TheWorks.co.uk

Annual Report 2019

What will you discover?

At TheWorks.co.uk plc we are committed to offering our customers a wide variety of good quality, great value products through a unique multi-channel shopping experience.

TheWorks.co.uk plc is one of the UK's leading multi-channel specialist retailers of value gifts, arts, crafts, toys, books and stationery.

Find out more at www.theworksplc.co.uk

www.theworks.co.uk

Differentiated proposition within attractive growth segments

We occupy an attractive position within the high-growth discount retail sector, offering a differentiated proposition as a value alternative to full price specialists in our chosen product categories.

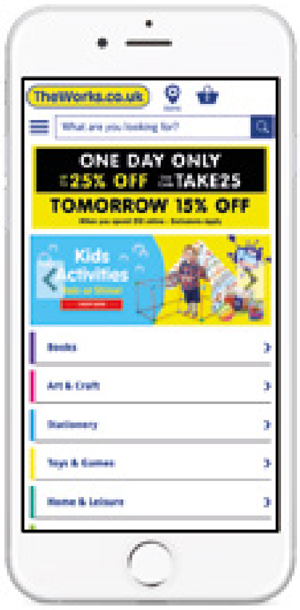
Find out more on **page 11**

Product discovery is key to customer experience.

Proven, multi-channel, model

We offer our product ranges through a diverse network of nearly 500 stores and concessions as well as through our eCommerce platform 'theworks.co.uk'. Our popular Click & Collect service and customer loyalty scheme underpin this multi-channel model.

Find out more on **page 12**



Click & collect – our fastest-growing channel.

Loyalty scheme – Over 1.8m active members.

Clear growth strategy

The Group intends to continue delivering against its clear, and proven, four pillar growth strategy: new store rollout; like-for-like sales growth; multi-channel development; and margin enhancement, growing the presence of our differentiated proposition.

Find out more on **page 14**

New store rollout – Opportunity for up to 1,000 stores in the UK and Ireland.

Company overview

TheWorks.co.uk plc is the UK's leading multi-channel value retailer of gifts, arts, crafts, toys, books and stationery products. Our mission is to be a family friendly retailer that offers customers a unique and enjoyable shopping experience, built on our core principles of value, variety and quality.

Multi-channel

We sell our wide range of high-quality, great value products through our multi-channel model:

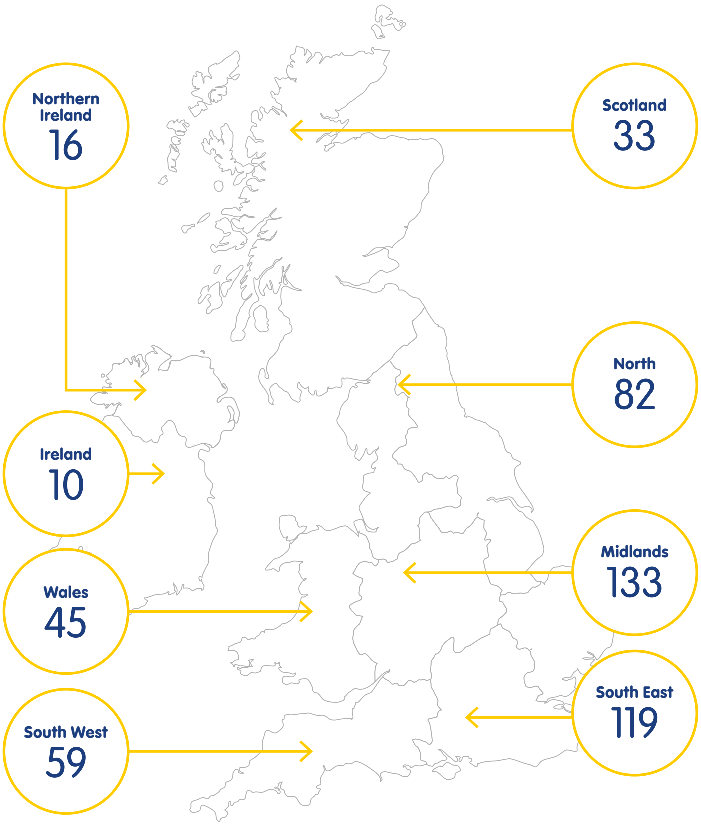
Stores

Our estate of nearly 500 stores, can be found in a diverse range of retail locations: on high streets; in shopping centres; on retail parks; and as concessions (typically in garden centres).

Online

We have a significant and growing online presence that enables customers to shop at any time of the day, 7 days a week and offers an extended range of products that are not available in our stores.

Our multi-channel offering, one of the first of its kind in the value retail sector in the UK, includes our popular Click & Collect service (representing over one-third of all online orders), offering further convenience for our customers.



Store map

497
Stores in the UK & Ireland at 28 April 2019

net 50
Opened in FY19

2019 highlights

Another record year for the business:

Financial

£217.5m
Revenue (+13.2%)

+3%
LFL sales growth

£13.8m
Adjusted EBITDA (+4.2%)

£6.7m
Adjusted PBT (+58.6%)
PBT £2.3m (-9.6%)

9.0p
Adjusted diluted earnings per share (+25%)
Diluted earnings per share 1.9p (-52.5%)

3.6p
Full year dividend proposed

The CFO Review contains details of the reconciliation between GAAP and non-GAAP measures.

Non-financial

- Opened a net 50 new stores
- Delivered our eighth consecutive record Christmas
- Launched thousands of new products
- Refreshed the look and feel of our stores through new in-store point of sale and zoning
- Continued to enhance our Click & Collect proposition – this remains our fastest growing channel
- Established an overseas online trading capability with the launch of a transactional website in the Republic of Ireland
- Grew the number of 'active' members on our together card database to 1.8 million (2018: 1.1 million) through at till registration
- Created more than 350 new jobs
- Placed 18th in the Sunday Times' 25 Best Big Companies to work for in the UK

What will you discover?

We pride ourselves on offering customers an experience of discovery – we only keep around 300 of the 6,000 products in our stores permanently stocked, with everything else being refreshed on a regular basis. This means that when customers come to our shop they can always find something new, driving the sense of discovery that makes our stores exciting.

Our diversified product offering, across our four key product categories – books; stationery; arts & crafts; and, toys & games – merchandised in four clear zones in our stores:

Kids

Our Kids Zone is a 'one stop shop' for value kids' books alongside a wide range of toys, jigsaws and games. This zone also features products with a focus on 'funucational' ('play and learn'). Our fantastic value for money in this zone is underpinned by some of our 'hero' deals, including '3 for £5' kids' books and our 2 for £10 magical gifts range at Christmas.

Stationery

Our Stationery Zone includes high-quality fashion notebooks, greeting cards, writing sets, storage boxes and address books at fantastic prices. A significant proportion of these products are under our own 'Paper Place' brand, enabling us to offer unique products at great prices. Our 'Scribblicious' range, aimed at the younger audience, includes trendy pens, pencils, pencil cases and storage solutions. This zone is also home to our core offer of consumable everyday stationery items (eg. pens, pencils, crayons, printing paper) suitable for home, office and students.

Arts, Crafts and Hobbies

Our Arts, Crafts and Hobbies Zone comprises a wide selection of paints, brushes, art sets, paper, canvas and craft kits that cater for the needs of beginners to experts, alongside a complementary book offer to enhance the range. Our ability to offer fantastic value for money in this zone is supported by our well-established own brand ranges. For example, in the art materials category, art enthusiasts shopping on a budget are served by the 'Crawford and Black' brand whilst specialists are catered for by the 'Boldmere' brand.

Family Gifts

Our Family Gifts Zone includes an extensive range of literature, including best-selling fiction paperbacks which are, typically, in a 3 for £5 'hero' deal throughout the year. It also includes a wide range of gifts that are always being refreshed and can include anything from the fun and quirky, such as extendable back scratchers and light boxes through to the practical, such as umbrellas, design-led shopping bags and hampers.

We supplement these core everyday zones with seasonal and regional offerings:

Seasonal

We flex a significant proportion of our in-store space throughout the year to maximise the opportunities from key seasonal events such as Christmas and Back to School. To optimise the customer offering for these events, we take existing products and merchandise them together with complementary products sourced specifically for that season. For example, in the run up to Christmas, we add seasonal cards, wrapping paper, crackers and gifting accessories to our great ranges of books and gifts. Christmas is the largest seasonal event for us and, at the end of October, we transform the look and feel of our stores into 'Santa's Giftshop' creating a unique shopping environment for our customers.

Regional Offering

To better service the needs of our customers in specific locations, we complement our core zones with a range of carefully selected local interest books and gifts including souvenirs and calendars. For example, we trade in a number of key tourist locations such as Princes Street in Edinburgh, Stratford-upon-Avon and Windsor and in stores in those locations, we stock tourist-specific ranges.

Santa's GiftShop

Company overview continued

Own brand offering

Key to our model is our great selection of own branded products that we offer across our ranges. These products are designed and created by our in-house design team and enable us to offer unique, high-quality products at great value prices. We have been growing this offering in recent years, with our own branded products now representing over 30 per cent of our sales.

Our own brands

Boldmere
Premium art supplies for professional artists

Brain Maze
Hand-held 3D puzzles and novelty games

CMYK Design Works
Premium art and graphic design supplies for students

Corner Piece
Great value jigsaw puzzles and accessories for all ages

Crawford & Black
Great value art supplies for student artists

Cubed Puzzles
Hand-held 3D novelty puzzles and toys

Easter Wishes
Great value craft and gift supplies for Easter

Explore, Learn, Discover
Educational range of kits and games (S.T.E.M.)

Fun Workz
Kids party bag games and accessories

Kids Fun Factory
Indoor and outdoor games, toys and activities for kids

Make & Create
Value art and craft supplies.

Make & Create Boutique
Premium art and craft supplies

Make & Create for kids
Quality art and craft supplies for pre-school to secondary school ages

Out2Play
Outdoor games, toys and activities for kids

Paper Place
Premium stationery items for home and office

Scribblicious
Fun, fashion stationery and accessories

Scribb It!
Novelty stationery and accessories suitable for pre-school to primary ages

The Craft Place
Great value art and craft essentials and blanks for use with all projects

Traditional Instruments for Kids
High-quality, great value musical instruments

Traditional Wooden Games
Wooden games and toys for the whole family

Traditional Wooden Toys for Kids
Wooden games and toys for kids

TheWorks.co.uk Premium
Great value essentials/stationery supplies for home and office

Winter Works
Premium Christmas accessories

Winter Works
Novelty Christmas accessories

Mega Trends

The depth and experience of our buying team enables them to spot new trends and crazes.

These include previous crazes such as loom bands, fidget spinners and the 'Squishies' Mega Trend this year. The flexibility of our buying model allows us to take market-leading positions on these Mega Trends when they come along.

+10,000
Total new products across all channels during the year

'Together' loyalty scheme

Underpinning our multi-channel proposition is our 'Together' loyalty scheme – a unique proposition in value retail in the UK. Nearly two million of our customers are actively engaged in this scheme. These members receive exclusive offers and bonus points for each pound they spend in our stores or through our website, with these points then converted to reward vouchers to spend in store. This scheme also gives us great insight into our customers' spending patterns which, amongst other things, allows us to develop a more accurate understanding of our customers and provides us with a cost-effective way of obtaining feedback on the success of new merchandising strategies and products. To help drive both loyalty scheme membership and store and online visit frequency, we are able to offer a number of double and triple bonus point marketing programmes, typically after peak seasonal trading events.

2019

Our people

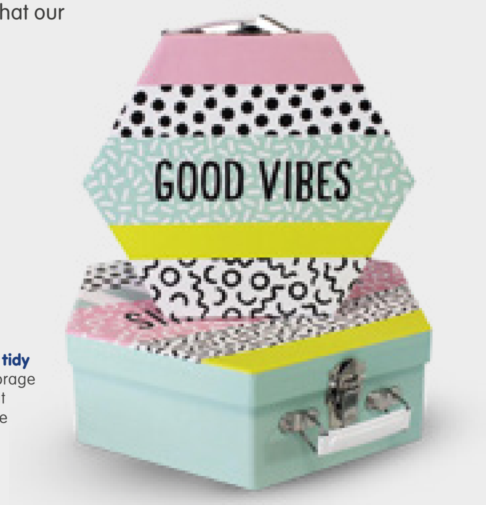
Our people are at the heart of our business and bring so much energy and dedication to their jobs every day. Whilst we continue to welcome hundreds of new colleagues to the business every year we also have strong engagement from our existing colleagues, taking great pride in the number of internal promotions we create every year. The high level of engagement of our fantastic colleagues was recognised by us placing 18th in the Sunday Times' 25 Best Big Companies to work for 2019 in the UK in our maiden year as part of this scheme.

CANCER RESEARCH UK

Our communities

Wherever there is a TheWorks.co.uk store, we endeavour to become part of our local community. We rely on communities to serve, maintain and shop in our stores every day and it's important that we're able to contribute to these communities as well, through daily engagement, local knowledge and a friendly shopping destination. Our new store opening programme continues to create jobs in those communities and bring a vibrant new brand to the retail location.

We continue to develop our partnership with Cancer Research UK, now having raised over half a million pounds for them through the sale of branded merchandise, contributions from the carrier bag levy and many fundraising activities that our colleagues have undertaken.



Keeping your home tidy
Our wide range of storage solutions, available at £7 or 2 for £10 provide customers with great value for money

Chairman's Statement

A year of great progress

Dean Hoyle
Chairman

> "The past year has been one of great milestones. We achieved our eighth record Christmas in a row, we opened a net 50 new stores and we successfully completed an IPO. These achievements are made more significant when we consider just how many challenges are facing the UK retail sector."

It's a great pleasure to introduce TheWorks.co.uk plc's first Annual Report since its listing on the London Stock Exchange in July 2018. I would like to welcome all new shareholders to the business and also take the opportunity to thank Endless LLP for being a loyal and supportive investor over the years, enabling TheWorks.co.uk plc to grow into the business it is today.

The past year has been one of great milestones. We achieved our eighth record Christmas in a row, we opened a net 50 new stores and we successfully completed an IPO. These achievements are made more significant when we consider just how many challenges are facing the UK retail sector.

Throughout the year, TheWorks.co.uk plc has continued in its strategy to deliver:

- Rollout of a net 50 stores per year
- Like-for-like sales growth
- Multi-channel development
- Margin enhancement

The store opening strategy is particularly important and remains our biggest driver of growth. As some of our fellow retailers shut up shop beside us, TheWorks.co.uk plc is becoming a growing presence on UK high streets. In the last year, returns on new store openings have been particularly strong as we continue to make the most of the increasingly favourable UK retail property market. I have been in retail for many years and believe that the past year has been one of the best ever years for opening new stores. It is crucial to our multi-channel proposition development, it is helping to spread awareness of the brand and is enabling us to attract new and loyal customers to the business.

This milestone year was delivered successfully by an extremely passionate and experienced management team, led by Kevin Keaney (CEO) who has overseen the TheWorks.co.uk plc's growth over the past eight years, working in partnership with Gavin Peck who joined as Chief Financial Officer ahead of the IPO. Gavin brings with him fantastic listed and retail business experience.

As part of the IPO process, we appointed Harry Morley as Senior Independent Non-Executive Director and Catherine Glickman as a Non-Executive Director and as members of the Board. They bring extensive experience in governance, leadership of UK listed businesses and the retail and consumer industry.

Despite the headwinds facing the industry, it was another very solid year for TheWorks.co.uk plc, with 13.2 per cent revenue growth and further profit growth in the year. We have not been immune to fluctuations in consumer spending and the economic and political uncertainty which resulted in slower momentum in Q4. The business remains highly cash generative, with low levels of debt meaning we are well-placed to trade through current market conditions. In line with our dividend policy, the Board is pleased to be proposing its maiden final dividend of 2.4 pence per share taking the full-year dividend to 3.6 pence per share.

As mentioned in our half-year results, I have faced my own, more personal challenges in the past year that resulted in spending some time in hospital after a diagnosis of pancreatitis. It has been a rollercoaster, full of ups and downs. I have been lucky enough to have received the very best care and so much support from those around me, including the team at TheWorks.co.uk plc. I am most certainly on the road to recovery and look forward to getting back to business in the year ahead.

At a time of unprecedented political uncertainty for the retail sector and for the UK, TheWorks.co.uk plc continues to demonstrate its resilience. Whilst we are not immune to the impact that this uncertainty may have on general consumer confidence our multi-channel proposition, means we are well-placed to weather the storm and we remain in a strong financial position enabling us to continue to invest to support our future growth.

Investment case

Differentiated proposition within attractive growth market segments

Find out more on **page 11**

Proven multi-channel model

Find out more on **page 12**

Well invested infrastructure to support growth

Find out more on **page 12**

Highly experienced management team

Find out more on **page 40**

Clear four pillar strategy for growth

Find out more on **page 14**

Strong and consistent track record of delivering profitable growth

Find out more on **page 27**

Bestseller
The "slime" trend in the year led to strong sales of our core PVA craft glue, making it a top 10 product for the year.


TheWorks.co.uk
100s of HUGE Discounts!
What will yo
Gifts
Art
Craft
Toys
BEST DAD EVER
Sunday 16th June

Strategic report

“I want to thank colleagues across the business for their hard work and for going the extra mile to deliver these results.”

Kevin Keaney
Chief Executive Officer


Novel
FICTION
NON-FICTION
BOOKS
BOXSETS
classics
novel
Reading
Romance
Beldray

Our market

Focussed on four large and growing categories

Differentiated proposition within attractive growth market segments
We operate within the UK retail market, specifically within the high-growth store-based and online value retail segments, targeting four key, large and growing product categories:

- Books
- Stationery
- Arts and crafts
- Toys and games

Viewed as a specialist by discount retailers and as a discounter by the full price specialists

Our differentiated, multi-channel, proposition supports three of the key trends in modern retail:

- **Value** – our disruptive pricing proposition, supported by our 'hero deals' provides our customers with a great selection of products at fantastic value for money
- **Convenience** – our customers can choose from a range of channels: one of our 497 stores; through our website; and, through other online marketplaces (eg. Amazon and eBay). Our Click & Collect proposition provides further convenience for customers who want to buy online but collect their parcel from one of our stores – this channel remains the fastest growing channel in our business
- **Online** – our transactional eCommerce website is rare within value discounting

Our proposition is highly inclusive with equal relevance across all social grades – our customers continue to associate us with value, variety and quality.

Our everyday value proposition is underpinned by key 'hero deals'

Our business model

Inputs

Strategy
- Clear four pillar strategy for growth

Suppliers
- Over 500 supplier relationships
- UK, Europe and Far East
- Close collaboration

Brand value
- 24 own brands developed in-house

People
- Over 3,500 colleagues, key to the success of our business
- Loyal and dedicated
- Highly engaged

Infrastructure
- Store network
- Web platform
- Boldmere House support and distribution centre
- Central IT infrastructure – investing to ensure scale and efficiency

What we do

How we are able to offer our customers a wide variety of good quality, great value products

Design and innovate
- Identifying and bringing trends to the UK market
- Unique products and designs through 24 own brands and in-house design studio
- Ongoing 'newness' of product offering – only c300 core SKUs with over 10,000 new stock keeping units (SKUs) introduced each year
- Four clear product zones: Kids, Stationery, Arts, Crafts and Hobbies, Family Gifts plus seasonal and regional offerings

24
Own brands

Underpinned by our values

Good quality, great value products

'What will you discover?'

Source and distribute

- Experienced buying team
- Relationships with over 500 suppliers
- Open for business – an outlet for 'clearance' parcels of goods
- Work closely with suppliers to ensure product safety and quality control
- Warehousing and store distribution undertaken from own 157,000 sq ft facility in Coleshill, Birmingham

Sell to customers through convenient channels

- 497 stores across UK & Ireland
- Website – 24/7 trading and extended ranges
- Marketplaces (eg. Amazon, eBay)
- Click & Collect – fastest growing channel, linking stores and online

500
Suppliers

157,000
sq ft warehousing & distribution facility

497
Stores

Outputs

Happy and loyal customers

1.8m
active Together card members

Engaged colleagues

- 288 colleagues with us for over ten years
- Top 25 Big Companies to work for
- Over 450 colleagues promoted last year

18th
in the Sunday Times Top 25 Big Companies to work for

Shareholder value

- 9.0 pence adjusted diluted EPS up 25% on FY18

3.6p
dividend per share proposed in FY19

Investment in communities

- New store opening programme is investing in local high streets and shopping centres
- Over £0.5 million raised in partnership with CRUK

+350
Jobs created last year

Family friendly, inclusive & welcoming

Convenient to customer

Rewarding loyalty to customers & colleagues

Our strategy

A clear strategy for future growth

Continued delivery of our successful growth strategy across four key pillars:

01 New store rollout

Opening of a net 50 new stores per annum as we continue to develop the opportunity to rollout our proposition to up to 1,000 stores in the UK and Ireland

Find out more on **page 16**

02 LFL sales growth

Continued development of our proposition, both in-store and online, to drive further LFL sales growth

Find out more on **page 17**

Always good quality

The UK's leading multi-channel value retailer of gifts, arts, crafts, toys, books and stationery products.

03
Multi-channel strategy

Further enhancing our multi-channel proposition, increasing convenience and the shopping experience for our customers

Find out more on **page 18**

04
Margin enhancement

Continued focus on driving product and operational cost savings to support our ability to offer fantastic value for money for our customers and deliver returns for shareholders

Find out more on **page 19**

Great value for money

Strategy in action

01 New store rollout

Consistent rollout of profitable new stores

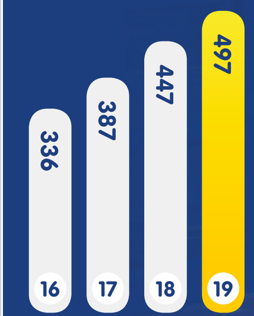
Opening new stores remains our biggest driver of growth and will continue to be for the medium term. We have a successful track record of opening new stores across a number of different formats, supported by the rigorous approach we take to identifying and assessing potential new store locations.

Our strategy continues to be to open a net 50 new stores per annum as we grow towards a store estate of up to 1,000 stores in the UK and Ireland in the years ahead. Target locations for these additional opportunities have already been identified, supported by our location planning tool developed in partnership with CACI a location planning consultancy and technology solution provider.

Our infrastructure is in place to support this growth, with the rollout being self-funded given the strong payback we see on these new store openings.

Progress made in FY19
We opened 50 net new stores in the year, taking our total number of stores to 497 at the end of the year. Our disciplined approach to opening new stores and the increasingly favourable UK property market means that payback on new stores openings in the year, of less than 12 months, was ahead of that delivered in recent years. We also made further progress in developing our retail park proposition seeing improving returns on the six stores opened on retail parks in the period (taking our total number of stores on retail parks to 12). This is reenforcing our confidence in the opportunity to expand to a portfolio of up to 1,000 stores in the UK and Ireland and the strong returns available from these store openings.

Proven track record



A net 50 new stores opened in each of the past 3 years

50
Net new stores pa

02 LFL sales growth

Strong growth in like-for-like sales

We have a demonstrable track record of profitable LFL sales growth, whilst maintaining and strengthening our position as one of the UK's leading multi-channel specialist retailer of value gifts, arts, crafts, books, toys and stationery. We intend to build on this successful track record, driving further LFL sales growth, by:

- Continuing to drive product 'newness' across all product zones;
- Developing opportunities for expansion into adjacent product categories (eg. balloons and kids party) and further range extensions within existing categories (eg. extended craft ranges online);
- Continuing to refine our space management to enhance our customer offering and drive further improvement in sales densities in our stores;
- Leveraging customer insight from our loyalty scheme to improve the effectiveness and return on investment from our marketing initiatives;
- Continuing to focus on improving in-store standards and customer service through ongoing training and development of our store colleagues; and
- Leveraging the opportunities for additional sales in-store which are created by the ongoing growth of our online Click & Collect sales channel.

Progress made in FY19

During the current year we delivered a LFL sales growth of three per cent, with positive sales growth in both stores and online, through a range of factors, including:

- Launching thousands of new products enhancing our customer proposition and driving continued 'product discovery' in our stores;
- Improving the product zone structure, including relaunching in-store signage;
- Launching 'Pen Bars', a dedicated area of the store selling a wide range of pens, across our store estate;
- Continuing to enhance our Click & Collect proposition, driving over 0.5 million additional customer visits to stores and growing the proportion of add-on sales to customers collecting their orders in store;
- Identifying and capitalising on the 'Squishies' Mega-Trend; and
- Strong performance of our seasonal ranges, delivering our eighth consecutive record Christmas and strong performance in our Summer 'Out2Play' and Back to School ranges.

Case study

Squishies Mega Trend

During the year our buying team was once again quick to identify and capitalise on an emerging Mega Trend in 'Squishies'. The nimble approach of our buying team, strong relationships with suppliers and our cross-functional and cohesive marketing approach meant that we were able to be one of the first to market with this Mega Trend. During the year we generated c£0.6 million of EBITDA from 'Squishies' (whilst they were classified as a Mega Trend), contributing to both LFL sales and profit growth in the year (note: in FY18 we generated c£1.2 million of EBITDA from the 'Spinners' Mega Trend).

03 Multi-channel development

Development of our multi-channel proposition

We are growing our online presence not simply as a different channel for customers but as an integrated part of the physical shopping experience.

We believe there remains a significant opportunity to drive further improvements in our multi-channel proposition through a range of factors, including:

- Further enhancing our website, with a new platform being developed in the coming year for launch in the first half of 2020;
- Further developing the offer of extended ranges online, providing a significant opportunity for further growth and an improved customer proposition;
- Further growing our 'Together' loyalty scheme, improving our understanding of our customers and engaging with them more efficiently and effectively around the offers and opportunities available in-store and online;
- Continuing to enhance the customer journey through our 'Click & Collect' channel, helping to drive more customers into our stores; and
- Converting the remaining 20 per cent of our stores to 'TheWorks.co.uk' fascia, further promoting our multi-channel credentials in those locations.

Progress made in FY19

Key developments in the year include:

- Further enhancing the overall site look and feel and the mobile customer journey, driving improvement in online visits and conversion;
- Extending the seasonal offering for Summer 2018 by creating the online 'Holiday Shop'. This was very well received and led to the launch of the new 'Christmas Shop' in 2018;
- Refreshing the online customer journey and in-store processes for our Click & Collect channel;
- Driving strong growth in loyalty membership, with active members at the end of the year at 1.8 million versus 1.1 million at the start of the year;
- Outsourcing our online warehousing and fulfilment operations to a third party – a key enabler for future range expansion and efficient servicing of our retail store estate; and
- Extending the current geographic reach of our online sales, with a trial in the Republic of Ireland in the second half of 2018.

Our goal is to be a nationally recognised retailer where our customers can buy what they want, when they want it, how they want it and where they want it

04 Margin enhancement

Increasing our margins

As a value retailer, improving our margins is a core part of our strategy and enables us to continue to pass fantastic savings onto our customers and deliver shareholder returns.

We have successfully grown our product margins in recent years and believe there remains an opportunity to further improve these margins through a number of initiatives, including but not limited to:

- Expanding our in-house design team with a view to increasing the proportion of SKUs and sales of own brand products as well as enhancing the look and quality of our existing own brand offering;
- Further developing our direct sourcing relationships with manufacturers, including leveraging economies of scale;
- Managing the mix of product offering towards higher margin categories/products;
- Continuing to review our pricing strategy, including the strategic management of multi-buys and non-sale event discounting; and
- Continuing to strengthen the buying team.

Additionally, cost control remains central to the business's philosophy and culture and we intend to enhance margins through the continued tight control of costs, including overall employee costs, general expenses and negotiation of improved rental terms upon expiry and renewal of existing leases.

We will continue to increase our focus on driving efficiencies where sensible and leveraging our investments in people and infrastructure in recent years. This is increasingly important as we continue to face into a number of margin headwinds, including increased costs from foreign exchange movements and national living and minimum wages. This process will continue to be balanced with investing to support our future growth.

Progress made in FY19

Our buying team have continued to work hard to improve our product margins. Key improvements have included:

- Investment in the team, with the addition of a new Head of Direct Sourcing and Special Projects;
- The successful launch of our own brand 'Corner Piece' adult jigsaws (with a plan to take this into children's jigsaws in the coming year);
- Better mark-down management supported by lower aged stock and strong sell-through of seasonal ranges; and
- Focus on product-engineering with a view to improving margins but maintaining value for money.

We have also continued to focus on reducing our lease terms on renewals, ensuring we continue to benefit from new opportunities in these favourable property market conditions.

Case study

Corner Piece jigsaws

During the year we launched a new range of adult jigsaws under our new 'Corner Piece' brand. This has enabled us to bring a new range of unique jigsaws to our customers, at fantastic prices starting from £4. Following the success of this launch we will be launching a range of kids jigsaws under the Corner Piece brand in 2019. By developing these own brands directly with our suppliers we have been able to reduce costs, passing savings onto our customers and improving our product margins at the same time.

CORNER PIECE PUZZLES


Gifts for everyone!
BEST SELLERS
Don't Miss Out!
What will you discover?
From Only £1
Build Your Own Den
Learner Driver Kit
THE HIGHWAY CODE
D-DAY
THE RAILWAY ADVENTURES
Solve it Like Sherlock
100s of New Lines Every Week!
GREAT BRITAIN AND IRELAND

Key performance indicators

We use 6 key performance indicators to monitor the performance of the Group against our strategy.

