the needs of the modern consumer.

THG Wellbeing

Exante

THG Wellbeing brands also include Ideal Shape, Ideal Fit, Ideal Raw and Exante.

In 2018, Exante has exploded with second half sales growth of over 79% following a comprehensive review of the strategy for this business and brand.

Acquired in 2013, Exante now has a more premium brand positioning and identity, supported by a complete overhaul of the product range that has received material external acclaim including extensive free television coverage from medical professionals who are increasingly acknowledging the medical benefits of such diet plans for obese patients and those suffering from Type 2 diabetes.

We have introduced two and four-week starter packs to drive new customer growth and improve shopper frequency Exante now leads the market in terms of number of products, micronutrient & macronutrient profiles and 'clean' ingredient credentials, which is supported by in-house new product development and manufacturing.

79%

Sales Growth

72

Products

World Class
Talent & People

Our aspiration is to be the number one destination for ambitious talent - our unique high performance and meritocratic culture encourages ambition, innovation, and career growth at an exceptional rate.

The Group's talent base continues to experience major sustained growth, with thousands of staff located across the globe. At the end of 2018, we had over 4,600 employees approximately double the number of staff as at the end of 2016, as we created 1,000 new jobs in the North West of the UK during the year.

We continue to build on our incredibly diverse pool of talent, which includes:

- 108 nationalities;

- 52% male to 48% female; and

- Average age of 31.

Over the course of 2018 our global footprint has expanded significantly; we are building global teams and anticipate more locations opening around the globe.

In 2018, we invested heavily in our People & Talent functions, including internal communications, leadership academies, and office infrastructure. In 2019, we anticipate further significant headcount growth.

We expanded on the success of our THG Academy along with our Accelerator programme that delivers technology leaders of the future. Our talent team is now divisionally structured ensuring we are both bringing the industry best into THG whilst also ensuring this talent is fully integrated for success.

We presented our 2018 Gender Pay Report for the Group as at 5 April 2018. Our median pay gap reduced to 4% which is positioned well below the national average and we reported that we pay bonuses to a greater proportion of our female employees, than we do men. When our Technology Division is excluded then our gender pay gap falls to -4%, and in like-for-like roles, such as Customer Services Advisor or Warehouse Operative means the difference is negligible at +/- 0.5%.

108

Nationalities

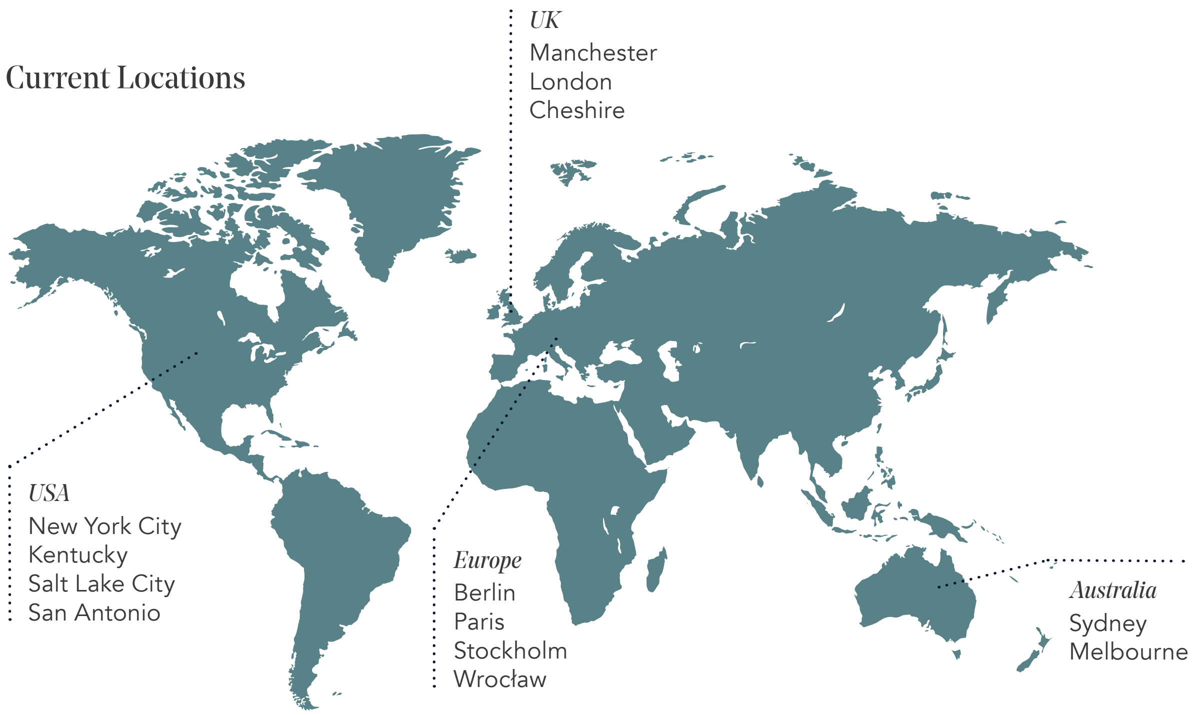
31

Average Age

13

Locations Worldwide

Current Locations



Financial Review

Financial Review

Revenue

2018 was another year of excellent sales growth for THG. Group revenues increased from £736m to £916m with the three-year CAGR now standing at 40%.

The Group continues to experience strong sales growth across the globe, with both the UK and Rest of the World segments growing 38% and 23% respectively. Asia continues to be a large focus for the Group delivering a 38% increase in sales relative to 2017. To drive further international progression, the Group is investing in global fulfilment solutions to improve service for customers and this will be maintained throughout 2019.

The Group was awarded the prestigious Queen's Award for enterprise in 2018 in recognition of its strong international sales growth.

The Group's own brands deliver a substantial and increasing proportion of the Group's revenue with the share of owned brand sales rising to 59% in 2018 (2017: 58%)

The rate of returns from THG customers remains low at 1% (2017: 1%), continuing to reflect the high repeat, highly personalised nature of the retail and product offering.

Gross profitability

The gross profit margin increased by 230bps in the year to 45.6% (2017: 43.3%).

This level of improvement in the year was driven by a number of factors including:

- Continued evolution in the business model leading to ongoing shift in sales mix towards more profitable, own brand beauty and Ingenuity sales; and
- Territory mix in Beauty and Wellbeing moving towards Asian markets.

Operating expenses

Distribution costs, excluding exceptional and other items, remain well controlled at 16.9% (2017: 16.8%) of sales, despite a significant investment in the Group's fulfilment network and capacity and an increasing Asian sales mix which has a higher cost to serve. Given THG's strong international mix, this illustrates the benefits of having an end-to-end fulfilment model that utilises an extensive local courier network. The Group aims to maintain significant surplus capacity in its global network to fuel growth and provide a strong customer experience.

Certain costs associated with the expansion of our global fulfilment network have been recognised within exceptional and other items alongside acquisition related costs.

Underlying administrative costs (staff, marketing, other administrative costs but excluding exceptional and other items, share-based payments, depreciation and amortisation) increased during the year to £172 million (18.8% on sales) from £126 million in 2017 (17.1% on sales), reflective of THG's investment in people and facilities to support future growth plans.

Marketing costs increased by 10bps in the year to 8.6% on sales (2017: 8.5%) driven by a continued focus on international customer acquisitions, which is supported by the Group's in-house data driven marketing model. Over 5.6 million (2017: 4.7 million) new customers transacted with the Group in 2018, which combined with increasing annual repeat behaviour, positions the Group well to further accelerate growth into international territories from its growing customer base, as well as prosper in domestic markets.

Staff costs excluding distribution increased by 110bps to 8.2% of sales (2017: 7.1%), following investment in world class talent, which supports current and future growth plans.

Other administrative costs represent just 2.0% of sales (2017: 1.5%) which reflects the efficient nature of the operating model, even as the business model grows and evolves.

Depreciation and amortisation

Total depreciation and amortisation costs were £51m (2017: £39m), a reflection of our accelerated investment in growth projects and global infrastructure:

- The Group invested £51m in tangible assets during the year (2017: £51m). This primarily relates to the build of the Poland fulfilment and production centre, office accommodation to support our world class talent and the acquisition of Acheson and Acheson, a British beauty contract manufacturer and product developer. Over £137m has now been invested in the Group's fulfilment and production centres in the UK and Poland which are freehold owned and with no operating leases in place (Poland warehouse freehold purchased post year end).

- The Group continued to invest in its end-to-end proprietary technology platform during the year to facilitate global scale and to address the ever-changing social trends of our customers across the world. £29m was invested in the platform, up from £26m in 2017. The net book value of the Ingenuity technology platform is £55m (2017: £41m).
- The Group has acquired a range of brands and intellectual property as it continues to expand its international offering as part of the Group's long-term strategy. During the year these acquisitions resulted in additional brands and intellectual property totalling £30m and £8m respectively. Further information on the Group's acquisitions during the year can be found in note 10.

Exceptional and other items

In order to understand the underlying performance of the Group, certain costs included within distribution and administrative costs have been classified as exceptional and other items. These items principally relate to:

Distribution costs - £9.5m

- During the year the Group significantly developed its Global fulfilment network. Omega, our 1m sq. ft. UK based food production and distribution facility reached maturity, delivering substantial efficiency improvements year on year, increasing the next day delivery cut off to midnight. The Group took occupancy of an 800,000 sq. ft. food production and distribution facility in Wrocław, Poland. Alongside these two flagship centres, a further regional facility in Hong Kong was commissioned in the year. Costs relating to the mobilisation and integration of facilities into our Global fulfilment network continue to be included within exceptional and other items.
- As the network acquisitions are integrated onto the THG platform, Ingenuity, any legacy warehouses are exited. Associated costs are non-recurring in nature.

Administration costs - £13.2m

- Legal, financial and taxation due diligence costs relating to the Group's M&A activity.
- Reorganisation and restructuring costs primarily associated with recent acquisitions. These costs include dual running, technology decollation, redundancies, onerous lease costs and other costs of a one-off nature including store closures.

Please refer to note 4 for further information on exceptional and other items.

Share-based payments

Part of the strategy of attracting, retaining and motivating talent, is an employee share scheme. In total there are 151 participants (2017: 117 participants) in the Group's share schemes. The IFRS 2 'Share-based Payments' charge for the year relating to the equity instruments in issue during the year was £0.6m (2017: £1.8m).

A number of employees, who met certain service criteria during the year, were given the opportunity to benefit from the equity instruments they held ahead of the original exercise date. These staff members were paid the fair value of their equity instruments early and as a result their share options were cancelled or shares were purchased by the Group's EBT (Employee Benefit Trust).

Number of shares/share options in issue 1 January 2018	**344,964**
Number of shares/share options cancelled during the year	(28,408)
Number of shares/share options granted during the year	160,568
Number of shares/share options in issue 31 December 2018	**477,124**
Number of employees holding shares/share options 31 December 2018	151

Finance Costs

Finance costs of £15.0m (2017: £7.2m) primarily relate to interest and amortisation of arrangement fees on the Group's increased £600m senior bank facility, in addition to the acquisition facility of £195m which was arranged during 2018.

Financial Review (continued)

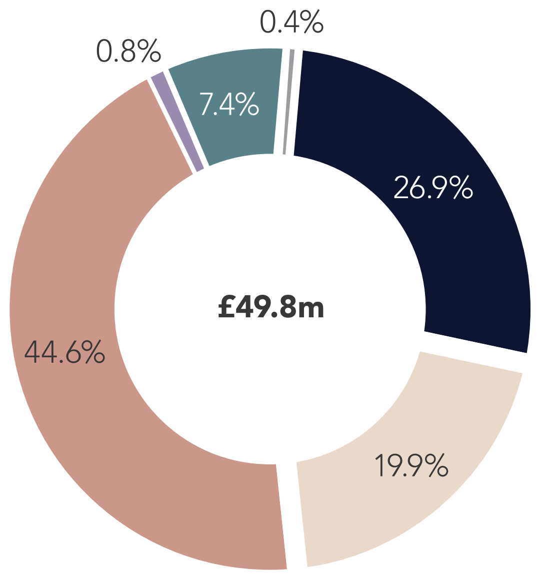
Taxation
The Group continues to adapt a transparent and open tax policy ensuring all appropriate taxes are paid in all territories it operates, a detailed tax strategy is presented on its corporate website. The Group's total tax charge in 2018 is £0.9m, which is a 54% effective tax rate (see note 9). The effective tax rate is relatively high, compared to the UK's current corporate tax rate of 19%.

