TheWorks.co.uk

Annual Report and Accounts

2020

Who we are:
At TheWorks.co.uk plc we are committed to offering our customers a wide variety of good quality, great value products across our specialist categories through our evolving multichannel experience.

In-store, online...

...or click & collect

2020 highlights

Financial

Revenue

FY20[1] £225.0m

FY19[1] - £217.5m

LFL sales growth

+0.7%

FY19 - 3.0%

PBT

(£18.0m)

FY19 - £2.3m

Adjusted PBT

£2.4m

FY19 - £6.9m

Non-IFRS 16 Adjusted EBITDA

£10.8m

FY19 - £13.9m

Basic EPS (pence)

(28.3)

FY19 - 1.9

Adjusted Basic EPS (pence)

3.0

FY19 - 9.2

The Financial Report contains details of the reconciliation between GAAP and non-GAAP measures.

Non-financial

- Opened 37 new stores (net) including milestone 500th store in Winchester
- Delivered ninth consecutive record Christmas sales
- Launched 1000s of new products
- Introduced new merchandising planograms for art and stationery core ranges driving double digit sales growth in these categories
- Further increased web offer adding web exclusive lines that are also available via click & collect
- Grew 'active' loyalty database by 788k whilst increasing the quality of sign ups
- Recognised as a Sunday Times "25 best big companies" to work for; placed 18th, for second year running with a 1 star accreditation
- Successfully delivered our growth strategy across our 4 key pillars despite a challenging year
- Effectively embedded our online third party logistics relationship, delivering operational efficiencies and an improved service over Christmas

[1] The "FY20" accounting period relates to the 52 weeks ended 26 April 2020 and the comparative "FY19" accounting period relates to the 52 week period ended 28 April 2019.

Find out more at www.theworksplc.co.uk
www.theworks.co.uk

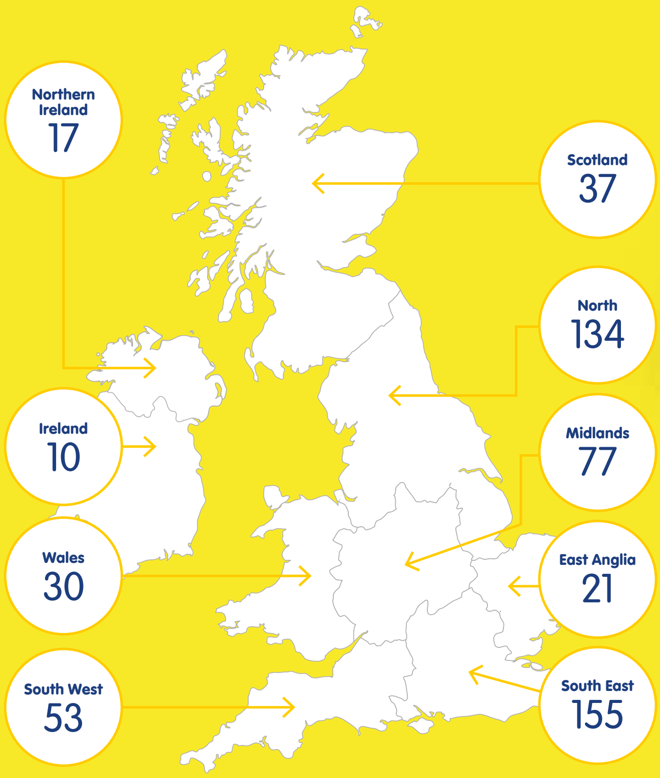
Company overview

The Works is the UK's leading family friendly retailer of value gifts, arts, crafts, toys, books and stationery. With 534 stores nationwide and a recently relaunched website, enhanced using existing customer shopping behaviours, our mission is to offer a unique and enjoyable shopping experience, **built on core principles of value, variety and quality.**

In stores across the UK

Store estate

Our estate of 534 stores can be found in a diverse range of retail locations: on high streets, in shopping centres, on retail parks, in factory outlets and as concessions (typically in garden centres).



534
stores in the UK & Ireland at 26 April 2020

net 37
opened in FY20

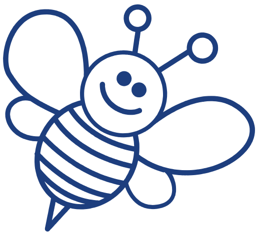
Multi-channel

We are one of the few value retailers in our market with a fully functioning website allowing customers to shop how they want, when they want, 7 days a week. Our website offers many exclusive products that are not available instore and our popular click & collect service (representing over one third of all online orders) offers further convenience to our multichannel service.

Online 24/7

500th Store Opening

On 10 May 2019 we reached a significant milestone in our growth journey when we opened our 500th store. Located in the popular historic town of Winchester, it is evidence of the flexibility of our store model.



COVID-19

During COVID-19 our stores went into hibernation for a 12 week period but our website continued to trade throughout. Our product proposition played an important role in customers' lives during this period, providing help with kids' education, mindfulness material to support mental health and well-being and products to beat the boredom during the most challenging weeks of lockdown. Whilst social distancing within our online fulfilment centre meant that we were unable to increase capacity enough to fully satisfy the uplift in customer demand, we were able to respond quickly and deliver a sales uplift of over three times the sales in the equivalent period in the prior year.

During lockdown we drove the highest follower growth vs. our competitors across our 2 main social media platforms Facebook and Instagram. This equated to a 145% follower increase year on year, attributed to new customers shopping our brand for the first time and existing customers discovering our online offer, both of which are positive for our future as we continue to grow our customer base and build on our multi-channel credentials.

What will you discover?

Our strongest point of differentiation remains our ability to offer customers the experience of discovery. Of the 6,000 products available in store at any one time, approximately 400 are "core" lines that we permanently stock, with all other lines being refreshed on a regular basis. This enables us to remain agile and react quickly to trends. This element of "discovery" coupled with providing good availability of core lines encourages regular, repeat customer visits. We have introduced new merchandising planograms across our art and stationery core ranges resulting in double digit sales growth in these categories.

We have a diversified product offering across our four key specialist 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, big brands and games. This zone is underpinned by some of our famous, value for money 'hero' deals, which include 3 for £5/10 for £10 kids' picture books and our 2 for £10 magical gifts range at Christmas. This zone also features our kids' education range of books, toys and games.

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, on-trend 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. Our ability to offer fantastic value for money in this zone is supported by our well-established own brand ranges. We have recently introduced some key crafting brands to further strengthen our craft proposition and now offer one of the largest ranges on the high street.

Family Gifts

Our Family Gifts Zone includes an extensive range of adult books, including best-selling fiction paperbacks which are typically in our 3 for £5 hero deal. This zone is also home to products aimed at supporting mindfulness and mental health (e.g. jigsaws and adult colouring).

Special offers

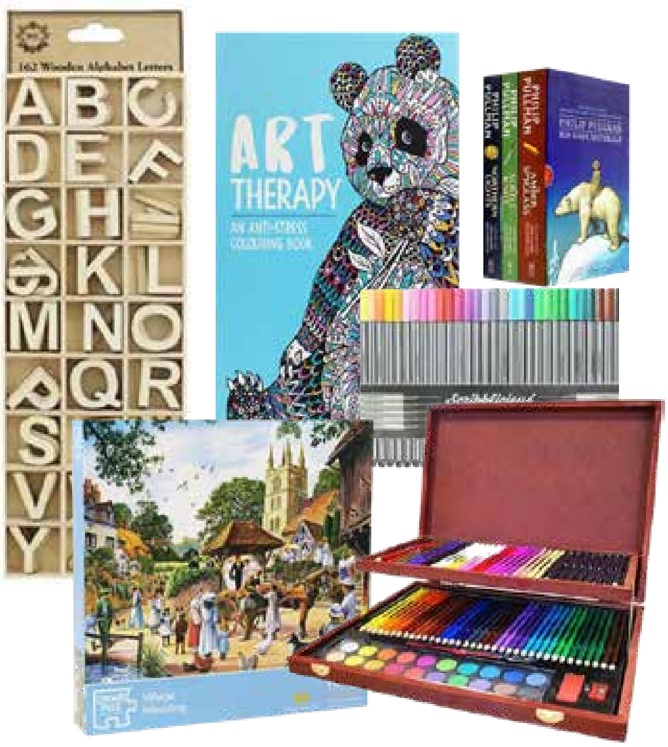
We supplement these core everyday zones with seasonal and regional offerings:

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.

Regional Offering

To better service the needs of our customers in specific tourist locations (e.g. Windsor and Edinburgh), we complement our core zones with a range of carefully selected local interest books and gifts including souvenirs and calendars.



Christmas 2019

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 Workshop' creating a unique shopping environment for our customers. We introduce Christmas specific cards, wrap, accessories, jigsaws and books to our existing ranges of books and gifts to enhance our product offering. 2019 delivered our 9th record Christmas, featuring the Disney Frozen II launch and the introduction of our new hero deal 2 for £20.

New & Trending

Our agile product buying ensures that we deliver a fresh shopping experience to our customers weekly. With hundreds of new lines, we remain relevant and on trend. Although we didn't experience a mega trend this year, Disney's Frozen II and the surge in demand for jigsaws and adult colouring, to help improve mindfulness and well-being, have ensured we remain front of mind with new and existing customers.

Case Study – Helium Balloons

Up, up and away – we launched our helium balloon range across the vast majority of our stores and online following a successful trial. Our range of foil and latex party balloons provide the perfect finishing touches to every occasion, complementing our existing offering, and with free helium inflation available we are able to offer customers, including those who have purchased online, a full end to end service. To help increase our ability to remain agile with the product range we have recently introduced our new own label balloon brand 'Hip Hip Yay'.

Hero deals

Over the last 12 months we have continued to strengthen hero deals with the introduction of 2 for £5 gifts, 2 for £20 presents and 10 for £10 across our kids picture books in-store. Through a mix of promotional and core deals these offers continue to keep our customers engaged whilst remaining true to our value and discovery proposition.

Core multi-buys:
- 3 for £5/**10 for £10** kids picture flats
- 3 for £5 adult paperback fiction

Regular promotional multi-buys:
- 2 for £5 – Perfect books and gift ideas
- 2 for £10 – Magical Christmas gifts
- 2 for £20 – Perfect Presents
- 3 for £12 – Black Friday

Our brands

Key to our model is our great selection of own branded products. These products are designed 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

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.)

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

Hip Hip Yay
Foil and party balloons

Make & Create
Value art and craft supplies.

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

Neon Brain Maze
Hand-held 3D puzzles and novelty games

Out 2 Play
Outdoor games, toys and activities for kids

Paper Place
Premium stationery items for home and office

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

Scribblicious
Fun, fashion stationery and accessories

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

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

Traditional Wooden Games
Wooden games and toys for the whole family

WinterWorks
Novelty Christmas accessories

Winterworks
Premium Christmas accessories

Our People

We're a proactive and hardworking bunch. We have an environment that is busy, fast moving and full of energy. Our people are what makes The Works so great.

BEST COMPANY 2020

THE SUNDAY TIMES 25 BEST BIG COMPANIES TO WORK FOR 2020

Our New Behaviours

- Proud
- Passionate
- Inclusive
- Accessible
- Confident
- Honest
- Fun
- Creative
- Nimble
- Driven

Our New Values

We are Crafty

Crafty – for us, it's about our ability to be creative, agile, able to adapt to change and smart about what we do, with the resources we have. It's what makes us unique.

We are Caring

Caring – We care about each other as one team. We care about our customers, our products and every penny we spend. Caring about the things we do is at the heart of our work ethic.

We are Can-do

Can-do – Predicting, reacting, improving and bringing all hands on deck. Whatever the situation, we rise to it because of the Can-do spirit and resilience we all share.

We are extremely proud to have placed 18th in The Sunday Times Top 25 Best Big Companies to work for, as well as achieving a 1 star accreditation from Best Companies for 2020, to go alongside our 2019 placing.

For two years running we saw an incredible number of our colleagues partake in the engagement survey, with almost 80% of them completing the full survey. Over the last two years we have seen some common trends from the survey feedback, with our colleagues clearly demonstrating how much they love our products, as well as articulating how much of a family atmosphere we have in our stores.

Using the feedback, we were able to focus the last 12 months on implementing new benefits and cultural change that we knew our colleagues wanted to see. Some of the new benefits we have implemented are a free employee assistance programme, a healthcare cash plan, a cycle to work scheme, as well as launching our first ever save as you earn scheme.

Again, from listening to our colleagues we understood that we needed to set a new direction with a new set of core values and behaviours. This project was driven by our colleagues, with focus groups and questionnaires providing the necessary detail to ensure we produced a set of values and behaviours that our colleagues would be passionate about.

When creating values, it is important for us to try to go for simplicity – something high impact, easy to digest and memorable. With our values, we are trying to capture the sense of the work ethic that we value, the spirit we value, and the core ability of the people we value.

Our behaviours are the things we do that bring our values to life. Again, we want these to be easy to recall, simple to understand and universally recognisable. It's the work ethic that unites us – we dig deep and keep going.

Driven to improve

Chairman's statement

Our first full year as a listed company has seen TheWorks.co.uk deliver a creditable performance, with sales up 3.5 per cent. compared to the prior year. The COVID-19 pandemic has since overtaken our lives and has had a significant impact on our business.

Dean Hoyle
Chairman

Although much of this report is about the results for the financial year ended April 2020, these now seem to relate to a previous age. The COVID-19 pandemic has since overtaken our lives and has had a significant impact on our business.

The financial year to 26 April 2020 has seen TheWorks.co.uk plc deliver a creditable performance, with sales up 3.5 per cent. compared to the prior year despite the significant impact on our trading performance in the latter weeks of the financial year as a result of COVID-19 and the closure of all our retail stores due to the UK lockdown.

The COVID-19 pandemic has adversely affected the results we report, and may continue to do so in the short to medium term. It is also possible that consumer confidence will once again be impacted by Brexit as the deadline for the UK's departure approaches. Our accounting policies require these external factors to be reflected as non-cash charges in the FY20 accounts, resulting in a £19.5m write down in the carrying values of goodwill and our store assets.