The definitions of these KPIs and our performance against them are detailed below. All of the non-GAAP financial measures detailed can be calculated from the GAAP measures included in the financial statements, as outlined in the notes to the financial statements. Commentary on these KPIs is included in the CFO's Review:

Financial

Total sales growth:

+13.2%

19	£217m
18	£192m

Definition
The percentage year-on-year change in total sales of the Group.

Like-for-Like sales growth:

+3%

19	+3%
18	+4.7%

Definition
Defined as the year-on-year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from our eCommerce platform, calculated on a calendar week basis.

Adjusted EBITDA:

£13.8m

19	£13.8m
18	£13.2m

Definition
Represents adjusted profit for the period before net finance expense, taxation, depreciation and amortisation, loss on disposals of property, plant and equipment and adjusting items. Adjusting items are gains or losses incurred in a period which are not expected to be recurring.

Adjusted profit before tax:

£6.7m

19	£6.7m
18	£4.2m

Definition
Represents adjusted profit for the period before taxation and adjusting items. Adjusting items are gains or losses incurred in a period which are not expected to be recurring.

Adjusted diluted earnings per share:

9.0p

19	9.0p
18	7.2p

Definition
Is calculated by dividing the adjusted profit for the period attributable to ordinary shareholders by the weighted average number of Ordinary shares in issue during the period (including dilutive share options). Adjusted profit is before the impact of adjusting items, which are gains or losses incurred in a period which are not expected to be recurring.

Non-financial

Net number of new stores open in the period:

50

19	net 50 stores
18	net 60 stores

Definition
Represents the number of stores opened in the period less the number of stores closed in the period.

Chief Executive Officer's Review

Going the extra mile to deliver results

Kevin Keaney
Chief Executive Officer

"I am very proud of what we have achieved in the year. Even in a challenging retail environment, we have achieved good growth through the hard work and dedication of our colleagues, underpinned by our clear strategy and a consistent focus on our customers."

TheWorks.co.uk plc has had a milestone year, as we opened new stores, developed our multi-channel offering and started a new chapter as a publicly listed business. I would like to echo the sentiments from our Chairman in welcoming all new shareholders to the business.

I am immensely proud that throughout this period of transition, our teams have remained focused on delivering a fantastic retail experience to existing and new customers. We grew revenues 13.2 per cent in the year, with great success during our seasonal events including delivering our eighth successive record Christmas.

The trading conditions have been challenging, particularly in the final quarter, with a number of factors impacting performance that are outside of our control. Whilst there is little we can do about the economic and political uncertainty in the UK, I am very confident in our proposition and our ability to execute our strategy through these difficult times, with the same unwavering commitment to our customers.

Business

Our mission is to be a family friendly retailer that offers customers a unique and enjoyable shopping experience, built on our core principles of value, variety and quality.

As the UK's leading multi-channel specialist retailer of value gifts, arts, crafts, toys, books and stationery, we pride ourselves on offering customers an experience of discovery. Our low cost, uncomplicated, but disruptive model means that we can pass on big savings to our customers. Each of our stores takes customers through the four zones of products to explore: Kids, Arts, Crafts and Hobbies, Stationery and Family Gifts.

Our range is continuously changing so that customers can always find something new. The sense of discovery is what makes our stores exciting and keeps them fresh. We only keep around 300 of the 6,000 products in our stores permanently stocked, which means that everything else is rotated by our buying team on a regular basis. It gives our customers more reasons to visit us and offers a new experience every time. Our buying teams are constantly seeking new products. Their depth of experience enables them to spot new trends and crazes, like the 'squishies' Mega Trend this year, and the flexibility of our buying model allows us to take market-leading positions on these Mega Trends when they come along.

We also offer a great selection of own branded products across all our ranges. These products are designed and created by our in-house design team and enable us to keep offering unique, good-quality products at great value. This is an area of our offering that we have been growing, with our own branded products now representing over 30 per cent of our sales.

Market overview

The UK retail industry has also gone through its own period of change in the last year. We've seen many of our high street neighbours shutting stores and consumers have been faced with economic and political uncertainty. While not immune to this, I'm pleased to say that TheWorks.co.uk plc is trading through this challenging time well and we continue to support our customers by offering great value every day.

This uncertain environment also presents opportunities. TheWorks.co.uk plc is extremely well-placed to capitalise on the growing trends within modern retailing: value, convenience and online. Customers love the variety and great value of our products, which are available through online delivery, Click & Collect and in our growing network of stores. The favourable property market also means we are able to open new stores in areas that have been inaccessible to us in the past.

Going forward, there will of course be challenges. We look at the current trading conditions with realism but also with great confidence, founded on a deep understanding of our customers, the capabilities of our management team and a strong and simple strategy.

Strategy

New store rollout

Making our unique proposition accessible to the hundreds of catchments that do not already have one of our stores remains a key pillar of our strategy. As such, opening new stores remains our biggest driver of growth and will continue to be for the medium-term. We opened 50 net new stores in the year, taking our total number of stores to 497 at the end of the year.

Our approach to new stores has always been very disciplined. Each store location is examined individually to ensure that we are consistently opening in the right places. We have complemented this during the year with a new forecasting tool developed in conjunction with CACI, the location planning consultants. Our lease terms are flexible with an average of less than three years to the next break or exit point, ensuring we continue to benefit from new opportunities in these favourable property market conditions. Taking advantage of a limited number of opportunities to relocate lower contribution stores which are coming to the end of their lease to a better-positioned, more modern store generating a higher contribution is now a regular part of our store rollout programme.

50
Net new store openings

Sheffield, Hillsborough store opening

Hamilton store opening

Winchester store opening – our 500th store in May 2019

Chief Executive Officer's review continued

Our disciplined approach to opening new stores and the growing popularity of our brand means that we are currently seeing payback on new stores within a year of opening. This is reinforcing our confidence in the strong returns available from the opportunity we see for TheWorks.co.uk plc to expand to a portfolio of up to 1,000 stores in the UK and Ireland in the years ahead.

LFL sales growth
Our business, like many other retailers, is highly seasonal and we flex a significant proportion of our in-store space throughout the year to maximise the opportunities from key seasonal events like Christmas and Back to School. The low number of core lines in our stores enables us to continuously tailor our product offering to the current trends and seasons. This proved particularly effective in the past year as we had good like-for-like sales growth of 3%, with positive growth across all channels, boosted by the Squishies Mega Trend, strong sales of our summer 'Out to Play' range and another record Christmas where our stores were transformed into Santa's Giftshop. The slowdown in the final quarter, reflecting the impact of the widely reported economic and political uncertainty in the UK, held back what would have been an extremely successful year.

Going forward, we will ensure that we keep innovating for our customers and keep our stores a destination of discovery. We are always bringing in new products and ranges, like our very popular 'Pen Bars'. We also trialled the sale of helium balloons in 50 stores in the second half of the year and thanks to a great customer response, plan to roll this out to all stores in the coming year.

Multi-channel strategy
We are growing our online presence not simply as a different channel for customers but an integrated part of the physical shopping experience. The two channels are complementary and enable us to offer a fantastic Click & Collect service, which I'm proud to say remains our fastest growing channel and resulted in half a million customers visiting our stores to collect their order last year.

This year, we have made good enhancements to our web functionality, supporting the growing number of customers attracted online and improving the conversion rates of these customers. In Summer 2018, we extended the seasonal offering in store by creating the online 'Holiday Shop'. This was very well-received and led to the launch of the new 'Christmas Shop' in 2018.

It's important to us that all our customers have access to TheWorks.co.uk plc experience and I'm happy to say that we launched an eCommerce trading site in the Republic of Ireland during the year.

Finally, our loyalty membership is unique in the value retail space and has grown strongly in the year, now with nearly two million members across the UK and Ireland. It is wonderful to welcome new, loyal customers to our business. It means we have a better understanding of our customers and the opportunity to engage with them more efficiently and effectively around the offers and opportunities available in store.

Margin enhancement
As a value retailer, improving our margins is a core part of our strategy. Our buying team have continued to work hard to improve our product margins. Part of this strategy has been the ongoing growth in our own brand range to 24 brands, providing customers with quality alternatives to branded goods while helping us grow our margins. In the last year this included the successful launch of our 'Corner Piece' adult jigsaws with a plan to take this into children's jigsaws in the coming year.

Alongside this, it is essential that we maintain a strong focus on cost control in order to deliver the great value that our customers appreciate and this remains central to the business's philosophy and culture.

To help mitigate against some of the margin headwinds we face, including increased costs from foreign exchange movements and national living and minimum wages, we continue to increase our focus on driving efficiencies where sensible, leveraging our investments in people and infrastructure in recent years.

+0.7m
Growth in active members

Loyalty
Rewarding the loyalty of our customers through our unique 'Together' card remains core to our proposition. During the year we increased our active members from 1.1 million to 1.8 million at the end of the year – a fantastic achievement, demonstrating the continued growth in loyalty across our customer base.

Multi-channel
Click and collect drove over 0.5 million additional customer visits to our stores in the year.

Investment in our people and infrastructure

Investing in the capability of our teams and in the key infrastructure we need to support our exciting growth plans continues to be of high priority.

I remain privileged to lead an extremely passionate and experienced management team. Our people are at the heart of our business and bring so much energy and dedication to their jobs every day. I would like to take this opportunity to thank colleagues across the country for their hard work during what has been a milestone year for the business. We have created over 350 new jobs this year, serving our growing store estate. As a retailer with a positive growth story we have been able to attract talented new colleagues but we also take great pride in the high number of internal promotions we have made in the last 12 months.

The high level of engagement of our fantastic colleagues was recognised when we were placed 18th in the Sunday Times' 25 Best Big Companies to work for 2019. We are excited to be able to offer our colleagues the opportunity to share in the future success of the business through the planned launch of a SAYE scheme this summer.

In terms of infrastructure we took the decision last year to outsource our online fulfilment to a third party logistics provider, iForce. This outsourcing of our online fulfilment will allow us to continue to efficiently service all of our stores from our purpose built distribution centre in Coleshill, Birmingham.

This move is a key enabler for further range expansion online but has, in the short-term, increased our cost base and led to us needing to scale back eCommerce sales in December given operational challenges faced going through our first peak trading period with our partner. We continue to believe this move was the right decision for the long-term success of the business and are working closely with our partner to address the challenges faced and drive efficiencies through the operation.

Corporate social responsibility

Wherever there is a TheWorks.co.uk plc store, we endeavour to become part of our local community. We rely on communities to serve, maintain and shop in our stores every day and it's important that we're able to contribute to these communities as well, through daily engagement, local knowledge and a friendly shopping destination. In the past year, our new store opening programme has created over 350 new jobs and brought a vibrant, new brand to these communities.

We continue to develop our partnership with Cancer Research UK, now having raised over half a million pounds for them with recent initiatives including Race for Life and launching a range of CRUK bookmarks for sale in our stores. Our colleagues love getting involved and we look forward to growing this number further in the coming year.

Summary and outlook

I am very proud of what we have achieved in the year. Even in a challenging retail environment, we have achieved good growth through the hard work and dedication of our colleagues, underpinned by our clear strategy and a consistent focus on our customers.

Our profitable new store growth continues, with a strong pipeline moving into this current financial year and our 500th store having opened in Winchester in May 2019. In the coming year we will remain focused on delighting our customers with a wide and constantly refreshed range of great value products through our flexible and convenient multi-channel offering. We will also introduce our unique multi-channel value proposition to even more customers by expanding our store portfolio and our online offer, whilst remaining flexible and nimble traders.

In the current challenging and competitive environment there are of course uncertainties but there are also opportunities. The structural shift that we are seeing in the retail sector has resulted in a constant flow of more affordable, good quality, retail space and we believe that TheWorks.co.uk plc is set up to capitalise on this.

As mentioned above, the consumer backdrop has been subdued since the turn of the calendar year and we are now assuming that this will continue for the foreseeable future. This is a challenging environment, however, it also creates opportunities. The structural shift in the retail sector has resulted in a constant flow of more affordable, good quality retail space. We have a strong pipeline of new sites and recent openings have continued to perform well. We also have exciting plans for Christmas 2019, the key period for leveraging our differentiated customer proposition, by offering a wide range of new products at outstanding value. This, combined with our other growth levers, makes us confident of making further progress in the current year.

Kevin Keaney
Chief Executive Officer

+350
Jobs created in 2019

A strong culture
Our people are at the heart of our business and bring so much energy and dedication to their jobs every day. We were able to promote over 450 colleagues in the year.

Chief Financial Officer's Review

A year of good growth

Gavin Peck
Chief Financial Officer

"We have delivered strong revenue and product margin growth, albeit cost headwinds have held back profit growth."

The 'FY19' accounting period relates to the 52 weeks ended 28 April 2019 and the comparative 'FY18' period refers to the 52 weeks ended 29 April 2018.

Revenue

Total revenues during the year grew by 13.2 per cent to £217.5 million (FY18: £192.1 million) driven by our ongoing new store opening programme, with a net 50 new stores added in the period, supported by like-for-like sales growth of 3 per cent. Like-for-like sales growth was driven by positive growth in both stores and online

Adjusted cost of sales and operating expenses

Cost of sales and operating costs (excluding adjusting items) are broken down as follows:

	FY19		FY18	
	£000	% of revenue	£000	% of revenue
Cost of goods sold	81,226	37.4	74,549	38.8
Store wages	37,184	17.1	30,913	16.1
Store property costs	42,188	19.4	37,612	19.6
Other direct costs	14,261	6.6	11,598	6.0
Adjusted cost of sales	**174,859**	**80.4**	**154,672**	**80.5**
Distribution costs	11,797	5.4	9,120	4.7
Administrative costs	17,038	7.8	15,084	7.9
Adjusted operating costs	**28,835**	**13.3**	**24,204**	**12.6**

Note:
- The above figures exclude depreciation, impairment and gains/losses on disposals of property, plant and equipment and amortisation of software of £4,153k in FY19 (FY18: £3,494k) within cost of sales and £1,858k in FY19 (FY18: £1,894k) within operating expenses.
- Payment transaction fees, online marketing costs and point of sale costs, historically included within cost of goods sold, have been allocated to other direct costs above (both for FY19 and FY18, consistent with their treatment within the half year results).

The overall ratio of cost of sales (excluding depreciation) to revenue remained broadly flat at 80.4 per cent with the following movements in sub-categories:

- **Cost of goods sold:** principally comprises the cost of finished goods purchased from third-party suppliers and other related costs such as import duty and freight/carriage costs. The improvement in this cost ratio has been driven by a number of factors, including improved product mix (eg. to higher margin stationery categories) and mark-down management, continued improvements in buying (leveraging our increased scale), further own-brand development (eg. through our 'Corner Piece' jigsaw range) and a favourable movement in the US dollar exchange rate (given the year-on-year impact of our hedges). Despite the continued weakness in Sterling, the business benefited from effective hedges for its US dollar requirements helping to drive the cost of imported goods lower in the first half of the financial year. The benefit of these hedges unwound in the second half of the year and will become a cost headwind in FY20.
- **Store wages:** includes wages and salaries (including bonuses) for store-based colleagues, together with National Insurance, employers' pension contributions, overtime, holiday and sick pay. This cost has increased as new stores have been opened and pay increases (reflecting the increase in national living and minimum wages) have been awarded. The increase in the cost ratio reflects these factors, with some mitigation as a result of steps taken to manage hours in store more effectively. However, our ability to mitigate these cost increases is limited given a large number of our stores work on a minimum of two people per hour for large portions of the year. As such we will continue to face increased store wages costs as national living and minimum wages increase further.
- **Store property costs:** consists principally of store rents, business rates and service charges. This cost has also increased as new stores have been opened and has stayed relatively constant as a ratio of revenue. Whilst there remains an opportunity to drive savings in these costs within the existing estate (eg. through negotiating lower rents on expiry) these savings are more modest than other retailers' given the relatively short average lease length within our portfolio means many of our leases have been negotiated in the past five years.
- **Other direct costs:** includes payment transaction fees, store utility costs, store maintenance, online marketing costs, labour costs associated with fulfilling our eCommerce sales and point of sale costs. This cost category is largely variable in respect of existing stores and also increases with new store openings and growth in eCommerce sales. The increase in this cost ratio reflects, in part, the previously announced challenges faced fulfilling our eCommerce sales during our first peak trading period with our new third-party logistics provider leading to higher labour costs than anticipated. These higher costs, linked to the challenges faced, are not expected to be repeated in FY20 given the lessons learnt in FY19.

Chief Financial Officer's Review continued

Overall operating costs (excluding depreciation) as a percentage of revenue increased to 13.3 per cent on an adjusted basis with the following movements in sub-categories:

Distribution costs: include costs associated with running the Group's distribution centre, costs relating to store deliveries, the delivery costs associated with our customers' online orders and the property costs recharged from the third-party provider for the fulfilment of our eCommerce sales. These costs are semi-variable in nature, linked to increased store numbers and eCommerce sales levels. The increase as a ratio of revenue in the year primarily reflects the increased costs associated with outsourcing the fulfilment of our eCommerce operations to a third-party provider as noted above (with the full year impact of this to come through in FY20). This cost has also increased as a result of pay increases awarded to colleagues working in our distribution centre (reflecting the increase in national living and minimum wages).

Administration costs: include items such as central administration costs and operating expenses such as central IT costs, support centre salaries and remuneration, insurance, costs relating to divisional and area sales managers and rent and business rates for the Group's head office and distribution centre and professional fees. The increase in these costs reflects further investment in people in key functions including area sales managers (as the store portfolio has grown) and our buying team. It also reflects the Group incurring additional costs associated with being a public company totalling £0.5 million, in particular increased professional fees. As noted previously, the Group has invested in central infrastructure and people in recent years to support the increased pace of rollout and the medium-term objective remains for the Group to reduce this cost ratio through leveraging economies of scale and business efficiencies.

Depreciation (excluded from the table above) increased from £5.4 million to £6.0 million primarily reflecting the impact of the accelerated store rollout in recent years. Depreciation will continue to increase in the coming years given the higher level of planned capital expenditure (see below).

Foreign exchange

With over one-third of the Group's cost of goods sold expense relating to products sourced in US dollars, the Group takes a prudent but flexible approach to hedging the risk of exchange rate fluctuations.

As noted above, in the first half of the current financial year we benefited from a tailwind from foreign exchange due to the relative movement in the value of sterling and its impact on our average US dollar hedge rates. At the date of this announcement, the Group has hedged around half of its foreign exchange requirement for FY20, albeit at a lower rate than that achieved in FY19. Based on current spot rates it is anticipated that the Group will face a foreign exchange headwind in FY20.

From January 2019 we elected to hedge account our foreign currency contracts under IFRS 9 to avoid unnecessary volatility in earnings.

Adjusted EBITDA

The Group delivered adjusted EBITDA of £13.8 million in the year (FY18: £13.2 million). The adjusted EBITDA margin of the Group decreased from 6.9 per cent to 6.3 per cent due to increases in store wages, distribution and administrative costs offsetting the improvement in product margins as noted above.

Adjusted EBITDA includes £0.6 million of EBITDA generated from Mega Trends in the year (FY18: £1.2 million). Adjusting for the impact of Mega Trends, the Group delivered EBITDA of £13.2m in FY19 versus £12m in FY18.

Net financing costs

Net financing costs in the year include approximately three months with the pre-IPO capital structure (see below) with higher levels of leverage and a higher weighted average interest cost. Had the IPO and debt refinancing completed on 29 April 2018, the net financing costs expensed in the Income Statement in the year would have totalled approximately £0.3 million, rather than the adjusted net financing expense of £1.0 million reported.

Adjusted profit before tax

The Group delivered adjusted profit before tax of £6.7 million in the year (FY18: £4.2 million). The adjusted profit before tax margin of the Group increased from 2.2 per cent to 3.1 per cent. Adjusted Profit before Tax for the year increases to £7.4 million when adjusting for the full year impact of the new capital structure on net financing costs as mentioned above.

As a consequence of the IPO and refinancing completed during the year, statutory results differ materially from the adjusted results and can be reconciled as follows:

	FY19 £000	FY18 £000
Adjusted profit before tax	6,728	4,241
Relocation of eCommerce fulfilment operations	(495)	–
Relocation of support centre	–	(8)
IPO-related costs	(2,936)	(1,475)
Staff incentives on IPO	(1,212)	–
Packaging waste cost penalty	–	(186)
Write-off of capitalised costs associated with the repaid loan	240	–
Statutory profit before tax	**2,325**	**2,572**

Further detail on the adjusting items is set out in Note 5 to the attached financial statements.

Accounting for leases

IFRS 16: Leases becomes effective for the first time in the next financial year, ending 26 April 2020. It requires entities to apply a single lessee accounting model, with lessees recognising right-of-use-assets and lease liabilities on balance sheet for all applicable leases. In addition, the nature of expenses related to those leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and an interest expense relating to lease liabilities. Whilst the cash flow profiles of such operating lease arrangements will not change, EBITDA profitability will improve significantly as a result. The Group intends to adopt the standard's modified retrospective approach. The currently anticipated financial statement impact from which is set out in Note 32 on page 107.

Tax

The tax charge for the year increased to 51.8 per cent of profit before tax (FY18: 30.6 per cent). The underlying tax charge (excluding adjusting items) reduced to 22.0 per cent of profit before tax (FY18: 24.64 per cent).

Earnings per share

Basic and diluted adjusted earnings per share for the year were 1.9 pence (FY18: 4.0 pence), a decrease of 52.5 per cent. After the adjusting items described above, basic and diluted underlying earnings per share for the year were 9.0 pence (FY18: 7.2 pence), an increase of 25 per cent.

On a profoma basis (ie. reflecting the current share capital structure for the full year), adjusted and diluted earnings per share for the year were 8.4 pence (FY18: 5.1 pence), an increase of 65 per cent.

Capital expenditure

Capital expenditure totalled £8.5 million in the year of which £5.0 million related to new stores. In the equivalent period last year, capital expenditure totalled £7.8 million of which £5.3 million related to new stores, reflecting the higher number of new store openings in the prior year. Other capex of £3.5 million in the period (£2.6 million in the prior year) includes £0.2 million relating to the new in-store signage and zoning as mentioned above, higher web development costs in the period and increased minor store works and capital repairs. Capital expenditure will increase to £10 million in FY20 primarily reflecting the investment being made in the new web platform. Capital expenditure will likely remain at this level in the near term as other key IT projects, including the rollout of new tills to stores are undertaken.

IPO and debt refinancing

The IPO of the Company was completed with formal admission to the Official List and to trading on the London Stock Exchange on 19 July 2018. A debt refinancing was also completed on 20 July 2018. This year's results therefore reflect very different capital structures pre and post these significant transactions and, as such, a year-on-year comparison of financing costs, profit before tax and profit after tax is not meaningful.

As noted above, a new £25 million revolving credit facility ('RCF') was put in place at the time of the IPO with the previous debt facility (a £31.2 million loan) being repaid at the same time, in part, through the net proceeds received into the Group on IPO. The arrangement fees in relation to the new debt facility, totalling £188k, have been capitalised and will be amortised to the Income Statement over the three-year term of the facility in accordance with accounting standards. Debt costs capitalised in relation to the previous debt facility of £386k were written off as a non-cash, adjusting items at the same time. The new RCF is subject to LIBOR plus a margin in the range 1.5 per cent to 2.5 per cent, subject to a leverage ratchet.

Strong financial position

The Group remains highly cash-generative before financing activities. As at 28 April 2019, net debt (excluding unamortised debt costs capitalised of £0.2 million) was £(2.9) million, analysed as follows:

	£000
Current liabilities – finance leases net of unamortised debt costs capitalised	230
Non-current liabilities – finance lease obligations net of unamortised debt costs capitalised	403
Total borrowings	633
Add back: unamortised debt costs capitalised	135
Gross debt	768
Less: cash	(3,687)
Net debt/(cash)	**(2,919)**

Average net debt over FY19 was £3.3 million (representing 0.2 times adjusted EBITDA) demonstrating the strong financial position of the Group.

Dividend Policy

As stated at the time of IPO, the Board intends to adopt a progressive Dividend Policy.

The Board is pleased to be proposing its maiden final dividend of 2.4 pence per share, giving a total dividend for the year of 3.6 pence per share. This dividend will be paid on 24 September 2019 to shareholders on the register at close of business on 30 August 2019.

The Board also intends to continue to review the appropriate capital structure of the Group. As stated at the time of the IPO, the Board intends to maintain a capital structure that is conservative yet efficient in terms of providing long-term sustainable returns to shareholders.

Gavin Peck
Chief Financial Officer

Principal risks and uncertainties

The Board and the senior management team are collectively responsible for managing risks and uncertainties across the Group. In determining the Group's risk appetite and how risks are managed, the Board, Audit Committee and the senior management team look to ensure an appropriate balance is achieved which enables the Group to achieve its strategic and operational objectives and facilitates the long-term success of the Group.

The Board has undertaken a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity and reviews the Group's most significant risks at least twice a year. Further details of our risk management framework are set out in the Corporate Governance Report on page 43.

Additional risks and uncertainties, not presently known to management or deemed less material currently, may also have an adverse effect on the business. Further, the exposure to each risk will evolve as we take mitigating actions or as new risks emerge. The principal risks and uncertainties facing the Group as at the date of the Annual Report are set out below, together with details of how these are currently mitigated.

Where appropriate, the impact of these risks occurring has been considered when developing the scenarios tested as part of the financial Viability Statement as set out on page 33.

Risk	Description	Mitigation
Our market	The Group generates most of its revenue from the sale of books, toys, art and craft and stationery products. Although the Group has a proven track record of understanding customers' needs within these categories, these markets are highly competitive, with increasing competition from 'hard discounters' and customers' tastes and shopping habits can change quickly. Failure to effectively predict and respond to these changes could affect our sales, performance and reputation. Further, the vast majority of the Group's sales are derived from physical retail. Recent, well-publicised, examples of challenges for retailers, including the impact of widespread high street footfall decline could significantly impact on the Group's future strategy and growth plans.	• Ongoing focus on 'product discovery' and development of our own brand offering, helps us to differentiate our offering, bringing unique, quality, products to market at great prices. • Experienced trading team works hard to monitor emerging trends and has a track record of meeting these changing consumer tastes. • Continued investment in our trading team, including two key senior buyer additions in the past year. • Competitor pricing and product offering is closely monitored, with key developments discussed at weekly trading meetings and at Board level on a regular basis. • Undertook a market positioning review ahead of IPO and will be undertaking a broadened customer research project in the coming year to better understand our customers and their changing needs. • Sales data, insight from our Loyalty card database and various online feedback channels are used to drive purchasing and marketing decisions. • We continue to invest in our eCommerce operations to support development of our multi-channel offer responding to changing shopping habits and grow our customer base. Investment in a new platform has recently been approved with the project underway for delivery in the first half of 2020 and further online product range expansion plans are being developed. • We continue to enhance our customer experience through further development of our Click & Collect proposition, with this channel continuing to be the fastest growing part of the business.
Economic environment	As a UK retailer, the Group's business is sensitive to general economic, consumer spending and business conditions. A general decline in economic conditions or a reduction in consumer confidence could impact upon customer spending and subsequently have an adverse effect on the Group's revenue and profitability. This risk is currently heightened by the ongoing uncertainty regarding Brexit and the impact that the political and economic instability from this is having on consumer confidence.	• Our proposition, as a value alternative to full price specialist retailers, offering quality products at great prices, positions us well for customers looking to trade-down in times of economic uncertainty. • Sales trends are monitored at weekly trading meetings, attended by senior management, with mitigating actions agreed to drive sales and/or reduce costs accordingly. • Our business and senior management team have a proven track record of delivering sales and margin growth during a long period of economic uncertainty. • Strength of our kids proposition makes our business more resilient to a reduction in consumer spending, particularly at Christmas.
Our brand and reputation	As a retailer, 'TheWorks.co.uk' is our key brand asset. Protecting and enhancing our brand and reputation is vital to the success of the Group. Failure to protect our brand, in particular regarding product quality and safety, could result in our reputation, sales and future prospects being adversely affected.	• Values of the business are well communicated across our colleagues and the senior management team lead by example. • Intellectual property guidance and education is provided to our design and sourcing teams. • Our customer and market research scope focuses on understanding brand perception. • Customer product reviews are monitored on a daily basis, with swift action taken to remove products from sale where quality issues are identified. • The Group has established an in-house product quality assurance team to work more closely with suppliers to ensure product quality, safety and ethical production. • Third-party facilitated technical and ethical audits are in place and all suppliers are required to deliver a valid product safety test certificate ahead of an order being fulfilled. • Launched our 'keen to be green' and 'reworked' logos during the year – see Corporate Social Responsibility Report for further details.