The heart of our business and therefore the bulk of the tax we pay is in the UK. Our technology platform is operated entirely from the UK. Our flagship warehouse, Omega, a 1m sq. ft. facility was opened in Warrington in 2016 and we continue to expand into additional office space at our Cheshire and Manchester bases. R&D and capital investment is a key part of the groups business model, this allows the Group to benefit from tax incentives designed to encourage innovation and investment in the UK.

UK employment taxes are by far the biggest component of our UK cash tax contribution, making up £38.7m in 2018, split between employment taxes ultimately borne by the Company of £11.4m (2017 £8.3m) (i.e. employer's NIC) and taxes attributable to the Company's economic activity and which are collected on behalf of the Government of £27.3m (2017 £20.3m) (i.e. PAYE and employees' NIC), giving an average tax per UK employee over £10,000. The Group has invested heavily in its staff in the last few years doubling its headcount since the end of 2016. The roles created by the Group tend to have higher average salaries than traditional retailers, which naturally increases the employment tax contributions of both the Group and its employees.

From a VAT perspective, although we are in a net refund position in the UK, the UK suppliers we purchase from will pay over the VAT that they collect from us, meaning that we are generating a VAT surplus for HMRC overall from the VAT we collect from end consumers. Additionally, given our export profile, although we reclaimed a net £28.6m of indirect taxes from BAU purchases in the UK in 2018, we collected and paid over £28.8m in indirect taxes globally.

Business rates are another large cost borne by the business with £3.7m paid in 2018 across the Groups global HQ's and distribution centre, these costs are incorrectly assumed to not be borne by online retailers but in fact this accounted for 1.7% of UK revenue, broadly in line with traditional bricks and mortar retailers in the UK.



Global Tax Contribution

- PAYE
- Employer's National Insurance Contributions
- Employees' National Insurance Contributions
- Business Rates
- Corporation Tax
- Indirect Tax

Banks

The Group agreed to significantly increase its available debt facilities in 2018 with an increase to £600m on the Senior Facility, including a £51m accordion. In addition, a new 2-year Acquisition Facility for £195m was agreed with five of the existing syndicate banks in July 2018.

In February 2019, the Senior Facility was increased to £610m, with Shanghai Pudong Development Bank joining. The facility was also extended by a further year, now maturing in May 2022, recognition of the confidence our lenders have in THG. The Acquisition Facility was reduced in size to £150m and extended by a year with a new maturity date of July 2021 post year-end.

In March 2019, a new €20m 5-year amortising Property Loan was agreed with Intesa Sanpaolo secured against the Group's Polish Warehouse in Wrocław. This Polish facility was then increased in April 2019 to €40m with the addition of mBank.

The scale and flexibility of the facilities provides us with substantial capacity to accelerate our international expansion plans and fund future acquisitions.

>$1bn
Facilities From May 2018

2022
Facilities Maturity

13
Bank Syndicate

Barclays Bank Plc
1 Churchill Place
London
E14 5HP

Shanghai Pudong Development Bank Co., Ltd London Branch
19th Floor,
1 Angel Court,
London,
EC2R 2HJ

HSBC Bank Plc
8 Canada Square
Canary Wharf
London
EC14 5HQ

Lloyds Bank Plc
25 Gresham Street
London
EC2V 7HN

Santander UK Plc
2 Triton Square
Regent's Place
London
NW1 3AN

Silicon Valley Bank
Alphabeta
14-18 Finsbury Square
London
EC2A 1BR

Citibank N.A London Branch
33 Canada Square
Canary Wharf
London
L14 5LB

PDL Europe Holdings LP
1100-10830 Jasper Avenue
Edmonton
Alberta
T5J 2B3
Canada

JP Morgan Securities Plc
25 Bank Street
London
E14 5JP

Intesa Sanpaolo S.p.A. Poland Branch
Książęca 4,
00-498 Warszawa,
Poland

The Royal Bank of Scotland Plc
36 St Andrew Square
Edinburgh
EH2 2YB

mBank S.A.
ul. Senatorska 18,
00-950 Warszawa
Poland

The Governor and Company of the Bank of Ireland
Bow Bells House
1 Bread Street
London
EC4M 9BE

Risk Management

Principal risks and uncertainties

THG has an Enterprise Risk Management Framework and Business Continuity Management System (BCMS). We are committed to continually identifying potential threats to our operations and building organisational resilience with the capability of providing effective responses, as well as identifying risk based opportunities.

Furthermore, throughout 2019, we are committed to achieving ISO certification for both 22301 (business continuity) and 27001 (Information Security).

Significant effort is placed on working with suppliers to identify and manage any planned or unplanned disruptions in supply or distribution that may adversely impact on trade. Business Continuity plans have been produced and are tested/validated quarterly. Additionally, the Group has multiple delivery routes and options, and uses over 30 delivery service providers, to reduce the level of dependency on any single provider. There is continuous monitoring of service levels and warehouse handling to ensure goods are delivered in a timely manner. All products are on relatively short lead times, with a steady flow of products into the warehouse, enabling the supply chain to be diverted to alternative locations if necessary within a manageable time frame.

The Group's technology platform provides a real time, single data view of the business enabling trading and operational decisions to be based on high quality management information. On-going investment is made in the IT systems to ensure that they are able to continue to respond to the needs of the business and do not become obsolete. Business Continuity Plans and individual recovery processes are in place and tested quarterly to minimise the effects of damage or denial of access to the infrastructure of systems.

The Group is able to attract and retain high calibre employees through a combination of competitive basic salaries and performance based bonuses coupled with share schemes, which are open to individuals at every level in the business.

Financial risk management objectives and policies

Senior management are aware of their responsibility for managing risks within their business units. The head of each business unit reports to the Board on the status of these risks through management reports. Risk is regularly reviewed at board level to ensure that risk management is being implemented and monitored effectively. The Board is supported by a Group Internal Audit function which assists the Board in fulfilling its oversight responsibilities.

The Board's policy is to ensure that the business units are empowered to operate effectively and appropriately, bearing in mind the requirements for timely decision making and commercial reality. Through management reports, risks are highlighted and monitored to identify potential business risk areas and to quantify and address the risk wherever possible.

Commercial and general risk

Standard form contracts are provided by the Group's in-house legal team for commercial use and to ensure the commercial functions negotiate within approved parameters. Insurance policies are regularly reviewed to ensure these are adequate, appropriate and in line with the nature, size and complexity of the business.

Financial risk management

The Group's operations involve exposure to credit risk, liquidity risk, currency risk and interest rate risk. The Board's policies for managing these financial risks are implemented by the Chief Financial Officer.

Credit risk

The majority of the Group's customers pay in advance for purchases. Where services are supplied without advance payment, a credit review of the customer is undertaken at the point the order is received and subsequently on a periodic basis. The maximum credit risk exposure is represented by the carrying value as at the balance sheet date (see note 15). The credit risk on bank balances is considered to be low as they are held with A-rated counterparties.

Risk Management (continued)

Liquidity risk

The Group regularly forecasts cash flow and maintains an appropriate balance of cash and debt facilities to ensure that sufficient funds are available from trading to cover future expenses and capital expenditure.

Currency risk

The Group receives an increasing proportion of its revenue in foreign currency. In addition, certain key suppliers invoice in euros and US dollars. The Group aims to naturally hedge these transactions and where appropriate uses financial instruments in the form of foreign currency swaps to hedge future currency cash flows. The fair value of foreign currency swaps outstanding at the balance sheet date is detailed in note 14 to the financial statements.

Interest rate risk

The Group's interest rate risk arises from the revolving credit facilities in place. The Group reviews its exposure to variable interest rates on a regular basis and fixes rates for the period until the next capital repayment.

By order of the Board

James Poch

J P Pochin
Company Secretary
4 June 2019

Directors' Report

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Group who were in office during the year from 1 January 2018 and up to the date of signing the financial statements are listed below with the Directors' interests detailed in note 27.

Dividends

No dividends will be distributed for the year ended 31 December 2018 (2017: £nil).

The Board returned £22.7m (2017: £3.8m) of equity to minority shareholders in a continued effort to provide ongoing shareholder liquidity.

Executive Directors

M J Moulding

J A Gallemore

R Horsefield
(appointed on 31 October 2018)

J P Pochin
(appointed on 18 April 2018)

V Tahmasebi
(appointed on 28 February 2019)

S Whitehead
(appointed on 28 February 2019)

Resigned Directors who served in the year:

A J Duckworth (resigned on 17 April 2018)

P J Gedman (resigned on 31 October 2018)

Non-Executive Directors

D P Murphy

Z Byng-Thorne
(appointed on 22 November 2018)

W M Evans

E J Koopman

B Liautaud

I McDonald

A Monro

T R Pirrie-Franks
(appointed on 18 March 2019)

N J M Gheysens (resigned on 18 March 2019)

R J Pennycook (resigned on 22 November 2018)

H Campbell (appointed on 20 February 2019)

Research and development
The Group's e-commerce and technology services divisions are powered by its proprietary technology platform. In addition to providing end-to-end e-commerce functionality, the platform provides the Group with a number of important competitive advantages. Specifically, the commercial teams review real time transactional and customer insight data which informs trading decisions, which are then executed within short time frames. In order to remain competitive and to promote innovation, investment into the technology platform in terms of people and capital expenditure is a priority for the Group. The Group has over 425 full time staff dedicated to the continual enhancement of the platform.

Employees
Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

The Group seeks to retain high calibre employees through a combination of competitive basic salaries and performance-based bonuses coupled with a share scheme, which is open to individuals at every level in the business.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests. Communication with all employees continues through the Group intranet, briefing groups and distribution of the Annual Report.

Directors' qualifying third party and pension indemnity provisions
There were no qualifying third party and pension indemnity provisions during the year or in place at the date the Directors' Report was approved.

Donations
During the year, the Group made several charitable donations totalling £0.7m (2017: £0.1m).

Statement of Directors' responsibilities
The Directors are responsible for preparing the strategic report, the Directors' report and the consolidated and company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and the Parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable;
- for the consolidated accounts, state whether IFRSs as adopted by the European Union have been followed;
- for the Parent Company accounts, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company accounts; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

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

Going concern
The Directors have prepared the cash flow forecasts for a period of 12 months from the date of the approval of the financial statements. On the basis of the cash flow projections and projected headroom against the available facilities, the Directors are satisfied that it is appropriate to prepare the financial statements of the Company and Group on a going concern basis.

Statement of disclosure of information to auditors
For all persons who are Directors at the time of approval of the annual report:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Financial risk management
Information in respect of financial risk management for the Group has been disclosed within the strategic report.

2019 Outlook and post balance sheet events
Trading
The key trading trends in evidence throughout 2018 have continued in 2019, re-affirming management's confidence for the 2019 outlook. Management anticipate a strong level of revenue growth in 2019, driven both by continued growth in the UK and overseas, coupled with selective acquisitions. The global fulfilment network continues to be developed to allow growth in key territories in Asia and the US.

The gross margin progression reported over successive recent years is expected to stabilise in 2019, through an increased level of in-house production, following on from the investment in Acheson & Acheson, beauty contract manufacturer in 2018.

The Group's strong cash flow model and continued working capital improvements will provide further liquidity to continue to re-invest in the business's infrastructure, most notably the proprietary platform.

Equity
In May 2019 several of the group's shareholders increased their stake in THG, alongside investment by new shareholders, for a cumulative £50m of primary funding through the issue of new share capital and £1m of secondary share transfers, demonstrating continued shareholder and investor confidence in THG.