Prior to the onset of COVID-19, the financial year was not without its challenges, with uncertainty brought about by Brexit and its associated impact on consumer confidence, along with the absence of a Mega Trend for us this year resulting in a disappointing first half of the year. We took corrective action, as announced at the turn of the calendar year, to refocus our strategy by opening fewer new stores, with a view to driving improved performance in our existing estate and increasing our focus on cost savings. This action was taken to improve short-term performance but also ensure that we are well-placed to deliver profitable growth in the medium-term.

It was pleasing to see the company return to LFL sales growth in the second half of the year,and deliver another record Christmas, our peak trading period, across stores and online. This positive trading momentum continued into the new calendar year and our 4th quarter trading period, supported by other initiatives launched during the year, including new ranges, improved merchandising of our core art and stationery ranges in stores and development of our online proposition. The improved trading performance and the proactive action taken at the turn of the calendar year meant that the business was moving back in the right direction prior to the COVID-19 outbreak.

Since then, the whole country has been facing an unprecedented challenge as it responds to the COVID-19 pandemic and I am incredibly proud of how the management team have navigated through this period of great uncertainty and how our colleagues have pulled together during it. The health and wellbeing of our colleagues and customers has always been our key priority and it will continue to be so as we trade through a period of extended social distancing and beyond.

Despite the circumstances and restrictions, our colleagues have delivered the very best in customer service, supporting the continued strong demand that we have seen online since the lockdown and in our stores since they reopened. I am very proud of the unique culture that has seen the Company recognised for the second consecutive year in The Sunday Times' 25 Best Big Companies to work for. I would like to take this opportunity to thank all colleagues across the business for their continued support and dedication this year, particularly through the recent unprecedented period of uncertainty.

Board changes

In January, we were very pleased to appoint Gavin Peck as Chief Executive following a successful period as Chief Financial Officer. Using his deep industry knowledge and financial insights, Gavin has already made a strong mark on the business and the Board has every confidence in his steadfast leadership during this unprecedented period.

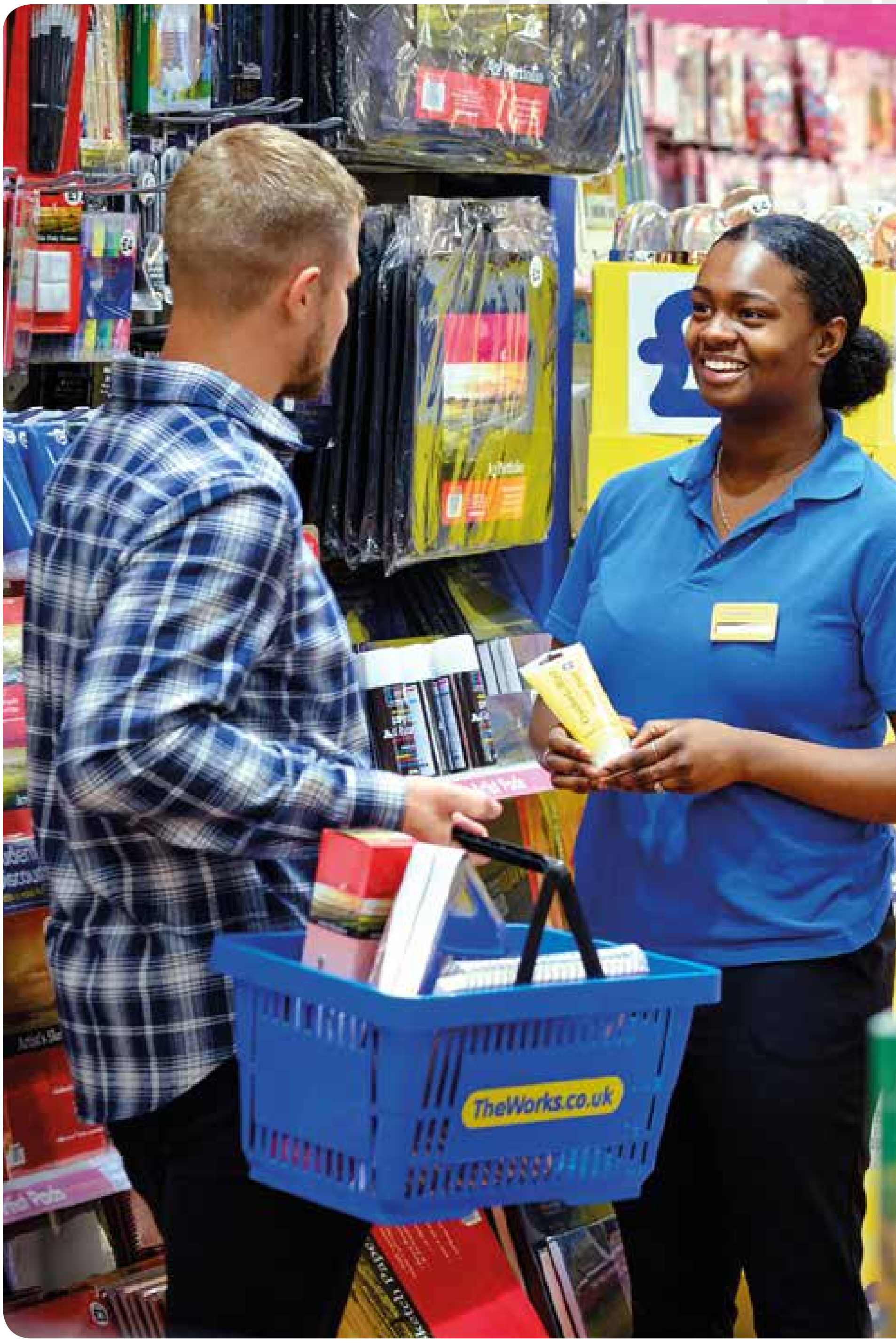
Gavin replaced Kevin Keaney who, after nine years in the role, decided to step down as Chief Executive. We thank Kevin for his contribution to the business and in helping establish TheWorks.co.uk plc as a leading multi-channel value retailer. In the year, we also appointed Stephen Alldridge as Interim CFO. Stephen's experience will be an invaluable support to Gavin and the business as we trade through the uncertain times ahead.

Dividend and outlook

Considering the uncertain consumer outlook, including the impact of social distancing on trading in stores, the Board has taken the prudent decision of not declaring a final dividend for the year. I am pleased that our bank has supported us in refinancing our debt facility, extending our £25m RCF to September 2022, providing additional covenant headroom, and access to a further £7.5m of funding via the Government's CLBILS scheme. This refinancing will help support the business through these uncertain times.

We have performed well since the reopening of our stores in June, with their initial sales well ahead of the Board's expectations and our online performance remaining strong. However, there remaining much uncertainty due to COVID-19, in particular how this will impact on peak Christmas trading and the longer-term impact on the retail landscape. Notwithstanding this, the Board remains confident that the Company's differentiated multi-channel value proposition, in particular its focus on children's educational products, arts and crafts, games, activities puzzles and books will continue to resonate with customers in the current environment and position the Company well for the long term.

Dean Hoyle
Chairman
27 August 2020



Always Good Quality Great Value for Money

Our market

We are uniquely positioned in the growing discount sector

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

Our proposition

The Works' differentiated proposition as a multi-channel, value retailer, operating in four specialist categories is highly inclusive with equal relevance across all social grades. The key aspects underpinning our proposition are:

Value:

We aim to be cheaper than the full price specialists in the categories we operate in and pride ourselves on our diversified product offering underpinned with a clear value-led proposition:

- **Carefully selected and curated product ranges**
- **The best of the essentials everywhere**
- **Exceeding expectation through good quality**
- **Desirable, relevant and on-trend products**
- **New lines to discover weekly**
- **Famous brands, low prices**
- **Unique, design-led own brand products**
- **Convenient locations and easy to use website**
- **Famous for our hero deals**

Discovery:

The experience of discovery and our mass appeal to savvy shoppers of all ages is fundamental to our success. Our buying model allows us the flexibility to be versatile and reactive keeping our product ranges not only fresh and relevant but on-trend too. With hundreds of new lines introduced both in-store and online weekly, our 2019 trademarked strapline 'What will you discover?' continues to remain one of our key differentiators versus our competitor set.

Convenience:

With over 530 locations and a newly refreshed online store, our customers can shop in the way that best suits their lifestyle. The retail store estate supports the website's click & collect service and fully enhances our multi-channel proposition – unique within value retailing. Our product offering is unique, offering low-cost, fun and traditional activities all available under one roof.

Loyalty:

Our 'Together' loyalty scheme further enhances our offering, underpins our multi-channel proposition and continues to be a strong differentiator for our brand within the value sector. Members receive points for every pound they spend in stores and online, with these points then converted to vouchers at the end of each quarter. Vouchers that are not spent expire at the end of the following quarter, encouraging increased frequency of visits. We also give members access to exclusive offers and run double and triple points events to help drive customer engagement.

Over the last 12 months we have increased our database by 788k with 1.2m active members spending over £49m in-store and online, demonstrating continued brand loyalty. We continue to analyse customer data to help us remain agile to respond to customers' wants and needs and remain market leading within our specialist fields.

A Shift Towards Mindfulness

With the increased awareness and advice around the importance of looking after your own wellbeing we have seen increasing popularity for products related to more traditional pastimes. We are proud to support the mental health and well-being of our customers offering non-digital products to help them cope with the normal stresses of life and will continue to refine our product range to meet our customers' demands.

Our business model

Inputs

Strategy
— Clear four pillar strategy for growth

Suppliers
— Over 500 supplier relationships
— UK, Europe and Asia
— Close collaboration

Brand value
— 20 own brands developed in-house

People
— Over 3,800 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 20 own brands and in-house design studio
— Ongoing 'newness' of product offering – c. 400 core SKUs with over 10,000 new lines introduced each year
— Four clear product zones: Kids, Stationery, Arts, Crafts and Hobbies, Family Gifts plus seasonal and regional offerings

20
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
- Online orders fulfilled by third party or picked in store

Sell to customers through convenient channels

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

c.500
suppliers

157,000
sq ft warehousing & distribution facility

534
stores

Outputs

Happy and loyal customers

1.2m
active Together card members

Engaged colleagues

- Top 25 Big Companies to work for
- Over 400 colleagues promoted last year

18th
in the Sunday Times Top 25 Big Companies to work for – for the second consecutive year

Investment in communities

- New store opening programme invested in local high streets and shopping centres
- Over £0.8million raised in partnership with CRUK

3,800
Provided employment for over 3,800 colleagues last year

Family friendly, inclusive & welcoming

Convenient for customers

Rewarding loyalty of customers & colleagues

Our strategy

A clear strategy for future growth

COVID-19 has had a significant impact on our business, particularly during the period of lockdown. We believe that our proposition remains more relevant than ever, and our strategy, as outlined on these pages, sets out how we plan to bring this to an ever wider cohort of customers.

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

Our Strategic Aims	What we did in FY20…
01 New store rollout Rollout of our proposition to new catchments in the UK and Ireland	• Opened net 37 stores in the year, including our 500th store, in Winchester, taking our total number of stores to 534 at the end of the financial year • Opening plans were scaled back during the year, from an initial target of net 50 openings, to enable the business to focus on driving more profitable growth through the existing business • New stores were opened across a range of formats, including high streets, shopping centres, concessions and retail parks
02 LFL sales growth Continued development of our proposition, both in-store and online, to drive further LFL sales growth	• Delivered LFL sales growth of +0.7% in the year (pre the closure of the stores for the COVID-19 lockdown), with growth both in stores and online • Launched thousands of new products enhancing our customer proposition and driving continued "product discovery" in store and online • Introduced new ranges, including helium balloons and kids jigsaws which were rolled out in the first half of the year
03 Multi-channel strategy Further enhancing our multi-channel proposition, increasing convenience and improving the shopping experience for our customers	• Introduced thousands of new web exclusive lines to complement our in-store offer • Continued to work closely with our third party warehousing and fulfilment partner to drive productivity improvements, cost efficiencies and enhanced customer service, with the operation performing well through the year • Undertook scoping and development of our new web platform with a focus on enhancing customer experience
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	• Delivered underlying product margin improvements to partially offset an adverse foreign exchange rate movement and increased promotional activity to support sales in the first half of the year • Achieved strong savings on store lease renewals

'Always good quality. Great value for money'

...to address our objectives	Objectives for FY21
• Our disciplined approach to opening new stores and the continued favourable dynamics within the UK and Irish property markets ensured that payback on new store openings remained strong at around one year (pre COVID-19 impact) • A new Property Director was appointed during the period, bringing with him significant experience of the UK and Irish property markets having previously worked at Starbucks UK, Fat Face, Crew Clothing and Mothercare	• Expansion plans are being scaled back in the near term in light of the impact of COVID-19 on the business and wider retail industry • Undertake selective new store openings, focused on: – Stores legally committed to prior to the onset of COVID-19 – Opportunities linked to portfolio management and optimisation (e.g. the opportunity to relocate to a better pitch or to save property costs); and – New sites on our priority target list and where there is an opportunity for upfront capital expenditure to be funded by the landlord
• Improved our Christmas ranges, supported by Frozen 2 products launched ahead of the film release and a new 2 for £20 Christmas Gifts offer, helping to ensure our record 9th Christmas • Launched a new merchandising initiative for our core stationery and art ranges in all stores improving product display consistency and availability, aiding customers' shopping of these ranges	• Continue to drive product newness across all product zones • Roll out our new merchandising initiative to drive sales of core lines across other categories, including craft, kids art and craft and key seasonal ranges • Further refine space management to enhance our customer offering and increase sales densities in stores. In the short term, social distancing may affect sales densities, but our strategy to drive densities up over the medium term remains as appropriate as ever • Maximise the opportunity from our proposition playing an important role in customers' lives during the period of COVID-19, providing help with kids' education, mindfulness material to support mental health and well-being and products to "beat the boredom"
• Added new customers to our loyalty scheme, providing an opportunity to increase customer engagement with our brand and encourage more frequent visits to our stores and website	• Launch our new web platform in Summer 2020, bringing enhanced functionality and an improved customer experience • Work closely with our fulfilment partner to increase capacity to support the accelerated growth in our digital channel • Further online range expansion, including exploring drop-ship-vendor range developments • Leverage investment in customer insight and data analysis tool to support customer relationship management, driving increased returns from our customer loyalty scheme • Continue to enhance the customer journey through our click and collect channel, helping improve the multi-channel shopping experience for our customers
• Successfully implemented process improvements, through a change to the way pallets are picked and fulfilled, to unlock savings in retail distribution costs • Increased our focus on cost control given the lower LFL sales levels, with careful management of discretionary costs	• In light of the impact of COVID-19 on the business and the wider sector, additional measures will be put in place to help manage the cost base. Discretionary operational expenditure, such as store point of sale and marketing spend, and travel costs, will be managed to minimum spend levels • Continue to improve underlying product margins through better buying, including accelerating the direct sourcing of products from Asia post COVID-19 • Identify further operational efficiencies in store and through the supply chain to become a "super-efficient operator", helping to mitigate the rise in labour costs as a result of the ongoing increases in national living and minimum wages • Target further property cost savings, including further rent reductions in the existing estate through more aggressive renegotiation of rents on lease renewals

Key Performance Indicators

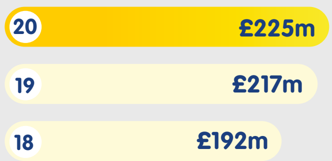
We use 6 key performance indicators to monitor the performance of the Group against our strategy.