Risk	Description	Mitigation
Managing our supply chain	We are reliant on third parties, including many in the Far East, for the supply of our products. This creates a number of potential areas of risk, including the potential for supplier failures and the risks of manufacturing and importing of goods from overseas and potential disruption to various parts within this supply chain process. Brexit uncertainty has heightened this risk in the short term, in particular the uncertainty over the UK's trading relationship, and terms, with other countries and the well-documented risk of delays at UK ports.	• An experienced buying team is responsible for the sourcing of our products. • Strong relationships are maintained with key suppliers, many of whom we have traded with for a number of years. • Our supplier base is continually reviewed. Supply options are diversified and/or changed where needed, providing greater flexibility and reducing reliance on individual suppliers. • We have recently moved to a new freight forwarder who is better placed to support our future growth, but maintain relationships with other freight forwarders to mitigate the risk of over-reliance on one provider. • We continue to mitigate the potential risk of inbound delays at ports as a result of Brexit by closely monitoring inventory cover levels and bringing in seasonal stock slightly earlier than planned. • Supply Chain Director role created in December 2018 to provide specific leadership and focus in this area.
Loss of key personnel	The Group's strategy and long-term success is heavily dependent on the quality of the Board and senior management team. There is a risk that a lack of succession planning for the senior management team and development of our key colleagues, could harm our future prospects and result in increased costs for the business.	• Succession plans are being developed for each of the senior management team and are discussed at Nomination Committee meetings. • All members of the senior management team are significant shareholders in the business and are therefore aligned with driving the strategy and shareholder value. • Objectives and development programmes are currently being put in place to support future leaders. • Our recent recruitment experience is demonstrating that high-calibre candidates want to join a successful and growing retail business. • The Group's remuneration policy (set out in the Directors' Remuneration Report on pages 50 to 59) is designed to ensure management incentives support the long-term success of the Group for the benefit of all stakeholders.
Business continuity	Significant disruption to key parts of our model, in particular our store support centre or one of our distribution centres, could severely impact our ability to supply our stores or fulfil our online sales resulting in significant financial or reputational damage.	• A disaster recovery plan and strategy is in place. • IT systems had a full dry run of the disaster recovery processes in the year and a programme of continuous review and testing is scheduled. • Further disaster recovery dry run scenarios were undertaken during the year. • The Group maintains appropriate business interruption insurance cover. • Investment in an emergency generator at our store support centre in the year to insulate us from any significant power cuts.
Regulation and compliance	The Group is exposed to a growing number of legal and regulatory compliance requirements including: the Bribery Act, the Modern Slavery Act, tax evasion, GDPR, Gender Pay Gap reporting, National Living and Minimum Wage, Environmental and Listing Rules. Failure to comply with these regulations could lead to financial claims, penalties, damages, fines or reputational damage which, in some cases, could be very material and could significantly impact the financial performance of the business.	• The Group's CFO and Company Secretary oversee regulatory compliance with support from external advisers. • Senior management team members are aware of the key compliance requirements within their business units and liaise directly with the CFO and external advisers to identify and manage issues. • The Group has a number of policies and procedures governing behaviours in all key areas, some addressing mandatory requirements (eg. anti-bribery and corruption, adherence to national living wage requirements) and others adopted voluntarily. • A whistle-blowing policy and procedure is in place, allowing colleagues to confidentially report any concerns or inappropriate behaviour within the business. • The Group has adopted a GDPR policy, appointed a data supervisor and established a monthly GDPR governance meeting, with minutes and actions from this meeting circulated to the senior management team. • An out-sourced internal audit function was established in the year – See Report of the Audit Committee for further details.
IT systems and cyber security	The Group is reliant on the efficiency, reliability and resilience of key IT systems. Failure to develop and maintain these systems, or any prolonged system performance problems or cyber attack, could seriously affect our ability to trade and/or could lead to significant fines and reputational damage.	• Recovery of key business systems is captured as part of the Business Continuity Plan. • Support contracts, with appropriate SLAs, are in place for all third-party systems with in-house systems supported by an experienced in-house development team. • Cyber security review undertaken in the final quarter of the year by external consultants. Recommendations are in the process of being assessed with a view to these being implemented in the coming year. • Review of in-house 'Nimbus' operating system documentation and change management processes was undertaken by an external consultant in the year. • Outline five-year IT strategy was developed in the year. This strategy includes upgrades to existing IT infrastructure as well as developing new functionality. • IT Steering Group, attended by the CEO and CFO, meets monthly to prioritise and approve all material IT projects and to monitor system performance. • Boxer email security has been implemented through the year to protect access to emails on mobile phones.
Cost inflation	Escalation of costs, such as increases in raw materials, commodity and wage costs, could adversely impact the Group's ability to deliver its forecast profit growth. This risk is currently heightened due to: • Brexit uncertainty and the potential impact on the value of sterling and uncertainty over duty rates post-Brexit impacting on the cost of products sourced from the Far East. • The current political focus on raising national living and minimum wages given the vast majority of the Group's colleagues are paid the national minimum or living wage.	• Budgets and forecasts prepared by the Group include the expected impact of the national living wage and other known cost inflation (eg. in electricity prices) and, therefore, the Board's strategic planning takes these into account. • Cost control remains central to the culture and philosophy of the business with 'margin enhancement' being a key growth pillar of our strategy. • Cost mitigation strategies are in place to offset, where possible, increases in national minimum and living wages (eg. through productivity improvements in our distribution centre). • Hedging policy in place to manage exposure to foreign exchange rate fluctuations in the short term, with foreign exchange hedging contracts being pre-approved by the CFO and communicated to the Board on a monthly basis. • Flexible nature of the Group's product offering means we have the ability to adapt or change products to meet our margin targets, supported by the continued growth in our own brand offering.

Principal risks and uncertainties continued

Risk	Description	Mitigation
Stock management	Ineffective controls over the management of our stock could impact on the achievement of our gross margin objectives, whilst lack of sufficient product availability could impact on sales.	• Supply Chain Director role created and the stock inventory team strengthened in the past year. • Stock cover levels are set as part of the annual budget process with stock cover by product group, and at a total level, reviewed on a weekly basis against these budgeted levels. • Perpetual Inventory counts are undertaken across stores and our distribution centres to monitor stock losses. • 'Aged stock' is monitored closely with regular markdown action on slow-moving product lines. • End-to-end stock process review recently undertaken by an external consultant. Recommendations are currently under discussion with a view to implementing key improvements in the coming year.
Store expansion	New store rollout remains the biggest pillar of our growth strategy. The ability to identify suitably profitable new store locations is therefore key to delivering our future growth plans. Failure to identify such sites could impact on our store expansion plans and significantly impact on our future sales and profitability.	• Investment in the Group's property team was made ahead of accelerating our rollout. The team has a track record of opening at least a net 50 stores per annum in each of the past three years. • Investment in a store location modelling tool to further enhance the new store assessment and sign-off process made during the year. • UK retail vacancy rates continue to run at record high levels, providing significant opportunities for our new store opening programme both in terms of the number of available units and the terms on which these can be secured. • The flexibility of our offering, across multiple formats, allows us to take advantage of a range of store sizes and locations. • The property team maintain a pipeline of opportunities and this is discussed and monitored at monthly property meetings, attended by the CEO and CFO, and summarised at monthly Board meetings. • Each new store opening is approved by the CEO and CFO.
Seasonality of sales	The Group makes all of its profit in the second half of the financial year, with the peak Christmas trading period contributing substantially all of this profit. Interruptions to supply, adverse weather or a significant downturn in consumer confidence around this peak trading period could have a significant impact on the sales and profitability of the Group, particularly given a substantial proportion of our cost base is fixed.	• We continue to explore opportunities to reduce the seasonality by growing our year-round attraction. • We successfully trialled the sale of helium balloons, for everyday and seasonal occasions, during the year and will be rolling this offer out across our estate in the coming year. • We successfully trialled a 2 for £5 gift offering in the year and, following the success of this trial, plan to roll this out as a new 'hero' deal in the coming year. • Weekly trading meetings, attended by all members of senior management, ensure action is taken to maximise sales based on forecast weather. • A crisis management team is set up in periods of extreme adverse weather to help mitigate the impact. • Following the outsourcing of our eCommerce fulfilment to a third-party provider in the year, we have invested in the layout of our retail distribution centre to ensure that it is set up to optimise the efficient supply of stock to stores during peak trading.

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Group over the three years to April 2022. This assessment has been made taking into account the Group's current position, strategic plans and principal risks and uncertainties as described in the Strategic Report on pages 30 to 32.

The Directors have determined that the three years to April 2022 is an appropriate period over which to provide its Viability Statement. Three years closely corresponds to the average remaining committed lease term of the Group's property portfolio and is the timeframe used by the Board in its strategic planning process.

In making this assessment, the Board has considered:

- The Group's three-year strategic plan, including an assessment of key assumptions underpinning this plan and stress-testing of these key assumptions;
- Further stress testing to reflect the potential impact of one or more of the principal risks set out on pages 30 to 32 occurring in the three-year period, including the likely degree and effectiveness of possible mitigating actions in relation to these principal risks; and
- The strength of the current balance sheet, the availability of financing (committed banking facility which runs through to June 2021, with an option to extend for an additional year to June 2022), its strong track record of generating cash and the forecast debt and covenant headroom under the three-year strategic plan and the stress-tested scenarios.

The stress-testing of the key assumptions underpinning the three-year strategic plan included the potential impact of factors affecting forecast sales levels (for example, like-for-like sales, new store openings and online growth rates) and factors which could impact profitability (for example, foreign exchange rates, wage costs, property costs and the success of various margin enhancement initiatives). The results take into account the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact of these factors.

The Board remains particularly mindful of the continuing risk to the business from the range of uncertain Brexit developments and outcomes, including volatility in the strength of sterling versus the US dollar, the potential impact on the economic environment and the threat of supply chain disruption due to delays at UK ports. The mitigation of short-term risk of FX volatility is delivered via the Group's existing currency hedging policy and the business continues to mitigate its supply chain risk by closely monitoring inventory cover levels and bringing in seasonal stock slightly earlier than planned.

The Board reviewed a model of the potential impact of a no-deal Brexit scenario. This scenario represented more extreme circumstances than the Company has ever experienced and, whilst this review did not consider all of the risks that the Group might face, the Directors consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

Based on this assessment, the Directors confirm that they have a reasonable expectation that the Company and the Group will be able to continue in operation and meet its liabilities as they fall due in the period to April 2022.

Going concern

Taking into account current and anticipated trading performance, current and anticipated levels of borrowings and the availability of borrowing facilities and exposures to and management of the financial risks detailed in the Strategic Report on pages 11 to 37, the Board is of the opinion that, at the time of approval of these financial statements, there is a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on a going concern basis.

Corporate Social Responsibility Report

Our aims

We are committed to providing our customers with a choice of good quality products at great value for money. In achieving this we recognise and understand the importance of showing all of our stakeholders how we take our corporate and social responsibility ('CSR') seriously.

Our aim is for CSR to be embedded within our culture; for it to guide our colleagues' behaviour; and to have clear responsibility and accountability both for our CSR strategy and for the actions necessary to execute it.

We do not have a separate CSR function as it is intrinsically important in every role. The Board has overall responsibility for CSR and how we manage and monitor performance.

Our CSR activity is focused on the following key areas:

- Customers
- Sourcing
- Environment
- Health and safety
- Colleagues
- Community

Customers

Our business is founded on the principle of providing our customers with a choice of good quality products at great value for money. Key achievements in delivering for our customers in the year include:

- Opening a further 50 net new stores, introducing our brand to new customers and making it more accessible for existing customers;
- Refreshing our in-store signage and navigation, improving the look and feel and ease of shop for our customers;
- Launching over 10,000 new products across our multi-channel offering, increasing the range of choice and driving 'product discovery' for our customers;
- Investing in new fixtures in-store, including the implementation of 'Pen Bars' across the estate, helping to improve the customer experience;
- Continuing to grow membership of our loyalty programme, with a record number of customers signing up as members of the scheme and accessing the benefits of it;
- Continuing to ensure our store colleagues offer friendly and helpful service to our customers;
- Improving the overall look and feel of our transactional website, including enhancing the mobile customer journey;
- Enhancing our Click & Collect customer proposition, refreshing the online customer journey and improving in store processes; and
- Introducing a transactional website for the Republic of Ireland, opening up our offer to more customers in the Republic of Ireland and providing access to our popular Click & Collect service in the Republic of Ireland.

Sourcing

We have developed commercial relationships with over 500 different third-party suppliers across Europe and Asia for the supply of our products.

We conduct our business fairly, ethically and with respect to fundamental human rights. We are fully committed to the prevention of all forms of slavery, forced labour or servitude, child labour and human-trafficking, both in our business and in our supply chains.

We have an established Ethical Trading Code of Conduct and Human Rights Policy for our partners, manufacturers and suppliers, to ensure that when our customers buy from us, they can be satisfied in knowing that the goods have been produced without exploitation and within acceptable and sustainable working conditions.

We require all suppliers to sign our Terms and Conditions of Purchase which state the supplier has read, understood and conform to our Ethical Trading Code of Conduct. Copies of the Terms and Conditions of Purchase, together with the Ethical Trading Code of Conduct are regularly sent to existing suppliers (the documents have been translated into Mandarin for the benefit of our China-based suppliers). New suppliers are required to read and sign the Terms and Conditions before we place any orders with them.

We carry out independent monitoring of suppliers using third-party auditing companies having local country knowledge and an understanding of social and ethical requirements. The audits take place directly in the factories and monitor workplace conditions, interview workers and evaluate operating conditions. These are based on the internationally recognised Ethical Trade Initiative ('ETI') Base Code. We also conduct independent product testing as part of our Product Surveillance Test Programme.

We continue to take all reasonable steps to develop our supply chain management procedures and our supplier audit programme to give assurance to our stakeholders that we take our commitment seriously. During the year we further developed this by establishing an in-house Quality Assurance function, ensuring suppliers have a clear contact within TheWorks.co.uk plc to discuss the technical aspects of their products and their ethical trading queries.

To be more environmentally aware our suppliers are being educated on reducing packaging waste by choosing packaging that is only essential to protect and merchandise the product. Pack sizes are constantly being reviewed to ensure items are not unnecessarily oversized and our buyers review the necessity of plastic packaging in the product (eg. polybags), keeping only essential packaging.

TheWorks.co.uk plc are aware of the enormous ecological impact of single-use plastics in our packaging and we are committed to reducing our usage whenever possible. A new logo has been created labelling a product that has been 'ReWorked' – wherever you see our ReWorked logo, we have made a conscious effort to reduce our waste packaging. We have also launched our 'Keen to be Green' logo to demonstrate our commitment to the environment.

We have updated and published our latest Modern Slavery Act Statement on our corporate website and have registered the statement with the Modern Slavery Registry and TISC (Transparency in the Supply Chain).

Environment

We recognise our operations impact the environment and the policies we adopt are important to our business and its stakeholders. Our objective is to reduce our impact on the environment, from material sourcing to customer use and disposal, across the following key topics:

Waste recycling

We recognise the impact that waste generated from our activities has on the communities we operate in and proactively look to reduce the level of waste generated and maximise the proportion of waste that is recycled.

We continue to educate our teams to maximise the level of waste that can be recycled and minimise the number of collections required to reduce the associated carbon footprint of waste collection and movement and to minimise store waste sent to landfill.

All of our store locations have the facility to recycle mixed papers, ('KLS') cardboard (which constitute a very large proportion of store waste) and mixed plastics including HDPE, PET and PP either through the use of dry mixed recycling containers (in which 95 per cent of waste deposited must be recyclable) or waste containers which allow more specific separation of materials (with the latter mainly being in shopping centres with centrally managed facilities).

Our distribution centre in Coleshill, Birmingham also operates a recycling programme to ensure all mixed film plastics and cardboard materials are bailed on-site and removed for recycling.

We also seek to ensure that all paper and paper materials classified as waste are separated and recycled. This is supported by our waste management services provider who only uses landfill as a final resort once all other disposal methods have been exhausted.

Packaging

We use a third-party consultancy to ensure we meet the requirements of the UK Packaging Waste Regulations and purchase the appropriate level of packaging recovery notes ('PRN's') to cover our obligation.

To be more environmentally aware, our suppliers are being educated on the environmental effects of packaging and waste packaging. We utilise recycled materials over virgin material so it can be returned to the waste stream for further use. Pack sizes are constantly being reviewed to ensure items are not unnecessarily oversized. Buyers review the necessity of plastic packaging in the product (eg. polybags) keeping only essential packaging.

Energy

Electricity is the main form of energy we consume and we analyse consumption across our entire estate, including our distribution centre and our stores. Where possible, we look for opportunities to reduce our consumption and reduce wastage by introducing new procedures or making use of available technology. This work was supported by an energy audit carried out under ESOS and ESOS Phase 2 surveys. Operationally, we have continued to focus on monitoring electricity usage.

We will continue to utilise the energy usage data we receive to support our store colleagues in reducing energy waste and consumption. This has been supported by an e-learning module which goes out to all stores demonstrating the importance of energy conservation and the impact this has on the Company and the wider environment. In addition, we'll continue to review and perform electrical audits to ensure the equipment we use or inherit is energy efficient.

All of the new stores we open have LED lighting and energy efficient equipment installed and we continue to refit a number stores with these technologies to help further reduce our in-store consumption.

Single-use plastic bags

In recent years we have taken steps to reduce the level of single-use plastic bags used through supporting the sale of reusable bags and coupled with the legislative 5 pence charge for single use plastic bags in England, Wales, Scotland and Northern Ireland. Over the past two years, consumer consumption of our single-use plastic bags has reduced by 78 per cent.

Greenhouse gas ('GHG') emissions

GHG emissions for the Group for the year ended 28 April 2019, in tonnes of carbon dioxide equivalent ('tCO_2e'), were:

Source	tCO_2e	%
Purchased electricity	6087.5	92.7
Fuel combustion (mobile)	425.3	6.5
Fuel combustion (stationary)	26.2	0.4
Fugitive emissions ('F-gas')	25.0	0.4
Total	**6563.9**	

tCO_2e	Emissions intensity 2018/19
Total emissions	6563.9
Emissions intensity*	30.2

* Expressed in tCO_2e per £ million turnover.

These emissions were calculated using the methodology set out in the updated greenhouse gas reporting guidance, Environmental Reporting Guidelines (ref. PB 13944), issued by DEFRA in June 2013.

Health and safety

The health and safety of all our employees, customers, contractors, visitors and members of the public is of paramount importance to the Group.

All colleagues are responsible for ensuring that stores and other working environments are safe and operated without significant risk. Health and safety is incorporated into our day-to-day practices, including colleague induction, supported and reinforced through our training programmes which help to mitigate health and safety risks.

Whilst the Board has ultimate responsibility for health and safety, our Health and Safety Manager and HR team liaise with line managers in all parts of the business to ensure compliance with our policies and procedures and ensure that all colleagues receive appropriate training.

Health and safety meetings are held throughout the year and are attended by representatives from key operational teams with appropriate escalation to the senior management team where material issues or risks arise. The overriding objective of the decisions taken at these meetings is to make our stores and workplaces safe places for customers, colleagues and visitors alike.

The Health and Safety Manager also analyses trends and takes a proactive approach to managing health and safety practices. They then liaise with colleagues throughout the business to improve the standard of health and safety.

Key activities and developments during the year included:

- Recruiting a full time Health and Safety Manager;
- Increasing our focus on customer-friendly new store layouts;
- Increasing the focus on health and safety in working practices within the warehouse;
- Introducing a scissor lift in the warehouse to improve staff safety when working at height;
- Introducing an industrial floor cleaner in the warehouse to reduce the amount of dust and improve the cleanliness of the warehouse floor;
- Introducing the requirement for work permits for external contractors working in the warehouse;
- Formal Institution of Occupational Safety and Health ('IOSH') training for key individuals at our central support and distribution centre; and
- Increasing the number of fire and first aiders within our central support and distribution centre.

Corporate Social Responsibility Report continued

Colleagues

Our colleagues across the Group are critical to our ability to deliver the great products and customer service which underpin our success.

We employ more than 3,500 permanent colleagues and take on more than 500 temporary seasonal workers during our peak Christmas trading period. We introduced Applicant Tracking System ('ATS'), an online recruitment system, last year and managers' feedback has been that it made recruiting our seasonal colleagues very straightforward.

The focus during the past year has been on improving our colleague engagement and reducing our labour turnover in stores by continuing to develop a strong talent pipeline of store management, developing our leaders across the Group so all of our colleagues feel they get what they need from their manager and engaging more with teams' right across the business to listen to how we can improve.

Key activities during the last year have been:

- Receiving an 82 per cent response rate in our second colleague engagement survey. This year's survey was undertaken in partnership with Best Companies and we were placed 18th on The Sunday Times 2019 25 Best Big Companies to work for list following our results;
- Publishing our Gender Pay Gap Report with both our mean and median figures being substantially below the national average;
- Continued focus on 'growing our own' talent and succession planning resulting in over 450 colleagues being promoted across the business and succession plans being developed for key members of senior management;
- Using our apprenticeship levy to fund our Area Manager Designate Development Programme. 13 Store Managers began a two-year programme, with four of these managers having already successfully taken on their first full time Area Manager role;
- All Store Managers received people management training by attending a one day 'Managing The Works Way' workshop covering key topics such as performance management; and
- Revamped all of our basic store induction and training material to promote quicker and enjoyable learning.

We are an equal opportunities employer with a diverse workforce. Our policy is to recruit, develop, promote, support and retain skilled and motivated people regardless of disability, race, religion, belief, sex, sexual orientation, gender identification, marital status or age.

At the end of the financial period the percentage breakdown of male and female colleagues across the Group was as follows:

FY19	% male	% female
Board	80%	20%
Senior leadership	63%	37%
Store Managers	39%	61%
All colleagues	32%	68%

We engage with our colleagues through our:

- Annual engagement survey, which all colleagues have the opportunity to participate in;
- Regular divisional and area meetings to ensure that our retail field leaders, as well as our store managers, have the opportunity to hear and discuss key messages; and
- Regular colleague forums held with store managers and with colleague representatives from all departments to openly discuss specific topics.

We also held a number of roadshows where we cascaded the plan and performance measures for the Golden Quarter (covering the three key trading months in the run up to Christmas) to all store managers and key store support centre colleagues with all colleagues receiving a cascade of the key messages.

Community

Our new store opening programme continues to support investment in local communities through bringing a new, bright, retail outlet to these communities, creating new jobs at the same time.

Cancer Research UK ('CRUK') is proud to have been partnered with TheWorks.co.uk plc since 2016. Over the last year together we have raised £135,857.89, bringing our grand total to over £500,000 – an incredible achievement and one that we feel very proud of.

Fundraising this year has included the sale of charitable products in store (including CRUK branded bookmarks, shopper bags and Christmas cards) and various fund-raising events supported by our colleagues and customers.

Thanks to the dedication, enthusiasm and fantastic fundraising efforts of our customers and colleagues, we can help support CRUK to keep pioneering new ways to prevent, diagnose and treat cancer.

Best Big Companies
During the year we were placed 18th on The Sunday Times 2019 25 Best Big Companies to work for list. This was the first year we had worked with Best Companies and our strong colleague engagement is testament to the strong culture we have developed at TheWorks.co.uk plc.

Our people
A strong culture is at the heart of our business.

Strategic partnership with Cancer Research UK

CANCER RESEARCH UK

We would like to take this opportunity to say a huge thank you for all your fundraising efforts this year and your continued support of our partnership together. TheWorks.co.uk plc have made a huge contribution to Cancer Research UK's work over the past three years and we are incredibly grateful for all your support. We look forward to seeing what the next year brings for the partnership.

Hania Gudiens
Partnerships Manager,
Cancer Research UK

£520,769

Raised together since our partnership began in 2016


The Greedy Dog

Governance

"On behalf of the Board, I am pleased to introduce our first Corporate Governance Report."

Dean Hoyle
Chairman

Board of Directors

Dean Hoyle
Chairman and Non-Executive Director

External appointments:
Director of Huddersfield Town Football Club

Date joined TheWorks.co.uk plc:
September 2015

Career and experience
Dean joined the Group as Chairman in September 2015 following a significant personal investment in the business. Prior to joining the Group, Dean founded Card Factory in 1997, growing from a single shop to a company delivering profits of over £50 million in just 12 years, and establishing a store estate of 500 outlets with over 5,000 employees. The business since achieved a successful float on the London Stock Exchange with a premium listing and a market capitalisation of £766 million.

Dean is a member of the Nomination Committee.

Harry Morley
Senior Independent Non-Executive Director

External appointments:
Non-Executive Director and Chairman of the Audit Committee at JD Wetherpoon plc and The Mercantile Investment Trust plc and trustee of the Ascot Authority

Date joined TheWorks.co.uk plc:
July 2018

Career and experience
Harry joined the Board as Senior Independent Non-Executive Director in July 2018. Harry has extensive experience of serving on boards of UK public companies, being Non-Executive Director and Chairman of the Audit Committee at JD Wetherspoon plc and The Mercantile Investment Trust plc, both FTSE 250 businesses. He was previously CEO of Armajaro Asset Management and was co-founder and CFO of Tragus Holdings Ltd (owner of Café Rouge and Bella Italia restaurant chains). He is a graduate of Oxford University and qualified as a chartered accountant in 1991.

Harry is the Chair of the Audit and Nomination Committees and a member of the Remuneration Committee.

Catherine Glickman
Independent Non-Executive Director

External appointments:
Non-Executive Director and Chair of the Remuneration Committee at Marstons plc, Renishaw plc and RPS plc

Date joined TheWorks.co.uk plc:
July 2018

Career and experience
Catherine joined the Board as Independent Non-Executive Director in July 2018. Catherine retired as Group HR Director of Genus plc in February 2018 having previously held the same role at Tesco where she led retail management development and customer service training during a period of significant expansion in the UK and overseas. Prior to this she held positions at Somerfield and Boots. Working closely with the Remuneration Committees at Genus and Tesco, Catherine has developed reward structures that align leadership motivation with group strategy. She is a graduate of Durham University with a BA Hons in English.

Catherine is the Chair of the Remuneration Committee and a member of the Audit and Nomination Committees.

Kevin Keaney
Chief Executive Officer

External appointments:
None

Date joined TheWorks.co.uk plc:
August 2011

Career and experience
Kevin was appointed Chief Executive Officer of the Group in January 2012 after joining as Managing Director in August 2011. During his time as Chief Executive Officer, TheWorks.co.uk plc has been transformed from a chain of discount bookstores to one on the UK's leading multi-channel specialist retailers of value gifts, arts, crafts, toys, books and stationery. Under Kevin's leadership, the store estate has grown from 280 to more than 490 stores nationwide. The business has also established a successful eCommerce channel with a thriving Click & Collect proposition, has launched a hugely successful loyalty programme, unique in the discount sector and relocated to a new purpose-built support office and distribution centre.

Kevin has over 30 years' front-line retail leadership experience having held senior management positions at fashion retailer Animal, Savers, M&S, Somerfield and Sainsbury's.

Gavin Peck
Chief Financial Officer

External appointments:
None

Date joined TheWorks.co.uk plc:
April 2018

Career and experience
Gavin joined TheWorks.co.uk plc as Chief Financial Officer in April 2018, prior to which he was Commercial Director at Card Factory plc where he was responsible for the Commercial function (buying, space and merchandising) alongside leadership of the Commercial Finance team. Gavin joined Card Factory in April 2011 and was a key member of a successful team that grew the business from a portfolio of 530 stores generating £56 million EBITDA to a portfolio of over 900 stores generating close to £100 million EBITDA, playing a key role in the successful IPO of Card Factory in 2014 and its subsequent growth and evolution as a listed business.

Gavin is a Chartered Accountant, having started his career at PwC where he spent eight years working in the Audit and Corporate Finance departments, and has a BsC in Economics from The London School of Economics.

Chairman's Governance Introduction

We have continued to develop our governance arrangements to ensure the Board and Committees are able to effectively discharge their responsibilities.

Dear shareholders,

On behalf of the Board, I'm pleased to introduce our first Corporate Governance Report.

As stated in our IPO prospectus, the Board is committed to the highest standards of Corporate Governance and to applying the principles of the UK Corporate Governance Code 2016 (the 'Code') in so far as it applies to smaller listed companies (below the FTSE 350). The following report, including the reports of the Audit, Nomination and Remuneration Committees, describes how those principles have been applied in the operation of the Board and its Committees during the year.

During the period since IPO, we have continued to develop our governance arrangements to ensure the Board and Committees are able to effectively discharge their responsibilities in supporting the long-term success of the Company. This has included embedding a formal schedule of activity for the Board and Committees, appointing an internal audit function, approving delegated authority limits, starting the development of a formal succession planning process and generally supporting the Executives in ensuring that the Company adapts smoothly to the heightened regulatory scrutiny of a listed business. We have also considered the steps we will need to take to ensure compliance with the new version of the UK Corporate Governance Code published in 2018 (the 'New Code') during the coming year.

I believe that our Non-Executive Directors, Harry Morley and Catherine Glickman, bring a wealth of knowledge and experience relevant to our sector, as well as Board-level experience in the listed company environment. They are already making a significant contribution to the Group, and I would particularly like to express my gratitude to Harry who, in his role as Senior Independent Director, has taken on an increased role in chairing Board meetings during my absence from the business for part of this year.

As the Company only listed part-way through the financial year, there are a number of provisions of the Code, mainly relating to performance evaluation, that we have not complied with this year. Non-compliance is explained in the following report, and we intend to undertake an evaluation exercise during the current financial year.

Dean Hoyle
Chairman
5 July 2019

Corporate Governance Report

UK Corporate Governance Code – Compliance Statement

The Company adopted the Code on 19 July 2018 on admission of its Ordinary shares to the FCA's Official List and to listing on the Main Market of the London Stock Exchange. The Company was not required to comply with the principles and provisions of the Code prior to that date.