Acquisitions
On 30 April 2019, the Group acquired the entire share capital of Colorist Christophe Robin, a luxury natural haircare brand. Established in Paris in 1999 by its namesake, celebrity colourist Christophe Robin, the brand aims to emphasise natural beauty by maintaining scalp health, nourishing hair and protecting colour. The brand has a range of 70 products across 10 ranges and is renowned for its best-selling Cleansing Purifying Scrub with Sea Salt and Regenerating Mask with Prickly Pear Oil. Christophe Robin is sold across the world in premium salons and in prestige retail including THG owned Lookfantastic.com, Galeries Lafayette, Monoprix, Sephora and Blue Mercury.

On 2 May 2019, the Group acquired the entire share capital of Eddie Rockers Limited, a prestige boutique hotel owner and operator, comprising King Street Townhouse and Great John Street hotels in Manchester. The acquisition of the hotels represents a continuation of THG's ambition to invest in prestige offline assets to support the Group's online health and beauty businesses, following the acquisition of Hale Country Club in 2016. Specifically, the hotels will step-change THG's events business by hosting brand partner and influencer events across the Group with an improved global consumer reach and unique marketing content. The sites will continue to operate under the 'Eclectic Hotels' brand name.

On 17 April 2019, the Group acquired the entire share capital of Soulplane Propco II SarL, subsequently re-named THG Icon SarL, a company holding an undeveloped plot of land at Global Logistics, Airport City South in the vicinity of Manchester Airport in England. The Group will use the land to develop ICON, a new facility which will provide an extra 104,000 sq. ft. of office space over four floors as well as additional content creation facilities totalling 168,000 sq. ft., expanding the Group's content production capabilities dramatically. The ICON development, which will be delivered by Icon Industrial, will house c. 2,000 people who will be focused on video production and photography, to be used across THG's digital offering.

On 12 March 2019, the group acquired the entire share capital of Goodman Luna Logistics (Poland) S.P. Z.o.o., subsequently re-named THG (Poland) SP Z.o.o, a company that developed and owns the Group's 800,000 sq. ft. fulfilment and manufacturing facility in Poland. The property is multi-purpose, housing both production and logistics operations as well as 3,500 sq. m. of integrated office space. It is located in close proximity to Wrocław and provides easy access to major metropolitan areas in Poland, Germany and the Czech Republic, allowing for seamless transport of THG products to consumers across the region and faster, more efficient access to almost 300 million online shoppers.

The Group is in the process of assessing the fair value of the assets and liabilities that were acquired.

Refinancing
In February 2019, the Senior Banking Facility was increased to £610m, with Shanghai Pudong Development Bank joining the lender group, and extended by a further year maturing in May 2022. The Acquisition Facility was reduced in size to £150m and extended by a year with a new maturity date of July 2021.

In March 2019, a new €20m 5-year amortising Property Loan was agreed with Intesa Sanpaolo secured against the Group's Polish Warehouse in Wrocław. This was then increased in April 2019 to €40m with the addition of mBank.

Auditor
Ernst & Young LLP have expressed their willingness to continue in office in accordance with Section 487(2) of the Companies Act 2006. The auditor's registered office is as follows:

Ernst & Young LLP
2 St Peter's Square
Manchester M2 3EY

By order of the Board

James Poch

J P Pochin
Company Secretary
4 June 2019

Independent auditor's report to the members of The Hut Group Limited for the year ended 31 December 2018

Opinion

We have audited the financial statements of The Hut Group Limited ('the Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the related notes 1 to 29, the Parent Company balance sheet, the Parent Company statement of changes in equity and the related notes to the Parent Company financial statements 1 to 9, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance in with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require

us to report to you where:

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

Other information

The other information comprises the information included in the annual report on pages 3-48, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement on page 47, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Jamie Dixon (Senior statutory auditor)

for and on behalf of Ernst & Young LLP,
Statutory Auditor
Manchester
4 June 2019

Notes:

1. The maintenance and integrity of the The Hut Group Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated statement of comprehensive income for year ended 31 December 2018

		2018			2017		
		Before exceptional and other items	Exceptional and other items (note 4)	Total	Before exceptional and other items	Exceptional and other items (note 4)	Total
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	2	**915,758**	-	915,758	**735,652**	-	735,652
Cost of sales		**(498,279)**	-	(498,279)	**(417,190)**	-	(417,190)
Gross profit		**417,479**	-	**417,479**	**318,462**	-	**318,462**
Distribution costs		**(154,926)**	(9,545)	(164,471)	**(123,646)**	(15,315)	(138,961)
Administrative costs		**(223,206)**	(13,188)	(236,394)	**(168,599)**	(14,944)	(183,543)
Operating profit/(loss)	3	**39,347**	**(22,733)**	**16,614**	**26,217**	**(30,259)**	**(4,042)**
Adjusted EBITDA* / EBITDA		**90,557**	**(22,733)**	**67,824**	**69,116**	**(30,259)**	**38,857**
Depreciation	12	**(19,245)**	-	(19,245)	**(16,815)**	-	(16,815)
Amortisation	11	**(31,344)**	-	(31,344)	**(21,969)**	-	(21,969)
Share-based payments	3	**(621)**	-	(621)	**(4,115)**	-	(4,115)
Operating profit/(loss)		**39,347**	**(22,733)**	**16,614**	**26,217**	**(30,259)**	**(4,042)**
Finance income	8	**162**	-	162	**315**	-	315
Finance costs	8	**(15,033)**	-	(15,033)	**(7,152)**	-	(7,152)
Profit/(loss) before taxation		**24,476**	**(22,733)**	**1,743**	**19,380**	**(30,259)**	**(10,879)**
Income tax (charge)/credit	9	**(4,161)**	3,222	(939)	**(3,829)**	4,615	786
Profit/(loss) for the financial year		**20,315**	**(19,511)**	**804**	**15,551**	**(25,644)**	**(10,093)**
Other comprehensive income:							
Exchange differences on translating foreign operations, net of tax		**3,423**	-	3,423	**(1,209)**	-	(1,209)
Total comprehensive income/(expense) for the financial year		**23,738**	**(19,511)**	**4,227**	**14,342**	**(25,644)**	**(11,302)**

*Adjusted EBITDA is defined as operating profit before depreciation, amortisation, share-based payments and exceptional and other items.
The results for the year are derived from continuing activities.
The comprehensive income/(expense) is 100% attributable to the owners of the Parent Company.

Consolidated statement of financial position as at 31 December 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Intangible assets	11	**519,839**	434,691
Property, plant and equipment	12	**218,195**	186,207
		738,034	**620,898**
Current assets			
Inventories	13	**155,241**	84,798
Trade and other receivables	15	**89,155**	43,734
Current tax asset		**4,017**	2,789
Cash and cash equivalents	16	**234,819**	186,729
		483,232	**318,050**
Total assets		**1,221,266**	**938,948**
Equity			
Ordinary shares		**4,020**	3,746
Share premium		**110,446**	277,380
Employee benefit scheme reserve		**175**	175
Merger reserve		**615**	615
Capital redemption reserve		**523**	518
Retained earnings		**269,340**	36,792
		385,119	**319,226**
Non-current liabilities			
Borrowings	18	**520,486**	397,467
Deferred tax	21	**10,306**	6,768
		530,792	**404,235**
Current liabilities			
Trade and other payables	17	**266,631**	205,432
Borrowings	18	**8,141**	9,230
Provisions	19	**2,272**	825
Contract liabilities	20	**28,311**	-
		305,355	**215,487**
Total liabilities		**836,147**	**619,722**
Total equity and liabilities		**1,221,266**	**938,948**

The financial statements on pages 51 to 84 were approved by the Board of Directors on 4 June 2019 and were signed on its behalf by:

J A Gallemore
Director
Registered number: 06539496

Consolidated statement of changes in equity for the year ended 31 December 2018

	Ordinary shares	Share premium	Employee benefit scheme reserve	Merger reserve	Capital redemption reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	**3,299**	**94,260**	**175**	**615**	**518**	**44,666**	**143,533**
Total comprehensive expense for the year	-	-	-	-	-	(11,302)	**(11,302)**
Issue of ordinary share capital	447	183,120	-	-	-	-	**183,567**
Share buy-backs	-	-	-	-	-	(2,466)	**(2,466)**
Share-based payments	-	-	-	-	-	2,152	**2,152**
Deferred tax effect of share-based payments	-	-	-	-	-	3,742	**3,742**
Balance at 31 December 2017	**3,746**	**277,380**	**175**	**615**	**518**	**36,792**	**319,226**
Balance at 1 January 2018	**3,746**	**277,380**	**175**	**615**	**518**	**36,792**	**319,226**
Impact from initial adoption of IFRS 15	-	-	-	-	-	(2,255)	(2,255)
Balance at 1 January 2018 after adoption of IFRS 15	**3,746**	**277,380**	**175**	**615**	**518**	**34,537**	**316,971**
Total comprehensive income for the year	-	-	-	-	-	4,227	**4,227**
Issue of ordinary share capital	304	83,066	-	-	-	-	**83,370**
Share buy-backs	(30)	-	-	-	5	(23,707)	**(23,732)**
Capital reduction	-	(250,000)	-	-	-	250,000	**-**
Share-based payments	-	-				621	**621**
Deferred tax effect of share-based payments	-	-	-	-	-	3,662	**3,662**
Balance at 31 December 2018	**4,020**	**110,446**	**175**	**615**	**523**	**269,340**	**385,119**

Consolidated statement of cash flows for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from operations	25	**68,643**	50,555
Income tax (paid)/received		**(243)**	16
Net cash generated from operating activities before exceptional cash flows		**68,400**	**50,571**
Cash flows relating to exceptional and other items		**(23,358)**	(34,141)
Net cash generated from operating activities		**45,042**	**16,430**
Cash flows from investing activities			
Acquisition of subsidiaries net of cash acquired	10	**(75,530)**	(164,336)
Purchase of property, plant and equipment	12	**(37,802)**	(38,685)
Proceeds from sale of property, plant and equipment		**-**	55
Purchase of intangible assets	11	**(41,527)**	(32,919)
Interest received	8	**162**	315
Net cash used in investing activities		**(154,697)**	**(235,570)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares net of fees		**76,418**	183,567
Share buy-backs and related costs		**(23,732)**	(4,439)
Interest paid		**(15,789)**	(8,577)
Repayment of bank borrowings		**(574,086)**	(774,155)
Proceeds from bank borrowings net of fees		**697,000**	837,500
Capital element of finance lease payments		**(2,066)**	(2,313)
Net cash generated from financing activities		**157,745**	**231,583**
Net increase in cash and cash equivalents		**48,090**	**12,443**
Cash and cash equivalents at the beginning of the year		**186,729**	174,286
Cash and cash equivalents at the end of the year	16	**234,819**	**186,729**

Notes to the consolidated financial statements

1. ACCOUNTING POLICIES

Basis of preparation
The consolidated financial statements of The Hut Group Limited ("the Company") and its subsidiaries (together "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). The financial statements have been prepared on the historical cost basis except for derivatives which are held at fair value.

The accounting policies adopted by the Group in the current year are consistent with those adopted during the year ended 31 December 2017, except for the adoption of new accounting policies for transactions occurred during 2018 as set out below.

The Group adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the first time for the period beginning on 1 January 2018. The Group plans to apply IFRS 16 'Leases' initially on 1 January 2019, using the modified retrospective approach.

There have been various other accounting standards and amendments also effective from 1 January 2018 but they do not have an impact on the Group's financial statements.

The Company is a private limited company and is incorporated and domiciled in the UK.

Going concern
The Group has prepared the cash flow forecasts for a period of 12 months from the date of the approval of the financial statements. The Group forecasts cash projections taking account of reasonably possible changes in trading performance demonstrating that the Group is able to operate within the level of its current facilities. On the basis of the cash flow projections and projected headroom against the available facilities, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors are satisfied that it is appropriate to prepare the financial statements of the Company and Group on a going concern basis.

Accounting policies
The Group's key accounting policies are set out below. These policies have been prepared on the basis of the recognition and measurement requirements of IFRS standards in effect that apply to accounting periods beginning on or after 1 January 2018, and have been applied to 2017 comparatives where applicable.

a. Basis of consolidation
The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2018. Subsidiaries are all entities over which the Group has control. When the end of the reporting period of a subsidiary is not 31 December, the subsidiary prepares, for consolidation purposes, additional financial information as of the same date as the financial statements of the Group.