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 Financial Report.

Financial

Total sales growth:

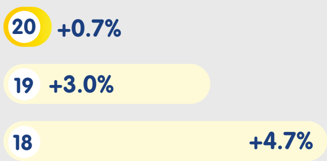
+3.5%



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

Like-for-Like sales growth:

+0.7%*

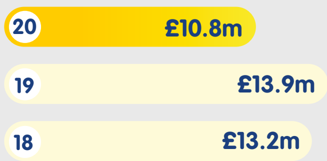


Definition
Defined as the year-on-year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from our eCommerce platform, calculated on a calendar week basis.

* up to the date the stores closed for lockdown.

Pre IFRS 16 Adjusted EBITDA:

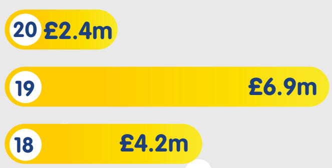
£10.8m



Definition
Represents adjusted profit for the period before IFRS 16, 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:

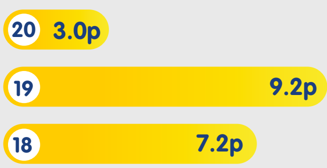
£2.4m



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:

3.0p

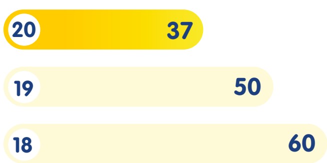


Definition
Is calculated by dividing the adjusted profit for the period attributable to ordinary shareholders by the weighted average number of Ordinary shares in issue during the period (including dilutive share options). Adjusted profit is before the impact of adjusting items, which are gains or losses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

Non-financial

Net number of new stores open in the period:

37



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


any 2 for only £5
or £4 each
Mix & Match
Art, Craft & Hobbies
Mix & Match!
any 2 for only £5
Make and Paint Dinosaurs
PUZZLES
PUZZLE
WRAP JEWELLERY
SEALIFE SET
SQUEEZY SAND
COOLEST MAGIC
For Spring!
Match
Time Only!

Chief Executive Officer's Review

In my first annual review as CEO of TheWorks.co.uk, I would like to start by saying how delighted I am to take on this new role. It has been clear to me since joining the business in 2018 that TheWorks.co.uk has both a special culture and a clear purpose: to delight customers with a variety of good quality, great value products.

Gavin Peck
Chief Executive Officer

"Our performance this year demonstrates the resilience of our business and we are pleased to have delivered a creditable performance despite the challenging backdrop. I am incredibly proud of all colleagues across the business for their relentless hard work over the last year and for their commitment and the "can-do" attitude they have shown during this challenging period."

Introduction

In my first annual review, I would like to start by saying how delighted I am to have been appointed as the Chief Executive of TheWorks.co.uk. It has been clear to me since joining the business in 2018 that TheWorks.co.uk has both a special culture and a clear purpose: to provide customers with a variety of good quality, great value products in its specialist categories through a truly multi-channel shopping experience. My first months as CEO have clearly been challenging, as they have for the whole retail sector, given the impact of COVID-19. However, I strongly believe that our proposition is more relevant than ever and that, despite the challenges presented by COVID-19, we have many exciting opportunities ahead of us that will enable us to deliver value for all of our stakeholders.

Trading

Our trading performance over the last year demonstrates the resilience of our business. I am pleased to report that our revenues grew 3.5 per cent. in the year, with growth both online and in stores, despite the significant impact of COVID-19 on our trading performance in the latter weeks of the financial year with the closure of all our stores as part of the UK lockdown. The first half of the year was challenging, impacted by dampened consumer sentiment and the absence of a Mega Trend whilst trading against the Squishies Mega Trend in the first half of the previous year. Christmas was a turning point in the year as customers once again reacted well to our core Christmas ranges, complemented by a new 2 for £20 gifts offering and our products linked to the Frozen 2 movie release, resulting in our ninth record Christmas. The momentum from improved Christmas trading continued through to March as we began to see the benefits of new product ranges and merchandising initiatives launched in the first half of the year and our comparators eased as we no longer traded against the Squishies Mega Trend in the prior year. This resulted in overall like-for-like ("LFL") [(1)] sales growth of 0.7 per cent. in the year to 22 March 2020 (the day before all stores were closed due to the COVID-19 outbreak) with both stores and online delivering positive growth.

We saw a significant increase in sales, both in stores and online, prior to the COVID-19 enforced store closures on 23 March. This reflected strong customer demand for our products to support childrens' ongoing education, mindfulness materials to support mental health and products to "beat the boredom" during the period of lockdown.

(1) The Strategic Report refers to certain Alternative Performance Measures, including LFL sales. For further information regarding these, including a reconciliation of LFL sales to statutory Revenue, please refer to Note 5 of the financial statements on page 89.

The strong demand online continued during the lockdown period, with sales up more than three times on the equivalent period last year. We reopened our stores in a phased manner from 15 June 2020, as permitted by Government guidelines. Our sales performance since stores reopened has been well ahead of the Board's expectations with overall LFL sales in the 10 weeks to Sunday 23 August of 0.7 per cent. After strong initial sales, store LFLs are currently tracking at a high single digit decline with strong growth in average transaction value partially offsetting significantly lower transaction volumes (reflecting reduced retail footfall). Online performance has remained strong post stores reopening, with sales over double last year's levels in the same 10 weeks. This robust performance further demonstrates the resilience of our business model and highlights that our proposition is playing an important part in the lives of our customers during these challenging times.

Profit performance

The pre IFRS 16 adjusted EBITDA for the year was £10.8m (FY19: £13.9m), a £3.1m or 22.3 per cent. decline compared to the FY19 result. However, we estimate the adverse trading impact of COVID-19 on this figure to be approximately £3.0m, comprising the net effect of sales lost due to the closure of stores, less the cost savings flowing from actions taken within the business, and from Government support via business rates relief and payroll furlough receipts. As such, in the absence of COVID-19, we would have expected adjusted EBITDA to have been broadly in line with the prior year, reflecting a much stronger performance in the second half of the year as the improved trading performance was supported by the increased focus on cost management.

As noted above, our trading performance was affected by the stores being closed for a period from 23 March. Furthermore, whilst the short to medium term effects of the COVID-19 pandemic are difficult to predict, it seems likely that it will take some time to return to previous levels of trading. It is also possible that consumer confidence will once again be impacted by Brexit, as the deadline for the UK's departure approaches. This has been reflected in non-cash charges being included in the FY20 accounts totalling £19.5m, to write down the carrying values of goodwill and our store assets.

Strategy

We have continued to deliver on our strategy for sustainable growth, based on four pillars. At the turn of the calendar year, and following the disappointing performance in the first half, I announced a refocus of this strategy, reducing the number of store openings with a view to driving improved performance in our existing estate and increasing our focus on cost control whilst continuing to develop our digital channel. This action was important to ensure the business was well-placed to deliver profitable growth in the medium term. COVID-19 has clearly had a significant impact on the business and the wider retail sector and, once the true extent of this is clearer, we will reflect on our strategy and adapt it as necessary. For now, our refocused four pillar strategy remains, albeit with accelerating development of our online proposition and capacity and cost control being more important than ever. An update on progress and initiatives in each area is set out below:

1. New store rollout

At its heart, our business has been rooted in bricks and mortar retail, and an important driver of growth in recent years has been the rollout of new stores. We opened net 37 new stores last year, including our 500th store, located in Winchester. This was an important milestone for our business and our store openings in the year take the total number in our estate to 534 at the end of the financial year. Our disciplined approach to assessing new store opportunities ensured that stores opened in the year were on track to deliver a strong payback of around one year, prior to the impact of COVID-19.

Whilst we continue to believe in the opportunity to make our unique proposition accessible to many more catchments, as noted above, at the beginning of this calendar year we took the decision to refocus our strategy by opening fewer new stores to ensure that the business could focus on driving improvement and profitability through the existing estate.

In the near term, we will continue to undertake selective new store openings but on a much smaller scale than in recent years. These openings will primarily be part of an active portfolio management approach (e.g. taking the opportunity to relocate to a better location or to save property costs) but we will also continue to consider sites on our priority target list where the landlord is willing to fund our upfront capital expenditure.

2. LFL sales growth

Notwithstanding the challenging first half, TheWorks.co.uk has a good track record of delivering LFL sales growth both in store and online, as demonstrated once again by the return to positive LFLs for the full year (prior to the enforced closure of our entire store estate in response to the COVID-19 outbreak). Our strongest point of differentiation remains our ability to offer customers the experience of discovery, driven by a constantly evolving product range and seasonal offerings complementing our core everyday ranges. This element of "discovery" coupled with providing good availability of our "core" lines encourages regular, repeat customer visits.

Case study – Beat the Boredom

We realised very quickly that there was a natural customer demand for products to help relieve the boredom and pass the time, particularly during the height of the COVID-19 pandemic. Due to the versatility of our business model we were able to adapt very quickly to this shift change in behaviour and support customers new and old throughout this very difficult time. Outdoor garden activities, jigsaws and reading books all saw double digit growth over a very short period of time alongside craft and kids education. Our flexible buying approach allowed us to react swiftly to demand utilising many of our existing European suppliers. This trend towards home-led activities supports our family values and continues to drive year on year growth.

Our people

Our colleague engagement is testament to the strong culture we have developed at TheWorks.co.uk and I am extremely proud that we were placed 18th in The Sunday Times Top 25 Best Big Companies for the second consecutive year. As a business that has always prided itself on behaviours, the launch of our new colleague values was an incredibly proud moment especially in light of the fact that the project was driven solely by our colleagues.

Chief Executive Officer's Review continued

We launched hundreds of new products across all of our categories in the year and, in the first half of the year, we also introduced new ranges including helium balloons and kids jigsaws that proved popular with customers. Towards the end of the first half of the year we launched a new merchandising initiative for our core stationery and art ranges, improving product display consistency and availability to aid customers' shopping of these ranges, delivering strong, double digit sales growth in these categories. We delivered our ninth successive record Christmas with strong LFL sales growth over this key trading period driven by continued improvements in our Christmas ranges, supported by the launch of a range of products related to the Frozen 2 film and a new 2 for £20 gifting offer.

There was no Mega Trend this year and, as mentioned above, this pulled our LFLs lower in the first half of the year as we traded against the Squishies Mega Trend in the prior year. Whilst we continue to seek, and to be first to market with, the next Mega Trend, as has always been the case, there can be no guarantee that one will materialise each year and therefore we remain focused on driving LFL sales growth through the ongoing improvement of our proposition across all of our product categories. The ongoing improvements to our proposition continue to drive increased average transaction values in stores, offsetting transactional declines from lower retail footfall.

Looking ahead to the current financial year, whilst the trading environment remains uncertain and although we expect our LFL sales to continue to be impacted during this extended period of social distancing, we believe that our unique value proposition will continue to resonate well with customers. We have invested in a new data warehouse and analysis tool that will enable us to better understand our customers and to tailor our product offering and promotions to drive sales growth. We also plan to roll out our new merchandising initiative across other categories, including our craft, kids art and craft and key seasonal ranges and will further refine our approach to space management to enhance our customer offering and drive further improvement in sales densities in our stores.

3. Multi-channel strategy

Our multi-channel offering remains one of our key differentiators in the value retail sector, with our digital channel providing customers with an extended range of products and more flexibility in the way they choose to shop.

We took the decision to make some changes to our online proposition at the start of the year, with a renewed focus on increasing the average ticket price to support profitability. This was achieved through reducing the mix of lines sold at lower price points, with these lines either being dropped from the site or pre-bundled for a multi-buy. This held back online sales growth in the first half of the year but positive momentum began to build again over the peak Christmas trading period and continued through the second half of the year.

Working closely with our third party warehousing and fulfilment partner, we improved productivity, drove cost efficiencies and traded well through the peak Christmas period. Since the COVID-19 outbreak we have successfully increased our capacity to meet the significant increase in customer demand, with online sales post lockdown to the week ended 26 April 2020, up more than three times on the equivalent period last year. We continue to work closely with our partners to plan for increased capacity through peak Christmas 2020 trading.