Since 19 July 2018, the Company has applied all of the main principles of the Code as they apply to it as a 'smaller company' (below FTSE 350) and has complied with all relevant provisions of the Code except as indicated below:

Provision	Explanation
A.3.1 – Chairman was not independent on appointment	Page 44
B.6.1 – Board performance evaluation has not been carried out	Page 44
B.6.3 & A.4.2 – NEDs have not evaluated the Chairman's performance	Page 44

Governance structure

Board

– Overall leadership of the Group
– Oversight of systems of internal control, risk management and corporate governance
– Setting strategy, purpose, values and culture
– Approval of major contracts
– Approves business plan and budget

The Board has delegated a number of its responsibilities to the Audit Committee, Nomination Committee and Remuneration Committee. The terms of reference of each of its Committees, and the Schedule of Matters Reserved to the Board, are available from: www.theworksplc.co.uk

Audit Committee

– Reviews annual and interim financial statements
– Monitors independence of external and internal auditors
– Reviews internal control system
– Monitors risk management
– Oversees relationship with external auditor

More info – Audit Committee Report on page 46

Nomination Committee

– Identify and nominate appointments to the Board
– Review NED time commitments
– Oversees succession planning
– Reviews size and composition of the Board
– Promotes diversity

More info – Nomination Committee Report on page 49.

Remuneration Committee

– Sets Remuneration Policy
– Determines Executive Director and senior management remuneration
– Approves annual bonus plan and Long-Term Incentive Scheme targets
– Reviews workforce remuneration policies and practices.

More info – Remuneration Committee Report on page 50.

Operational Board

Reporting to the CEO, responsible for the day-to-day trading activities of the Group and implementing the strategy agreed by the Board. Monitors performance against financial and operational targets and manages risk.

Role of the Board and how it operates

The Board's role is to provide overall entrepreneurial leadership, setting the Group's strategy, purpose, value and culture, and supporting the Executive Directors in the delivery of that strategy. In doing so, the Board is also responsible for ensuring that appropriate policies, procedures and controls are in place to support effective risk management and performance against agreed financial and operational metrics.

Certain matters, including decisions relating to the strategic direction of the Group, changes to capital, corporate or management structure, approving financial reports and approval of capital expenditure over agreed limits, are reserved to the Board and formally documented in a schedule of matters reserved. The schedule will be reviewed at least annually.

The Board meets at least ten times per year, and its activity at each meeting is planned in accordance with a formal schedule of activity approved by the Board. This ensures that it receives appropriate information at the appropriate time, and that all key operational, financial reporting and governance matters are discussed during the year, but also retains flexibility to allow specific areas of focus to be introduced into the agenda as and when required. The schedule also includes regular presentations from Operational Board members on specific areas of their responsibility, which assists the Non-Executive Directors' understanding of the day-to-day operations of different functions of the Group.

A detailed pack is prepared and circulated in advance of each meeting which includes updates from the CEO, CFO and other Operational Board members tracking performance against agreed key performance indicators. These reports also set out current areas of focus and highlight any specific issues requiring further discussion or debate by the Board. The Company Secretary also prepares a report for each Board meeting covering matters such as forthcoming scheduled announcements and closed periods, the operation of the Company's Share Dealing Code and forthcoming regulatory or legislative developments which may impact on the Company.

Roles and responsibilities

Chairman and CEO

The Chairman is responsible for leading the Board's discussions, ensuring its effectiveness and promoting an open forum for debate and constructive relations between Executive and Non-Executive Directors.

There is a clear division of responsibilities between the Chairman and the Chief Executive, with the purpose of each role clearly defined in their respective letter of appointment and service agreement. The CEO reports to the Board and is responsible for all executive management matters of the Group.

Corporate Governance Report continued

Non-Executives
The Non-Executive Directors provide constructive challenge to management, helping to develop proposals on strategy, and providing advice and support based on their experience in both executive and Non-Executive roles throughout their careers.

Senior Independent Director
Harry Morley has been appointed as Senior Independent Director and in that role acts as a sounding board for the Chairman and is available to shareholders if they have concerns which contact through the normal channels of the Chief Executive or Chairman has failed to resolve. He will also lead the annual evaluation of the Chairman's performance going forwards.

Board Committees
In line with recognised governance practice, the Board has established three Board committees (Audit, Remuneration and Nomination). Each committee has its own terms of reference which are approved by the Board and will be reviewed annually. Membership of the committees is determined by the Board, on recommendations from the Nomination Committee. Details of the role, composition and activities of each committee during the year are set out in their respective reports on the following pages.

Operational Board
The Executive Directors are supported in their day-to-day management of the business by an experienced Operational Board.

Composition, independence and attendance
The Board is currently comprises of five directors (including the Chairman). Both of the Non-Executive Directors (Catherine Glickman and Harry Morley), are considered to be independent and the Company therefore complies with provision B.1.2 of the Code from IPO as at least half the Board (excluding the Chairman) is independent. Based on current composition, it is anticipated that the Board will continue to comply with provision 11 of the New Code during the forthcoming year.

The Company did not comply with provision A.3.1 of the Code on IPO as the Chairman did not, on appointment, meet the independence criteria set out in Code provision B.1.1 as he held shares in the Company and also in The Works Investments Limited, the holding company of the Group prior to IPO. Nevertheless, the Board considers that the fact of the Chairman's shareholding in the Company (including the relative size of it) does not influence the Chairman's independence of character and judgement within the meaning of Code provision B.1.1 and it does not influence him or the Board in the proper discharge of their duties and the operation of the business of the Group.

Individual Director attendance at scheduled Board and Committee meetings (where they are a member) since the IPO are set out in the table below:

Director	Board meetings Attended/held	Audit Committee Attended/held	Remuneration Committee Attended/held	Nomination Committee Attended/held
Dean Hoyle[1]	2/8			1/2
Kevin Keaney	8/8			
Gavin Peck	8/8			
Catherine Glickman	8/8	3/3	2/2	2/2
Harry Morley	8/8	3/3	2/2	2/2

1 As announced in the half-year results published in January 2019, Dean Hoyle took a temporary reduction of duties during the year due to a health-related matter. He was therefore unable to attend six scheduled meetings during the year, but remained in regular contact with the Board. In his role as Senior Independent Director, Harry Morley chaired the Board meetings that Dean Hoyle was unable to attend.

All Directors are expected to attend all meetings of the Board and any committees of which they are members, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. The Non-Executive Directors' letters of appointment currently anticipate that each Non-Executive Director will need to commit a minimum of two days per month to the Company but clarify that more time may be required. In addition, the Non-Executive Directors are expected to commit appropriate preparation time ahead of each meeting.

Where Directors are unable to attend a meeting, they are encouraged to submit any comments on papers or matters to be discussed to the Chairman in advance to ensure that their views are recorded and taken into account during the meeting.

Key activities during the year
Since IPO, the Board has met formally on eight scheduled occasions, with a further two meetings held by conference call to consider specific matters such as the half-year trading update and the FY20 budget. The standing agenda for each meeting includes updates from the CEO and CFO on trading and financial performance, an investor relations update and an update from the Company Secretary. In addition, the Board has also received regular updates from members of the Operational Board covering topics such as supply chain, eCommerce, IT strategy and the new store opening programme. These Operational Board presentations ensure that the Non-Executive Directors are informed of key operational initiatives and challenges, and provide the opportunity for senior executives to meet, and discuss their areas of responsibility with, the Board.

During the year the Board has also approved formal delegated authority limits for the Company, reviewed the Group risk register and internal controls structure, reviewed the New Code and considered areas to be addressed to ensure compliance in FY20, approved the FY20 budget, reviewed and approved changes to the Schedule of Matters Reserved to the Board and Committee Terms of Reference, and approved investment in a new eCommerce web platform. In addition, the Board has reviewed and approved the half-year and full-year financial statements.

Outside formal Board meetings, the Non-Executive Directors have attended a number of site visits where they spend a day visiting stores accompanied by a member of the management team. On such visits, the Non-Executive Directors have the opportunity to meet our store-based teams, understand the culture of the business, and to develop their knowledge of in-store operations and initiatives.

Training and development
In preparation for listing, all Directors received an induction briefing from the Company's legal advisers on their duties and responsibilities as Directors of a publicly quoted company. A full, formal and tailored induction programme will be developed for any new Directors joining the Board. The Chairman, with the support of the Company Secretary, will ensure that the development and ongoing training needs of individual Directors and the Board as a whole are reviewed and agreed at least annually going forwards.

The Company Secretary ensures that the Board is briefed on forthcoming legal and regulatory developments, as well as developments in Corporate Governance best practice.

Evaluation and effectiveness
As the Board has only been established for a relatively short period of time since the IPO, it has decided not to conduct a formal performance evaluation prior to the publication of the Annual Report. The Company has therefore not complied with Code provisions B.6.1, B.6.3 and A.4.2.

The Board is of the view that a meaningful evaluation of its performance, and the performance of individual Directors and the Chairman, can only be carried out once it has completed a full annual cycle of activity, and therefore intends to conduct a formal performance exercise during FY20 which will be reported on in our 2020 Annual Report. It is anticipated that this evaluation will be conducted internally, however, the possibility of conducting an externally facilitated evaluation in future years will be kept under review.

Information and support

Agendas and accompanying papers are distributed to the Board and committee members well in advance of each Board or committee meeting. Where necessary separate papers are prepared to support specific matters requiring Board decision or approval (for example capital expenditure projects). During the year, the Board has regularly discussed the content of the reports it has received, and the content has been, and continues to be, refined to ensure it supports effective debate and decision-making by the Board.

All Directors have direct access to the Operational Board and other senior managers should they require additional information on any of the items to be discussed. The Board and the Audit Committee also receive regular and specific reports to allow the monitoring of the adequacy of the Company's systems of internal control.

Minutes of all Board and Committee meetings are taken by the Company Secretary and circulated to Directors for approval as soon as practicable following the meetings. Specific actions arising for meetings are recorded both in the minutes and on separate action logs, thereby facilitating the effective communication of actions to those responsible and allowing the Board to monitor progress.

Appointment and election

The Board considers all Directors to be effective, committed to their roles and have sufficient time to perform their duties. Accordingly, and in accordance with the Company's Articles, all members of the Board will be offering themselves for reappointment at the Company's first Annual General Meeting ('AGM') on 28 August 2019.

All of the Directors have service agreements or letters of appointment and the details of their terms are set out below.

Executive Director service contracts

Name	Position	Date of service agreement	Notice period by Company (months)	Notice period by Director (months)
Kevin Keaney	CEO	19 July 2018	12	12
Gavin Peck	CFO	19 July 2018	12	12

As part of the restructuring process, Richard Naish was appointed Director of the Company on 24 April 2018 and resigned 10 May 2018. Richard provided no qualifying services to the Company and received no remuneration.

The Non-Executive Directors (including the Chairman) do not have service contracts, but are instead appointed by letters of appointment. Their initial term of office runs for the period from the IPO to the conclusion of the Company's first AGM in August 2019 as indicated in the table below. Subject to their reappointment by shareholders, it is the Company's intention that each of the Non-Executive Directors will be reappointed for a three-year term commencing from the 2019 AGM and subject to their annual reappointment by shareholders.

Non-Executive Director appointment

Name	Date of appointment	Commencement date of current term	Unexpired term at July 2019
Dean Hoyle	19 July 2018	19 July 2018	1 month
Catherine Glickman	19 July 2018	19 July 2018	1 month
Harry Morley	19 July 2018	19 July 2018	1 month

Conflicts of interest

The Company's Articles set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Articles permit the Board to authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the quorum and does not vote on the resolution to authorise.

The Board has approved a procedure by which Directors are briefed on their duty to avoid conflicts of interests and required to immediately notify the Company Secretary when a conflict or potential conflict does arise in order that Board authorisation can be sought. If the Board determines that a conflict or potential conflict can be authorised, it may impose additional conditions to manage such conflicts of interest.

In addition, Directors are reminded at the beginning of each Board meeting to notify the Board of any further conflicts of interest in accordance with sections 175, 177 and 182 of the Companies Act 2006.

Whistleblowing

The Company has adopted procedures by which employees may, in confidence, raise concerns relating to possible improprieties in matters of financial reporting, financial control or any other matter. The whistleblowing policy applies to all employees of the Group. The Board is responsible for monitoring the Group's whistleblowing arrangements and reviewed the policy and arrangements during the year. The Board is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters, and allow appropriate follow up action to be taken.

Relations with shareholders

The Board recognises the importance of explaining financial results and key strategic and operational developments in the business to the Company's shareholders, and of understanding any shareholder concerns.

Ensuring a satisfactory dialogue with shareholders and receiving reports on the views of shareholders is a matter reserved for the Board. Day-to-day responsibility for investor relations is delegated to the Chief Executive Officer and the Chief Financial Officer, who are supported by the Company's retained financial PR advisers, Teneo and its corporate brokers, Investec. As part of its investor relations programme, the Group aims to maintain a dialogue with its shareholders, including institutional investors, to discuss issues relating to the performance of the Group. Information and investor news is also made available via our investor website (www.theworksplc.co.uk).

The Non-Executive Directors are available to discuss any matter shareholders might wish to raise, and the Chairman and Independent Non-Executive Directors will attend meetings with investors and analysts as required. Investor relations activity is a standing item on the Board's agenda.

The Company's first AGM will take place on 28 August 2019 at Investec Bank plc, 30 Gresham Street, London EC2V 7QP. The Chairman and Committee Chairs will be in attendance. The Annual Report and financial statements and Notice of the AGM will be sent to shareholders at least 20 working days prior to the date of the meeting. To encourage shareholders to participate in the AGM process, the Company will offer electronic proxy voting through both our registrar's website and, for CREST members, the CREST service. Voting will be conducted by way of a poll and the results will be announced through the Regulatory News Service and made available on the Company's website.

Report of the Audit Committee

Dear shareholders,

On behalf of the Board, I am pleased to present the Audit Committee Report for the period ended 28 April 2019.

The Audit Committee was formally established by the Board in the lead up to IPO and I was appointed its Chairman when I became a Director of the Company. Catherine Glickman is the other member of the Committee and, as both Catherine and I are independent, the composition of the Committee satisfies the requirements of provision C.3.1 of the Code as it applies to smaller companies.

The Board is satisfied that by virtue of my qualification as a Chartered Accountant, my executive background in finance roles and my experience as an audit committee chair in other Non-Executive positions, I have recent and relevant financial experience as recommended under provision C.3.1 as it applies to the Company. The Board is also satisfied that the Committee has competence relevant to the sector in which the Company operates, Catherine and I both having experience as Directors of other companies in the retail and leisure sectors.

The Committee's role is to assist the Board with the discharge of its responsibilities in relation to internal and external audits and controls, including reviewing the Group's annual financial statements, considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal control systems in place within the Group.

The Committee has met on three occasions since the IPO, and it is our intention to meet at least three times annually going forward. Our activities have primarily focused on matters in connection with the half-year and full-year financial statements and the Annual Report, but our agenda has also included reviewing the Company's risk register, approving the appointment of Grant Thornton as our outsourced internal audit function, and monitoring progress with our preparation for IFRS 16 – Leases which will apply to the Company in the next financial year.

Significant accounting judgments

The significant accounting judgements identified by the finance team and the external auditor were discussed by the Audit Committee at our meeting on 26 June 2019. Details of the significant judgements and how they have been addressed are set out below.

Risk management and internal control

We have reviewed the effectiveness of the Group's systems of risk management and internal control, and we concluded that the systems currently in place are satisfactory and working effectively. As a recently listed company, we recognise the importance of ensuring these systems are robust and effective and will continue to work with the finance team to ensure they are kept under review and developed where necessary during the coming financial year.

We have also reviewed the process and assumptions underlying the Board's long-term Viability Statement (see page 33).

External auditor

The Committee has reviewed our external auditors's KPMG LLP (KPMG) independence and performance and following that review we have recommended that KPMG be re-appointed as the Company's auditors at the next Annual General Meeting.

We have agreed a policy for the provision of non-audit services by the external auditor (described on page 48) and the Committee will ensure through regular review that the policy is implemented and operated effectively.

As the Audit Committee has only been established for a relatively short time, we have not conducted a formal performance evaluation but currently intend to do so in advance of the FY20 financial year end.

Harry Morley
Chairman of the Audit Committee
5 July 2019

Composition

Harry Morley – Chairman
Catherine Glickman

Duties and responsibilities

The Audit Committee's duties and responsibilities are set out in its terms of reference which are available on the Company's website.

Meetings and attendees

The Committee met on three occasions during the year, and has met once since the year end. All meetings were fully attended by members of the Committee as shown in the table on page 44.

The internal and external auditors have the right to attend meetings, and other Directors and members of the management team may attend by invitation. Outside of the formal meeting programme, the Audit Committee Chairman maintains a dialogue with key individuals involved in the Company's governance, including the Chairman, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the head of internal audit. At least twice per year, the Committee also meets the external auditor without members of the management team present.

Activity during the year

Key matters discussed by the Committee during the year have included:

- Appointment of an outsourced internal audit function, and reviewing the proposed internal audit plan;
- Review of the Company's risk register and considering the process to support the long-term Viability Statement;
- Consideration and approval of the Group's policy on the provision of non-audit services by the external auditor;
- Reviewing the effectiveness of the Group's internal control and risk management systems;
- Reviewing progress with the Group's preparation for the adoption of IFRS 16 – Leases; and
- Reviewing the half-year financial statements and the Annual Report and financial statements, and recommending their approval by the Board.

Significant issues considered in relation to the financial statements

Significant issues and accounting judgements are identified by the finance team and the external audit process and are reviewed by the Audit Committee. The significant issues considered by the Committee in respect of the year ended 28 April 2019 are set out below.

The existence and valuation of the Group's inventory

The Group has a significant range of inventory with large volumes across the warehouse and stores. Due to the inherent uncertainty of consumer demand, there is a level of subjectivity around the associated provision held against the carrying value of inventory.

How the issue has been addressed

There are a number of processes in place to assess the existence and valuation of inventory included in the Annual Reports and Accounts:

- An annual inventory count at the warehouse and the third party warehouse is performed
- Zone and seasonal counts across the stores estate are conducted through-out the year. These are supplemented by perpetual inventory counts across stores.
- Store and warehouse inventory reconciliations are performed throughout the year.
- A detailed calculation of the risk of obsolescence and stock loss is carried out monthly. A more formal review and assessment which includes sensitivity analysis is carried out at half year and at the year end to ensure the level of inventory provisioning is appropriate.
- Judgement papers are reviewed by the Audit Committee to support any judgements or changes to judgements in the Annual Report and Accounts.

Risk management and internal control

The Board has overall responsibility for setting the Group's risk appetite and ensuring that there is an effective risk management framework to maintain levels of risk within that risk appetite. The Board has, however, delegated responsibility for review of the risk management methodology and the effectiveness of the internal control to the Audit Committee. During the year the Audit Committee and the Board have reviewed the Group's risk register, and challenged management on the classification of risk and the mitigations in place. The Committee will continue to provide oversight and advice to the Board on current risk exposures and future risk strategy. Further details of the Group's risk management approach, structure and principal risks are set out in the Strategic Report on pages 30 to 32.

The Group's system of internal control comprises entity-wide high-level controls, controls over business processes and store-level controls. Policies and procedures and clearly defined levels of delegated authority have been approved and communicated across the Group, and include an internal control framework, corporate risk register, business continuity plan and IT system policies. These are further supplemented by other policies and procedures which are communicated to employees through the employee handbook.

Management has identified the key operational and financial processes which exist within the business and implemented internal controls over these processes in addition to the higher level review and authorisation-based controls. These policies are designed to ensure the accuracy and reliability of financial reporting and govern the preparation of financial statements. The Board is ultimately responsible for the Group's system of internal controls and risk management and discharges its duties in this area by:

- Holding regular Board meetings to consider the matters reserved for its consideration;
- Receiving regular management reports which provide an assessment of key risks and controls;
- Scheduling periodic Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- Ensuring there is a clear organisational structure with defined responsibilities and levels of authority;
- Ensuring there are documented policies and procedures in place; and
- Reviewing regular reports containing detailed information regarding financial performance, rolling forecasts, actual and forecast covenant compliance and financial and non-financial KPIs.

In reviewing the effectiveness of the system of internal controls, the Audit Committee will, going forward:

- Review the risk register compiled and maintained by senior managers within the Group and question and challenge where necessary;
- Regularly review the system of financial and accounting controls; and
- Report to the Board on the risk and control culture within the Group.

The Audit Committee, on behalf of the Board, has reviewed the effectiveness of the internal control systems and risk management processes in place, taking account of any material developments since the year end. We have not identified, nor been advised of, any failings or weaknesses that are deemed to be significant.

Report of the Audit Committee continued

Internal audit

Following the IPO, the Committee considered the Group's approach to internal audit and agreed that it would be appropriate to appoint an outsourced internal audit function. The Audit Committee Chairman and CFO met with prospective providers and, based on their recommendation, the Committee approved the appointment of Grant Thornton as the Group's outsourced internal audit function.

During FY19, Grant Thornton's work has focused on reviewing the Group's risk management and control framework in order to inform the internal audit plan for the coming year and performed a review of the IT change management processes for its key in-house 'Nimbus' system. The proposed internal audit plan was presented to, and approved by, the Committee at its meeting in March 2019 and is focused on providing assurance on key elements of the Group's internal control system. Grant Thornton will provide regular updates to the Committee on its internal audit work during FY20.

External auditor

The Audit Committee is responsible for overseeing the Group's relationship with its external auditor, KPMG LLP. This includes the ongoing assessment of the auditors independence and the effectiveness of and value for money from the external audit process, the results of which inform the Committee's recommendation to the Board as to the auditors appointment (subject to shareholder approval) or otherwise.

Appointment and tenure

KPMG was first appointed as the external auditor of the TheWorks.co.uk plc in 2018. The current lead audit partner, Tony Sykes, was appointed in the current year.

KPMG generally require the rotation of the lead audit partner every five years for a listed client. Therefore, a new lead audit partner is expected to be selected for the FY24 audit. In accordance with the Code and EU legislation. The Committee intends to put the external audit out to tender at least every ten years.

Non-audit services

The engagement of the external audit firm to provide non-audit services to the Group can impact on the independence assessment, and the Company has therefore adopted a policy which requires Audit Committee approval for any permitted non-audit services, except for permitted non-audit services with a fee of less than £5k on an individual basis or £20k on an aggregated basis for which the Audit Committee has pre-approved the use of the external auditor subject to approval of the service by the Chief Financial Officer.

When reviewing requests for non-audit services the Audit Committee will assess:

- Whether the provision of such services impairs the auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- The nature of the non-audit services;
- Whether the skills and experience make the auditor the most suitable supplier of the non-audit service;
- The fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee; and
- The criteria which govern the compensation of the individuals performing the audit.

The external auditor may not be engaged to provide non-audit services which have been identified as 'prohibited' in accordance with legislative and regulatory requirements.

During the year ended 28 April 2019, KPMG were engaged to provide certain non-audit services in respect of the IPO. These included the preparation of reports on the Company's financial position and prospects, working capital and a report to the Company's sponsors regarding the Company's business and operations. In approving the use of KPMG to provide these services, the Board took the view that KPMG's knowledge of the Company and its operations meant that it was best placed to provide the services, and was comfortable that KPMG's independence would not be compromised. In addition, KPMG has also been engaged to carry out some non-audit services relating to the issuance of turnover certificates. The fees paid to KPMG in respect of non-audit services during the year totalled £660,000. Further detail is shown in Note 6 to the financial statements on page 91.

External audit effectiveness

The Audit Committee discussed the external auditor's effectiveness in carrying out the year-end audit at its meeting in June 2019 and concluded that the audit process had been carried out effectively. A more formal review of KPMG's performance as external auditor will be carried out during FY20 and reported on in our 2020 Annual Report.

Harry Morley
Chairman of the Audit Committee
5 July 2019

Report of the Nomination Committee

Chairman : Harry Morley
Other members : Catherine Glickman, Dean Hoyle

Role and responsibilities

The role of the Nomination Committee is set out in its terms of reference which are available on the Company's website. Its primary purpose is to develop and maintain a formal, rigorous and transparent procedure for identifying appropriate candidates for Board appointments and to make recommendations to the Board.

Specific duties of the Nomination Committee include:

- Regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- Keeping under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace; and
- Review annually the time required from Non-Executive Directors.

The Nomination Committee is also responsible for keeping under review Board and senior management succession plans and for making recommendations on the composition of the Board and its Committees.

Meetings

It is intended that the Nomination Committee will meet at least once per year and otherwise as required in order to discharge its duties. Only members of the Nomination Committee have the right to attend meetings, but other Directors, Executives or advisers may be invited to attend all or part of any meeting as appropriate.

The Nomination Committee met on two occasions during the year, and individual attendance at the meetings is set out in the table on page 44. The meetings focused on succession planning, diversity and reviewing the Committee's terms of reference to ensure alignment with the New Code. We also reviewed the composition of the Board and Committees, the independence requirements of the Code and the time commitment of the Non-Executive Directors.

Succession planning

The Committee's activities relating to succession planning in the year have focused on senior management positions, and in particular in ensuring that management have identified potential successors for key positions and have developed plans to address any gaps in that succession plan. In the coming year, the Committee will develop these discussions to cover Board succession planning.

Diversity

The Company's policy with respect to diversity is set out in its Equal Opportunities Policy and provides that no individual should be discriminated against on the ground of race, colour, ethnicity, religious belief, political affiliation, gender, sexual orientation, age or disability. This extends to Board appointments and was discussed by the Committee during the year. The objective of the Equal Opportunities Policy is to ensure that our colleagues, and anyone applying for a job with the Company, will receive fair and equal treatment.

The Board has not operated a specific Diversity Policy with measurable objectives during the year. It is the Committee's intention to develop and approve a specific Diversity Policy relating to the recruitment process for Board and senior management appointments during the coming year.

The Board recognises the benefits of diversity, including gender diversity, on the Board, although it believes that all appointments should be made on merit, whilst ensuring that there is an appropriate balance of skills and experience within the Board. The Board currently consists of 20 per cent (1) female and 80 per cent (4) male board members.

Annual evaluation

As the Nomination Committee has only been established for a short time, a formal performance evaluation has not been conducted. It is intended that a performance evaluation will be conducted during FY20 and reported on in the Company's 2020 Annual Report.

Harry Morley
Chairman of the Nomination Committee
5 July 2019

Report on Directors' Remuneration

Remuneration Committee Chair – Annual Statement

Dear Shareholder,

As Chair of the Remuneration Committee, I am pleased to present our first Directors' Remuneration Report for the year ended 28 April 2019, following our admission to the Main Market.

In line with the applicable regulations, this report is presented in two sections: firstly our Directors' Remuneration Policy (the Policy) containing our forward looking policy in relation to Directors' remuneration; and then our Annual Report on Remuneration which provides details of the amounts earned in respect of the year ended 28 April 2019 and how our Policy will be implemented in respect of the year ending 26 April 2020. Our Policy is subject to a binding shareholder vote at the 2019 AGM and, subject to approval by shareholders, will become effective from that date. Our Annual Report on Remuneration will be subject to an advisory vote at the 2019 AGM.

Our Policy

In anticipation of Admission, the Company undertook a review of its Policy for Executive Directors and the Senior Management Team in order to ensure that it was appropriate for a listed company. During the course of the year, the Committee has further developed the Policy to take into account the introduction of the 2018 Corporate Governance Code, including alignment of our pension policy, a policy on post-employment shareholding guidelines and the extension of our malus and clawback triggers to include corporate failure.

We take a disciplined approach to executive remuneration, ensuring we encourage and support a high performance culture, providing incentives that promote achievement of the Group's corporate strategy and delivery of sustainable growth. Our senior management were already significant shareholders at the time the business became publicly listed, whilst a proportion of the shares they held within the private equity structure were sold on IPO, the balance became shares in TheWorks.co.uk plc, with strict obligations on not selling those shares for a given period. This means the senior team have a significant part of their personal wealth in TheWorks.co.uk plc's shares, and their interests are fully aligned with those of the shareholders. In addition, the Executive Directors are required to hold shares post vesting under the Long Term Incentive Plan for a period of two years and we have shareholding guidelines which our Executives already exceed. All of our Senior Management Team, including the Executive Directors, have the same pension provision and for new hires at Executive level pensions will be in line with the majority of our colleagues.

Our performance and incentive outturn for the year ended 28 April 2019

For the financial year ended 28 April 2019, the Executive Directors were eligible for a bonus of 100 per cent of base salary and the bonus was assessed against EBITDA. In spite of the strong sales growth and continued progress on delivering against our four pillar growth strategy, the EBITDA performance fell short of the threshold bonus performance and, as such, no bonus will be paid to the Executive Directors for the year.

In August 2018 awards under the LTIP were granted to the Executive Directors and Senior Management Team. For the Executive Directors these awards equated to 100 per cent of salary and performance measures are based on stretching EPS targets. Further details are provided on page 60. These were the first awards granted under the LTIP and therefore no award vested with respect to performance for the financial year ended 28 April 2019.

The link between our Policy and the Company's strategy

Our policy is designed to promote the long term success of the Group and to reward the creation of long term value for shareholders. The performance targets for all incentive elements are designed to reward high performance against stretching EBITDA measures for the bonus and long term EPS growth under the LTIP.

With the exception of store managers, assistant managers and area sales manager bonus schemes, all bonus arrangements within the Group have the same structure and payout mechanism, though the maximum potential award, expressed as a percentage of salary, varies between different employee groups.