The Group exercises control through a majority of voting rights or board control. In the case of The Hut Management Company Limited ("Manco") the Company holds a 0.01% shareholding. However, the Company has a separate class of share in Manco which gives it the right to control the appointment of Board Directors. Consequently, Manco has been consolidated within the financial statements on the basis that through Board control, the Group has the power to control the financial and operational policies of Manco.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

b. Business combinations
Business combinations are accounted for using the acquisition method under IFRS 3 'Business Combinations'. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired, and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are measured at their

acquisition-date fair values. These fair values can be re-assessed for a period of 12 months from the date of acquisition based on information available at the date of acquisition.

Goodwill is stated after separate recognition of other identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

In determining whether a transaction is a business combination or an asset purchase, the Group takes into account the inputs, processes and outputs acquired in accordance with IFRS 3.

c. Revenue
Revenue consists primarily of internet sales, which are sales recorded net of an appropriate deduction for actual and expected returns and sales taxes and are recognised at a point in time when the customer obtains the control. The transaction price is allocated to performance obligations on a relative stand-alone selling price basis.

Revenue for services provided is recognised over time as the services promised are transferred to the customers. The Group uses an input method to measure progress towards complete satisfaction of a performance obligation, because the customers simultaneously receive and consume the benefits provided by the Group and there is a direct relationship between the Group's effort (i.e. labour hours incurred) and the transfer of service to the customers. Fees recognised in respect of memberships are recorded on a straight line basis over the membership period.

When the Group acts as principal in sale of goods and services, revenue from customers and costs with suppliers are reported on a gross basis. When the Group acts as agent in sale of goods and services, revenue from customer and costs with suppliers are reported on a net basis, representing the net margin earned. Whether the Group is acting as principal or agent depends on management's analysis of both legal form and substance of the agreement between the Group and its business partners.

Revenue for internet hosting contracts and domain renewal services are recognised on a straight line basis over the relevant period. Income which is invoiced in advance is recorded as deferred income on the balance sheet and released to the profit and loss account over the periods in which the services are provided.

d. Share-based payments
The Group operates share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options or growth shares) of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense.

Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions, along with taking account of any equity instruments that may have been cancelled or modified in the period. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Share subscriptions by employees in the Company that holds the growth shares, are included within the employee benefit scheme reserve.

When the equity instruments are exercised or growth shares in the Group are issued to employees, the Company issues new shares. Of the proceeds received on exercise or issue of growth shares, an amount equal to the nominal value of the shares issued is credit to the share capital account and an amount equal to the share premium, net of directly attributable transaction costs, is credit to the share premium account.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

The Group has an employee benefit trust (EBT) which facilitates an internal market for participants in employee share schemes to sell their shares in the Company. Shares held are recognised at cost as a deduction from shareholding equity. Subsequent consideration received for the sale of such shares is also recognised in equity.

e. Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisitions over the Group's interest in the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of acquisition. Goodwill is recognised as an asset and assessed for any indications of impairment at least annually. Any impairment is recognised immediately in the income statement. For the purposes of impairment testing, goodwill is allocated to those cash-generating units that have benefited from the acquisition. If the recoverable amount of the cash-generating unit is less than its carrying amount, then the impairment loss is allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis.

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

Other intangible assets

Other intangible assets include internally developed software, separately acquired customer lists, domain and trade names, brands and other intellectual property, including customer lists, acquired as part of business combinations.

Separately acquired intangible assets are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

The costs of acquiring and developing the platform and websites is capitalised separately as an intangible asset. Capitalised website costs include direct costs of materials, services, directly attributable overheads, payroll and payroll-related costs for employees who are directly associated with website development projects.

Other internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the year in which expenditure is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful economic life. Amortisation is included within administrative expenses in the income statement in the period to which it relates. The estimates of useful economic lives are reviewed on an annual basis and any changes are reflected as changes in amortisation period and are treated as changes in accounting estimates.

Brands with indefinite lives are reviewed for impairment on an annual basis. The useful economic life is reviewed on an annual basis to confirm that the indefinite life continues to be supportable.

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Amortisation is provided on the cost of software and is calculated on a straight-line basis over the useful life of the software.

The following useful economic lives are applied:

Platform development costs	1-5 years
Brands	5 years-indefinite
Intellectual property (including customer lists, domain and trade names)	2-10 years
Computer software	1-10 years

f. Property, plant and equipment

Property, plant and equipment are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at the following annual rates in order to write off each asset on a systematic basis over its estimated useful life.

Plant and machinery	5-10 years
Fixtures and fittings	3-20 years
Computer equipment and software	1-10 years
Freehold buildings	20-50 years
Motor vehicles	3-7 years
Leasehold improvements	Lower of lease term or asset life

At each reporting date, property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future pre-tax cash flows of the relevant cash-generating unit or fair value, less costs to sell if higher. Any impairment in value is charged to profit or loss in the period in which it occurs.

g. Borrowing costs

Borrowing costs incurred in relation to bringing into use both tangible and intangible assets are capitalised as the expenditure is incurred on such assets and subsequently depreciated in line with the useful economic life of the relevant asset.

h. Inventories

Inventories are valued at the lower of cost and net realisable value, on a weighted average cost basis. Cost of purchase comprises the purchase price including import duties and other taxes, transport and handling costs and any other directly attributable costs, less trade discounts.

A provision is made to write down any slow-moving or obsolete inventory to net realisable value.

i. Financial instruments

The Group performed analysis for financial instruments under the scope of IFRS 9 'Financial Instruments' and concluded that the assessment of the requirements of IFRS 9 did not have a significant impact to the Group.

Financial assets

Financial assets within the scope of IFRS 9 are classified as loans and receivables.

Derivative financial instruments

The Group uses derivative financial instruments, such as foreign currency swaps, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Derivatives are not designated as hedges and accordingly, any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

Trade and other receivables

Trade and other receivables are non-interest bearing and are initially recognised at fair value. Subsequently they are measured at amortised cost using the effective interest rate method less loss allowance. Group measures the loss allowance at an amount equal to lifetime expected credit losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Financial liabilities

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortised cost. The Group has no financial liabilities at fair value through profit and loss.

Trade and other payables

Trade and other payables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Bank borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

j. Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

k. Leased assets

Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the amount representing the outright purchase price is capitalised and the corresponding leasing commitments are shown as obligations to the lessor. The relevant assets are depreciated in accordance with the Group's depreciation policy or over the lease term if shorter. Net finance charges, calculated on the reducing balance method, are included in finance costs.

Operating leases

Payments made under operating leases, net of any incentives received from the lessor, are charged to profit or loss on a straight line basis over the period of the lease.

l. Onerous contracts

A provision is made for onerous contracts, discounted at a risk free rate. This includes provision for future lease costs on leasehold properties, based on management's best estimate of future rental costs and, if appropriate, rental income from sub-lease arrangements.

m. Exceptional and other items
The Directors apply judgement in assessing the particular items, which by virtue of their scale and nature should be classified as exceptional and other items.

The Directors consider that separate disclosure of these items is relevant to an understanding of the Group's financial performance.

Items deemed to be in this category include certain items which are considered to be one-off and not representative of the underlying trading of the Group, including integration costs and the development of warehouse and production facilities.

n. Taxation
The tax expense included in the statement of comprehensive income and statement of changes in equity comprises current and deferred tax.

Current tax is the expected tax payable based on the taxable profit for the period, and the tax laws that have been enacted or substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current and deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the current or deferred tax is also recognised directly in equity.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates (and laws) that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities and where there is an intention to settle the balances on a net basis.

o. Foreign currency translation
Functional and presentational currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Sterling.

Transactions and balances
Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange at the reporting date. Exchange differences on monetary items are taken to the income statement.

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into the functional currency of the Group at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

p. Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

q. Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, the management is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised

Notes to the consolidated financial statements (continued)

and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The most critical accounting judgements or key sources of estimation uncertainty are detailed as follows:

Goodwill and intangible asset impairment reviews
The Group is required to review goodwill, brands and intellectual property with indefinite lives annually to determine if any impairment has occurred. Intangible assets with finite lives are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates. Refer to note 11 for further details of the value-in-use calculations.

Capitalisation and amortisation of platform development costs
Costs capitalised as platform development costs include direct external costs, such as consultancy costs and internal payroll costs. The capitalisation of internal costs is based on the amount of time spent by employees on capital projects. Judgement is applied in determining which costs meet the criteria for capitalisation as development costs. Refer to note 11 for details of capitalised platform development costs.

The useful economic life of the platform is considered to be between one and five years dependent on the type of development work capitalised. The estimate of useful economic life is reviewed on a regular basis to ensure that this continues to be appropriate.

r. Changes in accounting policies
This note explains the impact of the adoption of IFRS 9 'Financial Instruments,' IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases' on the Group's consolidated financial statement.

- IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has completed an assessment of IFRS 9 and adopted the new accounting standard during the financial year starting from 1 January 2018. The adoption does not have a significant impact on the results or financial position of the Group.
- IFRS 15 addresses the recognition of revenue from customer contracts and impacts on the amounts and timing of the recognition of such revenue.

  The standard introduces a five-step approach to revenue recognition – identifying the contract; identifying the performance obligations in the contract; determining the transaction price; allocating that transaction price to the performance obligations and finally recognising the revenue as those performance obligations are satisfied. The core principle of IFRS 15 is that revenue is recognised when the customer obtains control over the goods and services.

  The Group adopted the new accounting standard during the financial year starting from 1 January 2018 and performed an assessment of the impact of adoption based on the Group's trading upon transition to IFRS 15. The Group has applied IFRS 15 using the cumulative effect method, under which the comparative information is not restated. The Group has also elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application.

  The revenue from the sales for which the control of the goods hasn't been transferred to the customers are derecognised in the statement of comprehensive income and the consideration received from the customers is recognised as contract liability in the statement of financial position. Correspondingly, related cost of sales is derecognised from the statement of comprehensive income. The increase in inventory is in relation to the goods in transit whose control is still to be transferred to the customers. The overall impact to the Group is not material, the following tables show the adjustments recognised for only the line items that were affected by the changes. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

The impact of adopting IFRS 15 on the consolidated statement of comprehensive income and the consolidated statement of financial position, respectively, is as follows:

	2018 As reported	Effect of change due to IFRS 15	2018 Without adoption
	£'000	£'000	£'000
Revenue	915,758	(2,165)	917,923
Cost of sales	(498,279)	1,803	(500,082)
Gross profit	**417,479**	**(362)**	**417,841**
Operating profit	**16,614**	**(362)**	**16,976**
EBITDA	**67,824**	**(362)**	**68,186**
Total comprehensive income for the financial year	**4,227**	**(362)**	**4,589**

	31 December 2018 As reported	Effect of change due to IFRS 15	31 December 2018 Without Adoption
	£'000	£'000	£'000
Inventories	155,241	10,764	144,477
Total assets	**1,221,266**	**10,764**	**1,210,502**
Retained earnings	269,340	(2,617)	271,957
Equity	**385,119**	**(2,617)**	**387,736**
Contract liabilities	28,311	13,381	14,930
Total liabilities	**836,147**	**13,381**	**822,766**

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	£'000
Retained earnings opening - 31 December 2017	**36,792**
Increase in inventory	8,961
Increase in contract liabilities	(11,216)
Retained earnings opening - 1 January 2018	**34,537**

Notes to the consolidated financial statements (continued)

- IFRS 16 'Leases' was issued in January 2016 and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

  The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

  The impact of IFRS 16 'Leases' would be restricted to the operating leases liability as disclosed in note 22 of these financial statements. Due to the adoption of IFRS 16, the Group will initially recognise a lease liability measured at the present value of the lease payments over the lease term and a right-of-use asset at the amount of the lease liability plus initial direct costs. Subsequently, depreciation charge for right-of-use asset and interest expense on the lease liability will be recognised. The Group's operating profit will improve, while its interest expense will increase.

2. REVENUE

Below is an analysis of revenue by region:

	2018	2017
	£'000	£'000
UK	**307,891**	223,017
Europe	**240,676**	214,020
Rest of the world	**367,191**	298,615
	915,758	**735,652**

Rendering of services represents 7% of total revenue (2017: 6%). Revenue that is not within the scope of IFRS 15 'Revenue from Contracts with Customers' represents' 5% of total revenue (2017: 3%).