Our loyalty scheme remains unique to our segment of the market, helping to drive repeat visits and customer engagement. As part of the continuing evolution of the loyalty scheme, we shifted our focus to nurturing our most loyal customers, rather than merely driving high levels of new customer sign ups. We still signed up over 750k new members to our loyalty scheme, and the total number of active members at the year-end was 1.2m. The investment in our customer insights capability, noted above, will ensure that we are able to better access the data that this scheme provides helping us to better understand our customers and to tailor our product offering and promotions to drive sales growth. Prior to the lockdown and store closures our click and collect channel continued to be our fastest growing channel, driving additional footfall to, and sales in, stores.

We plan to continue to invest in our online proposition and in-store technology. We successfully launched, as planned, our new customer website in July 2020, which provides enhanced functionality and an improved customer experience. Our investment in Wi-Fi in stores also opens up further exciting opportunities in the future, for example, in enabling access to our expanded ranges and online ordering through terminals within stores.

Historically we have relied on heavy promotional offers and high marketing spend to attract customers and drive online sales. However, with the increased demand since the onset of COVID-19, and as we sought to manage sales levels within our fulfilment capacity, we have been able to move away from this model resulting in a step change to our online profitability. Online sales have remained materially higher since the reopening of our stores and are likely to continue at these levels in the future, reflecting an acceleration of the ongoing channel shift. Digital growth will therefore become an increasingly important part of our future growth. Our new web platform, the product proposition changes, the investment in increasing our fulfilment capacity and the step change in our approach to promotions and marketing spend mean we now have a significantly more stable and profitable base to build on.

4. Product margin and cost control

As a value retailer, TheWorks.co.uk has always kept a close control of costs, striving to provide customers with great value products, whilst also delivering returns for shareholders. Ensuring progress against this pillar was of even greater importance this year, due to the challenging consumer backdrop, lower LFL sales in the first half (due, in part, to the prior year Mega Trend), the continued headwind of national living and minimum wage increases and the enforced closure of all stores towards the end of the period.

In light of these challenges, we took action to identify cost savings early in the financial year to maximise further efficiencies, limit discretionary spending, reduce administrative costs and unlock savings in distribution costs. Part of the rationale for reducing new store openings was to enable the property team to focus on maximising the rent savings on the 100 plus renewals in 2020 and we began to see the benefit of that starting to come through towards the end of the financial year. We also took action to grow product margins through a range of levers, including direct sourcing from Asia, helping to partially mitigate the adverse impact of foreign exchange rate movements and promotional activity used to drive sales in the first half of the year.

Although our main priority was to ensure the health and safety of colleagues and customers, the COVID-19 outbreak, and subsequent closure of all stores, meant that we took further swift action to manage our cost base and cashflows. This included reviewing all capital expenditure plans, negotiating with landlords to reduce rents, working with suppliers to review stock intake plans and careful management of all discretionary spend, including a significant reduction in both marketing and promotional activity.

Some cost reductions were temporary, for example, income received via the government's furlough scheme, and business rates relief, Director salary and fee reductions, and online marketing expenditure. Store occupancy costs such as energy and consumables also naturally reduced during the period when the stores were closed.

Once we are through the COVID-19 pandemic, further reducing the product cost of goods sold, driving productivity improvements and cost savings in our store estate and through our supply chain and careful control of all central costs, will continue to be a significant focus for the business in the medium term. The flexibility of our store estate, with on average less than 3 years to the next exit point, means we remain well-positioned to adapt to the changing retail landscape.

Colleagues

Our strong culture and the "can-do" attitude of our colleagues are the foundations of our business. Every time I visit a store I am blown away by the enthusiasm that our colleagues exude, creating a fun and safe workplace environment and providing customer service which is differentiated from many in the value retail space.

I am incredibly proud that this strong, family culture was recognised in The Sunday Times "Top 25 Best Big Companies" to work for, for the second year running. It was clear from listening to feedback from our colleagues as part of this survey that they wanted a new set of core values and behaviours that better captured what it means to be part of The Works Family, something that they could better relate to and be passionate about. We will shortly be launching a new Employer Brand Promise with a set of values and behaviours that capture the sense of the work ethic that we value, the spirit we value, and the core ability of the people we value.

We also launched our Save as You Earn ("SAYE") scheme to encourage share ownership across our workforce. It has been pleasing to see the level of interest from colleagues, with a 10 per cent. uptake. We have also welcomed 1,386 new colleagues this year and have promoted over 400.

Our business has faced unprecedented challenges in recent months and I have been touched by the level of support provided by colleagues across the business and the understanding displayed in response to the difficult decisions we have had to make since the onset of the COVID-19 pandemic. We have made it our priority to keep colleagues informed about each business development and ensured that all furloughed colleagues continued to feel like a valued part of TheWorks family. A Facebook group was launched to keep colleagues connected during this period of uncertainty and their engagement with it has continued post-lockdown, with over 1,500 members.

I would like to take this opportunity to thank our fantastic colleagues across the business for their relentless hard work and commitment over the last year, in particular for how they have come together in recent months to help ensure the future of our business.

During the year we continued to build the management team to drive the business through its next phase of growth, welcoming new directors to lead our Property, Retail Stores and IT teams.

Corporate Social Responsibility

We view each of our stores as playing an important role at the heart of communities; serving customers in a welcoming store environment, providing employment and contributing to the fabric of local life.

As a responsible business, we recognise the importance of reducing our impact on those we interact with and the environment and communities we operate in. A key part of this includes our commitment to reducing waste packaging which we continue to focus on under our "Keen to be Green" initiative which includes the use of our "ReWorked" logo on products where we have reviewed our packaging to reduce waste. As an example, by reworking the 2020 Christmas card packaging, we saved over 3 tonnes of single use plastic. Other initiatives and changes to packaging this year as part of our re-worked strategy saved a further 4.5 tonnes of single-use plastic waste.

This year we have further developed our partnership with Cancer Research UK. Through the support of both our colleagues and customers we continued to make significant contributions to this worthy cause, and I am incredibly proud that, through the sale of branded products and specific fund-raising activities, we raised £316k this year, taking our total donation to £839k since our partnership began.

Summary and outlook

Despite the challenges our business has faced over the last year, I am pleased that we gained momentum during the second half of the year, with a return to positive LFL growth, before lockdown. We took decisive action at the turn of the calendar year to refocus our strategy, and the initiatives launched to drive further profitable growth will help us navigate these uncertain times.

I am proud of the way we have navigated through the COVID-19 pandemic to date. During this period there have been two key considerations in all the decisions we have taken and will continue to take.

The first is the wellbeing of our colleagues. This is the reason we chose to shut stores before the Government enforced mandatory closures, has been our priority whilst enabling our online sales capacity to increase and was our primary consideration when planning the reopening of stores. We want our colleagues to feel safe whilst at work and will therefore continually review our social distancing measures to ensure they remain effective and appropriate.

The second consideration is the financial viability of our company. We welcome the support provided by the Government to businesses through the coronavirus pandemic, particularly the Coronavirus Job Retention Scheme and the business rates holiday. We have taken costs out of the business wherever possible, carefully managed cash and have agreed a refinancing with our banks which has provided access to a further £7.5m of funding via the Government's CLBILS scheme and extended our £25m RCF expiry date to September 2022.

We look ahead acknowledging that life and consumer behaviours will be different for some time. With an extended period of social distancing being likely, it is hard to predict the timing and extent to which store sales will return to previous levels. The four pillars of our strategy remain unchanged, however, we have refocused our short term priorities to reflect the current environment and our business performance, in particular accelerating our digital growth and focusing on cost control. Once the impact of COVID-19 on the business and the wider retail sector is clearer, and we have greater visibility of what the new normal looks like, we will reflect on our strategy and adapt it as necessary to ensure that it remains appropriate. Despite the challenges ahead, the Board and I remain confident in our multi-channel proposition and believe that, in the current environment, our product offering is more relevant than ever as supported by our performance since the reopening of our stores.

Financial Review

Overview & COVID-19 impact

The "FY20" accounting period relates to the 52 weeks ended 26 April 2020 and the comparative "FY19" accounting period relates to the 52 week period ended 28 April 2019.

As described more fully in Note 5 to the financial statements, the Group tracks a number of alternative performance measures, as it believes that these provide stakeholders with additional helpful information. Alternative performance measures used in this report include EBITDA, adjusted EBITDA and like for like ("LFL") sales.

The statutory profit before tax ("PBT") for the year was a loss of £18.0m (FY19: profit of £2.3m) and the Adjusted PBT was £2.4m (FY19: £6.9m). Costs of £20.4m have been presented on the face of the Consolidated Income Statement as Adjusting Items (Note 6), of which, £19.5m relates to non cash impairment charges. The pre IFRS 16 adjusted EBITDA was £10.8m (FY19: £13.9m), a £3.1m or 22.3 per cent. decline compared to the FY19 result.

FY20's financial performance was characterised by a disappointing first half of the year, followed by a much stronger performance over the key Christmas trading period, continuing into a good start to the new calendar year, before the UK Government's response to the COVID-19 situation required the closure of all stores in March.

The closure of the stores for over a month of the financial year had a material impact on the year's trading financial performance, but the financial effects of COVID-19 were broader, requiring revisions to internal forecasts which resulted in impairment charges against the carrying values of goodwill and fixed assets.

- We estimate that the adverse trading impact of COVID-19 on the pre IFRS 16 adjusted EBITDA was approximately £3.0m, comprising the net effect of sales lost due to the closure of stores, less the cost savings flowing from actions taken within the business, and from Government support via business rates relief and payroll furlough receipts.
- The impact of COVID-19 also resulted in the impairment of store assets and goodwill, of £3.3m and £16.2m, respectively, which have been treated as adjusting items. These items are described in more detail in Notes 13 and 14 of the financial statements.

The implementation during the year of IFRS 16 also had a material impact on the shape of the financial statements. Note 28 of the financial statements includes detail of the transition. Notably, transitioning to accounting under IFRS 16 results in an initial reduction to net assets of £6.1m. The implementation of IFRS 16 does not impact the cash position or cash flows of the Group.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Revenue analysis

Total revenue during the year increased by 3.5 per cent. to £225.0 million (FY19: £217.5 million). LFL sales for the period from 29 April 2019 until 22 March 2020, the day before all stores were closed due to the COVID-19 outbreak, increased by 0.7 per cent. compared with the prior year, with growth both in stores and online.

The table opposite shows the quarterly LFL results, highlighting the return to positive growth during the second half of the year, prior to the closure of the stores. As noted in January's interim results statement, LFLs in the first half of the financial year did not benefit in the same way as in FY19 from a "mega trend".

	FY20 LFL sales inc. VAT £m	FY19 LFL sales inc. VAT £m	LFL sales growth %
Q1	41.5	42.6	(2.5)%
Q2	53.6	56.1	(4.4)%
H1	**95.2**	**98.7**	**(3.6)%**
Q3	91.1	89.9	1.3%
Q4*	32.3	28.4	13.7%
H2	**123.4**	**118.3**	**4.3%**
Full Year	**218.6**	**217.0**	**0.7%**

* Stores and online up until lockdown.

Sales growth of £19.5m was generated from the net effect of 37 new stores opened during the financial year (51 opened and 14 closed), the full year sales effect of stores opened during FY19 prior to being classified as "like for like", less the reduction in sales from stores closed during the year which traded for a full year during FY19.

The table below shows LFL and non LFL sales growth, with a reconciliation of sales used to calculate the LFL, with revenue.

	FY20 £m	FY19 £m	Variance £m	Variance %
LFL sales pre lockdown	218.6	217.0	1.5	0.7%
LFL sales during lockdown	4.9	17.7	(12.8)	(72.4)%
Total LFL sales for period	**223.5**	**234.7**	**(11.3)**	**(4.8)%**
Sales from new/closed stores	**31.2**	**11.7**	**19.5**	**167.5%**
Total gross sales	**254.6**	**246.4**	**8.3**	**3.4%**
VAT	(27.9)	(26.9)	(1.1)	(3.9)%
Loyalty points	(1.7)	(2.0)	0.4	18.0%
Turnover per statutory accounts	**225.0**	**217.5**	**7.6**	**3.5%**

The cost of loyalty points issued declined as a result of an increased focus during the year on the most loyal customers, as part of the continuing evolution of the loyalty scheme. Previously, a greater emphasis had been placed on growing the absolute number of members, which entailed issuing more points.

Product gross margin and adjusted cost of sales

Product gross margin

Product gross margin is the difference between revenue and the cost of goods sold. The product gross margin declined by 90bps to 61.8 per cent. (FY19: 62.6 per cent.).

	FY20 £m	FY19 £m	Variance £m	Variance %
Revenue	225.0	217.5	7.6	3.5%
Cost of goods sold	86.1	81.2	4.8	6.0%
Product gross margin	**139.0**	**136.2**	**2.7**	**2.0%**
Product gross margin %	61.8%	62.6%	(0.9%)	

Adjusted cost of sales

Pre IFRS 16 cost analysis	FY20 £m	FY20 % of revenue	FY19 £m	FY19 % of revenue	£m Increase	% Increase
Cost of goods sold	86.1	38.2	81.2	37.4	4.8	6.0
Store payroll	42.1	18.7	37.2	17.1	4.9	13.2
Store property costs	45.3	20.1	42.2	19.4	3.1	7.4
Other direct costs	14.5	6.5	14.3	6.6	0.3	1.9
Cost of sales (per internal reporting)	**188.0**	**83.5**	**174.9**	**80.4**	**13.1**	**7.5**
Depreciation within cost of sales	5.2	2.3	4.1	1.9	1.2	28.7
IFRS 16 impact	(2.7)	(1.2)	0.0	0.0	(2.7)	100.0
Adjusting items	4.1	1.8	0.1	0.0	4.0	>100.0
Cost of sales per statutory accounts	**194.7**	**86.5**	**179.0**	**82.3**	**15.6**	**8.7**

Cost of goods sold

This comprises the cost of finished goods and other related costs including import duty and freight/carriage costs.