Our employees are fundamental to the delivery of our performance and as such we recognise the importance of employee engagement and continue to build on our success in this area. In 2017 The Works introduced an annual engagement survey programme, Make A Difference, achieving an 82% response rate in 2018 and being placed 18th on The Sunday Times 2019 Best Big Companies to Work for Listing. I am delighted to be part of this vibrant and inclusive culture and shall be supporting the Company in its development of wider engagement with our colleagues across the Group.

We will also be adopting an all employee SAYE scheme in 2019 to enable all employees to align with our growth strategy and strengthen our team ethos. The scheme will be launched during the Summer of 2019.

Implementation of our Policy for the year ending 26 April 2020

Salary and Fees

In line with the salary review timetable for all other employees, the Executive Directors' base salaries were reviewed during April 2019, with changes taking effect from 1st May 2019. The increase to Executive Directors' salaries were modest at 1.5% and at the lower end of the range of salary increases awarded to other employees in the Group which averaged c4% (excluding increases due to the National Minimum and Living Wages).

There were no changes to Non-Executive Directors' fees.

Annual bonus

As detailed on page 63, the maximum bonus opportunity for the year ending 26 April 2020 will remain at 100% of salary for the Executive Directors. The bonus will be subject to stretching EBITDA targets (before adjusting for the impact of IFRS16). The overall bonus payments are also subject to achieving additional underpins based on the Company's compliance with debt covenants and no default loan agreements.

LTIP

Subject to shareholder approval of the Policy, we intend to grant the Executive Directors an LTIP award in respect of the year ending 26 April 2020 over shares with a value of equal to 100% of salary. As set out in further detail on page 63, the performance measure will be based on the compound annual growth in the Company's earnings per share over the three financial years ending April 2022. The EPS targets have been set by reference to our growth plans and incorporate very stretching targets for the next three years

Shareholder views

Other than including provisions to address the requirements of the 2018 UK Corporate Governance Code, the key terms of our policy reflect the detail included in our Prospectus and have therefore been seen and supported by shareholders at the time of Admission.

I hope that the Policy and report will give our shareholders a clear perspective of our approach to executive remuneration and that we are adopting an approach to ensure that remuneration and incentives adhere to the principles of good corporate governance, promote the Company's strategy and properly incentivise the achievement of the Company's objectives.

I will be available to answer questions on executive remuneration at the AGM and I hope that shareholders will give the Policy and report their firm support at that meeting. Of course, I am happy to receive any questions or comments from shareholders at any time and welcome your feedback.

Catherine Glickman
Chair of the Remuneration Committee
5 July 2019

Report on Directors' Remuneration continued

The Company's remuneration package for Executive Directors has been designed with the following aims:
- to attract, retain and motivate high-calibre talent to ensure its continued growth and success as a newly listed company;
- to encourage and support a high performance culture, providing incentives that promote achievement of the Group's corporate strategy and delivery of sustainable growth;
- to align the interests of the Executive Directors, Senior Management and employees with those of shareholders and appropriate alignment with strategic goals;
- to ensure that remuneration and incentives adhere to the principles of good corporate governance, support good risk management practice and promote sustainable Company's performance; and
- to have a competitive mix of fixed remuneration and short-term and long-term incentives, with an appropriate proportion of the package determined by stretching targets linked to the Company's performance.

Directors' Remuneration Policy

This part of the Directors' Remuneration report sets out The Works' Directors' Remuneration Policy (the 'Policy'), which, subject to shareholder approval at the 2019 Annual General Meeting, shall take binding effect from the close of that meeting.

The Policy is determined by the Company's Remuneration Committee (the 'Committee').

Policy for Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	Core element of fixed remuneration reflecting individual's role and experience.	The Committee ordinarily reviews base salaries annually taking into account a number of factors including (but not limited to) the value of the individual, the scope of their role, their skills and experience and performance. The Committee also takes into consideration: • pay and conditions of the workforce generally; and • Group profitability and prevailing market conditions	Whilst there is no maximum salary, increases will normally be within the range of salary increases awarded (in percentage of salary terms) to other employees of the Group. However, higher increases may be awarded in certain circumstances, such as: • on promotion or in the event of an increase in scope of the role or individual's responsibilities; • where an individual has been appointed to the Board at a lower than typical market salary to allow for growth in the role, in which case larger increases may be awarded to move salary positioning to a typical market level as the individual gains experience; • change in size and complexity of the Group; and/or • significant market movement. Increases may be implemented over such time period as the Committee deems appropriate.	While no formal performance conditions apply, an individual's performance in role is taken into account in determining any salary increase.
Benefits	Fixed remuneration provided on a market competitive basis.	Benefits include the use of a fully expensed car (or car allowance), medical cover for the Executive Director and his/her spouse and dependent children and life assurance scheme. Other benefits may be based on individual circumstances, which may include relocation costs, travel and accommodation expenses. Reimbursed expenses may include a gross-up to reflect any tax or social security due in respect of the reimbursement.	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value is set at a level which the Committee considers to be appropriately positioned taking into account the nature and location of the role and individual circumstances.	Not applicable.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Retirement Benefits	Provide a competitive means of saving to deliver appropriate income in retirement.	The Company operates a defined contribution scheme. In appropriate circumstances, an Executive Director may receive a salary supplement in lieu of some or all of the contributions that would otherwise be made to a pension scheme. Executives may be permitted to sacrifice other elements of remuneration and receive an equivalent contribution to a pension scheme. Should any Executive elect to do so, any employer social security saving for the Group may also be contributed to a pension arrangement on behalf of the Executive.	10% of salary plus the amount of any employer social security saving if an Executive Director sacrifices any other element of remuneration as referred to in the "Operation" column. Pension contributions for new Executive Directors will be aligned to those applicable to other employees and will be set at the time of appointment.	Not applicable.
Annual Bonus	The executive bonus scheme rewards Executive Directors for performance in the relevant year against targets and objectives linked to the delivery of the Company's strategy.	Targets and objectives are reviewed annually and any pay-out is determined by the Committee after the year end. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. The full amount of any bonus earned will ordinarily be paid in cash, although the Committee has discretion to defer part of the bonus earned into shares, for up to two years. Deferred bonus awards may take the form of conditional shares or nil (or nominal) cost options. Deferred bonus awards may incorporate the right to receive additional shares calculated by reference to the value of dividends which would have been paid on the shares up to the time of vesting; this amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis. Recovery provisions apply, as referred to below.	The maximum annual bonus opportunity is 100% of base salary.	Targets (which may be based on financial or strategic measures) and individual objectives are determined to reflect the Company's strategy. At least 50% of the bonus opportunity is based on financial measures which may include but are not limited to EBITDA or other measure of profit. The balance of the bonus opportunity will be based on financial measures and/or the delivery of strategic/ individual measures.

Report on Directors' Remuneration continued

Policy for Executive Directors continued

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Long Term Incentive Plan (LTIP)	The LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for the achievement of longer term objectives aligned to shareholders' interests.	Under the LTIP, the Committee may grant awards as conditional shares or as nil (or nominal) cost options. Awards will be subject to a three year vesting period and will usually vest following the assessment of the applicable performance conditions, but will not be released (so that the participant is entitled to acquire shares) until the end of a holding period of two years beginning on the vesting date. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. Alternatively, awards may be granted on the basis that the participant is entitled to acquire shares following the assessment of the applicable performance conditions but that (other than as regards sales to cover tax liabilities) the award is not released (so that the participant is able to dispose of those shares) until the end of the holding period. LTIP awards may incorporate the right to receive additional shares calculated by reference to the value of dividends which would have been paid on the shares up to the time of release; this amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis. The Committee may at its discretion structure awards as Qualifying LTIP Awards, consisting of a tax qualifying CSOP option with a per share exercise price equal to the market value of a share at the date of grant and an ordinary nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option. Recovery provisions apply, as referred to below.	The maximum award level is 100% of base salary, or 200% of base salary in exceptional circumstances. The market value of shares subject to an LTIP award will be determined on such basis as the Committee considers appropriate and will be approved consistently where possible. If a Qualifying LTIP is granted, the value of shares subject to the CSOP option will not count towards the limit referred to above, reflecting the provisions for the scale back of the ordinary LTIP award.	Performance measures under the LTIP will be based on financial measures (which may include, but are not limited to, earnings per share, relative total shareholder return). Awards will vest up to 25% for threshold performance rising to 100% for maximum performance.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
All Employee Share Plans	Provision of the Save As You Earn ('SAYE') Scheme creates staff alignment with the Group and provides a sense of ownership across the Groups employee base. Executive Directors may participate in such other all employee share plan as may be introduced from time to time.	Tax qualifying monthly savings scheme facilitating the purchase of shares at a discount. Any other all employee share plan would be operated for Executive Directors in accordance with its rules and on the same basis as for other qualifying employees.	The limit on participation and the permitted discount under the SAYE Scheme will be those set in accordance with the applicable tax legislation from time to time. The limit on participation and other relevant terms of any other all employee share plan would be determined in accordance with the plan rules (and, where relevant, applicable legislation) and would be the same for the Executive Directors as for other relevant employees.	Not subject to performance conditions in line with typical market practice.

Recovery provisions (Malus and Clawback)

Malus: The annual bonus opportunity and unvested deferred share awards may be cancelled or reduced before payment and an LTIP award may be cancelled or reduced before vesting in the event of material error in assessing a performance condition, misstatement of results, material failure of risk management, material misconduct, corporate failure or serious reputational damage.

Clawback: For up to two years following payment of a bonus and until the fifth anniversary of the grant of an LTIP award, the bonus may be recovered or the LTIP award cancelled or reduced (if it has not been exercised) or the Executive Director may be required to make a payment to the Company in respect of some or all of the shares acquired in the event of material error in assessing a performance condition, misstatement of results, material failure of risk management, material misconduct, corporate failure or serious reputational damage.

Malus and clawback may be applied to any CSOP option granted under the LTIP to the extent permitted by the applicable tax legislation.

Explanation of Performance Metrics

Performance measures for the LTIP and annual bonus are selected to reflect the Company's strategy. Stretching performance targets are set each year by the Committee taking into account a number of different factors.

The Committee currently considers that EBITDA is closely aligned with the Group's key performance metrics, we consider that this encourages sustainable growth year by year. For the year ending 26 April 2020, the bonus opportunity will be based entirely on EBITDA (before adjusting for the impact of IFRS16) accounting for an opportunity of up to 100% of salary.

The application of EPS to the LTIP aligns management's objectives with those of shareholders for the longer term. For the year ending 26 April 2020, the LTIP opportunity will be based entirely on EPS for an opportunity of up to 100% of salary.

The Committee may vary or substitute any performance measure if an event occurs which causes it to determine that it would be appropriate to do so (including to take account of acquisitions or divestments, a change in strategy or a change in prevailing market conditions), provided that any such variation or substitution is fair and reasonable and (in the opinion of the Committee) and the change would not make the measure less demanding than the original measure would have been but for the event in question. If the Committee were to make such a variation, an explanation would be given in the next Directors' Remuneration Report.

Operation of Share Plans

The Committee may amend the terms of awards and options under its share plans in accordance with the plan rules in the event of a variation of the Company's share capital or a demerger, special dividend or other similar event or otherwise in accordance with the rules of those plans. The Committee may operate any such plan in accordance with its rules. Share awards granted under any such plan may be settled in cash or granted as a right to receive a cash amount calculated by reference to a number of notional shares, although the Committee would only do so where the particular circumstances made this the appropriate course of action (for example where a regulatory reason prevented the delivery of shares).

Shareholding Guidelines

To align the interests of the Executive Directors with those of shareholders, the Committee has adopted formal shareholding guidelines. Executive Directors are required to retain half of all shares acquired under the LTIP (after sales to cover tax and any exercise price) until such a time as their holding as a value equal to 200% of salary in the case of the Company's CEO and 100% of salary in the case of other Executive Directors. Shares subject to LTIP awards which have vested but not been released (that is which are in a holding period) or which have been released but have not been exercised count towards the guidelines on a net of assumed tax basis.

The Committee's policy on post-cessation shareholding is that ordinarily any awards under the LTIP which are held by an Executive Director who leaves the business will continue and only be released on the ordinary timescale (other than where the awards lapse in the case of an Executive Director who is a 'bad leaver'). The interests of a departing Executive Director who is a "good leaver" will, therefore, continue to be aligned with those of shareholders because the value ultimately released to the Executive Director will reflect the share price at the date of release. This may therefore amount to a period covering more than four years, for example if the Executive Director left in year one of the LTIP, and with significant value in vested but not released, or unvested shares in the LTIP. The Committee retains the discretion to release LTIP awards early in appropriate circumstances (such as on termination in compassionate circumstances).

Report on Directors' Remuneration continued

Policy for Non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity
Fees and benefits	To provide fees within a market competitive range reflecting the individual, responsibilities or the role and the expected time commitment. To provide benefits where appropriate which are relevant to the requirements of the role.	The fees of the Chairman are determined by the Committee and the fees of the Non-Executive Directors are determined by the Board. Non-Executive Directors may be eligible to receive benefits such as travel and other reasonable expenses.	Fees are set taking into account the responsibilities of the role and expected time commitment. Non-Executive Directors are paid a single all-inclusive fee. A basic fee with additional fees paid for chairing of Committees and assuming the role of Senior Independent Director, may be introduced in the future, at the discretion of the Committee. Where benefits are provided to Non-Executive Directors they will be provided at a level considered to be appropriate taking into account the individual circumstances.

Policy for the remuneration of employees more generally

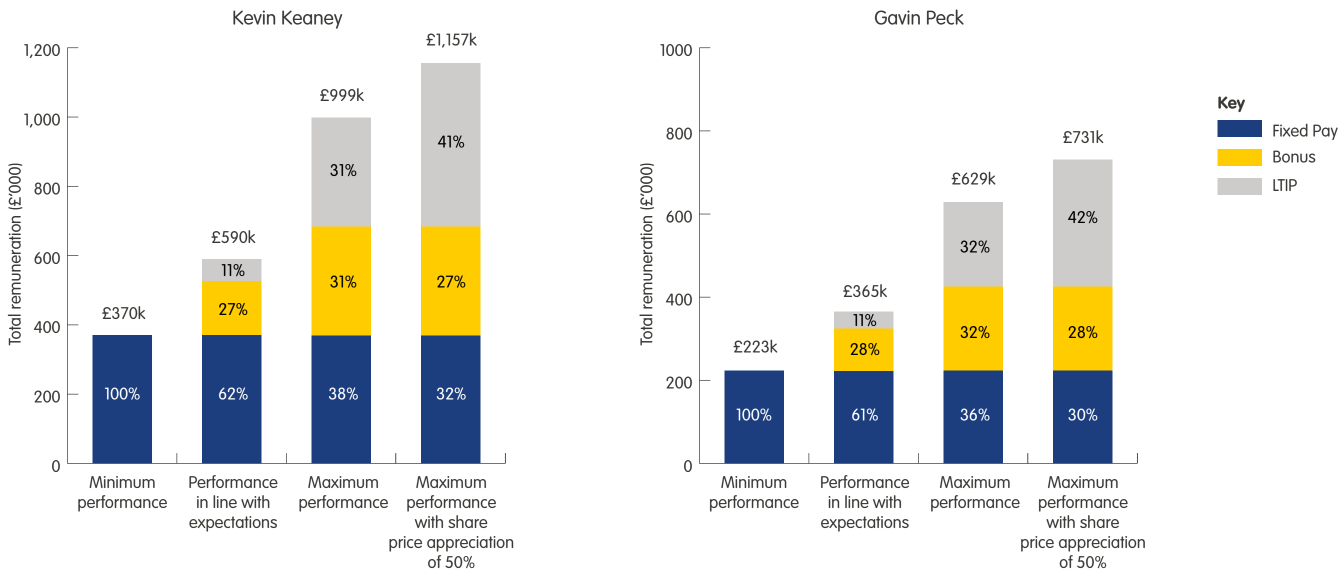
The Group aims to provide a remuneration package that is competitive and which is appropriate to promote the long term success of the Company. The Company intends to apply this policy fairly and consistently and does not intend to pay more than is necessary to attract and motivate colleagues. In respect of the Executive Directors, a greater proportion of the remuneration package is 'at risk' and determined by reference to the performance conditions.

Base salaries are reviewed annually together with all employees and increases ordinarily become effective from 1 May. The Committee is kept informed of salary increases across the wider workforce and how decisions are made.

The Group will implement an SAYE Scheme in the summer of 2019 in order to encourage share ownership across the wider workforce and alignment in longer term goals.

Illustrations of application of Remuneration Policy

The following charts provide an illustration, for each of the Executive Directors, of the application of the Policy in the year ending in April 2020. The charts show the split of remuneration between fixed pay (that is base salary, benefits, employer pensions contributions/salary supplement), annual bonus and long term incentive pay on the basis of minimum remuneration, remuneration receivable for performance in line with The Works' expectations, maximum remuneration (including and excluding share price appreciation of 50 per cent on the LTIP outcome).



In illustrating the potential reward the following assumptions have been made.

	Fixed Pay	Annual Bonus	LTIP
Minimum performance	Base salary (being the latest known salary as at 1 May 2019, employer pension contributions at an assumed rate of 10% on the latest known salary, and benefits disclosed in the single figure table on page 60 for the 2019 financial year.	No bonus	No LTIP vesting
Performance in line with expectations		Bonus equal to 50% of salary is earned	LTIP vests as to 20% of the maximum award, based on current practice.
Maximum performance		Bonus equal to 100% of salary is earned.	LTIP vests in full (100% of salary).
Maximum performance with share price appreciation of 50%		Bonus equal to 100% of salary is earned.	LTIP vests in full (100% of salary) plus share price appreciation of 50%.

Recruitment remuneration policy

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above Policy.

When determining appropriate remuneration arrangements, the Committee may include other elements of pay which it considers are appropriate. However, this discretion is capped and is subject to the limits referred to below.

Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate. Pension will be provided in line with the above Policy.

The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').

Other elements may be included in the following circumstances:

- an interim appointment being made to fill an Executive Director role on a short term basis;
- if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis;
- if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
- if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.

The Committee may also alter the performance measures, performance period, vesting period and holding period of the annual bonus or long term incentive opportunity if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.

The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 300% of salary.

The Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited in connection with leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure 'buyout' awards or payments on comparable basis to the remuneration arrangements forfeited. Any such payments or awards are excluded from the maximum level of variable remuneration referred to above. 'Buyout' awards will ordinarily be granted on the basis that they are subject to forfeiture or 'clawback' in the event of departure within 12 months of joining The Works, although the Committee will retain discretion not to apply forfeiture or clawback in appropriate circumstances.

Any share awards referred to in this section will be granted as far as possible under The Works ordinary share plans. If necessary, and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their terms.

Fees payable to newly appointed Chairman or Non-Executive Director will be in line with the policy in place at the time of the appointment.

Policy on service contracts

Details of the Executive Directors' service contracts and Non-Executive Directors' letters of appointments are set out on page 45.

The Company's policy is for service agreements with Executive Directors to be capable of termination by either the Company or the Executive Director by the giving of 12 months' notice.

Report on Directors' Remuneration continued

Policy on payments for loss of office

The following table summarises the Company's policy on the determination of payments for loss of office by Executive Directors.

Provision	Treatment
Fixed remuneration	Salary/fees, benefits and pension will be paid to the date of termination.
Payments in lieu of notice	Where a payment in lieu of notice is made, this will include salary, benefits and pension (or a cash equivalent) until the end of the notice period that would otherwise have applied. Alternatively, the Company, may continue to provide the relevant benefits. Unless the Committee determines otherwise, amounts will be paid in equal monthly instalments. Mitigation will apply.
Annual Bonus	This will be reviewed on an individual basis taking into account the terms of the relevant service agreement. The decision whether or not to award a bonus in full or in part will be dependent on a number of factors including the circumstances of the departure, contribution to the business during the bonus period and the terms of the service agreement. Any bonus would typically be pro-rated to reflect time in service to termination and paid at the usual time (although the Committee retains discretion to pay the bonus earlier in appropriate circumstances). Any outstanding deferred bonus awards would typically continue (other than in the event of summary dismissal, where the entitlement would lapse) and vest at the normal vesting date, although the Committee retains discretion to release any such award at the date of cessation. In either case, the award will vest in full, unless the Committee determines the award should be reduced to take account of the proportion of the deferral period that has elapsed at cessation.
LTIP	If an Executive Director ceases employment with the Group as a result of death, ill-health, injury, disability or for any other reason at the Committee's discretion before an award under the LTIP vests, the award will usually be released on the ordinary release date (although the Committee retains discretion to release the award as soon as reasonably practicable after the cessation of employment or at some other time, such as following the end of the performance period in the case of an award that would otherwise be subject to a holding period). In either case, the award will vest to the extent determined by reference to the performance conditions and, unless the Committee determines otherwise, the proportion of the vesting period that has elapsed at cessation. If an Executive Director ceases employment with the Group after an award under the LTIP has vested but before it is released (that is the Executive Director ceases employment during a holding period), the award will continue and be released at the normal release date (unless the cessation is for summary dismissal, in which case the awards will lapse). The award will be released to the extent it has vested by reference to performance conditions. The Committee retains discretion to release the award at cessation.
Change of control	In the event of a change of control, unvested awards under the LTIP will vest and be released to the extent determined by the Committee taking into account the relevant performance conditions and, unless the Committee determines otherwise, the extent of vesting so determined shall be reduced to reflect the proportion of the performance period that has elapsed. Any deferred bonus shares will vest on a change of control or other relevant event. Options under the SAYE scheme will vest on a change of control.

Provision	Treatment
Other payments	The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment. Payments may include, but are not limited to, paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees in connection with his/her cessation of office or employment and payments in respect of accrued but untaken holiday. Where a 'buyout' or other award is made in connection with recruitment, the leaver provisions would be determined at the time of the award. Options under the Company's SAYE scheme will vest on cessation in accordance with the plan rules, which do not allow discretionary treatment.

The Non-Executive Directors are not entitled to compensation for termination of their appointment.

Consideration of employment conditions elsewhere in the Group

Whilst the Committee does not formally consult with employees as part of its process when determining Executive Director pay, it does take into account pay practices and policies of employees across the wider Group. This includes the general basic salary increase, remuneration arrangements and employment conditions.

The Committee is aware of the 2018 UK Corporate Governance Code and its requirements for increasing engagement with stakeholders including employees and will continue building on their enhanced workforce engagement programme in 2019 to facilitate this. In 2017 The Works introduced an annual engagement survey programme, achieving an 82% response rate in 2018 and being placed 18th on The Sunday Times 2019 Best Big Companies to Work for Listing. Pay & Benefits and Leadership are just two of the many topics this survey seeks to gain feedback on. The Committee will draw from this and other sources in its consideration of Executive Director pay.

Legacy remuneration arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payments were agreed:

- before the policy comes into effect; or
- at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company.

For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Annual Report on Remuneration

Single figure table – Audited Information

The following table sets out total remuneration for each Director in respect of the year ending 28 April 2019. As The Works was a newly listed company, there are no prior year comparatives included in this report. The Executive Directors were appointed just prior to Admission and the Non-Executive Directors were appointed on Admission (19 July 2018). The table below reflects each individual's remuneration from the date of Admission to 28 April 2019.

	Salary and fees[a] £'000 2019	Benefits[b] £'000 2019	Annual Bonus[c] £'000 2019	Pension[d] £'000 2019	Long term incentive[e] £'000 2019	Total remuneration £'000 2019
Executive Directors						
Kevin Keaney	240	24	–	23	–	288
Gavin Peck	155	8	–	16	–	179[1]
Non-Executive Directors						
Dean Hoyle	78	–	–	–	–	78
Harry Morley	43	–	–	–	–	43
Catherine Glickman	39	–	–	–	–	39

The figures in the single figure table above are derived from the following:

(a)	Salary and fees	The amount of salary / fees earned in respect of the year.
(b)	Benefits	The taxable value of benefits received in the year. For both Executive Directors these are principally private medical insurance, car allowance and travel. For Kevin Keaney this also included accommodation expenses which ceased in February 2019.
(c)	Annual bonus	The cash value of the bonus earned in respect of the financial year. A description of performance against the performance measures which applied for the financial year is provided below.
(d)	Pension	The pension figure represents the cash value of pension contributions to the Executive Directors' to the defined contribution pension arrangement and any cash payments in lieu of pension contributions made in the year.
(e)	Long term incentives	The first awards granted under the Company's Long Term Incentive Plan ('LTIP') were made during the year. No LTIP awards vested with respect to performance in the financial year and are not therefore included in the single figure table.

1 On 10 July 2018, Gavin Peck, as part of his incentivisation package with the Company and also in part to compensate him for foregoing equity in his previous employer, entered into three nil cost option agreements under which he received 757,726 shares for no consideration of which 303,090 were sold immediately upon Admission (at £1.60 per share, £484,944 in aggregate) to settle, in part, personal tax and national insurance due. The balance of 454,636 shares (having an aggregate value, at the IPO share price of £1.60 per share, of £727,418) are subject to lock-up arrangements under which no shares can be sold for twelve months post-IPO. These amounts have not been included in the single figure of remuneration above as the awards were made prior to the IPO.

Additional disclosures in respect of the single figure table – Audited Information

Base salary and fees

Annual base salaries for Executive Directors were set on Admission and disclosed in the Prospectus as follows:

	Base salary from Admission
Kevin Keaney	£310,000
Gavin Peck	£200,000

Details of Chairman and Non-Executive Directors' fees are set out below. The Chairman and Non-Executive Fees have not changed since being set at Admission.

	Fees from Admission
Chairman's fee	£100,000
Harry Morley	£55,000
Catherine Glickman	£50,000

Annual incentive plan

For the financial year ended 28 April 2019, the maximum bonus opportunity for the Executive Directors equated to 100% of base salary. The bonus was assessed against EBITDA performance as set out in the table below.

	Performance (£m)	Vesting (% of Salary)[1]	Actual Performance (£m)	Bonus Earned (% of Salary)
Threshold	14.0	10%		
Target	15.0	50%	13.8	0%
Maximum	16.2	100%		

1 Vesting is on a straight line basis between consecutive performance levels.

Threshold adjusted EBITDA performance was not met and therefore no bonus was earned in the year.

Long Term Incentives
The first awards granted under the Company's Long Term Incentive Plan ('LTIP') were made during the year.

Awards granted during the financial year – Audited Information
Awards equal to 100% of salary were granted to the Executive Directors on 22 August 2018, on the following basis:

	Type of award	Maximum opportunity	Number of shares	Face value at grant (£)[2]	% of award vesting at threshold	Performance period[3]
Kevin Keaney[1]	LTIP	100% of salary	181,286	309,999	20%	April 2018 to April 2021
Gavin Peck[1]	LTIP	100% of salary	116,959	199,999	20%	April 2018 to April 2021

1 In addition to their LTIP award, the Executive Directors were also granted a tax qualifying CSOP Award over 17,543 shares at an exercise price of 171 pence per share. The CSOP Award is subject to the same performance condition as the LTIP award. To the extent the CSOP Award is exercised at a gain, the extent to which the LTIP award can be exercised shall be reduced by the amount of the gain so that there is no increase in the pre-tax value of the award.
2 For these purposes, the face value of the award is calculated by multiplying the number of shares over which the award was granted by 171 pence, the average closing share price for each of the 3 business days prior to the date of grant.
3 Each award is subject to performance conditions assessed over the period April 2018 to April 2021 (as described further below). To the extent the awards vest following the end of the performance period, they are subject to a further two year holding period before the shares are released.

A summary of the performance conditions for these awards is set out in the table below:

Each award is subject to a performance condition based on the compound annual growth in the Company's underlying basic earnings per share over the three financial years ending 2021.

Compound annual growth in EPS	Percentage of Award Vesting
Less than 17.5%	0%
17.5%	20%
Greater than 17.5% but less than 26.5%	Between 20% and 100% straight-line basis
26.5%	100%

Each award is also subject to a general performance underpin, whereby the Committee shall assess overall financial performance of the Group over the performance period in determining the level of vesting.

Payments made to former Directors and payments for loss of office during the year – Audited Information
No payments for loss of office and no payments to any former Director of the Company were made in the year.

Statement of Directors' shareholding and share interests – Audited Information
The interests of the Directors and their connected persons in the Company's ordinary shares as at 19 July 2018 (the date of Admission) and 28 April 2019 were as follows. There have been no changes to those interests between 28 April 2019 and the date of this report.

	28 April 2019	19 July 2018
Executive Directors		
Kevin Keaney	1,094,600	1,094,600
Gavin Peck	454,636	454,636
Non-Executive Directors		
Dean Hoyle	8,891,378	8,891,378
Harry Morley	15,625	15,625
Catherine Glickman	15,625	15,625

Executive Directors' interests under Share Schemes – Audited Information
Awards under share plans:

	Award date	As at 19 July 2018	Granted during the year	Lapsed during the year	Exercised during the year	Number of shares at 28 April 2019	Status	Performance period
Kevin Keaney	22 August 2018[1]	–	181,286	–	–	181,286	Unvested, subject to performance conditions[2]	April 2018 – April 2021
Gavin Peck	22 August 2018[1]	–	116,959	–	–	116,959	Unvested, subject to performance conditions[2]	April 2018 – April 2021

1 In addition to their LTIP award, the Executive Directors were also granted a tax qualifying CSOP award over 17,543 shares as detailed above.
2 The performance conditional applying to the 2018 LTIP and 2018 CSOP are set out above.