3. OPERATING PROFIT/(LOSS)

	Note	2018 £'000	2017 £'000
Operating profit/(loss) has been arrived at after charging:			
Employee costs	6	**133,592**	97,376
Share-based payments	7	**621**	4,115
Depreciation	12	**19,245**	16,815
(Profit)/loss on disposal of property, plant and equipment		**-**	10
Amortisation	11	**31,344**	21,969
Government grants		**(1,072)**	(633)
Net foreign exchange (gain)/loss		**(143)**	188
Operating lease rentals:			
Motor vehicles		**27**	-
Land and buildings		**5,892**	3,302

The IFRS 2 'Share-based Payments' charge for the year relating to the shares and share options is £0.6m based on the best available estimate of the number of equity instruments expected to vest.

Total depreciation and amortisation costs have increased by 30% year-on-year, in line with gross profit, which is a reflection of the continued investment in the future growth of the Group, through expanding the physical infrastructure throughout the Group's warehouses and through investing in the development of the Group's proprietary technology platform to create an ever improving user experience, which in turn will generate higher levels of consumer loyalty.

4. EXCEPTIONAL AND OTHER ITEMS

Underlying profit is shown before exceptional and other items on the face of the income statement. Exceptional and other items are items which are material and non-recurring in nature and also include costs relating to acquisitions, disposal and significant business restructuring programmes some of which span multiple years. This is consistent with the way that financial performance is measured by management and reported to the Board, and assists in providing a meaningful analysis of the trading results of the Group. These items are presented separately to improve comparability of the Group's underlying profitability with peer companies.

	2018	2017
	£'000	£'000
Production and distribution facility	**9,545**	15,315
Acquisition, legal and professional costs	**13,188**	14,944
	22,733	**30,259**
Tax effect	**(3,222)**	(4,615)
	19,511	**25,644**

Production and distribution facility

The Group's 1m sq. ft. UK based food production and distribution facility (Omega) has begun to reach maturity in the second half of 2018, as the proprietary software continues to be developed and expanded. The Group has also begun to commission a new warehouse in Poland (Wrocław) in the last quarter of 2018. The Group expects the initiation and commissioning of production and distribution facilities to continue across year 2019. Costs relating to the ongoing integration of the facilities continue to be included within exceptional and other items.

Acquisition, legal and professional costs

Legal, financial and taxation due diligence costs related to M&A activities in the year are included within exceptional and other items.

Post-acquisition reorganisation and restructuring costs are associated with dual site and technology decollation costs, redundancies, onerous lease costs and other costs of a one-off nature including store closures.

5. AUDITORS REMUNERATION

	2018	2017
	£'000	£'000
Audit of the Company and consolidated financial statements	**115**	115
Other services:		
Audit of the Company's subsidiaries	**145**	105
Corporate finance services	**217**	672
	477	**892**

6. EMPLOYEE COSTS AND DIRECTORS' REMUNERATION

		2018	2017
	Note	£'000	£'000
Wages and salaries		**141,896**	107,717
Social security costs		**14,438**	10,401
Pension costs		**1,408**	483
Share-based payments	7	**621**	1,758
		158,363	**120,359**

The aggregate amount of employee costs included above that have been capitalised within platform development costs was £24.1m (2017: £21.2m).

The costs incurred in respect of the Directors, who are regarded as the only key management personnel, were as follows:

	2018	2017
	£'000	£'000
Directors' emoluments	**1,475**	1,364
Highest paid director	**588**	488

Details of the Directors' share-based payments are included in note 27.

No retirement benefits are accruing to any of the Directors at 31 December 2018 (2017: nil).

The average number of employees (including executive directors) during the year was:

	2018	2017
	Number	Number
Retail	**1,320**	873
Administration	**727**	563
Distribution	**1,710**	1,261
Information technology	**482**	525
	4,239	**3,222**

7. SHARE-BASED PAYMENTS

The Group operates share-based compensation plans over the years, under which the Group receives services from employees as consideration for equity instruments (options or growth shares) of the Company. A new Long-term Incentive Plan (LTIP) was introduced during 2018. Under this scheme, the Group issued equity settled management shares which were valued using Monte Carlo simulation with the following inputs:

	LTIP 2018
Subscription price £	43.25
Expected volatility %	47.18
Risk-free interest rate %	1.2
Fair value per share £	175.1

At each balance sheet date, the Group revises its estimate of the number of options and shares expected to vest upon the satisfied completion of the specific vesting conditions and the vesting period.

A reconciliation of equity instrument movements, and weighted average exercise price ("WAEP") over the year is shown below:

	Number 2018	WAEP 2018	Number 2017	WAEP 2017
		£		£
Outstanding at 1 January	344,964	5.29	383,894	5.19
Granted	160,568	43.25	-	-
Cancelled	(28,408)	4.01	(38,930)	4.25
Outstanding at 31 December	**477,124**	**18.14**	**344,964**	**5.29**

Notes to the consolidated financial statements (continued)

The lowest exercise/subscription price of equity instruments outstanding at the end of the period was £1.00 (2017: £1.00) and the highest was £43.25 (2017: £8.25).

8. FINANCE INCOME AND COST

	2018	2017
	£'000	£'000
Finance income		
Bank interest receivable	**162**	**315**
Finance costs		
Bank interest payable and charges	**14,996**	7,133
Finance lease interest	**37**	19
	15,033	**7,152**

9. INCOME TAX

	Note	2018	2017
		£'000	£'000
Current tax			
Tax charge for the year		**933**	730
Adjustments in respect of prior year		**(434)**	(651)
		499	**79**
Deferred tax			
Origination and reversal of temporary differences		**322**	(1,237)
Adjustments in respect of prior year		**370**	372
Change in tax rates		**(252)**	-
	21	**440**	**(865)**
Total income tax charge/(credit)		**939**	**(786)**

The effective tax rate was 54% and is explained below:

	2018	2017
	£'000	£'000
Profit/(loss) before tax	**1,743**	(10,879)
Profit/(loss) before tax at 19% (2017: 19.25%)	**331**	(2,094)
Tax effects of:		
Adjustments in respect of prior year	**(64)**	(284)
Non-qualifying depreciation	**620**	643
Expenses not deductible / non-taxable income	**2,057**	1,416
Effect of higher tax rates in other jurisdictions	**216**	307
Recognition of previously unrecognised losses/ unrecognised in year	**(2,094)**	(1,026)
Effect of change in tax rate	**(127)**	252
	939	**(786)**

The standard rate of Corporation Tax in the UK is 19%. The effective tax rate is higher mainly due to non-deductible acquisition costs, non-qualifying depreciation and overseas tax rates.

All deferred tax balances as at 31 December 2018 have been calculated at 17% (2017: 17%), being the enacted rate at which the deferred tax is expected to reverse.

Regarding US tax, the US corporate tax rate is 21% (from 1 January 2018). This rate has been used to calculate any deferred tax.

10. BUSINESS COMBINATIONS

Details of these acquisitions are as follows:

	Country of incorporation	Nature of activity	Date of acquisition	Consideration ('000)	Percentage ownership
Eyeko	England and Wales	Online retailing	3 May 2018	16,532	100%
Language Connect	England and Wales	Translation and interpretation	16 July 2018	12,690	100%
Acheson & Acheson	England and Wales	Manufacturing	31 August 2018	52,772	100%

Notes to the consolidated financial statements (continued)

The carrying amount of assets and liabilities in the books of the acquirees at the dates of acquisition were as follows:

	Eyeko £'000	**Language Connect** £'000	**Acheson & Acheson** £'000	**Total** £'000
Intangible assets	-	127	282	**409**
Property, plant and equipment	113	143	12,655	**12,911**
Other long term assets	-	513	-	**513**
Inventories	336	-	11,057	**11,393**
Trade and other receivables	2,123	2,688	11,727	**16,538**
Cash and cash equivalents	-	823	516	**1,339**
Trade and other payables	(1,499)	(1,509)	(16,511)	**(19,519)**
Non-current payables	(3)	-	-	**(3)**
Deferred tax	-	-	(277)	**(277)**
Total carrying amount	**1,070**	**2,785**	**19,449**	**23,304**

The following intangible assets were recognised at acquisition:

	Eyeko £'000	**Language Connect** £'000	**Acheson & Acheson** £'000	**Total** £'000
Intangible assets - brands	3,244	3,644	22,631	**29,519**
Intangible assets - customer lists	128	104	7,805	**8,037**
Deferred tax	(579)	(642)	(5,262)	**(6,483)**
Total carrying amount	**2,793**	**3,106**	**25,174**	**31,073**

The provisional fair values of the assets and liabilities and the associated goodwill arising from the acquisitions are as follows:

	Note	**Eyeko** £'000	**Language Connect** £'000	**Acheson & Acheson** £'000	**Total** £'000
Intangible assets	11	3,372	3,760	30,718	**37,850**
Property, plant and equipment	12	27	148	12,660	**12,835**
Other long term assets		-	202	-	**202**
Inventories		462	-	11,057	**11,519**
Trade and other receivables		1,818	2,606	11,724	**16,148**
Cash and cash equivalents		137	923	510	**1,570**
Trade and other payables		(2,074)	(1,651)	(15,951)	**(19,676)**
Deferred tax	21	(579)	(642)	(5,539)	**(6,760)**
Net assets acquired		**3,163**	**5,346**	**45,179**	**53,688**
Goodwill	**11**	**13,369**	**7,344**	**7,593**	**28,306**
Purchase consideration		**16,532**	**12,690**	**52,772**	**81,994**

The goodwill is attributable to the cost synergies and cross-selling opportunities that are expected to be achieved from incorporating the businesses into the Group's IT platform and supporting operations.

Cash flows arising from the acquisitions were as follows:

	Eyeko £'000	Language Connect £'000	Acheson & Acheson £'000	Total £'000
Purchase consideration	16,532	12,690	52,772	**81,994**
Deferred consideration	-	(533)	(4,361)	**(4,894)**
Cash and cash equivalents acquired	(137)	(923)	(510)	**(1,570)**
Total cash outflow	**16,395**	**11,234**	**47,901**	**75,530**

From the dates of acquisition to 31 December 2018 the newly acquired companies contributed £24.9m and £4.0m, respectively, to Group revenues and profit before tax.

If the acquisitions had occurred on 1 January 2018, the Group's revenue and profit before tax for the year would have been £942.7m and £0.6m respectively.

During 2018, the Group has reassessed the fair value of the net assets in respect of acquisitions completed in 2017, resulting in a decrease of £5.0m in net assets and a corresponding increase in goodwill.

11. INTANGIBLE ASSETS

	Goodwill £'000	Platform development costs £'000	Intellectual property £'000	Brands £'000	Total £'000
Cost or valuation					
At 1 January 2017	**147,125**	**54,547**	**29,265**	**29,121**	**260,058**
Additions	-	24,528	7,507	-	**32,035**
Business combinations	176,023	1,201	2,987	23,880	**204,091**
Currency translation differences	(1,069)	(20)	74	254	**(761)**
Recognised on acquisition of businesses	(480)	-	-	-	**(480)**
At 31 December 2017	**321,599**	**80,256**	**39,833**	**53,255**	**494,943**

11. INTANGIBLE ASSETS (CONTINUED)

	Note	Goodwill £'000	Platform development costs £'000	Intellectual property £'000	Brands £'000	Total £'000
Cost or valuation						
At 1 January 2018		**321,599**	**80,256**	**39,833**	**53,255**	**494,943**
Transfers		-	3,329	(267)	-	**3,062**
Additions		4,970	29,052	12,475	-	**46,497**
Business combinations	10	28,306	-	8,331	29,519	**66,156**
Currency translation differences		2,206	(1,122)	1,697	1,088	**3,869**
Disposal		-	-	(90)	-	**(90)**
At 31 December 2018		**357,081**	**111,515**	**61,979**	**83,862**	**614,437**
Accumulated amortisation						
At 1 January 2017		**270**	**25,245**	**10,303**	**2,604**	**38,422**
Amortisation	3	-	13,816	6,903	1,250	**21,969**
Currency translation differences		-	4	(18)	(125)	**(139)**
At 31 December 2017		**270**	**39,065**	**17,188**	**3,729**	**60,252**
At 1 January 2018		**270**	**39,065**	**17,188**	**3,729**	**60,252**
Transfers		-	1,318	(5)	-	**1,313**
Amortisation	3	-	16,415	11,680	3,249	**31,344**
Currency translation differences		-	23	1,160	535	**1,718**
Disposals		-	-	(29)	-	**(29)**
At 31 December 2018		**270**	**56,821**	**29,994**	**7,513**	**94,598**
Net book amount						
At 1 January 2017		**146,855**	**29,302**	**18,962**	**26,517**	**221,636**
At 31 December 2017		**321,329**	**41,191**	**22,645**	**49,526**	**434,691**
At 31 December 2018		**356,811**	**54,694**	**31,985**	**76,349**	**519,839**

Impairment tests for goodwill and other intangible assets

The Group's intangible assets include acquired brands and intellectual property, some of which are deemed to have indefinite lives as there are no foreseeable limits to the periods over which they are expected to generate cash inflows. The assessment of an indefinite life takes into account the market position and the Group's commitment to maintaining the brand.