The cost of goods sold increased by £4.8m compared with FY19; £2.8m of this increase was due to the increase in revenue. In relation to the increase which was not volume related:

- There were underlying margin improvements as a result of initiatives to improve the bought in margin, for example increasing the proportion of purchases made directly from overseas suppliers rather than via importers and increasing the mix of product sourced from overseas, and increasing the mix of own brand product which carries a higher margin.
- The gains in bought in margin were more than offset by a higher level of discounting during the first half of the year, and unfavourable exchange rate movements compared to FY19, affecting dollar denominated stock purchases throughout the year.

Store payroll

Store payroll costs increased by £4.9m compared with FY19.

- £3.6m or 73 per cent., of the increase was a result of opening new stores; at the end of FY20, the Group traded from 534 stores, compared with 497 at the end of FY19.
- The remainder was due to:
  - The 4.9 per cent. statutory increase in national living and minimum wages, which affects the majority of store colleagues and, under normal operations, due to the characteristics of small stores, there is limited scope to mitigate against this.
  - A £0.3m increase in the provision for holiday pay due to colleagues being unable to take holiday during the final quarter of the year due to the COVID-19 lockdown.

Store property costs

This heading includes store rents, business rates and service charges; store utility and maintenance costs are classified within "Other direct costs", as described below.

Store property costs increased by £3.1m compared with FY19. The increase in store numbers resulted in property costs increasing by £4.0m, which was partially mitigated by like for like rent reductions through negotiations with landlords.

Other direct costs of sale

This classification includes card payment transaction fees, store utility costs, store maintenance costs, online marketing costs, online fulfilment labour costs and store point of sale material costs (window graphics, in-store promotional signage etc.).

This cost category is largely variable in relation to the number of stores and to growth in online sales, and would therefore have been expected to increase by approximately £0.8m due to the opening of additional stores and from increased online sales. In FY19, costs were higher than normal, due to challenges faced fulfilling online sales during the first peak trading period with a new third-party logistics provider; these issues did not recur in FY20, resulting in a year on year saving and there were also other efficiency savings achieved in FY20.

Operating income and expenses (pre IFRS 16 and adjusting items)

Other operating income

Other operating income was £4.7m (FY19: £0.0m). During the period from the beginning of lockdown in March until the year-end, the Group received £3.6m via the Government's Coronavirus Job Retention Scheme in relation to staff who had been furloughed following the reduction in operations in its distribution centre, and the closure of the Group's retail stores and head office. It also received £1.0m during this period in COVID-19 business rates relief.

Expenses

Expense comparison:	FY20 £m	FY20 % of revenue	FY19 £m	FY19 % of revenue	£m Increase	% Increase
Adjusted distribution costs	**12.4**	**5.5**	**11.8**	**5.4**	**0.6**	**5.5**
Depreciation	0.2	0.1	0.2	0.1	(0.0)	(8.1)
Adjusting items	0.0	0.0	0.5	0.2	(0.5)	(100.0)
Distribution costs per statutory accounts	**12.7**	**5.6**	**12.5**	**5.8**	**0.1**	**1.1**
Pre IFRS 16 adjusted administration costs	**18.5**	**8.2**	**17.0**	**7.8**	**1.4**	**8.5**
Depreciation	1.6	0.7	1.6	0.7	(0.1)	(4.1)
IFRS 16 impact	(0.4)	(0.2)	(0.0)	(0.0)	(0.4)	933.5
Adjusting items	16.3	7.2	4.1	1.9	12.1	292.8
Administration costs per statutory accounts	**35.9**	**16.0**	**22.8**	**10.5**	**13.1**	**57.7**

Financial Review continued

Distribution costs

Distribution costs include the cost of picking and delivery of stock, with the exception of direct labour costs incurred in fulfilling online orders, which are included in "Other direct costs" as described above. Distribution costs increased by £0.6m, 5.5 per cent. compared with FY19.

- A third-party provided online fulfilment services throughout the whole of FY20 whereas this applied only to part of FY19.
- Payroll costs increased due to inflation (statutory increases) and the increased volumes processed.
- Cost savings were achieved as a result of various internal initiatives to improve efficiency.

Administration costs

Administration costs include rent and rates for the Group's head office and distribution centre and the payroll and overhead cost of the head office and retail field support teams. Administration costs increased by £1.4m, 8.5 per cent. compared to the prior year.

- Head office payroll costs increased by £0.6m, principally due to the full year effect of an FY19 investment in supply chain capability, and pay increases in line with inflation..
- The most notable other variances were savings in travel costs, and increases in IT costs and professional fees. Professional fees included advice in connection with maximising the use of capital allowances, supply chain capacity during the peak trading period, and the full year effect of certain plc costs including company secretarial services.

Adoption of IFRS 16 – Leases

During the period, the Group adopted IFRS 16 'Leases' for the first time. IFRS 16 specifies how to recognise, measure, present and disclose leases and replaces IAS 17 'Leases'.

The Group adopted IFRS 16 from 29 April 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 29 April 2019 with no restatement of comparative information. Comparative information continues to be reported under IAS 17 and related interpretations.

The net impact on profit before tax for the period was an expense of £3.7m, which includes additional impairment charges relating to IFRS 16 of £2.8m. Before the additional impairment charge, the impact of the transition would have been an expense of £0.9m. Further information is provided in Notes 5 and 28 to the financial statements.

The net impact on Adjusted EBITDA was a credit of £23.4m, principally because IFRS 16 does not recognise the concept of rental charges (Note 5 to the financial statements).

Adjusting items

Adjusting items before tax in the period amounted to £20.4m (FY19: £4.5m), analysed below. £19.5m relates to impairment of store property, plant and equipment, and goodwill to reflect the uncertainties associated with the Group's trading prospects in the current environment. Further details are included in Note 6 to the financial statements.

	FY20 £m	FY19 £m
Within cost of sales		
Impairment charges (net)	**3.3**	0.0
Provision for previously underpaid duty	**0.8**	0.0
Other	**0.0**	0.1
	4.1	0.1
Within distribution expenses		
FY19 eCommerce fulfilment upgrade	**0.0**	0.5
	0.0	0.5
Within administration expenses		
Impairment of goodwill	**16.2**	0.0
FY19 Financing costs and IPO	**0.0**	4.1
Other	**0.1**	0.0
	16.3	4.1
Within finance expenses		
FY19 accrual release arising on IPO refinance	**0.0**	(0.2)
	0.0	(0.2)
Total adjusting items (before tax)	**20.4**	4.5

Net financing expense

Net financing costs in the year were £4.5m (FY19: £0.8m), including £4.0m relating to interest on lease liabilities as a result of introducing IFRS 16. FY19's comparative included costs relating to the IPO, and part of FY19's net financing expense reflected the pre-IPO capital structure, which had higher levels of debt.

Bank interest payable was £0.4m (FY19: £0.2m), reflecting greater use of the Group's bank facilities during the year.

Foreign exchange

Over one-third of the Group's stock purchases are made in US dollars. The Group takes a prudent but flexible approach to hedging the risk of exchange rate fluctuations. Further details in relation to the Group's foreign exchange hedging policy are included in Note 24 (a) of the financial statements.

Adverse FX movements compared to FY19 increased the cost of sales in FY20 by £1.3m. FY20's average hedged rate was c. $1.27.

For FY21, most of the anticipated dollar requirements have been hedged via forward contracts, at an average rate of c. $1.30.

Hedge accounting is used to account for FX hedging contracts, to minimise unnecessary volatility in earnings.

Profit/loss before tax

The statutory loss before tax was £18.0 million in the year (FY19: £2.3 million profit).

Adjusted profit before tax

Adjusted profit before tax was £2.4 million in the year (FY19: £6.9 million). The adjusted profit before tax margin of the Group decreased from 3.2 per cent. to 1.1 per cent.

Tax

The Group's total income tax credit in respect of FY20 was £0.3m (FY19: charge of £1.2m). The effective tax rate on the total loss before tax was 1.5 per cent. (28 April 2019: 51.80 per cent.) whilst the adjusted tax rate was 21.7 per cent. (28 April 2019: 21.6 per cent.).

The difference between the total effective tax rate and the adjusted tax rate for FY20 relates to goodwill impairment within adjusting items being non-deductible for tax purposes (FY19: related to certain non-recurring costs associated with the listing being non-deductible for tax purposes).

A provision of £0.8m has been included in connection with a review of duty rates paid on goods imported during the previous three years, which has been treated as an adjusting item. The rates of duty vary by product category, and judgements are required in the application of rates to individual products. The Company has been working with HMRC to quantify the underpayment, and the provision reflects the Company's best estimate of the average applicable rate, based on samples reviewed. Further details are included in Note 21 of the financial statements.

Earnings per share

The basic and diluted loss per share for the year were 28.3 pence (FY19: earnings of 1.9 pence).

Before adjusting items, basic and diluted underlying earnings per share for the year were 3.0 pence (FY19: 9.2 pence). More details regarding earnings per share are included in Note 12 of the financial statements.

Capital expenditure

Gross capital expenditure amounted to £8.7 million in the year (FY19: £8.5m), of which £4.8 million related to new stores. Other capex included £1.4 million development costs of the new web platform (which was subsequently launched in July 2020) and £0.6 million to install Wi-Fi in stores and replace hand held product scanning devices to improve efficiency.

	FY20 £m	FY19 £m	Variance £m
New stores and relocations	4.8	5.0	0.2
Store refits and rebrands	0.4	0.7	0.3
IT hardware and software	0.8	1.0	0.2
Web development	1.4	0.4	(1.0)
Other	1.3	1.3	0.0
Total capital expenditure (per additions)	**8.7**	**8.5**	**(0.2)**
Capital expenditure on finance lease	0.0	(0.3)	(0.3)
Net capital expenditure (per cashflow)	**8.7**	**8.2**	**(0.5)**

As a consequence of both the decision to open fewer new stores (taken pre COVID-19), and of the decision to reduce capital expenditure to preserve liquidity in light of COVID-19, capital expenditure during FY21 is expected to be approximately £3.0m.

A small number of new stores will open, where the Company was legally committed prior to the decision to reduce the opening programme; in addition, the Board will consider, on a case by case basis, opportunities to open stores in strategically important locations, where the landlord is prepared to fund fit out costs, such that the store is cash generative immediately following opening.

With the transition to IFRS 16, the separate analysis of fixed asset additions funded via a finance lease is no longer applicable, but the comparative is retained for FY19 to allow the totals in the table to be linked to the financial statements.

Inventory

Inventory levels were £26.6m at the end of FY20 (FY19: £25.2m), an increase of 5.5 per cent. Given that the stores were closed during April, we are satisfied with this level of increase.

The loss of sales due to the store closures during lockdown has not created a heightened risk with regard to stock levels during FY21. This is a result of careful management of orders and working with suppliers to reduce or delay the intake of stock, and of higher than expected online sales since the beginning of the crisis, as well as store sales since reopening.

Cashflow

The table below shows an abbreviated summarised cashflow presentation to aid the description of the significant cashflow movements during the period. "Cashflow pre-working capital" in the table below is derived from management reports; the financial statements include a statutory consolidated cashflow statement.

	FY20 £m	FY19 £m	Variance £m
Cashflow pre-working capital	9.2	10.6	(1.4)
Working capital	(8.1)	(0.3)	(7.8)
Capex	(8.7)	(8.2)	(0.5)
Tax paid	(1.0)	(1.2)	0.2
Interest	(0.2)	(1.4)	1.1
IPO financing cashflows	0.0	(2.7)	2.7
Dividends	(2.3)	(0.8)	(1.5)
Cashflow before drawdown of RCF	(11.1)	(3.8)	(7.3)
Drawdown of RCF	10.0	0.0	10.0
Net decrease in cash	**(1.1)**	**(3.8)**	**2.7**

During the year the Group drew down £10.0m of its £25.0m revolving credit facility ("RCF"). Prior to taking account of this the net cash outflow for the year was £11.1m (FY19: £3.8m).

Working capital outflows of £8.1m include a year-end debtor of £3.7m in relation to furlough receipts (received post year-end), an inventory increase of £1.4m and a £3.0m reduction in creditors which was timing related.

Financial Review continued

Borrowing, bank facilities and financial position

The Group's net drawing on its bank facilities as at 26 April 2020 was £7.1m (FY19: cash in hand of £3.7m).

At the time of the Group's IPO in 2018, new bank facilities were put in place, principally comprising a £25m revolving credit facility, with a term of three years, expiring in July 2021.

On 13 August 2020, the Group completed an agreement with its lending bank to enhance and extend the facilities, as follows:

- The term of the RCF is extended, to expire in September 2022, with step downs from the initial £25.0m facility, of £2.5m in January 2021 and £2.5m in January 2022, to reflect the profile of the expected facility requirement.
- Provision of an additional £7.5m term facility, under the Government's CLBILS scheme, which also expires in September 2022. No repayments are due until the expiry date.
- The facility includes financial covenants in relation to the level of EBITDA, net debt and capital expenditure.

These enhancements to the facility provide useful additional headroom, and greater certainty as to the availability of funding, and indicate continued support for the business from its bank.

As a result of the COVID-19 pandemic, the Board has taken steps to reduce costs and increase liquidity. It has also produced scenarios to quantify the possible impacts on liquidity of applying differing assumptions about how the pandemic might affect future trading. Further details are included in Note 1 (b) of the financial statements.

Dividends

At the time of IPO, the Board stated an intention to adopt a progressive Dividend Policy. A final dividend of 2.4 pence per share in respect of FY19 was paid in September 2019 and an interim dividend of 1.2 pence per share in respect of FY20 was paid in March 2020.

As noted above, the Group has emerged from the spring 2020 COVID-19 lockdown period with adequate liquidity. Notwithstanding this, the outlook remains uncertain, and continuing to maximise liquidity will remain a top priority until the Board has sufficient certainty about the future to take a different stance or the liquidity buffer reaches a level where maintaining a higher level of liquidity would be deemed unnecessary. Consequently, the Board will not be proposing payment of a final dividend in relation to FY20.

Gavin Peck
Director
27 August 2020

Principal risks and uncertainties

The Board and the senior management team are collectively responsible for managing The Group's exposure to risks and uncertainties. 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.