Annual Report on Remuneration continued

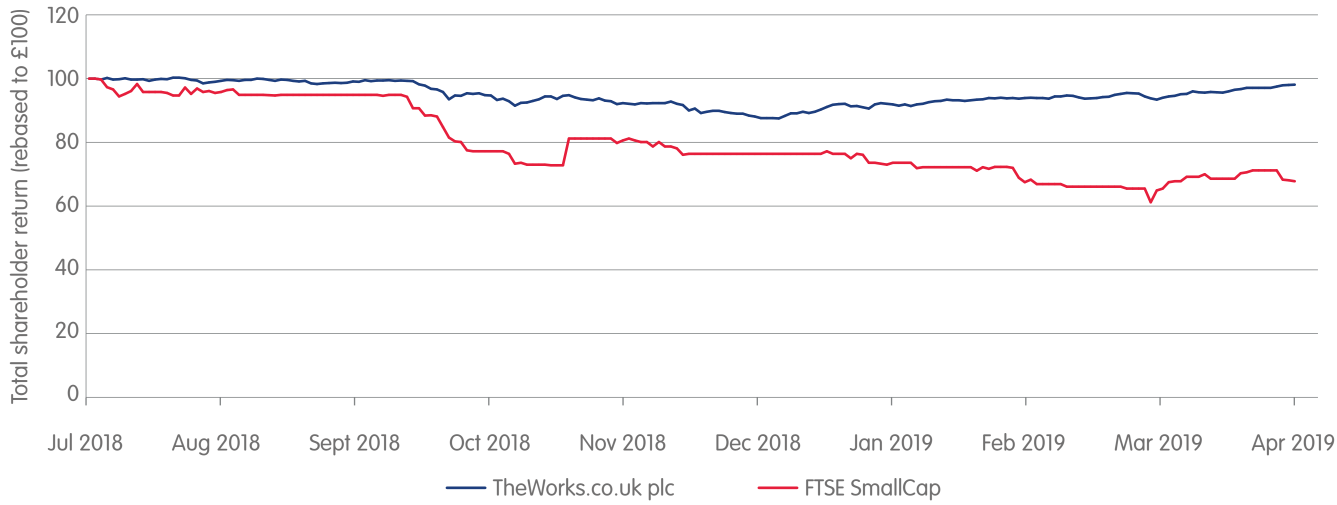
The Committee has adopted a shareholding guideline for the Executive Directors, which requires a shareholding equivalent to 200% of base salary for the Chief Executive Officer and 100% of base salary for the Chief Financial Officer, as further described in the Director's Remuneration Policy. The Executive Directors' achievement of this guideline at 28 April 2019, based on the share price at the end of the financial year, is summarised below:

Executive Director	Shares counting towards the guideline at 28 April 2019	Value of shares counting towards the guideline1	Value of shares as a percentage of 2018 base salary
Kevin Keaney	1,094,600	£1,308,047	422%
Gavin Peck	454,636	£543,290	272%

1 Based on a share price of 119.5 pence as at 28 April 2019

Performance graph and historical Chief Executive Officer remuneration outcomes

The graph below shows the TSR performance for the Company's shares in comparison to the FTSE SmallCap for the period from Main Market Admission on 19 July 2018 to 28 April 2019. The TSR performance of the FTSE SmallCap index has been selected as it is considered the most appropriate comparator group to which to compare The Works. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 28 April 2019, of £100 invested in shares in the Company on 19 July 2018 compared with £100 invested in the FTSE SmallCap.



The table below shows details of the total remuneration, annual bonus and LTIP vesting (as a percentage of the maximum bonus opportunity) for the Chief Executive officer in 2019. The table shows the CEO's remuneration for 2019 from the date of Admission.

	Total single figure remuneration £'000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)
2019 (Kevin Keaney)	288	0%	N/A[1]

1 There were no LTIP awards which vested in respect of performance ending during the relevant year.

CEO pay increase in relation to all employees

As the Company was a newly listed company during 2018, this report does not include a comparison of changes between 2018 and 2019 in the level of CEO remuneration and of employee remuneration.

Distribution statement

The following table sets out the total remuneration for all employees and the total shareholder distributions:

£'000	2019
Total Remuneration for all employees	48,213
Dividends and share buybacks	750

Implementation of the Directors' Remuneration Policy for the financial year ending 26 April 2020

Information on how The Works intends to implement the Directors' Remuneration Policy for the financial year ending 26 April 2020 is set opposite.

Salary and Fees
Details of annual base salaries for Executive Directors are set out below.

	Base salary from Admission	Base salary at 1 May 2019	Increase %
Kevin Keaney	£310,000	£314,650	1.5%
Gavin Peck	£200,000	£203,000	1.5%

This increase is below the average increase for the wider workforce which was c4% (excluding increases due to the National Minimum and Living Wages).

The Chairman and Non-Executive Fees have not changed since being set at Admission.

Annual bonus
The maximum bonus opportunity for FY20 will remain at 100% of salary for the Executive Directors. The bonus will be subject to a stretching EBITDA measure (before adjusting for the impact of IFRS16). The Committee considers the targets are commercially sensitive as they provide competitors with insight into our business plans and expectations and therefore they should remain confidential. However, the Committee intends to disclose the performance targets and performance against them retrospectively in the 2020 Directors' Remuneration Report. The overall bonus payments will also be subject to achieving additional underpins based on the Company's compliance with debt covenants and no default loan agreements.

LTIP
The current intention of the Committee is to grant each Executive Director an LTIP award in respect of 2020 over shares with a value equal to 100% of salary. However, the Committee is mindful of recent share price movements and will therefore take a final decision as to the value of the award which will be granted after this report has been published. In making that decision it will take into account the circumstances around any fall in share price, the value inherent in the inflight LTIP awards, and the level of stretch within the targets which have been set for the 2020 grant. The performance measure will be based on the compound annual growth rate in the Company's underlying basic earnings per share over the three financial years ending 2022, as regards 100% of the award.

A summary of the performance conditions for these awards is set out in the table below:

Compound annual growth in EPS	Percentage of Award Vesting
Less than 10%	0%
10%	20%
Greater than 10% but less than 22.1%	Between 20% and 100% straight-line basis
Greater than 22.1%	100%

Each award is also subject to a general performance underpin, whereby the Committee shall assess overall financial performance of the Group over the performance period in determining the level of vesting.

Consideration by the Directors of matters relating to Directors' remuneration
The Remuneration Committee is composed of two independent Non-Executive Directors; Catherine Glickman and Harry Morley. The Chair of the Remuneration Committee is Catherine Glickman.

The Remuneration Committee met a total of two times, all members of the Remuneration Committee had attended these meeting.

The Committee's key responsibilities are:
- reviewing the on-going appropriateness and relevance of remuneration policy;
- reviewing and approving the remuneration packages of the Executive Directors;
- recommending and monitoring the level and structure of remuneration of senior management; and
- production of the annual report on the Directors' remuneration.

Advisors
The following people have provided advice to the Committee during the year in relation to its consideration of matters relating to Directors' remuneration:
- Chairman, Chief Executive Officer, Chief Financial Officer, HR Director and Company Secretary; and
- Deloitte LLP (Deloitte)

Deloitte is retained to provide independent advice to the Committee as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operated under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte fees for providing remuneration advice to the Committee were £17,513 for the year ended 28 April 2019. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account Remuneration Consultants Group Code of Conduct when considering this. Deloitte was appointed by the Committee and has provided share scheme advice and general remuneration advice to the Company.

Approval
This Report was approved by the Board on 5 July 2019 and signed on its behalf by:

Catherine Glickman
Chairman of the Remuneration Committee
5 July 2019

Directors' Report

The Directors present their report for the financial year ended 28 April 2019. Additional information which is incorporated by reference into this Directors' Report, including information required in accordance with the Companies Act 2006 and Listing Rule 9.8.4R of the UK Financial Conduct Authority's Listing Rules, can be located as follows:

Disclosure	Location
Future business developments	Strategic Report – pages 14 to 19
Greenhouse gas emissions	CSR Report – page 35
Employee involvement	CSR Report – page 36
Financial risk management objectives and policies (including hedging policy and use of financial instruments)	Note 26 to the financial statements – pages 101 to 103
Details of long-term incentive schemes	Directors' Remuneration Report – page 63
Statement of Directors' responsibilities	Page 67

Directors

The Directors of the Company who held office during the period are:

Dean Hoyle (Chairman)[1]	Appointed 19 July 2018
Kevin Keaney (Chief Executive Officer)[1]	Appointed 10 May 2018
Gavin Peck (Chief Financial Officer)[1]	Appointed 28 June 2018
Harry Morley (Senior Independent Director)	Appointed 19 July 2018
Catherine Glickman (Non-Executive Director)	Appointed 19 July 2018

1 Served as Directors of The Works Investments Limited, the holding company of the Group prior to IPO.

Results and dividend

The results for the year are set out in the consolidated Income Statement on page 77. The Directors propose the payment of a final dividend of 2.4 pence per share on 24 September 2019 subject to approval at the Annual General Meeting on 28 August 2019, with a record date of 30 August 2019.

Articles of Association

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. The Articles of Association may be amended by a special resolution of the Company's shareholders.

Share capital

Details of the Company's share capital, including changes during the year, are set out in Note 23 to the financial statements. As at 28 April 2019, the Company's issued share capital consisted of 62,500,000 Ordinary shares of 1 pence each. There have been no changes to the Company's issued share capital since the financial period end.

Ordinary shareholders are entitled to receive notice of, and to attend and speak at, any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share of which he is the holder. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies.

Other than the general provisions of the Articles of Association (and prevailing legislation) there are no specific restrictions of the size of a holding or on the transfer of the Ordinary shares except as follows:

- Restrictions on Endless Fund II A and Endless Fund II B (the 'Principal Selling Shareholders') as a result of the Principal Selling Shareholders entering into a lock-in deed with the Company and its sponsor (Investec) restricting the disposal of Ordinary shares held by the Principal Selling Shareholder immediately after Admission for a period of six months ending on 19 January 2019; and
- Restrictions on certain Directors and senior managers of the Company and their connected persons (the 'Selling Shareholders') as a result of the Selling Shareholders entering into a lock-in deed with the Company and its sponsor (Investec) restricting the transfer of the legal and/or beneficial interest in Ordinary shares held by the Selling Shareholders immediately after Admission for a period of 12 months ending on 19 July 2019.

The Directors are not aware of any agreements between holders of the Company's shares that may result in the restriction of the transfer of securities or on voting rights. No shareholder holds securities carrying any special rights or control over the Company's share capital.

Authority for the Company to purchase its own shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Act. Any shares which have been bought back may be held as treasury shares or cancelled immediately upon completion of the purchase. The Company does not have any unexpired authority to purchase its own shares.

Directors' interests

The number of Ordinary shares of the Company in which the Directors were beneficially interested as at 28 April 2019 are set out in the Directors' Remuneration Report on page 50.

Directors' indemnities

The Company's Articles of Association ('the Articles') provide, subject to the provisions of UK legislation, an indemnity for Directors and Officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers.

Directors' and Officers' liability insurance cover is maintained by the Company and is in place in respect of all the Company's Directors at the date of this report. The Company will review its level of cover on an annual basis.

Compensation for loss of office

The Company does not have any agreements with any Executive Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company' Long-Term Incentive Plan and other share schemes may cause options and awards outstanding under such schemes to vest on a takeover. Further information is provided in the Directors' Remuneration Report on page 50.

Significant interests

The table below shows the interests in shares notified to the Company in accordance with the Disclosure Guidance and Transparency Rules as at 28 April 2019, and 21 June 2019 (being the latest practicable date prior to publication of the Annual Report):

	At 28 April 2019		At 21 June 2019	
Name of shareholder	Number of Ordinary shares of 1 pence each held	Percentage of total voting rights held	Number of Ordinary shares of 1 pence each held	Percentage of total voting rights held
Dean Hoyle[1]	8,891,378	14.23%	8,891,378	14.23
BlackRock, Inc.	7,411,708	11.85%	7,411,708	11.85
Schroders plc	6,990,000	11.18%	7,715,000	12.34
Endless LLP[2]	6,153,416	9.85%	6,153,416	9.85
Canaccord Genuity Group Inc.	5,514,563	8.82%	5,514,563	8.82
BennBridge Limited	3,198,730	5.12%	3,198,730	5.12
Standard Life Aberdeen plc	3,109.275	4.97%	3,109,275	4.97
Jupiter Asset Management Limited	3,087,500	4.94%	3,087,500	4.94

1 Includes interest of Janet Hoyle.
2 Aggregate interests of Endless Fund II A and Endless Fund II B

Branches outside the UK

Other than stores located in the Republic of Ireland, the Company has no branches outside the UK.

Employee involvement and policy regarding disabled persons

Information relating to employees of the Group can be found in our CSR Report on page 34.

It is the policy of the Group to provide equal recruitment and other opportunities for all employees regardless of sex, age, religion, race, disability or sexual orientation. The Group gives full consideration to applications for employment from disabled people, where they adequately fulfil the requirements of the job. Where employees become disabled, it is the Group's policy to provide continuing employment and retraining where practicable.

Political donations

The Company did not make any political donations during the year.

Charity donations

The Company did not make any charity donations during the year.

Directors' Report continued

Change of control – significant agreements

There are a number of agreements that may take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements and property lease arrangements.

The only significant agreement to which the Company is a party that takes effect, alters or terminates upon a change of control of the Company following a takeover bid, and the effect thereof, is the Company's committed bank facility dated 15 June 2018 which contains a provision such that, in the event of a change of control the facility may be cancelled and all outstanding amounts, together with accrued interest, will become repayable on the date falling 30 days following written notice being given by the lenders that the facility has been cancelled.

Audit information

Each of the Directors at the date of the approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Director has taken all the reasonable steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

KPMG LLP have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the offices of Investec Bank plc, 30 Gresham Street, London EC2V 7QP on 28 August 2019 at 9.30am ('BST'). The Notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

Post balance sheet events

There have been no material post balance sheet events as at the date of this report.

The Strategic Report on pages 9 to 37 and this Directors' Report have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law.

By order of the Board

Gavin Peck
Chief Financial Officer
5 July 2019

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements in accordance with accounting standards including FRS101 Reduced disclosure framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, reliable and prudent;
- For the Group annual statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- For the Parent Company annual statements, state whether appropriate UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company annual statements
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and that enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance report that complies with that law and those regulations.

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

Responsibility statement of the Directors in respect of the Annual Financial Report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Kevin Keaney
Chief Executive Officer
5 July 2019

Gavin Peck
Chief Financial Officer
5 July 2019


TheWorks.co.uk
Artist Pads

Financial statements

Independent Auditor's Report to the Members of TheWorks.co.uk plc

1 Our opinion is unmodified

We have audited the financial statements of TheWorks.co.uk plc ('the Company') for the 52 week period ended 28 April 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Statement of Financial Position, Company Statement of Changes in Equity, Company Cash Flow Statement and the related notes, including the accounting policies in note 1 and 34.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 28 April 2019 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 11 July 2018. The period of total uninterrupted engagement is for the first financial year ended 28 April 2019. Prior to that we were also auditor to the Group's previous parent company, but which, being unlisted, was not a public-interest entity. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The impact of uncertainties due to the UK exiting the European Union on our audit
New Risk

Refer to page 30 of the Principal risks and uncertainties and page 33 Viability Statement

The risk – Unprecedented levels of uncertainty	Our response
All audits assess and challenge the reasonableness of estimates, in particular as described in the carrying value of goods for resale, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing the carrying value of goods for resale and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the carrying value of goods for resale, we have considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results:** As reported under the key audit matters for the carrying value of goods for resale, we found the resulting estimates and related disclosures to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent Auditor's Report to the Members of TheWorks.co.uk plc continued

Going Concern
Risk: ◀▶

Refer to note 1 on page 83 (financial statements disclosures)

The risk – Unprecedented levels of uncertainty

The financial statements will explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company.

That judgement is based on an evaluation of the inherent risks to the Group's and the parent Company's business model and how those risks might affect the Group's and the parent Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risks most likely to adversely affect the Group's and the parent Company's available financial resources over this period were:

- Failure to mitigate the risk of cost inflations in particular around foreign exchange and wage costs; and
- Execution of new store strategy.

There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer confidence, which could result in a rapid reduction of available financial resources.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our response

Our procedures included:

- **Funding assessment:** We agreed current facilities available to the relevant facility agreements and recent lender correspondence. We inspected the loan agreements in order to determine the covenants attached to the loans and assessed the evidence available to support that they will be met.
- **Historical comparisons:** We assessed historical accuracy of management forecasting by comparing the actual cash flows for the financial year ended 28 April 2019 to the forecast cash flows over the same period.
- **Key dependency assessment:** We assessed the impact of assumptions underpinning the cash flow forecasts in order to identify the key dependencies within the forecasts.
- **Sensitivity analysis:** We considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively. In particular, we assessed the Group's downside forecasts based on the risks resulting from Brexit.
- **Benchmarking assumptions:** We compared the assumptions behind the Group's cash flow forecasts to externally derived data including market forecasts and projected growth and cost inflation.
- **Evaluating directors' intent:** We evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise. We considered the extent to which the intent and ability of the directors to pursue mitigating actions should such be required were realistic.
- **Assessing transparency:** We assessed the completeness and accuracy of the matters covered in the going concern disclosure by considering whether they accurately reflected the Group's financing arrangements and the risks associated with the Group's ability to continue as a going concern.

Our results: We found the going concern disclosure without any material uncertainty to be acceptable (2018: acceptable).

Carrying value of goods for resale (£20.6 million (2018: £17.8 million))

Risk: ◀▶

Refer to page 46 Audit Committee report, page 82 (significant judgements and estimates), page 88 (accounting policy) and page 96 (financial disclosures).

The risk – subjective estimation	Our response
Goods for resale are carried at the lower of cost and net realisable value. The estimated net realisable value of goods for resale and associated provisions are subjective due to the inherent uncertainty in consumer demand. The carrying value of goods for resale is considered a risk as changes in consumer trends and "crazes" may cause some products to become obsolete such as seasonal or dated goods. There is a risk that the Group's assessment of the level of these provisions is insufficient or inaccurate. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of goods for resale has a high degree of estimation uncertainty, with a potential range of reasonable outcomes which are greater than our materiality for the financial statements as a whole. The financial statements (note 15) disclose the sensitivity estimated by the Group.	Our procedures included: • **Assessing methodology:** We assessed the appropriateness of the Group's goods for resale provision against accounting standards. In addition, we assessed the consistency of methodology applied each year. • **Our sector experience:** We assessed and challenged the directors' assumptions behind the provision methodology against our own knowledge of the industry and factors specific to the Group. • **Tests of detail:** We tested the key assumptions included in the provisioning model, including specific product categories (such as Mega Trends and Seasonal items), sales trends in the financial year and the post financial year-end sales prices. • **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision. **Our results:** We found the Group's estimate of the carrying value of goods for resale to be acceptable (2018: acceptable).

Recoverability of parent Company's investment in subsidiaries (£51.6 million)

New Risk

Refer to page 110 (accounting policy) and note 37 (financial disclosures).

Low risk, high value	Our response
The carrying amount of the parent Company's investments in subsidiaries represents 64.4 % of the parent Company's total assets. The estimated recoverable amount of this amount is subjective due to the inherent uncertainty in forecasting trading conditions and cash flows used in the budgets. Its recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had one of the greatest effect on our parent company audit.	Our procedures included: • **Historical comparisons:** assessed the reasonableness of the budgets by considering the historical accuracy of the previous forecasts. • **Assessing assumptions:** compared the Group's assumptions to externally derived and historical data, as well as our own assessments in relation to key inputs, in particular the growth rate and discount rates. • **Sensitivity analysis:** performed breakeven analysis on the key assumptions noted above to assess whether a reasonably possible change in these assumptions could trigger an impairment charge. • **Comparing valuations:** compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. • **Assessing transparency:** assessed whether the disclosures about the sensitivity of the outcome of impairment assessment to changes in key assumptions reflected the risks inherent in the valuation. **Our results:** We found the Group's estimate of the recoverable amount of the parent company's investment in subsidiaries to be acceptable.

Independent Auditor's Report to the Members of TheWorks.co.uk plc continued

3 Our application of materiality and an overview of the scope of our audit

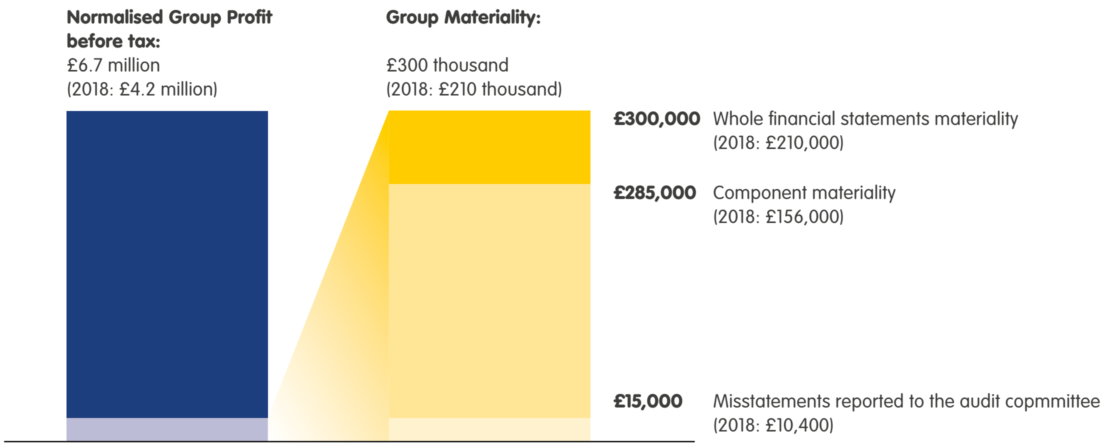
Materiality for the Group financial statements as a whole was set at £300 thousand (2018: £210 thousand) determined with reference to a benchmark of Group loss before tax normalised to exclude adjusting items recognised in the financial year, giving a normalised Group profit before tax of £6.7 million (2018: £4.2 million) of which it represents 4.5% (2018: 5.3%).

Materiality for the parent company financial statements as a whole was set at £270 thousand (2018: £150 thousand), determined with reference to component materiality. This is lower than the materiality we would otherwise have determined by reference to a benchmark of company net assets, of which it represents 0.3%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £15 thousand (2018: £10.4 thousand), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected all three (2018: two) of the Group's reporting components to full scope audits for Group purposes. The components within the scope of our work accounted for 100% (2018:100%) of the Group's revenue, profit before tax and total assets.

The Group audit team approved the component materialities, which ranged from £270 thousand to £285 thousand (2018: £150 thousand to £156 thousand), having regard to the mix of size and risk profile of the Group across the components. The Group audit team performed all of the audit work in relation to the three components, including the audit of the parent Company.



4 We have nothing to report on going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 33 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report
Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement (page 33) that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal risks and uncertainties disclosures on pages 30 to 32 describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures
We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Independent Auditor's Report to the Members of TheWorks.co.uk plc continued

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 67, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they 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

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery and employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8 The purpose of our audit work and to whom we owe our responsibilities

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.

Anthony Sykes
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
5 July 2019

Consolidated Income Statement
For the year ended 28 April 2019

	Note	52 weeks to 28 April 2019 Adjusted £000	52 weeks to 28 April 2019 Adjusting items £000	52 weeks to 28 April 2019 Total £000	52 weeks to 29 April 2018 Adjusted £000	52 weeks to 29 April 2018 Adjusting items £000	52 weeks to 29 April 2018 Total £000
Revenue	3	**217,469**	**–**	**217,469**	192,100	–	192,100
Cost of sales		**(179,012)**	**–**	**(179,012)**	(158,167)	–	(158,167)
Gross profit		**38,457**	**–**	**38,457**	33,933	–	33,933
Other operating income		**8**	**–**	**8**	7	–	7
Distribution expenses		**(12,025)**	**(495)**	**(12,520)**	(9,358)	–	(9,358)
Administrative expenses		**(18,668)**	**(4,148)**	**(22,816)**	(16,737)	(1,669)	(18,406)
Operating profit/(Loss)	6	**7,772**	**(4,643)**	**3,129**	7,845	(1,669)	6,176
Finance income		**20**	**–**	**20**	20	–	20
Finance expenses		**(1,064)**	**240**	**(824)**	(3,624)	–	(3,624)
Net financing expense	8	**(1,044)**	**240**	**(804)**	(3,604)	–	(3,604)
Profit/(Loss) before tax		**6,728**	**(4,403)**	**2,325**	4,241	(1,669)	2,572
Taxation	9	**(1,481)**	**276**	**(1,205)**	(1,045)	258	(787)
Profit/(Loss) for the period attributable to equity holders		**5,247**	**(4,127)**	**1,120**	3,196	(1,411)	1,785
Basic earnings per share (pence)	11	**9.0**		**1.9**	7.2		4.0
Diluted earnings per share (pence)		**9.0**		**1.9**	7.2		4.0

Consolidated Statement of Comprehensive Income
For the year ended 28 April 2019

	2019 £000	2018 £000
Profit for the year	**1,120**	1,785
Items that may or may not be recycled subsequently into profit and loss		
Cash flow hedges – changes in fair value	**96**	–
Cash flow hedges – reclassified to profit and loss	**2**	–
Cost of hedging reserve – changes in fair value	**37**	–
Cost of hedging reserve – reclassified to profit and loss	**(17)**	–
Other comprehensive income for the period, net of income tax	**118**	–
Total comprehensive income for the period attributable to equity shareholders of the Parent	**1,238**	1,785

Consolidated Statement of Financial Position

As at 28 April 2019

	Note	28 April 2019 £000	29 April 2018 £000
Non-current assets			
Intangible assets	12	**18,494**	18,499
Property, plant and equipment	13	**20,786**	18,693
Deferred tax assets	14	**351**	299
		39,631	37,491
Current assets			
Inventories	15	**25,157**	21,495
Trade and other receivables	16	**17,589**	17,224
Derivative financial asset	27	**158**	89
Cash and cash equivalents	17	**3,687**	7,420
		46,591	46,228
Total assets		**86,222**	83,719
Current liabilities			
Interest-bearing loans and borrowings	18	**230**	209
Trade and other payables	20	**46,646**	43,905
Provisions	21	**218**	119
Derivative liability	27	**25**	–
Current tax liability	14	**300**	287
		47,419	44,520
Non-current liabilities			
Interest-bearing loans and borrowings	18	**403**	31,249
Provisions	21	**63**	–
		466	31,249
Total liabilities		**47,885**	75,769
Net assets		**38,337**	7,950
Equity attributable to equity holders of the Parent			
Share capital	23	**625**	–
Share premium	23	**28,322**	51,500
Merger reserve		**(54)**	(51,500)
Share based payment reserve	28	**1,373**	–
Hedging reserve		**144**	–
Retained earnings		**7,927**	7,950
Total equity		**38,337**	7,950

These financial statements were approved by the Board of Directors on 5 July 2019 and were signed on its behalf by:

Gavin Peck
Chief Financial Officer

Company registered number: 11325534

Consolidated Statement of Changes in Equity

	Attributable to equity holders						
	Share capital £000	Share premium £000	Merger reserve £000	Hedging reserve[1] £000	Share based payment reserve £000	Retained earnings £000	Total equity £000
Balance at 30 April 2017	–	–	–	–	–	6,165	6,165
Effect of Group reconstruction	–	51,500	(51,500)	–	–	–	–
Total comprehensive income for the period							
Profit for the period	–	–	–	–	–	1,785	1,785
Balance at 29 April 2018	–	51,500	(51,500)	–	–	7,950	7,950
Total comprehensive income for the period							
Profit for the period	**–**	**–**	**–**	**–**	**–**	**1,120**	**1,120**
Other comprehensive expense	**–**	**–**	**–**	**118**	**–**	**–**	**118**
Total comprehensive income for the period	**–**	**–**	**–**	**118**	**–**	**1,120**	**1,238**
Hedging gains and losses and costs of hedging transferred to the cost of inventory (Note 27)	**–**	**–**	**–**	**26**	**–**	**–**	**26**
Transactions with owners of the Company							
Effect of Group reconstruction							
Bonus issue of shares	**54**	**(54)**	**–**	**–**	**–**	**–**	**–**
Capital reduction	**–**	**(51,446)**	**51,446**	**–**	**–**	**–**	**–**
Second bonus issue of shares	**393**	**–**	**–**	**–**	**–**	**(393)**	**–**
Issue of shares on IPO	**178**	**28,322**	**–**	**–**	**–**	**–**	**28,500**
Share-based payment charges	**–**	**–**	**–**	**–**	**1,373**	**–**	**1,373**
Dividend (Note 10)	**–**	**–**	**–**	**–**	**–**	**(750)**	**(750)**
Total transactions with owners	**625**	**(23,178)**	**51,446**	**–**	**1,373**	**(1,143)**	**29,123**
Balance at 28 April 2019	**625**	**28,322**	**(54)**	**144**	**1,373**	**7,927**	**38,337**

1 Hedging reserve includes £19,090 in relation to changes in forward points which are recognised in other comprehensive income and accumulated as a cost of hedging within the hedging reserve.