11. INTANGIBLE ASSETS (CONTINUED)

Goodwill, brands and intellectual property that have indefinite useful lives are subject to annual impairment testing, or more frequent testing if there are indications of impairment. Intangible assets and goodwill are allocated to the appropriate cash-generating units ("CGUs") based on the smallest identifiable group of assets that generates cash inflows independently in relation to the specific intangible asset.

The recoverable amounts of the CGUs are determined from value-in-use calculations that use amounts from approved budgets, and projections over an initial period of 3-10 years (2017: 3-5 years) and pre-tax cash flows projected forward assuming a perpetual growth rate of 2% (2017: 2%). The discount rate applied to the cash flow projections was 9.1% on a pre-tax basis (2017: 8.5%). The average per-annum growth rate applied to the initial period ranged from 2% to 25% dependent on the maturity of the CGU (2017: 2% to 25%) and is based on recent actual and expected performance of the Group. The net book value of goodwill, brands and intellectual property with indefinite lives allocated to CGUs for the purposes of impairment testing is as follows:

		2018		2017	
	Note	Goodwill £'000	Brands £'000	Goodwill £'000	Brands £'000
Sports Nutrition		52,208	5,527	52,187	5,527
Beauty Retail		36,738	-	36,373	-
Diet					
Exante		1,406	-	1,406	-
Ideal Shape		27,677	-	26,126	-
Beauty Brands					
Mio		2,229	-	2,069	-
GLOSSYBOX		25,287	-	22,330	-
ESPA		82,680	-	81,750	-
Illamasqua		16,275	-	16,322	-
Eyeko	10	13,369	-	-	-
Acheson & Acheson	10	7,593	-	-	-
Ingenuity					
Hangar Seven		8,211	-	7,433	-
UK2		42,053	-	41,592	-
Language Connect	10	7,344	-	-	-
Other Retail					
Iwantoneofthose		1,965	-	1,965	-
The Hut		2,568	-	2,568	-
ProBikeKit		8,475	-	8,475	-
PIAB / MGB		42	-	42	-
Other					
Preloved		4,267	-	4,267	-
Hale CC		16,424	-	16,424	-
		356,811	**5,527**	**321,329**	**5,527**

A sensitivity analysis has been performed around the base assumptions, being operating profit and sales growth, with the conclusion that no reasonable possible changes in key assumptions would cause the recoverable amount of the goodwill and brands with indefinite lives to be less than the carrying value. A 10% reduction in the discounted cash flows would not result in an impairment being required.

During 2018, Sport Nutrition and Beauty Retail CGU Groups have been formed following the merge of the brands related to that market segment.

12. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Freehold buildings £'000	Total £'000
Cost						
At 1 January 2017	**1,882**	**61,080**	**19,876**	**11,654**	**72,703**	**167,195**
Additions	124	10,262	19,894	7,170	1,228	**38,678**
Business combinations	31	163	836	6,746	4,973	**12,749**
Currency translation differences	(4)	(162)	(106)	(86)	(80)	**(438)**
Disposals	-	(64)	-	-	-	**(64)**
At 31 December 2017	**2,033**	**71,279**	**40,500**	**25,484**	**78,824**	**218,120**
At 1 January 2018	**2,033**	**71,279**	**40,500**	**25,484**	**78,824**	**218,120**
Transfers	-	(9,534)	1,227	8,752	(178)	**267**
Additions	41	12,213	16,369	8,741	438	**37,802**
Business combinations (note 10)	150	2,702	193	68	9,722	**12,835**
Currency translation differences	-	1,415	687	138	61	**2,301**
Disposals	(175)	(358)	(374)	(219)	-	**(1,126)**
At 31 December 2018	**2,049**	**77,717**	**58,602**	**42,964**	**88,867**	**270,199**
Accumulated depreciation						
At 1 January 2017	**283**	**6,914**	**2,221**	**5,021**	**707**	**15,146**
Depreciation (note 3)	334	3,898	4,424	6,723	1,436	**16,815**
Currency translation differences	(1)	(12)	(10)	(14)	(2)	**(39)**
Disposals	-	(9)	-	-	-	**(9)**
At 31 December 2017	**616**	**10,791**	**6,635**	**11,730**	**2,141**	**31,913**
At 1 January 2018	**616**	**10,791**	**6,635**	**11,730**	**2,141**	**31,913**
Transfers	-	(281)	318	44	(76)	**5**
Depreciation (note 3)	274	7,537	5,771	4,612	1,051	**19,245**
Currency translation differences	-	1,040	67	78	4	**1,189**
Disposals	(90)	(72)	(130)	(56)	-	**(348)**
At 31 December 2018	**800**	**19,015**	**12,661**	**16,408**	**3,120**	**52,004**
Net book amount						
At 1 January 2017	**1,599**	**54,166**	**17,655**	**6,633**	**71,996**	**152,049**
At 31 December 2017	**1,417**	**60,488**	**33,865**	**13,754**	**76,683**	**186,207**
At 31 December 2018	**1,249**	**58,702**	**45,941**	**26,556**	**85,747**	**218,195**

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included within property, plant and equipment are assets held under finance lease as follows:

	Motor vehicles £'000	Plant and machinery £'000	Total £'000
As at 31 December 2017			
Cost	291	10,412	**10,703**
Accumulated depreciation	(246)	(7,340)	**(7,586)**
Net book value	**45**	**3,072**	**3,117**
As at 31 December 2018			
Cost	-	5,789	**5,789**
Accumulated depreciation	-	(4,119)	**(4,119)**
Net book value	**-**	**1,670**	**1,670**

13. INVENTORIES

	2018 £'000	2017 £'000
Goods held for resale	**144,477**	84,798
Goods in transit	**10,764**	-
	155,241	**84,798**

Goods in transit are in relation to the adoption of IFRS 15 and related with goods whose control is still to be transferred to the customers as of reporting date.

The cost of inventories recognised as an expense and included in cost of sales amounted to £498.3m (2017: £417.2m).

14. FINANCIAL ASSETS AND LIABILITIES

	Note	2018 £'000	2017 £'000
Assets as per balance sheet – loans and receivables			
Trade and other receivables excluding prepayments	15	**51,161**	20,786
Cash and cash equivalents	16	**234,819**	186,729
		285,980	**207,515**
Liabilities as per balance sheet - other financial liabilities at amortised cost			
Bank borrowings	18	**526,957**	404,043
Finance leases	22	**1,670**	2,654
Trade and other payables excluding non-financial liabilities	17	**266,631**	205,432
		795,258	**612,129**

Notes to the consolidated financial statements (continued)

Financial instruments included within current assets and liabilities, excluding borrowings, are generally short-term in nature and accordingly their fair values approximate to their book values. The contractual maturity of bank borrowings and finance lease liabilities is provided in note 18.

Trade and other payables excluding non-financial liabilities include a liability of £0.2m (2017: £0.05m) in relation to the fair value of foreign currency swaps as at the balance sheet date, that have been measured using observable inputs and are not designated as hedges.

The Group's financial risks are detailed on page 43 of the strategic report.

15. TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Trade receivables	**37,146**	14,370
Less loss allowance	**(926)**	(1,131)
	36,220	13,239
Prepayments and accrued income	**31,508**	22,841
Other taxation and social security	**6,486**	107
Other receivables	**14,941**	7,547
	89,155	**43,734**

Trade and other receivables are principally denominated in sterling.

At 31 December 2018 the ageing of trade receivables was as follows:

	2018 £'000	2017 £'000
Not due	**20,222**	7,141
0 to 3 months overdue	**15,557**	3,751
3 to 6 months overdue	**665**	2,254
Over 6 months overdue	**702**	1,224
	37,146	**14,370**

The movement in the loss allowance of trade receivables was as follows:

	£'000
At 1 January 2018	1,131
Released	(800)
Business combinations	350
Charge for the year	245
At 31 December 2018	**926**

16. CASH AND CASH EQUIVALENTS

	2018 £'000	2017 £'000
Cash and cash equivalents	**234,819**	**186,729**

17. TRADE AND OTHER PAYABLES

	2018	2017
	£'000	£'000
Trade creditors	**153,262**	103,645
Accruals and deferred income	**99,307**	96,278
Other taxation and social security	**6,184**	1,800
Other creditors	**7,878**	3,709
	266,631	**205,432**

The Directors consider the carrying amount of trade and other payables approximates to their fair value when measured by discounting cash flows at market rates of interest as at the balance sheet date.

18. BORROWINGS

	Note	2018 £'000	2017 £'000
Current			
Bank borrowings		**7,194**	7,140
Finance leases	22	**947**	2,090
		8,141	**9,230**
Non-current			
Bank borrowings		**519,763**	396,903
Finance leases	22	**723**	564
		520,486	**397,467**

Bank borrowings relate predominantly to the amended senior facility and acquisition facility provided by Barclays, HSBC, Santander, Citibank, JPM, RBS, Lloyds Bank, Bank of Ireland, Silicon Valley Bank and PDL Europe referred to on page 42. The contractual terms of the non-amortising senior facility were amended on 27 February 2019 with the addition of Shanghai Pudong Development Bank, extended to cover a 4-year period, and allowing the Group to draw down and repay throughout the duration of the arrangement. The non-amortising acquisition facility was also extended on 27 February 2019 by 1 year maturing in July 2021. Finance leases relate to loans funding asset purchases payable over three years and are secured by charges over the assets to which they relate. Senior facility bank borrowings carried an interest rate of 2.15% (2017: 2.35%) plus LIBOR and 3.75% (2017: n/a) plus LIBOR on the acquisition facility bank borrowings. All material companies registered in England and Wales have granted a debenture to Barclays Bank plc (as security agent). Share charges and, where relevant, a charge over bank accounts have been granted to Barclays Bank plc in respect of material Guernsey and Jersey registered companies.

If interest rates during the year had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been £3.1m (2017: £2.4m) lower/higher as a result of the higher/lower interest expense which would have been payable.

Notes to the consolidated financial statements (continued)

The contractual maturity of bank borrowings is as follows:

	2018	2017
	£'000	£'000
Within one year	**7,194**	7,140
Between two and five years	**519,763**	396,903
	526,957	**404,043**

The fair value measured by reference to contractual future cash flows discounted at market rates of interest at the balance sheet date approximates to book value.

19. PROVISIONS

	Onerous leases £'000	Customer loyalty points £'000	Dilapidations £'000	Other provisions £'000	Total £'000
At 1 January 2018	41	784	-	-	**825**
Utilisation	-	(1,170)	-	-	**(1,170)**
Acquired	301	-	813	-	**1,114**
Transferred	-	-	150	-	**150**
Created	-	1,246	-	107	**1,353**
At 31 December 2018	**342**	**860**	**963**	**107**	**2,272**

The onerous lease provisions relate to vacant leasehold properties mainly acquired as part of acquisitions.

The loyalty points provision relates to unredeemed points which entitle customers to discounts on future purchases to the extent the Group believes that they will be redeemed.