Change in level of risk from prior year

+ New risk
∧ Increased risk
— No change
∨ Reduced risk

The Board has assessed 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 the governance structure are set out in the Corporate Governance Report on page 43.

Risks and uncertainties in addition to those detailed below, 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 mitigating actions are taken 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 32.

Risk	Description	Mitigation
COVID-19 +	COVID-19 has created an unprecedented challenge. We believe the risks to the Group posed by the COVID-19 pandemic are as follows: • Potential for significant and prolonged impact on economic conditions • The potential for further government restrictions on trading and social distancing following the initial easing of lockdown restrictions may adversely affect operations (including the ability to trade, the ability of the third party logistics provider and parcel delivery provider to service online fulfilment) • Potential increase in employee absenteeism • Supply chain disruption, including disruption to stock availability and potential cost inflation • Liquidity risk: the risks listed above could adversely impact liquidity. • Increased pressure on IT systems through remote working.	The health and wellbeing of colleagues, customers and wider communities is the Board's overriding priority. Events are closely monitored by the Board which evaluates the potential impacts and designs appropriate response strategies. The Group maintains a prudent approach to costs, however a number of additional temporary measures were also taken to reduce costs and/or conserve cash, including; • Utilised government support including rates relief and job retention scheme. • Worked with landlords to reduce store rent payments whilst stores were closed; • Careful management of stock intake; • Suspended non-essential capital investment, including new store rollout programme (with the exception of a small number of stores which were legally committed); • Minimised discretionary operational expenditure; • Not proposing a final dividend for FY20. The Group has worked with the third party logistics partner to increase capacity safely to meet increased online sales demand particularly in the upcoming peak season. The Group has implemented changes to stores, the distribution centre and store support centre (including hygiene and social distancing measures and enabling the majority of head office colleagues to be able to work remotely where practical to do so). The mitigations put in place for the initial period of lockdown will, where appropriate, be continued following the lifting of lockdown but whilst the pandemic remains a threat. In the event of escalations from the current state of alert, locally or nationally, further mitigation steps along the lines described above will, as appropriate, be reintroduced. Bank facilities have been extended and increased.
Finance +	Insufficient finance available and/or insufficient headroom in banking facilities leading to a lack of liquidity. Potential for breach of banking covenants if financial performance is significantly worse than planned.	Covenant headroom monitored on an ongoing basis and forecast covenants calculated on a monthly basis and included in Board report. Bank facilities have been extended and increased, with increased covenant headroom. Stakeholder management undertaken, with bi-annual meetings now in place with key credit insurers.
	Availability of credit insurance to suppliers may be reduced or removed resulting in an increased cash requirement.	Refocus of strategy to reduce costs and manage capex to minimise credit insurer risk Maintain constructive dialogue with suppliers, for example, to discuss extending credit terms if required in the event that additional liquidity is needed.

Principal risks and uncertainties continued

Risk	Description	Mitigation
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 the Group's sales, performance and reputation. Most of the Group's sales are derived from physical shops. The challenges facing the high street could significantly impact on the Group's future strategy and growth plans.	Ongoing focus on 'product discovery' and development of "own brand" offering, helps differentiate The Works, bringing unique, quality, products to market at great prices. Experienced trading team monitors emerging trends and has a track record of responding to changing consumer tastes. Competitor pricing and product offering closely monitored, with key developments discussed at weekly trading meetings and at Board level on a regular basis. A customer research project to understand customer perceptions of the proposition was undertaken during the year. The output of this project will inform decisions taken to ensure the proposition remains relevant. Customer feedback is monitored and reported against regularly. Sales data, insight from loyalty card database and various online feedback channels are used to drive purchasing and marketing decisions. During the year we have invested in a new data warehouse and analysis tool to better analyse sales and customer data to drive improved decision making. We continue to invest in online capability. A new web platform was launched in July 2020 to support the development of the multi-channel offer. Plans for further online product ranges are developing, including broadening partnerships with "drop ship" vendors.
Economic environment ∧	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 due to COVID-19 and potential concerns regarding Brexit.	The Group's proposition as an alternative to full price specialist retailers, offering quality good value products, positions it 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. The senior management team has significant relevant experience.
Brand and reputation —	'TheWorks.co.uk' is the Group's key brand asset. Protecting and enhancing the Group's brand and reputation is vital to the success of the Group. Failure to protect the brand, in particular regarding product quality and safety, could result in the Group's reputation, sales and future prospects being adversely affected.	Values of the business are well communicated to colleagues and the senior management team leads by example. Intellectual property guidance and education is provided to design and sourcing teams. Customer and market research focuses on understanding brand perception. Customer product reviews are monitored closely, 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 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 'keen to be green' and 'reworked' logos last year – see Corporate Social Responsibility Report for further details.

Risk	Description	Mitigation
Supply chain ∧	The Group uses third parties, including many in Asia, for the supply of 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 at various stages of the supply chain. This disruption risk may be heightened due to COVID-19, although to date, the operations of the business have not been materially affected. Brexit uncertainty also continues to heighten this risk, in particular the uncertainty over the UK's trading relationship, and terms, with other countries and the possible risk of imports being delayed at UK ports. Suppliers may fail to act or operate in an ethically appropriate manner.	An experienced buying team is responsible for the sourcing of our products. Strong relationships are maintained with key suppliers. The supplier base is continually reviewed. Supply options are diversified and/or changed where needed, providing greater flexibility and reducing reliance on individual suppliers. Tighter controls have been introduced throughout the import process, supported by the freight forwarder. We maintain relationships with other freight forwarders to mitigate the risk of over-reliance on one provider. We conduct business fairly, ethically and with respect to human rights. We are committed to the prevention of slavery, forced labour or servitude, child labour and human trafficking, in our business and supply chain. We have an established Ethical Trading Code of Conduct and Human Rights Policy for our partners, manufacturers and suppliers. All suppliers must sign our Terms and Conditions of Purchase which state the supplier has read, understood and agrees to conform to our Ethical Trading Code of Conduct. Independent monitoring of suppliers is undertaken using third-party auditors 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 develop our supply chain management procedures and supplier audit programme. Suppliers have direct contact with our in-house Quality Assurance function. We have updated and published our Modern Slavery Act Statement on the Group's corporate website and have registered the statement with the Modern Slavery Registry and TISC (Transparency in the Supply Chain). The Group is adopting a "wait and see" approach to Brexit planning. For example, measures which might be taken, such as building stock levels in anticipation of potential disruption to imports, could be counterproductive if, for example, demand is subsequently adversely affected by further restrictions related to COVID-19, and the action taken to mitigate the potential risks of Brexit create other problems.
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 key colleagues, could harm future prospects and result in increased costs.	Succession plans continue to be developed for each member of the senior management team and are discussed at Nomination Committee meetings. Objectives and development programmes are currently being put in place to support future leaders. High-calibre candidates want to join a successful and growing retail business, evidenced by recent recruitment experience. The Group's remuneration policy (set out in the Directors' Remuneration Report) 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 the operation, in particular, internal IT systems, the store support centre or a distribution centre, could severely impact the Group's ability to supply stores or fulfil online sales resulting in significant financial or reputational damage.	A disaster recovery plan and strategy is in place. Disaster recovery dry run exercises are undertaken throughout the year. The Group maintains appropriate business interruption insurance cover. Investment in an emergency generator at the store support centre insulates it from the effect of power cuts. System recovery is captured as part of the Business Continuity Plan and any part of that could be invoked depending on the nature of the issue with the system. An in-house development team maintains the internal systems and can be deployed immediately a problem arises.

Principal risks and uncertainties continued

Risk	Description	Mitigation
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 rules, 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 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 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 (e.g. 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. • The Group has a GDPR policy, a data supervisor and an established monthly GDPR governance meeting, with minutes and actions from this meeting circulated to the senior management team. • An outsourced internal audit function is used.
IT systems and cyber security ∧ Due to perception of external environment	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 the Group's 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 with enhanced working from home capabilities deployed in Q4. 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. Operational practices for maintaining security have been reviewed with revised and more frequent patching cycles adopted. More frequent vulnerability scans and penetration tests are used to validate the robustness of security. A Design Review Group meets weekly to assess changes and design security into new systems and changes. An audit of Cyber Security was completed by our third party internal audit provider in the latter part of the year and all recommendations are being adopted. The IT investment strategy is reviewed regularly with the Operating Board including security and infrastructure investment programmes.
Cost inflation —	Increases in costs, such as 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: • COVID-19 pandemic uncertainty and potentially increased costs to mitigate health and safety risks, along with unknown impacts on imports and supply chain costs. • Brexit uncertainty and its potential impact on the value of sterling and uncertainty over duty rates post-Brexit potentially impacting the cost of products sourced from Asia. • The current political focus on raising national living and minimum wages given most 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 (e.g. 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 (e.g. through productivity improvements in the distribution centre). Hedging policy is in place to manage exposure to foreign exchange rate fluctuations in the short term. Flexible nature of the Group's product offering means it has the ability to adapt or change products to meet margin targets, supported by the continued growth in own brand offering. The flexible nature of our property leases, with less than three years on average to the next exit point, ensures we are able to lower property costs through reduced rents.

Risk	Description	Mitigation
Stock management —	Ineffective controls over the management of stock could impact on the achievement of gross margin objectives, whilst lack of sufficient product availability could impact on sales.	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 in stores and at distribution centres to monitor stock losses. 'Aged stock' is monitored closely with regular markdown action on slow-moving product lines. An action plan is being generated following an end-to-end stock process review finalised in the year with a view to implement key improvements in the coming year.
Store expansion V	New store rollout has been de-emphasised as a pillar of the strategy. The ability to identify a set number of suitably profitable new store locations is therefore less critical than in previous years.	A store location modelling tool supports the new store assessment and sign-off process. UK retail vacancy rates continue to run at high levels, providing opportunities which will be pursued selectively. Each new store opening is approved by the CEO and CFO and will be subject to particularly close scrutiny in light of tighter capex constraints.
Seasonality of sales Λ Due to potential effect of COVID-19 during November and December 2020.	The Group historically 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.	We continue to explore opportunities to reduce seasonality by growing the year-round appeal of the proposition. Weekly trading meetings, attended by all members of senior management, ensure action is taken to maximise sales based on current and expected trading conditions. The Group has invested in increased capacity in its online fulfilment operation for the peak season of FY21.

Viability Statement

In accordance with Provision 31 of the UK Corporate Governance Code dated July 2018 (the "Code"), the Directors have assessed the prospects and viability of the Group over a three-year period, taking into account the Group's current position and the potential impact of the principal risks documented in the preceding section.

The Group operates a plan, within which, scenario planning and stress testing has been carried out covering a three-year period. The Directors consider that three years is an appropriate planning horizon for the following reasons:
- Retail market trends, including the way customers shop and the impact of new technologies, are rapidly evolving. The Directors consider the uncertainty as to how the market will have evolved more than three years into the future to be too great to enable plans extending beyond this period to be meaningful.
- Uncertainty exists in relation to the wider economy and its potential impact on consumer demand and shopping habits. At the current time, these uncertainties are heightened by COVID-19 and Brexit.
- The average remaining term of the Group's property portfolio leases is approximately three years.

In assessing the Group's viability the Directors have considered:
- The external environment.
- The Group's financial position and bank facilities.
- Measures taken to increase and maintain liquidity.
- The potential impact on the financial performance of the business of the risks described in the preceding section.
- The output of a "Base Case" scenario financial model, which includes the impact on the Group's Three-year Plan of the recent COVID-19 lockdown, and an estimate of the most likely continued effect on trading.
- The resilience of the Group to the manifestation of a more severe impact of these risks, evaluated via a revised model referred to as the "Reasonable Worst Case" ("RWC") scenario financial model.
- The availability and expected effectiveness of any mitigating actions that would be taken in response to circumstances arising such as those modelled under the RWC.
- The Board has considered the impact on the Group's cash flows, headroom and covenants.

These factors are described below.

The Base Case and RWC scenario models cover a period of three years. The outputs of the models for the first eighteen months of this period (the "Going Concern Period") have also been used to make a judgement regarding using the Going Concern basis of preparation for the financial statements.

External environment
There continues to be significant uncertainty as to the future impact on the Group of the COVID-19 global pandemic; the potential effects of this have been considered as part of the Group's viability assessment and its confirmation of the adoption of the going concern basis. In March 2020, all of the Group's retail stores closed to protect its employees and customers, in accordance with various national government requirements.

The online channel traded very successfully throughout the period of lockdown; certain retail concession stores reopened in May 2020, with the majority of stores opening during June when the easing of government restrictions permitted. Sales from both channels during, and since the end of lockdown, have been better than the Board's initial expectations. Despite this, there remains uncertainty, for example, over how long social distancing measures will be required to be in place and the possible effects on the level of consumer demand.

The lack of clarity arising from the UK leaving the European Union also creates increased levels of economic and consumer uncertainty and, consequently, the longer-term impact this may have on the Group also remains uncertain.

Financial position and bank facilities
The cash and borrowings of the Group at the period end are shown in Notes 18 (Cash and cash equivalents) and 19 (Borrowings) of the financial statements. In addition, Note 24 to the financial statements (Financial risk management) includes the Group's objectives, 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.

The Group's net debt balance drawn from its principal lending bank at 26 April 2020 was £7.1m (2019: net cash of £3.7m), which comprised a draw-down of £10.0m against its revolving credit facility ("RCF") and cash balances of £2.9m.

At the time of the Group's IPO in 2018, new bank facilities were put in place, principally comprising a £25m revolving credit facility, with a term of three years, expiring in July 2021.