Consolidated Cash Flow Statement
For the year ended 28 April 2019

	Note	2019 £000	2018 £000
Cash inflows from operating activities	24	**10,703**	14,703
Corporation tax paid		**(1,221)**	(705)
Net cash inflow from operating activities		**9,482**	13,998
Cash flows from investing activities			
Acquisition of property, plant and equipment	13	**(7,120)**	(6,754)
Acquisition of intangible assets	12	**(1,044)**	(698)
Proceeds from sale of property, plant and equipment		**–**	9
Interest received		**20**	20
Net cash from investing activities		**(8,144)**	(7,423)
Cash flows from financing activities			
Interest paid		**(1,357)**	(3,075)
Payment of finance lease liabilities		**(264)**	(173)
Proceeds from share issue		**28,500**	–
Dividends paid	10	**(750)**	–
Repayment of bank borrowings		**(31,200)**	–
Net cash from financing activities		**(5,071)**	(3,248)
Net increase/(Decrease) in cash and cash equivalents		**(3,733)**	3,327
Cash and cash equivalents at beginning of year		**7,420**	4,093
Cash and cash equivalents at end of year	17	**3,687**	7,420

Notes
(Forming part of the financial statements)

1 Accounting policies

General Information
TheWorks.co.uk plc ('the Company') is a public limited company domiciled in the United Kingdom and its registered office is Boldmere House, Faraday Avenue, Hams Hall Distribution Park, Coleshill, Birmingham, B46 1AL. These consolidated financial statements for the year ended 28 April 2019, comprise the Company and its subsidiaries (together referred to as 'the Group').

TheWorks.co.uk plc is one of the UK's leading multi-channel value retailers of gifts, arts and crafts, stationery, toys and books – offering customers a differentiated proposition as a value alternative to full price specialist retailers. TheWorks.co.uk plc sells its quality products at affordable prices across four specialist categories comprising Kids, Arts, Craft & Hobbies, Stationery, and Family Gifts, which are supplemented by both seasonal and regional offerings.

The Group operates a network of nearly 500 stores in the UK and Ireland. Stores can be found on high streets, in retail parks, shopping centres, factory outlets and as concessions in various locations. TheWorks.co.uk plc also has a significant and growing online presence that enables customers to shop any time of the day, with an extended range of products not available in stores. This multi-channel offering is one of the first of its kind in the value retail sector and includes a popular Click & Collect service, driving additional footfall and sales in store.

Basis of preparation
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Details of the Groups accounting policies are included below.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified for the subsequent measurement of derivative financial instruments. They were authorised for issue by the Company's Board of Directors on 5 July 2019.
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Impact of the Group restructure prior to the Initial Public Offering
On the 19 July 2018, TheWorks.co.uk plc was admitted to trading on the London Stock Exchange. In preparation for the Initial Public Offering, the Group was restructured. On 10 July 2018 TheWorks.co.uk plc (formerly TheWorks.co.uk Limited, incorporated on 24 April 2018 for the purpose of the restructure) acquired 100 per cent of the share capital of The Works Investments Limited in a share for share exchange, thereby inserting TheWorks.co.uk plc as the Parent Company of the Group. The shareholders of The Works Investments Limited became 100 per cent owners of the enlarged share capital of TheWorks.co.uk plc.

These are the first set of consolidated financial statements of TheWorks.co.uk plc. By applying the principles of revenue acquisition accounting, the Group financial statements are presented as if TheWorks.co.uk plc had always owned The Works Investments Limited. The comparative financial information for the 52 weeks ended 29 April 2018 are the consolidated results of The Works Investments Limited and have been extracted from the audited annual financial statements of The Works Investments Limited (company number 09073458).

This is the first set of the Group's consolidated financial statements where IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. The significant accounting policies described below reflect the policies in accordance with the new standards.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£000), except when otherwise indicated.

Significant judgements and estimates
In the application of the Group's accounting policies the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised 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.

Key estimates
Inventory provisioning
The Group reviews its inventory on a regular basis and where necessary includes a provision for any inventory that may be worth less than its book value. Due to the seasonal nature of the business, judgement is applied in regards to the type of stock items that require provisioning against. The provision is reviewed by management throughout the year.

Key judgements
Foreign currency hedge accounting
Hedge accounting was adopted during the financial year ended 28 April 2019. Due to the degree of judgement in determining forecast cash flows there is a risk that the assumptions made in the effectiveness testing are inappropriate.

Going concern
The Directors have considered the Group's business activities including current and anticipated trading performance, together with the factors likely to affect its future development, performance and position such as the availability of borrowing facilities and exposures to and the management of the financial risks detailed in the Strategic Report on pages 9 to 37. At the time of the approval of these financial statements, the Board is of the opinion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of appraisal of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the consolidated annual financial statements.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's Review on pages 26 to 29. In addition, Notes 26 and 27 to the financial statements include the Company's policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

Principal accounting policies
The principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except to the extent applied from transition to IFRS 15 and 9. There is no impact on the financial statements of the adoption of IFRS 15 (as detailed below). The impact on the financial statements on adoption of IFRS 9 is detailed in Note 27.

EU Endorsed International Financial Reporting Standards effective in the year:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Effective date of IFRS 15 – amendments to IFRS 15
- Amendments to IFRS 2
- Annual Improvements to IFRS 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRS 15 has been adopted this year (from 30 April 2018), the impact is outlined below.

IFRS 9 has been adopted this year (from 30 April 2018) with respect to hedge accounting which has been outlined in Note 27 Financial Instruments. The impact of IFRS 15 is outlined below.

There is no impact on the values reported in these consolidated financial statements from adoption of the other amendments to International Financial Reporting Standards effective in the current period.

IFRS 15 Revenue from Contracts with Customers (IFRS 15)
IFRS 15 introduces principles to recognise revenue by allocation of the transaction price to performance obligations and is effective for accounting periods commencing on or after 1 January 2018.

IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers:

- Identify the contract with the customer;
- Identify the performance obligations in the contract, introducing the new concept of 'distinct';
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts, on a relative stand-alone selling price basis;
- Recognise revenue when (or as) the entity satisfies its performance obligation;

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below.

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. The impact of IFRS 15 to the Company is immaterial.

Notes continued
(Forming part of the financial statements)

1 Accounting policies continued

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payment terms	Nature of change in accounting policy
Store sales	Customers obtain control of the products at the till point. Revenue is recognised when the goods have been processed through the till.	IFRS 15 did not have a significant impact on the Group's accounting policies.
eCommerce sales	Customers obtain control of the products when the goods are delivered and have been accepted at their premises. Revenue is recognised when the goods are ordered.	Under IAS 18 revenue for these contracts was recognised when the order was placed on the website. Under IFRS 15 revenue will continue to be recognised in this way given the impact of adjusting the recognition from when the order is placed to being delivered is immaterial.
Customer loyalty programme	Sale of goods that result in award credits for customers, under the Group's Loyalty Scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. The consideration allocated to the award credits is not recognised as revenue at the time of the initial sale transaction but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.	IFRS 15 did not have an impact on the Group's accounting policies.

EU Endorsed International Financial Reporting Standards in issue but not yet effective:

- IFRS 16 Leases
- Amendments to IFRS 9 Financial Instruments : prepayment features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRSs 2015-2017 Cycle

Except for IFRS 16 they are not expected to have a significant impact on the financial statements.

IFRS 16 will replace IAS 17 and related interpretations and requires entities to apply a single lessee accounting model, with lessees recognising right-of-use-assets and lease liabilities on balance sheet for all applicable leases. In addition, the nature of expenses related to those leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and an interest expense relating to lease liabilities. The anticipated impact on the financial statements on adoption of IFRS 16 is detailed in Note 32.

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to direct the activities that affect those returns through its power over the entity. Consolidation of a subsidiary begins from the date on which control commences to the date on which control ceases. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control detailed above.

Business combinations

Subject to the transitional relief in IFRS 1, First time adoption of International Financial Reporting Standards', all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred less the fair value of identifiable assets acquired and liabilities assumed. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Costs related to the acquisition are expensed to the Income Statement as incurred.

Revenue
Group revenue is attributable to the retail sale of high quality, great value gifts, arts and crafts, hobbies, stationery, toys and books. Revenue is subject to a single performance obligation fulfilled by receipt of goods at the point of payment with minimal returns and refunds. As detailed under the section 'EU Endorsed International Financial Reporting Standards effective in the year', adoption of the measurement and recognition principles under IFRS 15 has no material impact on the values reported in these consolidated financial statements.

Under IAS 18, eCommerce sales were recognised when goods are ordered. Under IFRS 15, revenue is recognised when the customer obtains control of the products (when the goods are delivered and have been accepted at their premises). The impact of adjusting the recognition of revenue from when the order is placed to the order being delivered is immaterial, as such eCommerce sales will continue to be recognised when goods are ordered. The impact of this adjustment will continue to be monitored as eCommerce sales grow.

Sales of goods that result in award credits for customers, under the Group's Loyalty Scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Finance income and expense
Finance expense comprises interest charges. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset, and subsequently amortised to finance expenses over the appropriate life.

Finance income comprises interest income and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest is recognised in profit as it accrues, using the effective interest method.

Foreign currencies
Functional and presentation currency
The consolidated financial statements are presented in pound sterling, which is the functional currency of the Company.

Transactions and balances
Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. The majority of currency transactions that are not in the functional currency of the trading entity relate to inventory purchases. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement within cost of sales, except when deferred in other comprehensive income as qualifying cash flow hedges. Foreign currency gains and losses are reported on a net basis.

See Note 27 for derivative financial instruments which are used to manage the Group's foreign currency risk.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Notes continued
(Forming part of the financial statements)

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

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

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

Current tax and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Adjusting items
The Group has chosen to present adjusted profit and earnings measures. Transactions are categorised as 'adjusting items' if the resulting adjusted profit and earnings information provides a more meaningful comparison of performance year-on-year. The reported adjusting items are detailed in Note 5.

Dividends
Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Financial instruments
Non-derivative financial assets
Non-derivative financial assets comprise trade and other receivables and cash and cash equivalents. The Group classifies all its non-derivative financial assets as financial assets at amortised cost. Financial assets at amortised cost are initially measured at fair value plus directly attributable transaction costs, except for trade and other receivables without a significant financing component that are initially measured at transaction price. Subsequent to initial recognition non-derivative financial assets are carried at amortised cost using the effective interest method, subject to impairment.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Group measures loss allowances at an amount equal to lifetime expected credit loss.

Cash and cash equivalents comprise cash in hand, at bank and on short-term deposit for less than three months. Bank overdrafts, within borrowings, that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the Cash Flow Statement.

Non-derivative financial liabilities
Non-derivative financial liabilities comprise bank borrowings and trade and other payables. Non-derivative financial liabilities are initially recognised at fair value, less any directly attributable transaction costs and subsequently stated at amortised cost using the effective interest method.

Derivative financial instruments
Derivative financial instruments are mandatorily categorised as fair value through profit or loss ('FVTPL') except to the extent they are part of a designated hedging relationship and classified as cash flow hedging instruments. The Group utilises foreign currency derivative contracts to manage the foreign exchange risk on US dollar denominated purchases. Further details of derivative financial instruments are disclosed in Note 27.

Gains and losses in respect of foreign exchange derivative financial instruments that are not part of an effective hedging relationship are recognised within cost of sales and net finance expense.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income ('OCI') and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts ('forward points') is separately accounted for as a cost of hedging and recognised in the hedging reserve separately as costs of hedging.

When foreign exchange hedged forecast transactions subsequently result in the recognition of inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the inventory.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is included in the cost of inventory on its initial recognition.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Fair value estimation

The techniques applied in determining the fair values of financial assets and liabilities are disclosed in Note 27.

Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition or production cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged on a straight-line basis over the estimated useful lives as follows:

Leasehold property improvements	Over the life of the lease.
Fixtures and fittings	15% per annum straight-line or depreciated on a straight-line basis over the remaining life of the lease, whichever is shorter.
Computer equipment	25% to 50% per annum straight-line.

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

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

Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGU's and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Impairment of goodwill

Calculations of the value in use of the CGU's to which goodwill are associated are used to evaluate whether an impairment has arisen. Such calculations involve estimates of the future forecast cash flows and selecting an appropriate discount rate. Note 12 provides information on the assumptions used.

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

Notes continued
(Forming part of the financial statements)

1 Accounting policies continued

Software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Costs relating to development of computer software are capitalised if the recognition criteria of IAS 38 'Intangible Assets' are met or expensed as incurred otherwise.

Amortisation is charged on a straight-line basis over the estimated useful life at 25% to 50%.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method.

The Group reviews its inventory on a regular basis and where necessary includes a provision for any inventory that may be worth less than its book value. Due to the seasonality nature of the business, judgement is applied in regards to the type of stock items that require provisioning against. The provision is reviewed by management throughout the year.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use of sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use of sale.

All other borrowing costs are recognised in the profit or loss in the period in which they incurred.

Merger reserve

The statement of financial position at 28 April 2019 presents the legal change in ownership of the Group, including the share capital of TheWorks.co.uk plc and the merger reserve arising as a result of the share for share exchange transaction. The merger reserve represents the difference between the cost of the investment in The Works Investment Limited (and its subsidiary, The Works Stores Limited and The Works Online Limited) of £51,499,891 and the nominal value of the ordinary shares issued in exchange of £109.

Share-based payments

On 10 July 2018, the Company entered into three nil cost option agreements with respect to staff incentives pre-IPO. 757,726 shares were awarded for no consideration of which 303,090 were sold immediately upon Admission (at £1.60 per share, £484,944 in aggregate) to settle, in part, personal tax and national insurance due. The balance of 454,636 shares (having an aggregate value, at the IPO share price of £1.60 per share, of £727,418) are subject to lock-up arrangements under which no shares can be sold for twelve months post-IPO.

During the period under review 783,108 share options were awarded under TheWorks.co.uk plc 2018 Long-Term Incentive Plan including 157,887 share options under TheWorks.co.uk plc 2018 Long-Term Incentive (CSOP Options) Plan to key management and senior employees both with a three-year vesting period. 29,233 restricted stock options were awarded to senior managers with a two year vesting period.

The cost of the awards to employees of the Company is expensed to the Income Statement, together with a corresponding adjustment to equity, on a straight-line basis over the vesting period of the award. The cost of awards to employees of subsidiary undertakings is recognised as an increase in the investment in the subsidiary. The total Income Statement charge is based on the Company's estimate of the number of share awards that will eventually vest in accordance with the vesting conditions. The awards do not include market-based vesting conditions. At each balance sheet date, the Company revises its estimate of the number of awards that are expected to vest. Any revision to estimates is recognised in the income statement, with a corresponding adjustment to equity.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees. See Note 22 for further details.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation.

Leases
Operating lease payments
Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

The Group holds lease agreements with full or partial contingent rents. Contingent rent is determined through defined percentages of the applicable stores turnover.

Finance lease payments
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

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

2 Segmental reporting
IFRS 8 requires segment information to be presented on the same basis as that used by the Chief Operating Decision-Maker for assessing performance and allocating resources.

The Group has only one reportable segment, which reflects the Group's management and reporting structure as viewed by the Board of Directors, which is considered to be the Group's Chief Operating Decision-Maker.

3 Revenue

	2019 £000	2018 £000
Sale of goods		
– UK	212,780	188,595
– EU	4,689	3,505
Total revenues	217,469	192,100

Seasonality of operations
The Group's revenue is subject to seasonal fluctuations as a result of the Christmas period. The peak period is from October through to January therefore the first half of the year from April to October is expected to have lower revenue and results than the second half. The Group attempts to minimise the seasonal impact by managing its inventories to meet demand during this peak period.

4 Alternative performance measures ('APM')
Adjusted EBITDA is a key measure used by the Board of Directors. Adjusted EBITDA represents adjusted profit for the period before; net finance expense, taxation, depreciation and amortisation, loss on disposals of property, plant and equipment, and adjusting items. Adjusting items are gains or losses incurred in a period which are not expected to be recurring (Note 5).

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities. The following table provides a reconciliation of adjusted EBITDA to profit after tax.

	52 weeks ended 28 April 2019 £000	52 weeks ended 29 April 2018 £000
Adjusted EBITDA	13,783	13,233
Adjusting items	(4,403)	(1,669)
Loss on disposals of property, plant and equipment	(9)	(237)
Depreciation	(4,912)	(4,077)
Amortisation	(1,049)	(939)
Finance expenses	(1,064)	(3,624)
Finance income	20	20
Impairment of property, plant and equipment	(41)	(135)
Tax charge	(1,205)	(787)
Profit after tax	1,120	1,785

Notes continued
(Forming part of the financial statements)

4 Alternative performance measures (APM) continued

Like-for-like sales

These are defined as the year-on-year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from its eCommerce platform, calculated on a calendar week basis. No adjustments have been made for Mega Trends (see below).

Adjusted profit metrics

To allow the Board of Directors to see the profit based on underlying trade only key profit measures (including operating profit, profit before tax, profit for the period and earnings per share) have been adjusted for certain adjusting items, principally costs relating to the IPO, debt refinancing and the set up costs in relation to the relocation of the eCommerce warehouse to a third-party supplier. These adjusted metrics are included within the Consolidated Income Statement and Statement of Other Comprehensive Income, with further details of adjusting items included in Note 5.

These adjusted profit measure are not defined performance measure in IFRS. The Group's definition of adjusted profit measures may not be comparable with similarly titled performance measures and disclosures by other entities.

Leverage

Is calculated as the ratio of net debt to adjusted EBITDA for the previous 12 months.

Mega Trends

These are defined as any individual product, or collection of products, for which sales exceed three per cent of weekly sales for a temporary period and for which management deem to be material in terms of impacting on the underlying performance of the Company.

5 Adjusting items

During the period adjusting items were incurred in relation to the following;

	2019 £000	2018 £000
Distribution expenses		
Relocation of eCommerce[1]	**495**	–
Total distribution expenses	**495**	–
Administrative expenses		
Professional fees – one-off non-operational activities[2]	**2,936**	1,475
Staff incentives on IPO[3]	**1,212**	–
Relocation of support centre costs	**–**	8
Packaging waste costs penalty	**–**	186
Total Administrative expenses	**4,148**	1,669
Finance expenses		
Write-off of capitalised costs, interest and fees associated with loan repaid on IPO[4]	**(240)**	–
Total finance expenses	**(240)**	–
Total adjusting items	**4,403**	1,669

1 This includes the loss on disposal of the fixed assets associated with the eCommerce picking tower at the Group's distribution centre in Coleshill, Birmingham, which was disposed in the second half of the year following completion of the transition to the third-party logistics provider for the eCommerce warehouse and order fulfilment.
2 Professional fees relate to IPO and refinancing costs in the current year and restructuring costs in the prior year.
3 Staff incentive on IPO represents nil cost share options awarded to an employee in preparation of the IPO. Refer to Note 28.
4 This includes £386,000 in relation to capitalised loan costs written off on the loan repaid on IPO, offset with a release of £626,000 of interest and fees in relation to the borrowing facilities repaid on IPO.

6 Operating profit

Operating profit (before adjusting items) is stated after charging the following items:

	2019 £000	2018 £000
Impairment loss on fixed assets[1]	**41**	135
Loss on disposal of property, plant and equipment	**9**	237
Depreciation	**4,912**	4,077
Amortisation	**1,049**	939
Operating lease payments:		
– Hire of plant and machinery	**509**	419
– Other operating leases	**20,203**	17,960
– Contingent rent	**5,935**	5,636
Net foreign exchange losses	**84**	188
Cost of inventories recognised as an expense	**81,369**	70,200
Staff costs	**48,213**	40,647

[1] Note this includes impairment charge of £176,015 in relation to the PPE of five loss-making stores and a release of the prior year impairment £135,000. See Note 13 for further details.

Auditor's remuneration:

	2019 £000	2018 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**60**	–
Amounts receivable in respect of other services to the Company and its subsidiaries		
Audit of the accounts of subsidiaries	**70**	60
Audit-related assurance services	**14**	6
Tax compliance services[1]	**–**	12
Tax advisory services[1]	**15**	25
Other assurance services[1]	**495**	–
Corporate finance services	**–**	364
Other services pursuant to legislation[1]	**6**	–
	660	467

[1] These services were completed prior to the IPO on the 19 July 2018.

7 Staff numbers and costs

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

	Number of employees	
	2019	2018
Office and management	**196**	180
Shop staff	**3,268**	2,876
Warehouse and distribution staff	**152**	155
	3,616	3,211

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	**44,794**	37,935
Social security costs	**2,872**	2,389
Contributions to defined contribution plans	**547**	323
	48,213	40,647
Agency labour costs	**1,792**	2,860
	50,005	43,507

Notes continued
(Forming part of the financial statements)

8 Finance income and expense
Recognised in Income Statement

	2019 £000	2018 £000
Finance income		
Bank interest receivable	**20**	20
Total finance income	**20**	20
Finance expense		
Bank interest payable	**221**	155
Other interest payable	**820**	3,455
Other finance costs	**23**	14
Total adjusted finance expense	**1,064**	3,624
Write off of capitalised costs, interest and fees associated with loan repaid on IPO[1]	**(240)**	–
Total finance expense	**824**	3,624

1 Refer to Note 5 for further details.
Net financing costs in the period include approximately three months with the previous capital structure with higher levels of leverage and a higher weighted average interest cost. Refer to Note 18 for further detail on the capital structure pre and post-IPO.

9 Taxation
Recognised in the Consolidated Income Statement

	2019 £000	2018 £000
Current tax expense		
Current year	**1,200**	885
Adjustments for prior years	**(71)**	(186)
Current tax expense	**1,129**	699
Foreign tax expense		
Current year	**106**	70
Adjustments for prior years	**–**	(3)
Foreign tax expense	**106**	67
Deferred tax expense		
Origination and reversal of temporary differences	**(139)**	(100)
Reduction in tax rate	**14**	–
Adjustments for prior years	**95**	121
Deferred tax expense	**(30)**	21
Total tax expense	**1,205**	787

A reduction in the UK corporation tax rate from 20.00 per cent to 19.00 per cent (effective from 1 April 2017) and to 18.00 per cent (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17 per cent (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 29 April 2018 has been calculated based on these rates.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year	2,325	2,572
Tax using the UK corporation tax rate of 19 per cent (2018: 19 per cent)	442	489
Property, plant and equipment timing differences	–	185
Non-deductible expenses	819	205
Effect of tax rates in foreign jurisdictions	(55)	70
Tax over provided in prior periods	24	(68)
Reduction in tax rate on deferred tax balances	–	12
Foreign PE exemption	–	(106)
Change in tax rate	15	–
Income not taxable	(14)	–
Share options	(26)	–
Total tax expense	1,205	787

The Group's total income tax charge in respect of the year ended 28 April 2019 was £1,205,000 (29 April 2018: £787,000). The effective tax rate on total profit before tax was 51.80 per cent (29 April 2018: 30.60 per cent) whilst the adjusted tax rate was 22.00 per cent (29 April 2018: 24.64 per cent). The difference between the total effective tax rate and the adjusted tax rate relates to certain non-recurring costs associated with the IPO being non-deductible for tax purposes.

10 Dividends

	Pence per share	2019 £000	2018 £000
Interim dividend for the year ended 28 April 2019	1.2p	750	–
Total dividend paid to shareholders in the year		750	–

Dividend equivalents totalling £11,643 (2018: £nil) were accrued in the year in relation to share-based long-term incentive schemes.

The Board is recommending a final dividend in respect of the financial year ended 28 April 2019 of 2.4 pence per share, resulting in a total final dividend of £1,500,000. The dividend will, subject to shareholder's approval at the Annual General Meeting on 28 August 2019, be paid on 24 September 2019 to shareholders on the register at the close of business on 30 August 2019. No liability is recorded in the financial statements in respect of this final dividend as it was not approved at the balance sheet date.

11 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of Ordinary shares in issue during the period.

Diluted earnings per share is based on the weighted average number of shares in issue for the period, adjusted for the dilutive effect of potential Ordinary shares. Potential Ordinary shares represent employee share incentive awards.

The Group has chosen to present an adjusted earnings per share measure, with profit adjusted for adjusting items (see Note 5 for further details) to reflect the Group's underlying profit for the year.

			Proforma	Proforma
	2019 Number	2018 Number	2019 Number	2018 Number
Number of shares in issue	58,536,226	44,687,483	62,500,000	62,500,000
Number of dilutive share options	30,109	-	30,109	-
Number of shares for diluted earnings per share	58,566,335	44,687,483	62,530,109	62,500,000
	£000	£000	£000	£000
Profit for the financial period	1,120	1,785	1,120	1,785
Adjusting items	4,127	1,411	4,127	1,411
Total adjusted profit / (loss) for adjusted earnings per share	5,247	3,196	5,247	3,196
	pence)	pence)	pence)	pence)
Basic earnings per share	1.9	4.0	1.8	2.9
Diluted earnings per share	1.9	4.0	1.8	2.9
Adjusted basic earnings per share	9.0	7.2	8.4	5.1
Adjusted diluted earnings per share	9.0	7.2	8.4	5.1

Notes continued
(Forming part of the financial statements)

12 Intangible assets

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 29 April 2018	**16,180**	**5,321**	**21,501**
Additions	**–**	**1,044**	**1,044**
Balance at 28 April 2019	**16,180**	**6,365**	**22,545**
Amortisation			
Balance at 29 April 2018	**–**	**3,002**	**3,002**
Amortisation charge for the year	**–**	**1,049**	**1,049**
Balance at 28 April 2019	**–**	**4,051**	**4,051**
Net book value			
At 29 April 2018	16,180	2,319	18,499
At 28 April 2019	**16,180**	**2,314**	**18,494**

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 30 April 2017	16,180	4,934	21,114
Additions	–	698	698
Disposals	–	(311)	(311)
Balance at 29 April 2018	16,180	5,321	21,501
Amortisation			
Balance at 30 April 2017	–	2,286	2,286
Amortisation charge for the year	–	939	939
Disposals	–	(223)	(223)
Balance at 29 April 2018	–	3,002	3,002
Net book value			
At 30 April 2017	16,180	2,648	18,828
At 29 April 2018	16,180	2,319	18,499

Goodwill impairment testing
No goodwill impairment has arisen in any of the reported periods.

Goodwill of £16.2 million was generated during the year ended 27 April 2015 when the Group acquired The Works Stores Limited ('TWSL'). As such, all of the goodwill has been allocated to one CGU being TWSL. The goodwill is not expected to be deductible for income tax purposes.

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

The recoverable amount of TWSL is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to operating costs during the year. Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to TWSL. The growth rates are based on historical performance and expected future trends.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years. The terminal growth rate used is 2.00 per cent (2018: 2.00 per cent).

The rate used to discount the forecast cash flows is 10.26 per cent (2018: 10.00 per cent).

The Group has conducted a sensitivity analysis on the impairment test of TWSL by applying reasonably possible changes in the key assumptions being the growth rate and discount rate. An increase in the discount rate of 2.00 per cent has a 22.00 per cent reduction in the headroom, and a reduction in the terminal growth rate of 2.00 per cent has a 4.00 per cent reduction in the headroom. On applying these sensitivities, the aggregate carrying amount of the net assets of TWSL does not exceed the aggregate recoverable amount.

Computer software
In accordance with IAS 38 Intangible Assets, computer software has been reclassified from Property, Plant and Equipment to Intangible Assets. In the prior year software was classified within plant and equipment in property, plant and equipment. Computer software is carried at cost less accumulated amortisation and any provision for impairment. Costs relating to development of computer software are capitalised if the recognition criteria of IAS 38 'Intangible Assets' are met or expensed as incurred otherwise.

13 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Fixtures & fittings £000	Total £000
Cost				
Balance at 29 April 2018	**7,214**	**1,696**	**17,534**	**26,444**
Additions	**2,178**	**863**	**4,408**	**7,449**
Disposals	**(139)**	**(30)**	**(485)**	**(654)**
Balance at 28 April 2019	**9,253**	**2,529**	**21,457**	**33,239**
Depreciation and impairment				
Balance at 29 April 2018	**2,358**	**753**	**4,640**	**7,751**
Depreciation charge for the year	**1,078**	**990**	**2,844**	**4,912**
Net Impairment losses	**–**	**41**	**–**	**41**
Disposals	**(107)**	**(28)**	**(116)**	**(251)**
Balance at 28 April 2019	**3,329**	**1,756**	**7,368**	**12,453**
Net book value				
At 29 April 2018	4,856	943	12,894	18,693
At 28 April 2019	**5,924**	**773**	**14,089**	**20,786**

	Land and buildings £000	Plant and equipment £000	Fixtures & fittings £000	Total £000
Cost				
Balance at 30 April 2017	5,773	1,205	13,839	20,817
Additions	1,756	871	4,544	7,171
Disposals	(315)	(380)	(849)	(1,544)
Balance at 29 April 2018	7,214	1,696	17,534	26,444
Depreciation and impairment				
Balance at 30 April 2017	1,656	130	3,008	4,794
Depreciation charge for the year	944	860	2,273	4,077
Net Impairment losses	–	135	–	135
Disposals	(242)	(372)	(641)	(1,255)
Balance at 29 April 2018	2,358	753	4,640	7,751
Net book value				
At 30 April 2017	4,117	1,075	10,831	16,023
At 29 April 2018	4,856	943	12,894	18,693

Impairment losses
Property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. When a review for impairment is conducted the recoverable amount is estimated based on either value-in-use calculations or fair value less costs of disposal. Value-in-use calculations are based on management's estimates of future cash flows generated by the assets and an appropriate discount rate. Consideration is also given to whether the impairment assessments made in prior years remain appropriate based on the latest expectations in respect of recoverable amount.

At 28 April 2019, an indicator of impairment exists with regards to the recoverable amount of certain assets associated with nine loss-making stores. The recoverable amount has been calculated and compared to the carrying value of the assets to assess if an impairment is required.