Dilapidation provisions relate to properties mainly acquired as part of acquisitions.

Other provisions are mainly related to guarantees given.

20. CONTRACT LIABILITIES

	2018	2017
	£'000	£'000
Contract liabilities	**28,311**	**-**

Contract liabilities are the consideration received from the customers for sales where the Group still has an obligation to transfer goods or services. 100% of the transaction price allocated to the unsatisfied contracts at of 31 December 2018 are recognised as revenue early next reporting period.

21. DEFERRED TAX

The deferred tax balance comprises:

	2018	2017
	£'000	£'000
Short term timing differences	(6,770)	(3,735)
Accelerated capital allowances	1,995	(93)
Business combinations	17,060	10,535
Tax losses	(2,349)	(309)
Other balance sheet amounts	370	370
	10,306	**6,768**

The movement on the deferred tax liability during the year is as follows:

	Note	£'000
At 1 January 2018		6,768
Business combinations	10	6,760
Consolidated statement of comprehensive income	9	440
Recognised in equity		(3,662)
At 31 December 2018		**10,306**

The Group has unrecognised deferred tax assets relating to losses of £5.7m (2017: £6.1m), which have not been recognised due to the unpredictability of when these assets will be realised.

22. LEASES

Operating leases
At 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings 2018 £'000	Land and buildings 2017 £'000
Within one year	**7,489**	4,117
Between two and five years	**14,069**	8,291
After five years	**2,563**	980
	24,121	13,388

Finance leases
The Group uses finance leases to acquire plant and machinery, computer equipment and software. The minimum lease payments under finance leases fall due as follows:

Notes to the consolidated financial statements (continued)

		Minimum lease payments		Present value of future minimum lease payments	
	Note	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Expiring within one year		**979**	2,152	**947**	2,090
Expiring between two and five years		**790**	577	**723**	564
		1,769	**2,729**	**1,670**	**2,654**
Less interest payable		**(99)**	(75)	-	-
Finance lease liability	14	**1,670**	**2,654**	**1,670**	**2,654**

The fair value when measured by discounting cash flows at market rates of interest as at the balance sheet date approximates to book value.

23. SHARE CAPITAL AND RESERVES

The Company has the following authorised, allotted, issued, fully paid and partly-paid ordinary share capital:

	2018	2017
	Number	Number
Class		
A ordinary	**459,169**	461,620
B ordinary	**3,203,437**	2,856,746
C ordinary	**3,789**	3,289
D ordinary	**458,920**	459,118
E ordinary	**160,568**	-
A2 shares	**-**	52,068
A4 shares	**-**	153,904
Deferred shares	**33,515**	33,515
£1 nominal value ordinary shares*	**4,319,398**	**4,020,260**

*included with this number is 511,657 partly-paid shares (2017: 364,455).

On 22 February 2018, 69,729 B ordinary shares were issued at a nominal value of £1 per share for cash consideration of £38m net of fees directly related to the share issue.

On 16 March 2018, 52,068 A2 shares and 153,904 A4 shares were converted into and re-designated as B ordinary shares.

On 29 March 2018, 73,329 B ordinary shares were issued at a nominal value of £1 per share for cash consideration of £40m net of fees directly related to the share issue.

23. SHARE CAPITAL AND RESERVES (CONTINUED)

On 9 November 2018, 4,790 B ordinary shares and 198 D ordinary shares were purchased by the Company and subsequently cancelled.

On 12 October 2018, the Company completed a reduction of capital whereby £250m was debited from the Company's share premium account and was credited to retained earnings.

On 20 December 2018, 2,451 A ordinary shares were converted into and re-designated as B ordinary shares.

During the year the Group issued 160,568 partly-paid E ordinary shares pursuant to its 2017-19 Long-Term Incentive Plan. 110 of these E ordinary shares were fully paid-up during the year.

A ordinary shares and B ordinary shares
The holders of A ordinary shares and B ordinary shares are entitled to receive dividends pro rata according to the number of shares held by them respectively as if they constituted one class of share. The A ordinary shares and B ordinary shares are non-redeemable. The holders of such shares have on a show of hands one vote and on a poll have one vote for each such share held by them. On a return of capital, the holders of such shares have different rights to receive any surplus assets remaining after the payment of liabilities ("Net Proceeds").

C ordinary shares
The holders of C ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are entitled to receive Net Proceeds.

D ordinary shares
The holders of D ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are not entitled to receive Net Proceeds unless a hurdle is achieved.

E ordinary shares
The holders of E ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are not entitled to receive Net Proceeds unless a hurdle is achieved.

Deferred shares
The holders of deferred shares have no right to receive a dividend and no voting rights. The deferred shares are non-redeemable. On a return of capital, the holders of deferred shares are entitled to receive the amount paid up or credited as paid up on such shares once the holders of all the other shares have received the sum of £0.1m per share.

Capital risk management
The Group's objectives when managing capital, which comprises equity, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The EBT facilitates an internal market for participants in employee share schemes to sell their shares in the Company. During the financial year, the EBT purchased a total of 27,107 shares for aggregate consideration of £9.9m which is deducted from retained earnings.

During the year the Group (including its EBT) bought back shares for an aggregate cash consideration of £17.5m.

The payments that were made to employees in return for the cancellation of their share options is £3.2m; 8,254 share options were cancelled in total.

Notes to the consolidated financial statements (continued)

24. PENSION COMMITMENTS

During the year, the Group operated an auto-enrolment pension scheme. The scheme is managed by independent fund managers and the Group contributes in accordance with the statutory requirements. In addition to the auto enrolment scheme, a subsidiary company operates a defined contribution pension scheme which is also managed by independent fund managers and its assets/liabilities are held separately from that of the Group. The pension charge represents the amount paid by the Group and amounted to £1.4m (2017: £0.5m). There were no outstanding contributions due to the fund at the year end.

25. CASH FLOW GENERATED FROM OPERATIONS

	Note	2018 £'000	2017 £'000
Profit/(loss) before taxation		**1,743**	**(10,879)**
Adjustments for :			
Depreciation	12	**19,245**	16,815
Amortisation	11	**31,344**	21,969
Share-based payments	7	**621**	4,115
Exceptional and other items	4	**22,733**	30,259
Net finance costs	8	**14,871**	6,837
Operating cash flow before exceptional and other items and before movements in working capital and provisions		**90,557**	**69,116**
Increase in inventories		**(49,962)**	(18,606)
Increase in trade and other receivables		**(16,449)**	(6,801)
Increase in trade and other payables		**42,907**	6,974
Increase in provisions		**1,447**	60
Foreign exchange gain/(loss)		**143**	(188)
Cash generated from operations before exceptional cash flows		**68,643**	**50,555**

26. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling party of the Group is The Hut Group Limited.

27. RELATED PARTY TRANSACTIONS

The Directors of the Company who were in office during the year from 1 January 2018 and up to the date of signing the financial statements are:

Executive Directors:

M J Moulding	R Horsefield (appointed on 31 October 2018)
J A Gallemore	V Tahmasebi (appointed on 28 February 2019)
J P Pochin (appointed on 18 April 2018)	S Whitehead (appointed on 28 February 2019)

Non-Executive Directors:

D P Murphy	B Liautaud
Z Byng-Thorne (appointed on 22 November 2018)	I McDonald
H Campbell (appointed on 20 February 2019)	A Monro
W M Evans	T R Pirrie-Franks (appointed on 18 March 2019)
E J Koopman	

Resigned Directors who served in the year:

A J Duckworth (resigned on 17 April 2018)	R J Pennycook (resigned on 22 November 2018)
P J Gedman (resigned on 31 October 2018)	N J M Gheysens (resigned on 18 March 2019)

The Directors' interests in the share capital of the Company at the balance sheet date are detailed below:

	Ordinary shares 2018 Number	Ordinary shares 2017 Number
M J Moulding	548,169	553,071
J A Gallemore	22,227	24,678
D P Murphy	47,118	47,118
I McDonald	17,300	17,300
A Monro	11,577	11,577
R Horsefield	975	2,200
J P Pochin	6,879	10,797
Z Byng-Thorne	750	750
	654,995	**667,491**

The Directors had the following interests in shares under incentive arrangements at the balance sheet date (see note 7 for details of the scheme).

	Date of award	Subscription/exercise price £	2018 Number	2017 Number
M J Moulding	Oct-10	7.50	**14,545**	29,090
M J Moulding	Nov-13	5.00	**87,920**	87,920
M J Moulding	Mar-18	43.25	**138,796**	-
J A Gallemore	Oct-10	7.50	**14,545**	14,545
J A Gallemore	Nov-13	5.00	**10,962**	15,154
A Monro	Nov-13	5.00	**35,168**	35,168
R J Pennycook	Nov-13	5.00	**35,168**	35,168
J P Pochin	Oct-10	7.50	**9,800**	9,800
R Horsefield	Nov-13	1.00	**1,171**	1,171
R Horsefield	Apr-18	43.25	**5,500**	-
R Horsefield	Dec-18	43.25	**1,833**	-
P J Gedman	Jan-10	8.25	**1,339**	1,339
P J Gedman	Oct-10	7.50	**1,950**	1,950
P J Gedman	Nov-13	5.00	**5,619**	9,858
A J Duckworth	Nov-13	5.00	**-**	7,024
			364,316	**248,187**

The Group has provided interest free loans of £0.8m (2017: £0.9m) to the Directors in order for them to subscribe for shares as part of the employee benefit scheme. The loans are repayable in the event of a sale or listing of the Group.

The share-based payments expense associated with the Directors was £4.6m (2017: £0.7m).

At 31 December 2018, Matthew Moulding controlled 25.7% of THG's fully diluted share capital. This comprised shares held outright and under incentive arrangements. The controlled management equity represents less than 5.5% of THG's fully diluted share capital.

28. POST BALANCE SHEET EVENTS

For details on events after the balance sheet date see the Directors' report on page 48.

29. SUBSIDIARY UNDERTAKINGS

At the balance sheet date the following subsidiaries were controlled by the Group, a company incorporated in England and Wales:

Subsidiary	Country of incorporation	Nature of business
The Hut.com Limited**	England and Wales	Online retailing
The Hut Platform Limited**	England and Wales	Provision of website development services
The Hut Holdings Limited**	England and Wales	Dormant
The Hut.com (Trading) Limited**	Jersey	Online retailing
Cend Limited**	England and Wales	Online retailing
Guco Internet Supplies Limited**	Guernsey	Holding company
Iwantoneofthose Limited**	Guernsey	Dormant
The Hut Entertainment SL**	Spain	Dormant
Zone Limited**	Guernsey	Holding company
Allenby Square Limited**	England and Wales	Property holding company
Ensco 818 Limited**	England and Wales	Holding company
Mankind Holdings Limited**	Guernsey	Holding company
Mankind Direct Limited**	England and Wales	Procurement company
Moo Limited**	England and Wales	Online advertising
Active Nutrition International OY**	Finland	Online retailing
Lookfantastic Group Limited**	England and Wales	Holding company
Lookfantastic.com Limited**	England and Wales	Online retailing
Lookfantastic Franchising Limited**	England and Wales	Franchising and consultancy services
Lookfantastic London Limited**	England and Wales	Dormant
Lookfantastic Salons Limited**	England and Wales	Hairdressing salon
The Hut IHC Limited*	England and Wales	Holding company
The Hut Management Company Limited***	England and Wales	Activities of Head Office
Exante Diet Limited**	England and Wales	Dormant
Bike Kit Limited**	England and Wales	Dormant
CNP Professional Holdings Limited**	Guernsey	Procurement company
MyVitamins Limited**	England and Wales	Dormant
HQ Hair Limited**	Guernsey	Holding company
Cend International Limited**	England and Wales	Online retailing
THGPP LLC**	USA	Dormant
THG International LLC**	USA	Warehouse and distribution
Mama Mio Limited**	England and Wales	Online retailing
Mama Mio Distribution Limited**	England and Wales	Dormant
Mama Mio US Inc.**	USA	Online retailing
THG Omega Limited**	Guernsey	Property holding company
Hale Country Club Limited**	England and Wales	Retail and leisure company
Aghoco 1442 Limited**	England and Wales	Property holding company
Gadbrook Limited**	England and Wales	Dormant
THG International Limited**	England and Wales	Dormant
The Hut Group International (Shanghai) Co Limited**	China	License holding company
PC Beauty Inc.**	USA	Holding company
Ideal Shape LLC**	USA	Marketing company
Performance Supplements LLC**	USA	Marketing company

* - 90% owned by The Hut Group Limited and 10% by The Hut Management Company Limited

** - 100% owned by The Hut IHC Limited either directly or indirectly.
*** - 0.01% owned by The Hut Group Limited, however The Hut Group Limited has a separate class of share in The Hut Management Company Limited which gives it the right to control the appointment of Board Directors.