On 13 August 2020, the Group completed an agreement with its lending bank to enhance and extend the facilities, as follows:
- The term of the RCF is extended, to expire in September 2022, with step downs from the initial £25.0m facility, of £2.5m in January 2021 and £2.5m in January 2022, to reflect the profile of the expected facility requirement.
- Provision of an additional £7.5m term facility, under the Government's CLBILS scheme, which also expires in September 2022. No repayments are due until the expiry date.
- The facility includes financial covenants in relation to the level of EBITDA, net debt and capital expenditure
- The EBITDA and net debt covenants are based on limits set and measured every month. The EBITDA covenant is measured with reference to EBITDA over the last twelve months (LTM). The Group's ability to meet the EBITDA covenant is heavily influenced by trading during the peak months of November and December.

Measures to maintain liquidity

The Directors have implemented a number of measures to maintain or improve liquidity including cutting costs, temporarily suspending dividends, scaling back capital expenditure, agreeing rent reductions and/or deferrals with landlords, cancelling or deferring stock purchases and agreeing revised payment terms with suppliers.

The Group will also benefit from approximately £13m of business rates relief between the beginning of lockdown and the end of FY21. In addition, the Government's job retention scheme to help meet the cost of furloughed roles contributed cash savings of approximately £8m, between the beginning of lockdown, and the end of July 2020.

As a result of the steps taken by the Board and the support received from the Government schemes, the Group's cost base was significantly lower than normal during the lockdown period. Although the reopening of stores has inevitably resulted in expenditure increasing from lockdown levels, operating and overhead cost savings will be maintained to the fullest extent possible.

Given the foregoing and as noted above, to assist the Board in confirming the continued appropriateness of using the going concern basis in the preparation of the financial statements, and in making its assessment of the Group's viability, two financial scenarios have been prepared to quantify the possible impacts on liquidity of applying differing assumptions. These scenarios cover the FY21 to FY23 financial years (the "Projection Period"). It is emphasised that these are not forecasts, but models used to assist the Board in connection with viability and going concern considerations.

Potential impact of risks on financial scenarios

The preceding section of the Annual Report, "Principal risks and uncertainties", sets out the risks that the Board considers could threaten its business model, future performance, solvency or liquidity.

It is considered unlikely that all risks would manifest themselves simultaneously and/or all in a direction that would adversely affect the business. The Directors have estimated what a reasonably likely combination of risks might be that could materialise within the next three years and how the business might be affected. The most prominent risks in the near term would appear to be connected with COVID-19, which could affect sales, costs and liquidity. Other risks, such as market and economic environment could have similar manifestations to COVID-19, and Brexit could impact these areas as well as supply chain.

Taking these factors into consideration, the Directors have prepared scenarios which seek to show how these risks might affect the business, in a Base Case and RWC scenario, as described below.

The Base Case incorporates the Board's estimate of the most likely level of risk impact arising from the factors noted above. The RWC assumes that the effects are more severe, particularly in relation to COVID-19.

Base case scenario

The Base Case scenario has been modelled using the following key assumptions/incorporating the following information:

1. The closure of the Group's retail stores during lockdown, with the majority of stores remaining closed until mid-June 2020.
2. Continuing social distancing measures and a potential downturn in the economy have been assumed to have an adverse impact on store sales throughout the Projection Period. Sales during the peak pre-Christmas 2020 trading season have been assumed to be 10% lower than in FY20 and sales throughout FY21 are modelled as being below FY20 levels. Only a partial recovery has been assumed in FY22, such that sales in the model are still lower than in FY20.
3. Online revenue as a proportion of total revenue is higher than previously, reflecting the strong growth experienced during lockdown, albeit sales are not expected to continue to grow at the same rate.
4. An improved gross margin rate reflecting the expected benefits of implementing improved sourcing strategies.
5. The impact of cost saving measures implemented or identified.
6. Significantly reduced capital expenditure, of approximately £3.0m in FY21 and £3.5 million per annum in FY22 and FY23.
7. Initiatives to preserve cashflow, for example, revised supplier and landlord payment terms already agreed and the suspension of dividend payments.

Under the Base Case scenario, the Group expects to have sufficient financial resources to continue to be viable and the Going Concern basis of preparation of the financial statements is appropriate.

Reasonable Worst Case scenario

Under the RWC scenario, store revenues are 10% and 7% lower than in the Base Case in FY21 and FY22 respectively, and 20% and 30% below FY20 levels on a like-for-like basis during November and December 2020 respectively, illustrating a situation whereby trading is affected more severely by social distancing measures and the potential consequences of a more severe and sustained economic downturn. Note that the Base Case model for FY21 already incorporates an assumption of lower sales post lockdown than in FY20, and only a partial recovery in FY22.

This scenario does not build in the benefit of additional mitigation that, in practice, would be implemented in these circumstances. These may include, further reducing stock purchases, stock liquidation, and further reductions in capital expenditure. In addition, other than to the extent that they are directly variable with revenue, the Company's forecast cost base has not been significantly reduced in this RWC scenario.

Actual trading results since the beginning of the FY21 financial year have been better than factored into the Base Case and RWC assumptions. This, together with the opportunity to take mitigating actions as described above, and the assumption that the Group would continue to be able to access the liquidity from its bank facilities, in the opinion of the Board, provides sufficient financial resources for the Group to continue to be viable under the RWC, albeit with limited headroom.

Viability Statement continued

Conclusion regarding viability

The Board is satisfied that the Group can maintain its financial commitments under each of the scenarios described above. The Board also considers that under each scenario, the mitigating actions would be effective and sufficient to ensure the continued viability of the Group. Therefore, the Directors confirm 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 assessment for viability.

Going concern and basis of preparation conclusion

In addition to the foregoing, in considering the appropriateness of adopting the going concern basis of preparation, the Directors also took account of the fact that it is difficult to predict with confidence the overall impact of COVID-19 on the Group's profitability in the next financial year.

As there remains considerable uncertainty over the potential development of the COVID-19 pandemic, any future Government response and the economic impact of those developments on the cash flow forecasts of the Group, it is difficult to rule out the potential for further increases in local social distancing measures or even the possibility of a further national lockdown and the effect that will have on the forecast cash flows. Whilst the RWC referred to above, after mitigating actions, shows headroom, as the level of headroom is relatively small, a further decline over and above the 20% and 30% sales declines in November and December 2020, could result in a potential breach of the EBITDA covenant later in 2021. Whilst the Group believes that it would have time before a potential breach to mitigate further, there is no certainty as to the size of the potential breach and, therefore, whether the mitigating actions could resolve this in time.

In light of this level of uncertainty over the duration and severity of any disruption, there are scenarios under which the Group could breach its EBITDA covenant, which represents a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

Based on all of the above considerations, and having carefully considered the material uncertainty and mitigating actions available, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Section 172 statement

Under Section 172(1) of the Companies Act 2006, a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to –
- the likely consequence of any decision in the long-term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others
- the impact of the company's operations on the community and the environment
- the desirability of the company maintaining a reputation for high standards of business conduct
- the need to act fairly as between members of the company.

The following disclosure describes how the Directors of TheWorks.co.uk plc have had regard to the matters set out in Section 172(1)(a) to (f) and forms the Directors' statement under section 414CZA of The Companies Act 2006.

Both individually and collectively, the Directors believe that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in section 172(1)(a-f) of the Companies Act 2006) in all decisions taken by the Board during the year ended 26 April 2020.

The Board and the Company's approach to considering and engaging with our key stakeholder groups is described below, with cross references to relevant disclosures included elsewhere in the Annual Report.

Our people – Our people are key to our success, and communication and engagement with our people is vital to the business and therefore front of mind in Board decisions. The Board reviews of the results of the annual engagement survey, and individual Directors interact directly with senior management and store colleagues on regular site visits. The People Director also regularly attends Board and Remuneration Committee meetings to provide updates on areas impacting colleagues, and to ensure that team member views are understood. In the course of its decision making in response to the COVID-19 pandemic, the interests (in particular the health, safety and wellbeing) of employees have been a key consideration for the Board. Further information on the Board's engagement with the wider workforce is set out in the Corporate Governance report on page 45.

Customers – The principle of providing our customers with a choice of good quality products at great value for money is a key consideration for the Board in its decision making. The Board routinely discusses the Company's product offering and reviews like for like sales performance across product categories.

During store visits, individual Directors are able to understand the customer experience, and engage with, and receive feedback from, customers directly.

The Trading Director, Digital Director and members of the marketing team communicate regularly with the Board, ensuring that Directors can understand the opinions and views of customers. The Company engages directly with customers through social media and, during the current pandemic, has implemented a range of measures to protect customer safety and promote social distancing to minimise the risk of COVID-19 spread in stores.

Suppliers – The Company has more than 500 suppliers, and engagement with them is led by the Trading Director and the buying team. Under normal circumstances, this engagement includes face to face meetings with suppliers in China, the UK and the EU, factory visits and attendance at trade fairs. Such meetings have been suspended during the COVID-19 pandemic, but will be re-established as soon as it is appropriate to do so. Our quality assurance team works closely with suppliers to ensure product safety and quality control.

The Trading Director reports regularly to the Board, including updates on supplier matters and relationships. The Board and Audit Committee also reviews the Group's payment practices to ensure that suppliers are treated fairly, and that suppliers are adhering to the Group's other supplier governance policies.

Supplier relationships and interests were factors considered by the Board in the course of its decision making in relation to store closures and trading conditions resulting from the COVID-19 epidemic.

Community and the environment – The Board is committed to the communities in which the Company operates, and The Works takes great pride in being actively part of those communities. The Board recognises that the Company's operations impact the environment, and its objective is to reduce the environmental impact of operations through waste recycling, efficient packaging and energy use. Community impact and environmental issues are factors taken into account by the Board in strategic decision making.

More information on the Company's community support and approach to reducing its impact on the environment is contained in the CSR report on pages 36 to 39.

Shareholders – The Board recognises the importance of treating all members fairly and monitors the views of the Company's shareholders through updates from the CEO and CFO on investor and analyst calls and meetings so that their views and opinions can be considered when setting strategy. Further details regarding engagement with shareholders can be found in the Corporate Governance report on page 45.

Corporate Social Responsibility Report

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

Strategic partnership with Cancer Research UK

CANCER RESEARCH UK

"We would like to take this opportunity to say a huge thank you for all the fundraising efforts you have made throughout this year. You always go above and beyond our expectation and we look forward to the next 12 months."

Emily Dunsmore
Partnerships Manager,
Cancer Research UK

£839,000

Raised together since our partnership began in 2016

A strong culture is at the heart of our business

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, the Board has overall responsibility for 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 wide choice of good quality products at great value for money. Key achievements in delivering for our customers in the year include:

- Opening a further 37 net new stores, introducing our brand to new customers and making it more accessible for existing customers;
- Launching 1,000's of new products across our multi-channel offering, increasing the range of choice and driving 'product discovery' for our customers;
- Continuing to grow membership of our loyalty programme;
- Ensuring our store colleagues offer friendly and helpful service to our customers;
- Improving the overall look and feel of our online store, including enhancing the mobile customer journey;
- Introducing merchandising plans to improve shopability and availability of our core product offering; and,
- Enhancing our Click & Collect customer proposition, refreshing the online customer journey and improving in store processes.

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 assured 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 will conform to our Ethical Trading Code of Conduct. 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. Suppliers have direct contact with our in-house Quality Assurance function.
- 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 proactively look to reduce the level of waste generated and maximise the proportion of waste that is recycled.
- Last year, we saved over 4.5 tonnes of single use plastics in packaging, preventing it from ending up in landfill.
- 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 baled 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 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 (e.g. polybags), keeping only essential packaging.
- We utilise recycled materials over virgin material, where possible, and return it back into the waste stream for further use.
- TheWorks.co.uk plc is aware of the enormous ecological impact of single-use plastics in packaging and we are committed to reducing our usage whenever possible. To demonstrate our commitment to the environment we re-engineered 201 products, reducing our waste packaging under our 'Re-Worked' scheme.

Corporate Social Responsibility Report continued

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.
- The aggregate of the annual quantity of energy consumed from activities for which the Company is responsible was 14,045,454 Kwh during the year. The Group's largest direct climate impact results from electricity use in the store estate, which arises in the UK.
- 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

As part of our ongoing commitment to reducing plastics, The Works plans to phase out the sale of 5p single use carrier bags by the end of 2020. This action will result in a reduction of 28 tonnes of plastic purchased annually for this type of bag and remove 2.7m bags from the waste stream. We will still be able to assist customers who forget their bags by offering a reusable bag, made from 95% recycled materials that is manufactured in the UK and a large range of high quality, non-woven, shopper bags with bespoke designs.

Greenhouse gas ('GHG') emissions

GHG emissions for the Group for the year ended 26 April 2020, in tonnes of carbon dioxide equivalent ('tCO_2e'), were:

Source	tCO_2e	%
Purchased electricity	7,306.2	94.5
Fuel combustion (mobile)	375.0	4.8
Fuel combustion (stationary)	24.4	0.3
Fugitive emissions ('F-gas')	25.8	0.4
Total	7,731.4	100.0

Emissions intensity

tCO_2e	FY20	FY19	Increase
Total emissions	7,731.4	6,563.9	17.8%
Emissions intensity*	34.3	30.2	13.5%

* 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 other members of the public is of paramount importance to our business.

- 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, at the start of the financial year, Health & Safety was moved to be under the remit of the People Director and now forms part of our overall colleague engagement, health and wellbeing strategy. Our Health and Safety Manager and People team liaise with line managers in all parts of the business to ensure compliance with 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 stores and workplaces safe places for customers, colleagues and visitors alike.
- As well as the Board receiving reports on health and safety matters, the Health and Safety Manager also analyses trends and takes a proactive approach to managing health and safety practices. They liaise with colleagues throughout the business to improve the standard of health and safety.
- We have introduced additional safety measures in all of our stores ensuring they comply with the Government guidance on managing the risk of COVID-19. This includes introducing social distancing and additional cleaning, all stores have had a risk assessment carried out and all our colleagues have received training and are regularly updated with any changes that are made to the government guidance.