In calculating the recoverable amount of these assets, cash flow forecasts for those stores have been prepared, derived from the most recent financial budgets. These cash flows include targeted performance improvements. The rate used to discount the forecast cash flows is 10.26 per cent (2018: 10.00 per cent).

The Group has conducted a sensitivity analysis on the impairment of these assets. If the discount rate was to increase by 2.00 per cent and no improvement was made in the performance of these stores (zero growth), the impact would be a 15.00 per cent increase to impairment.

At 28 April 2019, an impairment loss has been recognised of £176,015 (2018; £135,000) against five stores (2018: two stores).

Notes continued
(Forming part of the financial statements)

13 Property, plant and equipment continued

Reversal of prior period impairment losses

In accordance with IAS 36 Impairment of Assets, an entity where appropriate may reverse a prior period impairment loss. At 29 April 2018, an impairment of £135,000 was recognised against two stores. Evidence is available from internal reporting that indicates that the economic performance of these two stores has improved and will continue to perform better than expected. As such the impairment of the assets of the two stores in the prior year has been reversed.

Leased plant and machinery

At year end the net carrying amount of leased plant and machinery was £769,000 (2018: £703,000). See Note 19.

14 Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets		Liabilities	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Property, plant and equipment	**292**	185	**–**	–
Other	**59**	114	**–**	–
Tax assets	**351**	299	**–**	–

Movement in deferred tax during the year

	Fixed Assets £000	Other timing differences £000	Total £000
At 29 April 2018	185	114	299
Deferred tax credit/charge to profit and loss	107	(55)	52
At 28 April 2019	**292**	**59**	**351**

15 Inventories

	2019 £000	2018 £000
Goods for resale	**20,644**	17,758
Goods not for resale	**1,482**	1,146
Stock in transit	**3,031**	2,591
	25,157	21,495

The cost of inventories recognised as an expense during the year was 2019: £81.4 million (2018: £70.2 million).

The value of stock loss written off as an expense during the year was £3.1 million (2018: £1.7 million). Included within this is a charge of £511k (2018: £49k) in relation to the net profit impact of the provision increment.

An inventory provision of £1.7 million (2018: £1.2 million) for obsolescence and shrinkage has been recognised in the year. The provision is an estimate, which is based on ageing and historical trends and is reviewed by management throughout the year. A 10 per cent reduction in the estimated net realisable value of inventory would lead to an increase in the provision at 28 April 2019 of £55,000 (2018: £31,000).

16 Trade and other receivables

	2019 £000	2018 £000
Current		
Trade receivables	**250**	116
Other receivables	**361**	689
Prepayments and accrued income	**16,978**	16,419
Trade and other receivables	**17,589**	17,224

Trade receivables disclosed above are attributable to non-retail sales which currently represent less than 1 per cent of Group revenue. Trade receivables are classified as finance assets at amortised cost. These relate to credit card payments for online sales and are therefore all current. Due to the nature of the business no credit is provided to customers. The value of trade receivables is such that no significant impairment loss has been recorded.

17 Cash and cash equivalents

	2019 £000	2018 £000
Cash and cash equivalents per balance sheet	**3,687**	7,420
Net cash and cash equivalents	**3,687**	7,420

The Group's cash and cash equivalents are denominated in the following currencies;

	2019 £000	2018 £000
Sterling	**2,425**	5,402
Euro	**1,243**	75
US dollar	**19**	1,943
Net cash and cash equivalents	**3,687**	7,420

18 Borrowings

	2019 £000	2018 £000
Non-current liabilities		
Secured bank loans	**–**	31,200
Finance lease liabilities	**494**	494
Unamortised debt issue costs[1]	**(91)**	(445)
Non-current liabilities	**403**	31,249
Current liabilities		
Finance lease liabilities	**275**	209
Unamortised debt issue costs[1]	**(45)**	–
Current liabilities	**230**	209

1 In 2018, current unamortised debt issue costs of £356,186 were recognised in non-current liabilities.

A debt refinancing was completed on 20 July 2018, following the IPO of the Company completing (with formal admission to the Official List and to trading on the London Stock Exchange) on 19 July 2018. The capital structure has therefore changed considerably from the prior year.

A new three year £25 million revolving credit facility ('RCF') expiring in June 2020 (with a one year extension option), was put in place at the time of the IPO with the previous debt facility (a £31.2 million loan) being repaid at the same time, in part, through the net proceeds received into the Group on IPO. The arrangement fees in relation to the new debt facility, totalling £188,000, have been capitalised and will be amortised to the Income Statement over the three-year term of the facility in accordance with accounting standards. Debt costs capitalised in relation to the previous debt facility of £386,000 were written off as a non-cash, adjusting item at the same time. The new RCF is subject to LIBOR plus a margin in the range 1.50 per cent to 2.50 per cent, subject to a leverage ratchet.

The facility was not drawn down at 28 April 2019.

Notes continued
(Forming part of the financial statements)

19 Obligations under finance lease

	Minimum lease payments 2019 £000	Minimum lease payments 2018 £000
Amounts payable under finance lease		
Within one year	**300**	226
In the second to fifth years inclusive	**553**	540
After five years	**–**	–
	853	766
Less future finance charges	**(84)**	(63)
Present value of lease obligations	**769**	703

	Present value of minimum lease payments 2019 £000	Present value of minimum lease payments 2018 £000
Amounts payable under finance lease		
Within one year	**275**	209
In the second to fifth years inclusive	**494**	494
After five years	**–**	–
Present value of lease obligations	**769**	703

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is five years. For the year ended 28 April 2019, the average effective borrowing rate was 2.60 per cent (2018: 2.30 per cent). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in sterling.

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

The Group's obligations under finance leases are secured by the lessors' rights over the leased assets concerned.

20 Trade and other payables

	2019 £000	2018 £000
Current		
Trade payables	**33,128**	29,022
Other tax and social security	**724**	938
Non-trade payables and accrued expenses	**12,794**	13,945
	46,646	43,905

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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

The Group has net US dollar-denominated trade and other payables of £4.0 million (2018: £3.4 million).

21 Provisions

	Dilapidations £000	Onerous lease provision £000	Total £000
Balance as at 30 April 2018	119	–	119
Provisions made during the year	192	89	281
Provisions used during the year	(119)	–	(119)
Unwind of discount	–	–	–
Balance as at 28 April 2019	192	89	281
Non-current	–	63	63
Current	192	26	218
	192	89	281

Dilapidation provision
In accordance with IAS 37 Provisions, a reliable estimate has been made in respect of estimated dilapidation costs associated with expected lease terminations. These costs are expected to be paid out during the course of the year and therefore are not discounted. In the prior year the provision was disclosed in trade and other payables.

Onerous lease provision
Where it has been assessed that the unavoidable costs of meeting the obligations under a store lease (the rent payable) exceed the economic benefits from operating that store (the profits), an onerous lease provision has been recognised. A provision of £89,000 is held at 28 April 2019, in relation to three leases.

22 Defined contribution plans

The group operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £547,000 (2018: £323,000).

At the end of the year contributions of £181,000 (2018: £107,000) were outstanding.

23 Share capital and share premium

On 24 April 2018, the Company was incorporated with one share of £0.01. On the 10 July 2018, a share for share acquisition of the share capital of The Works Investments Limited ('TWIL') was undertaken for £51,500,000 which resulted in a share premium of £51,499,891 and a share capital of £108.91.

A bonus share issue of 499 shares for each existing share was issued. A further bonus issue of 39,242,000 Ordinary shares was undertaken to increase the number of shares in issue to achieve an equity value per share equal to the IPO issue price. The number of bonus shares issued in respect of each original TWIL share class was different, reflecting the different ratchet rights on the original shares of TWIL.

A capital reduction was undertaken on the 10 July 2018 to convert £51,445,545 of share premium into retained earnings.

On the 19 July 2018, the Company offered 17,812,517 of new shares for £28,500,027 and the selling shareholders sold 22,953,648 of their existing shares.

Notes continued
(Forming part of the financial statements)

23 Share capital and share premium continued
Ordinary shares are classified as equity.

	2019 Number 000
Share capital	
Allotted, called up and fully paid Ordinary shares of one pence:	
Issued in the period	**62,500**
At the end of the period	**62,500**

	2019 £000
Share capital	
Issued in the period	**625**
At the end of the period	**625**

	2019 £000
Share premium	
Issued in the period	**28,322**
At the end of the period	**28,322**

24 Notes to the Cash Flow Statement

	2019 £000	2018 £000
Profit for the year	**1,120**	1,785
Adjustments for:		
Depreciation, amortisation and impairment	**6,002**	5,151
Derivative exchange loss/(gain)	**73**	(451)
Financial income	**(20)**	(20)
Financial expense	**824**	3,624
Loss on sale of property, plant and equipment[1]	**403**	237
Adjusting items – staff incentives on IPO	**1,212**	–
Share based payment charges	**139**	–
Increase in provisions	**102**	–
Taxation	**1,205**	787
Operating cash flows before changes in working capital	**11,060**	11,113
Increase in trade and other receivables	**(365)**	(3,257)
Increase in inventories	**(3,635)**	(2,449)
Increase in trade and other payables	**3,643**	9,296
Cash flows from operating activities	**10,703**	14,703

1 Loss in sale of property, plant and equipment includes £394,000 associated with the e-commerce picking tower, see Note 5 for more information.

25 Operating lease commitments
Non-cancellable operating lease rentals are payable as follows:

	2019 £000	2018 £000
Less than one year	**23,246**	23,852
Between one and five years	**68,124**	70,191
More than five years	**43,688**	41,476
Total operating lease commitments	**135,058**	135,519

Operating lease payments represent rentals payable by the Group for its stores and offices.

26 Financial risk management

The Board have overall responsibility for managing risks and uncertainties across the Group and these are reviewed on an ongoing basis. These risks include market risk, currency risk, cash flow interest rate risk, credit risk and liquidity risk.

In order to manage the Group's exposure to these risks, in particular the Group's exposure to currency risk, the Group enters into forward foreign currency contracts. No transactions in derivatives are undertaken for speculative purposes.

Further details of the Group's approach to managing risk are included in the principal risks and uncertainties section of the Strategic Report on pages 30 to 32 and in the Corporate Governance Report on page 43.

Market risk

The Group's activities expose it to two types of market risk, being currency risk and cash flow interest rate risk. The Group's policies for managing currency risk and interest rate risk are set out below.

Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated. It A significant proportion of the Group's retail products are procured from overseas suppliers denominated in US dollars.

The Group will take a prudent but flexible approach to hedging the risk of exchange rate fluctuations as follows:

- Fully hedge its US dollar requirements up to six months in advance; and
- Hedge up to a further 50.00 per cent of cover for the period six to 24.00 and up to 25.00 per cent of cover for the period 24 to 36 months out.

The Group designates the spot element of forward exchange contracts to hedge its currency risk and applies a hedge ratio of 1:1. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. The Group assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting cashflows of the hedged item.

In these hedge relationships, the main sources of ineffectiveness are:

- The effect of counterparties and the Group's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- Changes in the timing of the hedged transactions.

At 28 April 2019, the Group held forward contracts with a nominal value of $19.5 million, all with maturity dates of less than one year. These contracts have an average forward rate of $1.3085.

Exposure to currency risk

The carrying amounts of the Group's foreign currency-denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2019 £000	2018 £000	**2019 £000**	2018 £000
US dollar	**4,050**	2,612	**3,447**	4,536
Euro	**282**	269	**1,613**	448

Notes continued
(Forming part of the financial statements)

26 Financial risk management continued

Currency sensitivity analysis

The Group is mainly exposed to the US dollar and Euro.

The following table details the Group's sensitivity to a 10.00 per cent increase and decrease in sterling against the relevant foreign currencies. 10.00 per cent represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the year end for a 10.00 per cent change in foreign currency rates. A positive number below indicates a decrease in profit and other equity where sterling strengthens 10.00 per cent against the relevant currency. For a 10.00 per cent weakening of sterling against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	US dollar impact		Euro impact	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Profit or (Loss) for the period	**55**	175	**(121)**	16

This is mainly attributable to the exposure outstanding on US dollar and Euro cash, inventory, trade payables and other accruals in the Group at the reporting date.

The sensitivity analysis above represents the inherent foreign exchange risk as at the year end, but is not reflective of the exposure, and therefore the profit impact, to foreign currency exchange movements during the year.

Interest rate risk

The Group is also exposed to fluctuation in the interest rate on the overdraft facility which is used to manage the day-to-day operations. The sensitivity analysis below has been determined based on an increase in the interest rate of 1.00 per cent on the average cash balances throughout the year.

	2019 £000	2018 £000
Variable-rate instruments (100 bp increase)	**56**	58
Variable-rate instruments (100 bp decrease)	**(56)**	(58)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group does not offer any credit to customers, as such the credit risk with respect to exposure to customers is deemed to be low.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of the financial assets recorded in the financial statements represents the Group's and the Company's exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows, excluding interest, based on the earliest date on which the Group can be required to pay.

There was no derivative liability at 29 April 2018.

Contractual maturity of financial liabilities	Within 1 year £000	2-5 years £000	5+ years £000	Total £000
28 April 2019				
Non-interest bearing	**47,158**	**–**	**–**	**47,158**
Finance lease liability	**275**	**494**	**–**	**769**
Derivative				
Forward currency contracts	**25**	**–**	**–**	**25**
	47,458	**494**	**–**	**47,952**
29 April 2018				
Non-derivative				
Non-interest bearing	44,311	–	–	44,311
Finance lease liability	209	494	–	703
Interest bearing loans	–	31,200	–	31,200
	44,520	31,694	–	76,214

27 Financial instruments

IFRS 9 'Financial Instruments' (IFRS 9)

IFRS 9 is effective for periods beginning on or after 1 January 2018 and has been adopted by the Group in the year. IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities and replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The impact on the consolidated financial statements of the Group is detailed below.

Classification of financial assets and liabilities

IFRS 9 is based on the concept that financial assets should be classified and measured at fair value, with changes in fair value recognised in the Condensed Consolidated Statement of Profit and Loss as they arise ('FVPL'), unless restrictive criteria are met for classifying and measuring the asset at either amortised cost or fair value through other comprehensive income ('FVOCI'). As such, no impact from the change to IFRS 9 from IAS39 on the financial statements is expected. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The new classification requirements do not impact the accounting for the Group's financial assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortised cost. Revenue from retail customers represents all of Group revenues and consequently trade and other receivables measured at amortised cost are not material to the financial statements. There is no impact on the values reported in the financial statements from adopting IFRS 9 in respect of expected credit losses.

Cash and cash equivalents

Cash and cash equivalents are held at a bank with a strong credit rating and are not subject to any period of notice. The Group typically maintains a low value of cash and cash equivalents and often a net overdrawn cash position as part of its RCF funding arrangement. There is no impact on the values reported in the financial statements from adopting IFRS 9 in respect of expected credit losses.

Classification of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The classification requirements of IFRS 9 do not impact the financial statements.

Notes continued
(Forming part of the financial statements)

27 Financial instruments continued
Hedge accounting
The Group utilises foreign currency derivative contracts and US dollar-denominated cash balances to manage the foreign exchange risk on US dollar-denominated inventory purchases. The Group, previously recognised the fair value adjustment on its foreign currency derivative contracts (to reflect the prevailing spot rate) in the Condensed Consolidated Income Statement.

From January 2019 the Group elected to hedge account its foreign currency contracts under IFRS 9. The Group designates only the change in the fair value of the spot element of forward currency contracts as the hedging instrument in cash flow hedging relationships. The Group has elected to separately account for the forward points as a cost of hedging. Consequently, changes in forward points are recognised in other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity and subsequently recognised into the hedged inventory purchase value.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. Under the new model, it is possible that more risk management strategies may qualify for hedge accounting, though eligibility for hedge accounting of the Group's existing hedging activities have been assessed as unchanged.

Fair value measurements
Financial instruments carried at fair value are measured by reference to the following fair value hierarchy, based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are carried at fair value under a Level 2 valuation method. All other financial instruments carried at fair value are measured using the Level 1 valuation method.

There were no transfers between the levels during the current or prior year.

Derivative financial instruments
The fair value of derivative financial instruments at the balance sheet date is as follows:

	2019 £000	2018 £000
Net derivative financial instruments		
Foreign exchange contracts	**133**	89

Foreign exchange contracts
At 28 April 2019 the Group held a portfolio of foreign currency derivative contracts with notional principal amounts totalling £19.5 million (2018: £12.4 million) to mitigate the exchange risk on future US dollar-denominated trade purchases. Fair value movements in foreign currency derivatives are recognised in other comprehensive income to the extent the contract is part of an effective hedging relationship.

Classification of financial instruments

The table below shows the classification of financial assets and liabilities as at 28 April 2019. The fair value of financial instruments have been assessed as approximately their carrying value.

	Mandatorily at FVTPL £000	Cash flow hedging instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000
As at 28 April 2019				
Financial assets measured at fair value	–	–	–	–
Derivative financial instruments	–	158	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	17,589	–
Cash and cash equivalents	–	–	3,687	–
Financial liabilities measured at fair value				
Derivative financial instruments	–	(25)	–	–
Financial liabilities not measured at fair value				
Unsecured bank loans	–	–	–	–
Unsecured bank overdraft	–	–	–	(768)
Trade and other payables	–	–	–	(46,646)
As at 28 April 2019	–	133	21,276	(47,414)

	Mandatorily at FVTPL £000	Cash flow hedging instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000
As at 29 April 2018				
Financial assets measured at fair value				
Derivative financial instruments	89	–	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	17,224	–
Cash and cash equivalents	–	–	7,420	–
Financial liabilities measured at fair value				
Derivative financial instruments	–	–	–	–
Financial liabilities not measured at fair value				
Secured bank loans	–	–	–	(31,200)
Finance lease liability	–	–	–	(703)
Trade and other payables	–	–	–	(43,905)
As at 29 April 2018	89	–	24,644	(75,808)

28 Equity-settled share-based payment arrangements

TheWorks.co.uk plc Long Term Incentive Plan

During the year, the Company set up a Long-Term Incentive Plan (LTIP) to grants awards of shares to the Executive Directors, members of the senior management team and senior employees under the terms of the LTIP. Grants are made annually under the scheme, subject to approval by the Board.

Fair value of awards

Grants vest in stages over three years. Vested shares for Executive Directors may not be sold (other than to pay taxes due on vesting) until the end of a two-year holding period after the vesting date. Further details on the Executive Director LTIP awards are provided in the Remuneration Report on pages 60 to 63.

Notes continued
(Forming part of the financial statements)

28 Equity-settled share-based payment arrangements continued
Nil cost options awarded

On 10 July 2018, the Company entered into three nil cost option agreements with respect to staff incentives pre-IPO. 757,726 shares were awarded for no consideration. 454,636 shares are subject to lock-up arrangements under which no shares can be sold for twelve months post-IPO.

	Number of options	Vesting conditions
Outstanding at 29 April 2018	Nil	–
LTIP awards granted[1]	783,108	3 years' service from grant date and 17.5%+ compound annual growth in EPS
Restricted stock awards granted	29,235	2 years' service from grant date
Nil cost options awarded[2]	757,726	454,636 of these options are subject to lock-up for 12 months post Admission
Nil cost options exercised	(757,726)	
Outstanding at 28 April 2019	812,343	

1 includes 157,887 share options under TheWorks.co.uk 2018 Long Term Incentive (CSOP Options) Plan.
2 Nil cost options were awarded and exercised on admission. 454,636 are subject to lock-up for 12 months post Admission.

Expense recognised in the Income Statement

	2019 £000	2018 £000
LTIP – Share based payment expense	**139**	–
Adjusting items – staff incentives on IPO	**1,212**	–
Total IFRS 2 charge	**1,351**	

29 Capital commitments
Capital commitments

At 28 April 2019, the Group had capital commitments of £294,000 (2018: £nil).

30 Contingent liabilities
The Group followed a particular treatment on withholding tax with a previous lender. While this treatment is considered correct, there is a possibility it may be challenged. No provision has been made for interest/penalties should this approach be challenged. It if were to be successfully challenged, the expected interest/penalties due would be in the range of £100k-£200k, (2018: £100k-£200k).

31 Related party transactions
Identity of related parties with which the Group has transacted

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

During the year Endless LLP was a related party of the Group. The management fee paid during the year was £25,000 (2018: £101,000). There were no amounts outstanding at the Balance Sheet date.

Transactions with key management personnel

The compensation of key management personnel (including the Directors) included in the subsidiary financial statements is as follows:

	2019 £000	2018 £000
Key management remuneration – including social security costs	**3,535**	1,484
Pension contributions	**100**	100
Long term incentives – including social security costs	**130**	–
Total transactions with key management personnel	**3,765**	1,584

32 Transition to IFRS 16

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019) will replace IAS 17 and related interpretations and requires entities to apply a single lessee accounting model, with lessees recognising right-of-use-assets and lease liabilities on the balance sheet for all applicable leases. In addition, the nature of expenses related to those leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and an interest expense relating to lease liabilities.

The Group intends to adopt the modified retrospective application of the standard applying the practical expedient available on transition not to reassess whether a contract existing at the date of initial application contains a lease. The Group currently anticipates the approximate impact on the financial statements as follows:

	Estimated impact £000
Statement of financial position	
IFRS 16 right of use assets	103,777
IFRS 16 lease liabilities	(114,217)
Rent free incentive	5,625
Remove operating lease-related prepayment and accruals	(1,860)
Net opening adjustment at 29 April 2019	**(6,675)**

33 Subsidiary undertakings

Following incorporation of the Company, the following subsidiary undertakings apply, all of which are included in the Consolidated financial statements. The principal place of business and the registered office address for the subsidiaries are the same as the Company. Prior to incorporation of the Company, The Works Investments Limited held 100% ownership in The Works Stores Limited, which held 100% ownership of The Works Online Limited.

Company	Active/Dormant	Direct/Indirect Control	Registered number	Class of shares held	Ownership 2019
The Works Stores Limited	Active	Indirect	06557400	Ordinary	**100%**
The Works Online Limited	Dormant	Indirect	08040244	Ordinary	**100%**
The Works Investments Limited	Active	Direct	09073458	Ordinary	**100%**

Company Statement of Financial Position
As at 29 April 2019

	Note	2019 £000
Non-current assets		
Investment	37	**51,583**
Deferred tax assets	38	**16**
		51,599
Current assets		
Loan receivables	39	**28,500**
Trade and other receivables	40	**1**
		28,501
Total assets		**80,100**
Current liabilities		
Trade and other payables	41	**2,808**
		2,808
Total liabilities		**2,808**
Net assets		**77,292**
Equity attributable to equity holders of the Parent		
Share capital	42	**625**
Share premium	42	**28,322**
Share-based payment reserve		**1,358**
Retained earnings		**46,987**
Total equity		**77,292**

These financial statements were approved by the Board of Directors on 5 July 2019 and were signed on its behalf by:

Gavin Peck
Chief Financial Officer

Company registered number: 11325534

Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Total comprehensive income for the period					
Loss for the period	–	–	–	(3,316)	(3,316)
Total comprehensive income for the period	–	–	–	(3,316)	(3,316)
Transactions with owners of the Company					
Effect of Group reconstruction					
Investment in subsidiary	–	51,500	–	–	51,500
Bonus issue of shares	54	(54)	–	–	–
Capital reduction	–	(51,446)	–	51,446	–
Second bonus issue	393	–	–	(393)	–
Issue of shares in IPO	178	28,322	–	–	28,500
Share based payment charges	–	–	1,358	–	1,358
Dividend	–	–	–	(750)	(750)
Transactions with owners of the Company	625	28,322	1,358	50,303	80,608
Balance as at 28 April 2019	**625**	**28,322**	**1,358**	**46,987**	**77,292**

Notes to the Company financial statements

34 Accounting policies

Basis of preparation

The Company financial statements have been prepared and approved by the Directors in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The financial statements have been prepared under the historical cost convention.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of issue of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Refer to Note 1 for further detail.

Principal accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements except to the extent applied from transition to IFRS 9. Amendments to accounting policies on adoption of IFRS 9 have not impacted the values reported in these financial statements.

EU Endorsed International Financial Reporting Standards effective in the year:

- IFRS 9 Financial Instruments – see Note 27
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- IFRS 15 Revenue from Contracts with Customers -see details below
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Transfers of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IFRS 1)
- Annual Improvements to IFRS 2014-2016 Cycle (Amendments to IAS 28)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Income Statement

The Company made a loss after tax of £3.3 million for the year ended 28 April 2019 (2018: £nil). As permitted by section 408 of the Companies Act 2006, the Income Statement of the Company is not presented as part of the financial statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- Cash flow statement and related notes;
- Comparative period reconciliations for share capital;
- Transactions with wholly owned subsidiaries;
- In respect of capital management;
- The effect of new but not yet effective IFRSs;
- In respect of the compensation of key management personnel;
- Transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of IFRS 2 Share Based Payments in respect of Group settled Share Based Payments.

Share capital and share premium

On 24 April 2018, the Company was incorporated with one share of £0.01. On the 10 July 2018, a share for share acquisition of the share capital of The Works Investments Limited (TWIL) was undertaken for £51,500,000 which resulted in a share premium of £51,499,891 and a share capital of £108.91.

A bonus share issue of 499 shares for each existing share was issued. A further bonus issue of 39,242,000 Ordinary shares was undertaken to increase the number of shares in issue to achieve an equity value per share equal to the IPO issue price. The number of bonus shares issued in respect of each original TWIL share class was different, reflecting the different ratchet rights on the original shares of TWIL.

A capital reduction was undertaken on the 10 July 2018 to convert £51,445,545 of share premium into retained earnings.

On the 19 July 2018, the Company offered 17,812,517 of new shares for £28,500,027 and the selling shareholders sold 22,953,648 of their existing shares.

Ordinary shares are classified as equity.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised to the extent that it is probably that future taxable profits will be available against which temporary difference can be utilised.

35 Employee costs

The Company has no employees other than the Board of Directors. Full details of Directors' remuneration are set out in the Directors' Remuneration Report on pages 50 to 63.

36 Dividends

	Pence per share	2019 £000	2018 £000
Interim dividend for the year ended 28 April 2019	1.2p	**750**	–
Total dividend paid to shareholders in the year		**750**	–

The Board is recommending a final dividend in respect of the financial year ended 28 April 2019 of 2.4 pence per share, resulting in a total final dividend of £1,500,000. The dividend will, subject to shareholder's approval at the Annual General Meeting on 28 August 2019, be paid on 24 September 2019 to shareholders on the register at the close of business on 30 August 2019. No liability is recorded in the financial statements in respect of this final dividend as it was not approved at the balance sheet date.

Dividend equivalents totalling £11,643 (2018: £nil) were accrued in the year in relation to share-based long-term incentive schemes.

37 Investments in subsidiaries

	2019 £000
At incorporation	**–**
Additions	**51,583**
At 28 April 2019	**51,583**

In conjunction with the impairment review of goodwill performed for the Group (see Note 12), a related exercise was performed in respect of the Company's carrying value of its investment in subsidiaries. No impairment of this balance was identified. The calculation is sensitive to the assumptions used in valuing the expected future cashflows of subsidiaries. A 2.00% increase/(decrease) in the value of expected future cashflows would not result in an impairment of this balance.

Refer to Note 33 subsidiary undertakings for further information.

Notes to the Company financial statements continued

38 Deferred tax assets

	2019 £000
Deferred tax asset	16
	16

Deferred tax assets of £16,000 relate to temporary differences arising from trading, of which £6,171 has been charged directly to equity.

39 Loan receivables

	2019 £000
At incorporation	–
Loans issued	28,500
As at 28 April 2019	**28,500**

The loan issued balance of £28,500,000 relates to a non interest bearing loan, repayable on demand by subsidiary undertaking, The Works Investment Limited.

40 Trade receivables

	2019 £000
Prepayments and accrued income	1
	1

41 Trade payables

	2019 £000
Non-trade payables and accrued expenses	71
Other taxes and social security	7
Amounts owed to Group undertakings	2,730
	2,808

Amounts owed to Group undertakings are non interest bearing, that are repayable on demand.

42 Share capital and share premium

	2019 Number 000
Share capital	
Allotted, called up and fully paid Ordinary shares of one pence:	
Issued in the period	62,500
At the end of the period	62,500

	2019 £000
Share capital	
Issued in the period	625
At the end of the period	625

	2019 £000
Share premium	
Issued in the period	28,322
At the end of the period	28,322

43 Equity-settled share-based payment arrangements

TheWorks.co.uk plc Long-Term Incentive Plan

During the year, the Company set up a Long-Term Incentive Plan (LTIP) to grants awards of shares to the Executive Directors, members of the senior management team and senior employees under the terms of the LTIP. Grants are made annually under the scheme, subject to approval by the Board.

For more information, refer to Note 28.

Expense recognised in the Income Statement

	2019 £000
Share capital	
Expense recognised in the Company income statement	56
Adjusting items – staff incentives on IPO[1]	1,212
Expense recognised in subsidiary income statement	83
Total expense recognised in the Group income statement	**1,351**

1 Staff incentive on IPO represents nil cost share options awarded to an employee in preparation of the IPO. Refer to Note 28 for more information.

44 Related party transactions

	2019 £000
Loans receivable from subsidiary undertaking The Works Investments Limited	28,500

The loan is non interest bearing, repayable on demand.

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