Notes to the consolidated financial statements (continued)

Subsidiary	Country of incorporation	Nature of business
Inteladerm LLC**	USA	Online retailing
Salu Australia PTY Limited**	Australia	Holding company
Skincarestore Australia PTY Limited**	Australia	Online retailing
Salu Beauty Inc.**	USA	Online retailing
UK2 Limited**	England and Wales	Webhosting
Another.com Limited**	England and Wales	Webhosting
Virtual Internet Holdings Limited**	England and Wales	Holding company
Hosting Services Inc.**	USA	Webhosting
UK2 Ukraine LLC**	Ukraine	Webhosting
Virtual Internet (UK) Limited**	England and Wales	Webhosting
The Hut.com (Poland)**	Poland	Warehouse and distribution
RY.com.au Pty Limited**	Australia	Online retailing
Hangar Seven Limited**	England and Wales	Visual content producer
Media Ark Limited**	England and Wales	Visual content producer
H7P Portugal Unipessoal LDA**	Portugal	Visual content producer
Illamasqua (Holdings) Limited**	England and Wales	Holding company
Illamasqua Limited**	England and Wales	Online retailing
Beauty Box Beteiligungen GmbH**	Germany	Holding company
Beauty Trend Holding GmbH**	Germany	Online retailing
Beauty Trend GmbH**	Germany	Online retailing
Jade 1150. GmbH**	Germany	Holding company
Beauty Trend S.A.S France**	France	Online retailing
GlossyBox Sweden Holding UG**	Germany	Holding company
GlossyBox Sweden AB**	Sweden	Online retailing
GlossyBox United Kingdom Holding GmbH**	Germany	Holding company
Beauty Trend UK Limited**	England and Wales	Online retailing
VRB GmbH & Co. B-149 KG**	Germany	Holding company
Beauty Trend USA Inc.**	USA	Online retailing
El Spa Holdings (UK) Limited**	England and Wales	Holding company
ESPA International (UK) Limited**	England and Wales	Online retailing
Primavera Aromatherapy Limited**	England and Wales	Manufacturing
ESPA International (US) Inc.**	USA	Online retailing
ESPA International FZE**	UAE	Online retailing
Make Money Limited**	England and Wales	Holding company
M Beauty Limited**	England and Wales	Online retailing
Language Connect International Ltd**	England and Wales	Translation and interpretation
Language Connect, Inc.**	USA	Translation and interpretation
Language Connect Singapore Pte. Limited**	Singapore	Translation and interpretation
Acheson & Acheson Limited**	England and Wales	Manufacturing
1010 Products Limited**	England and Wales	Dormant
Ameliorate Skincare Limited**	England and Wales	Dormant

Majority of the Group's subsidiaries are registered at the following address: 5th Floor, Voyager House, Chicago Avenue, Manchester Airport, Manchester, England M90 3DQ

Company Only Financial Statements

Company balance sheet as at 31 December 2018

		2018	2017
	Note	£'000	£'000
Fixed assets			
Investments	4	**85,778**	89,770
		85,778	**89,770**
Current assets			
Debtors	5	**732,454**	518,648
Cash		**30,014**	80,058
		762,468	**598,706**
Creditors: amounts falling due within one year	6	**(11,073)**	**(9,224)**
Net current assets		**751,395**	**589,482**
Total assets less current liabilities		**837,173**	**679,252**
Creditors: amounts falling due after one year	7	**(519,763)**	**(396,903)**
Net assets		**317,410**	**282,349**
Capital and reserves			
Called up share capital		**4,020**	3,746
Share premium		**110,446**	277,380
Merger reserve		**615**	615
Capital redemption reserve		**523**	518
Retained earnings		**201,806**	90
Total shareholders' funds		**317,410**	**282,349**

The financial statements on pages 87 to 94 were approved by the Board of Directors on 4 June 2019 and were signed on its behalf by:

J A Gallemore
Director
Registered number: 06539496

Company statement of changes in equity for the year ended 31 December 2018

	Ordinary shares £'000	Share premium £'000	Merger reserve £'000	Capital Redemption Reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	**3,746**	**277,380**	**615**	**518**	**90**	**282,349**
Loss for the year	-	-	-	-	(25,198)	**(25,198)**
Issue of ordinary share capital	304	83,066	-	-	-	**83,370**
Share buy-backs	(30)	-	-	5	(23,707)	**(23,732)**
Capital reduction	-	(250,000)	-	-	250,000	**-**
Share-based payments	-	-	-	-	4,613	**4,613**
Capital contribution	-	-	-	-	(3,992)	**(3,992)**
Balance at 31 December 2018	**4,020**	**110,446**	**615**	**523**	**201,806**	**317,410**

1. ACCOUNTING POLICIES

The principal accounting policies have been applied in accordance with 'Financial Reporting Standard 101 Reduced Disclosure Framework' (FRS 101), and are detailed below. The policies have been applied consistently throughout both the current and preceding year.

a. Basis of preparation

As permitted by Section 408 of the Companies Act 2006, an entity profit and loss account is not included as part of the published consolidated financial statements of The Hut Group Limited. The loss for the financial year in the financial statements of the Company is £25.2m (2017: £12.2m profit).

In accordance with FRS101, the Company has taken advantage of the disclosure exemptions relating to the preparation of a cash flow statement and disclosure of related party transactions. The consolidated financial statements of The Hut Group Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

b. Taxation and deferred taxation

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

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

c. Borrowing costs

Borrowing costs are not capitalised; they are recognised in profit or loss in the period in which they are incurred.

d. Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

e. Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis through the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise. The Company has not entered into any transactions involving derivative instruments.

f. Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

g. Investments in subsidiaries

Investments in subsidiaries are held at cost, less any provision for impairment. Where equity settled share-based payments are granted to the employees of subsidiary companies, the fair value of the award is treated as a capital contribution by the Company and the investments in subsidiaries are adjusted to reflect this capital contribution.

h. Share-based payments

The Company operates a share-based compensation plan, under which the Company and the Group subsidiary entities receive services from employees as consideration for equity instruments of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted.

Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the equity instruments are exercised or growth shares in THG are issued to employees, the Company issues new shares. Of the proceeds received on exercise or issue of growth shares, an amount equal to the nominal value of the shares issued is credit to the share capital account and an amount equal to the share premium, net of directly attributable transaction costs, is credit to the share premium account.

The grant by the Company of equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The Group has an employee benefit trust (EBT) which facilitates an internal market for participants in employee share schemes to sell their shares in the Company. Shares held are recognised at cost as a deduction from shareholding equity. Subsequent consideration received for the sale of such shares is also recognised in equity.

i. Critical accounting judgements and key sources of estimation uncertainty

Share-based payments

Critical estimates and assumptions are made in particular with regard to the calculation of the fair value of employee equity instruments using appropriate valuation models. In addition, estimation is required in assessing the number of equity instruments expected to vest and the vesting periods of the awards.

2. EMPLOYEE COSTS AND NUMBERS

	2018	2017
	£'000	£'000
Wages and salaries	**1,439**	494
Social security costs	**193**	76
Share-based payments	**4,613**	467
	6,245	**1,037**

The average number of employees during the year was 4 (2017: 2).

3. AUDITOR REMUNERATION

Amounts paid to the Company's auditors are disclosed in note 5 of the Group consolidated financial statements.

4. FIXED ASSET INVESTMENTS

Fixed asset investments comprise investments in subsidiary undertakings.

	2018	2017
	£'000	£'000
At 1 January	**89,770**	88,606
Capital contribution	(3,992)	1,164
At 31 December	**85,778**	**89,770**

5. DEBTORS

	2018	2017
	£'000	£'000
Amounts owed by group undertakings	**719,910**	514,282
Unpaid share capital	**6,952**	-
Other debtors	**154**	-
Corporation tax asset	**-**	154
Other taxation and social security	**46**	107
Prepayments and accrued income	**5,392**	4,105
	732,454	**518,648**

Amounts owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

Notes to the company
financial statements (continued)

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2017
	£'000	£'000
Trade creditors	**123**	239
Bank borrowings	**7,140**	7,140
Accruals and deferred income	**3,810**	1,845
	11,073	**9,224**

Amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand.

7. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2018	2017
	£'000	£'000
Bank borrowings	**519,763**	396,903

Refer to note 18 of the Group financial statements for details of the bank borrowings. Bank borrowings carried an interest rate of 2.15% (2017: 2.35%) plus Libor. If interest rates during the year had been 100 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been £3.1m (2017: £2.4m) higher/lower as a result of the higher/lower interest expense which would have been payable.

8. SHARE CAPITAL AND RESERVES

The Company has the following authorised, allotted, issued, fully paid and partly-paid ordinary share capital:

	2018 Number	2017 Number
Class		
A ordinary	**459,169**	461,620
B ordinary	**3,203,437**	2,856,746
C ordinary	**3,789**	3,289
D ordinary	**458,920**	459,118
E ordinary	**160,568**	-
A2 shares	**-**	52,068
A4 shares	**-**	153,904
Deferred shares	**33,515**	33,515
£1 nominal value ordinary shares*	**4,319,398**	**4,020,260**

*included with this number is 511,657 partly-paid shares (2017: 364,455).

On 22 February 2018, 69,729 B ordinary shares were issued at a nominal value of £1 per share for cash consideration of £38m net of fees directly related to the share issue.

On 16 March 2018, 52,068 A2 shares and 153,904 A4 shares were converted into and re-designated as B ordinary shares.

On 29 March 2018, 73,329 B ordinary shares were issued at a nominal value of £1 per share for cash consideration of £40m net of fees directly related to the share issue.

On 9 November 2018, 4,790 B ordinary shares and 198 D ordinary shares were purchased by the Company and subsequently cancelled.

On 12 October 2018, the Company completed a reduction of capital whereby £250m was debited from the Company's share premium account and was credited to retained earnings.

On 20 December 2018, 2,451 A ordinary shares were converted into and re-designated as B ordinary shares.

During the year the Group issued 160,568 partly-paid E ordinary shares pursuant to its 2017-19 Long-Term Incentive Plan. 110 of these E ordinary shares were fully paid-up during the year.

Notes to the company financial statements (continued)

A ordinary shares and B ordinary shares
The holders of A ordinary shares and B ordinary shares are entitled to receive dividends pro rata according to the number of shares held by them respectively as if they constituted one class of share. The A ordinary shares and B ordinary shares are non-redeemable. The holders of such shares have on a show of hands one vote and on a poll have one vote for each such share held by them. On a return of capital, the holders of such shares have different rights to receive any surplus assets remaining after the payment of liabilities ("Net Proceeds").

C ordinary shares
The holders of C ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are entitled to receive Net Proceeds.

D ordinary shares
The holders of D ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are not entitled to receive Net Proceeds unless a hurdle is achieved.

E ordinary shares
The holders of E ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are not entitled to receive Net Proceeds unless a hurdle is achieved.

Deferred shares
The holders of deferred shares have no right to receive a dividend and no voting rights. The deferred shares are non-redeemable. On a return of capital, the holders of deferred shares are entitled to receive the amount paid up or credited as paid up on such shares once the holders of all the other shares have received the sum of £100,000 per share.

Disclosures on the share-based payment schemes can be found in note 7 of the Group financial statements.

Further information in respect of the movement in the share premium account and share buy-backs can be found in note 23 of the Group financial statements.

9. POST BALANCE SHEET EVENTS

Disclosure on the post balance sheet events is in the Directors' report on page 48.

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The Hut Group Limited. Company Number 06539496