Colleagues

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

- We employ more than 3,800 permanent colleagues and take on more than 500 temporary seasonal colleagues during our peak Christmas trading period. Our people are what makes The Works great.
- Our focus in the last year continues to be on improving our colleague engagement and reducing labour turnover in stores by continuing to develop a strong talent pipeline of store management and developing leaders across the business so our colleagues feel they get what they need from their manager and their career with us. We have engaged with colleagues' right across the business to listen to how we can improve.

Key activities during the last year have been:

- Receiving a 79 per cent. response rate in our third colleague engagement survey. This year's survey was undertaken once again in partnership with Best Companies and we were placed 18th for the second year in The Sunday Times 2020 25 Best Big Companies to work for list following an improvement in our year on year results;
- Continued focus on 'growing our own' talent and succession planning resulting in over 400 colleagues being promoted across the business as well as running a bespoke Leadership Development Programme for 60 of our senior leaders in partnership with Lane4;
- Using our apprenticeship levy to fund our second Area Manager Designate Development Programme. 13 Store Managers began their two-year programme given the success of the first cohort with five of these managers having successfully been placed in their first full time Area Manager role;
- Launched our first Save As You Earn Scheme to encourage shared ownership across our colleague base. There was a pleasing uptake at 10 per cent. of all colleagues and 26 per cent. of our Store Managers.
- Introduced a free Employee Assistance Programme for all colleagues as well as launching a number of new Mental Health eLearning training modules to support and upskill our colleagues and managers with Mental Health and Health and Wellbeing.

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:

FY20	% male	% female
PLC and operating boards	56%	44%
Senior leadership	47%	53%
Store managers	38%	62%
All colleagues	30%	70%

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

Social media and email – #WorksTogether

During COVID-19 we understood very quickly from our social media followers just how important it was for them to feel connected and engaged with the outside world, alongside the desire to be served information to help inspire, motivate and encourage daily activities. As such we tailored all of our social media content to support low-cost, fun, homebased activities for all the family encouraging participation, creativity and shareability.

During the outbreak email switched its primary objective from driving revenue to driving reach and engagement to our Social Media channels and contributed to significant follower growth. We will continue to recognise this change in the way that customers are interacting with us, in our future social media messaging.

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 subsequently achieved a successful float on the London Stock Exchange in 2014 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 Wetherspoon plc and The Mercantile Investment Trust plc and trustee of the Ascot Authority. He is also a director of Cadogan Group Limited and two related subsidiary companies

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 was CEO of Armajaro Asset Management LLP from 2010 until 2016, and a non-executive Director of Bibendum Wine Holdings Ltd until May 2016. He was Co-founder and CFO of Tragus Holdings Ltd, owner of Café Rouge and Bella Italia restaurant chains, and also worked in the shipping industry for P&O. He is currently a non-executive Director of JD Wetherspoon plc, TheWorks.co.uk plc, Cadogan Group Limited and a Trustee of The Ascot Authority. He qualified as a chartered accountant with Price Waterhouse.

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 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.

Gavin Peck
Chief Executive Officer

External appointments:
None

Date joined TheWorks.co.uk plc:
April 2018

Career and experience
Gavin was appointed Chief Executive Officer of The Works in January 2020 after joining as Chief Financial Officer in April 2018. Prior to this 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

Dean Hoyle
Chairman

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

Dear shareholder,

On behalf of the Board, I'm pleased to introduce our Corporate Governance report for the year ended 26 April 2020.

The Board remains committed to the highest standards of corporate governance, and has applied the principles of the 2018 UK Corporate Governance Code (the "Code") in so far as it applies to smaller listed companies (below the FTSE 350) during the year.

The latter part of the year has been significantly disrupted by the COVID-19 pandemic, and the Board's focus since March has been on protecting the health and safety of our employees and customers, and ensuring the long term financial security of the business. The Board is extremely grateful to all of our employees for the patience and commitment they have demonstrated during the crisis.

Prior to the end of March, the year had been one of evolution for the Company and the Board. We have continued to develop and embed our governance arrangements to ensure that the Board and Committees are able to effectively discharge their responsibilities, and have considered our approach to addressing new requirements introduced under the 2018 version of the Code. This has included reviewing the culture of the Company, and our approach to engaging with our employees and other stakeholders. We believe that we have a solid framework of employee engagement mechanisms which allow the Board to assess and monitor how our culture is maintained across the Group.

We announced Kevin Keaney's decision to step down from the Board in January, and were delighted to have an internal successor in Gavin Peck. We have also welcomed a number of new appointments to the Operational Board during the year, and believe that we have a strong team in place to take the Company forward.

We conducted our first formal Board and Committee performance evaluation process during the year. I'm pleased to report that the evaluations indicated that the Board and its Committees are operating effectively, and that each individual director is performing well and demonstrating commitment to their roles. More information on the evaluations is set out in the following report.

In light of ongoing social distancing measures and the UK Government's current guidance on public gatherings, the Board has concluded that it is appropriate to apply the temporary regulations on Annual General Meetings in the Corporate Insolvency and Governance Act. Shareholders will therefore not be permitted to attend the AGM in person this year. The Board is grateful for the continued support of shareholders, and the Non-Executive Directors and I are available to engage with shareholders at any time.

Dean Hoyle
Chairman

27 August 2020

Corporate Governance Report

UK Corporate Governance Code – Compliance Statement

The Company has applied all of the main principles of the 2018 UK Corporate Governance Code (the "Code) as they apply to it as a "smaller company" (below FTSE 350) and has complied with all relevant provisions of the Code during the year.

Governance structure

Board

- Overall leadership of the Group
- Oversight of systems of internal control, risk management and corporate governance
- Setting strategy, purpose, values & 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
- Reviewing 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 which is reviewed annually.

The Board meets at least 10 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. In addition to standing items, agendas incorporate sufficient flexibility to allow specific areas of focus to be considered as and when required. The schedule 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 (Dean Hoyle) 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 CEO, 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.

Non-Executives

The Non-Executive Directors (Catherine Glickman and Harry Morley) 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 CEO or Chairman has failed to resolve. He also leads the annual evaluation of the Chairman's performance.

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 are 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.

Corporate Governance Report continued

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 currently comprises 4 directors (including the Chairman). Both of the Non-Executive Directors (Catherine Glickman and Harry Morley) continue to be considered to be independent. The Company has therefore complied with provision 11 of the Code throughout the year, with half of the Board (excluding the Chairman) comprising independent Non-Executive Directors up to 16 January 2020, and more than half being independent from that date.

As noted on IPO and in the 2019 Annual Report, the Chairman (Dean Hoyle) was not independent on appointment as he held shares in the Company and also in The Works Investments Limited, the holding company of the Group prior to IPO. The Company did not therefore comply with provision A.3.1 of the 2016 version of the Code (which was in force at the time). It is our view that this provision (provision 9 in the 2018 Code) is only relevant in the year of the Chairman's appointment, and we therefore do not intend to repeat the explanation for non-compliance each year.

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

Director	Board meetings held/attended	Audit Committees held/attended	Remuneration Committee held/attended	Nomination Committee held/attended
Dean Hoyle[1]	7/10	N/A	N/A	1/1
Kevin Keaney[2]	6/10	N/A	N/A	N/A
Gavin Peck	10/10	N/A	N/A	N/A
Catherine Glickman	10/10	4/4	4/4	1/1
Harry Morley	10/10	4/4	4/4	1/1

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

2 Kevin Keaney stepped down from the Board on 16 January 2020.

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 anticipate that each Non-Executive Director will need to commit a minimum of 2 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

The Board met formally on 10 scheduled occasions during the year. In addition to the scheduled meetings, the Board has held a number of ad hoc meetings by conference call to consider specific matters such as the half-year trading update, and approvals relating to the 2019 SAYE grant. In response to the coronavirus pandemic and recognising the significant impact of the situation on the Company's operations the Board implemented a programme of weekly update calls from the middle of March 2020 until the reopening of stores in mid-June 2020, when these calls moved to a two-weekly cycle of meetings and will revert to a normal pattern when the Board deems appropriate.

The standing agenda for each scheduled Board meeting includes updates from the CEO and interim 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, as part of its annual governance programme:

- Reviewed the Company's delegated authority limits.
- Reviewed the Group risk register and internal controls structure.
- Considered an analysis of the Company's compliance with the UK Corporate Governance Code.
- Reviewed and approved the FY21 budget.
- Reviewed, and approved relevant changes to, its Schedule of Matters Reserved and the Terms of Reference of the Board Committees.
- Received an update on Company culture and reviewed a summary of key workforce policies and procedures.
- Reviewed various governance policies, including the Disclosure Policy, Whistleblowing Policy, Share Dealing Code and Board Diversity Policy.
- Reviewed and approved the half-year and full-year financial statements.

Training and development

As disclosed in the 2019 Annual Report, a full, formal and tailored induction programme has been developed for any new Directors joining the Board. The Company Secretary ensures that the Board is briefed on forthcoming legal and regulatory developments, as well as developments in corporate governance best practice, and Directors are expected to keep themselves appraised of developments relevant to the Company's business.

Evaluation and effectiveness

During the year, an internal performance evaluation was conducted for the Board and each of its Committees. The evaluations were conducted by way of questionnaires, with a summary of responses discussed at the Board's meeting in April 2020.

The results of the Board evaluation indicated that the Board operates effectively, with each individual director contributing to the Board's discussions and demonstrating commitment to their roles. The evaluation highlighted a number of areas for focus in FY21, in particular to enhance the Board's annual schedule of activity to include a greater focus on strategic discussions, and to increase engagement with the Operational Board and wider workforce. We will report progress against these areas in the FY21 annual report.

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), and the Non-Executives provide ongoing feedback to the CEO and interim CFO on the content of papers to ensure they continue to support 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 to 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 Annual General Meeting (AGM) on 30 September 2020.

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

Executive Director service contract

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

The Non-Executive Directors (including the Chairman) do not have service contracts, but are instead appointed by letters of appointment. Each of the Non-Executive Directors and the Chairman were reappointed for a three-year term commencing from the 2019 AGM, subject to their annual reappointment by shareholders.

Non-Executive Director appointment

Name	Date of appointment	Commencement date of current term	Unexpired term at August 2020
Dean Hoyle	19 July 2018	28 August 2019	2 years
Catherine Glickman	19 July 2018	28 August 2019	2 years
Harry Morley	19 July 2018	28 August 2019	2 years

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 operates a procedure under which Directors are required to immediately notify the Company Secretary when a conflict or potential conflict arises 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.

Stakeholder engagement

the CEO and Operational Board members are responsible for the day-to-day management of stakeholder relationships and to ensure that stakeholder issues are appropriately reported to the Board. Further information on how we engage with stakeholders is set out in the CSR report on pages 36 to 39 and the Section 172 statement on page 35. The Directors recognise their duty under Section 172 of the Companies Act to consider the interests of stakeholders, and the nature of our business means that the interests of our employees, customers and suppliers are at the front of mind in the Board's decision making process.

Engagement with the workforce

The Board receives regular updates on employee engagement activity through Operational Board reports, and this includes reviewing the results of the annual employee engagement survey. During the year, the Board also received a report from the People Director on Company culture, and in particular how the strength of that culture supports the retention of hard working, customer centric colleagues. It is anticipated that updates on Company culture will form a regular part of the Board's activity schedule going forwards.

Outside formal Board meetings, the Chairman and Non-Executive Directors regularly spend days out visiting stores accompanied by a member of the management team. At those store visits, the Chairman and Non-Executive Directors take the opportunity to engage directly with team members at all levels, allowing them to assess the understanding of the Company's culture across the business.

As part of its review of Code compliance during the year, the Board assessed the various methods by which the Directors engage with the wider workforce. The Board agreed that the combination of the methods described above ensures that the Board is appropriately informed about, and understands, workforce views, and therefore this approach appropriately addresses the requirement to engage with the workforce under provision 5 of the New Code. The Board does not currently intend to adopt one of the three workforce engagement methods suggested in that provision, but will continue to monitor its workforce (and wider stakeholder) engagement mechanisms to ensure they operate effectively.

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 CEO and the interim CFO, who are supported by the Company's retained financial PR advisers, Teneo Blue Rubicon, 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 matters 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 AGM will take place on 30 September 2020 but will be held as a closed meeting due to the ongoing COVID-19 social distancing measures. As a result, shareholders will not be permitted to attend the AGM in person this year. The Annual Report and financial statements and Notice of the AGM will be made available to shareholders in accordance with the required notice periods. Shareholders are encouraged to participate in the AGM process by submitting their votes by proxy. The Company will offer electronic proxy voting through both our registrar's website and, for CREST members, the CREST service. We will also offer a facility by which shareholders may submit questions on the business to be dealt with at the AGM in advance of the meeting. Details are included in the Notice of AGM. 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

Chairman of the Audit Committee's letter to shareholders

Harry Morley
Chairman of the Audit Committee

Other member:
Catherine Glickman

Dear Shareholder,

On behalf of the Board, I am pleased to present the Audit Committee report for the year ended 26 April 2020.

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 four occasions during the year, and twice since the year-end. Our main activities in the year have included our review of the half-year and full-year financial statements and the Annual Report, reviewing the Group's systems of internal control and risk management, and considering the reports of the Company's external auditor and internal audit function.

Significant accounting judgements and policies

The significant accounting judgements identified by the Finance Team and the external auditor were discussed by the Audit Committee at our meetings on 30 June 2020 and 25 August 2020. Details of the significant judgements and how they have been addressed are set out below.

During the year, the Committee monitored progress of HMRC's review of import duty paid by the Company over the last three years, and the level of provision recognised in the financial statements.

In March 2020, the Company received an enquiry letter from the Corporate Reporting Review Team of the Financial Reporting Council (FRC) in relation to the FY19 Annual Report. Details of the enquiry raised by the FRC and the Group's proposed response were discussed with the Committee prior to issuing the response.

Our response included a commitment to make some additional clarifying disclosures relating to assumptions underlying our assessment of the carrying values of goodwill and the Parent Company's investment in subsidiaries, inventory provisioning, and prepayments and accrued income. We have reviewed the adoption of these enhanced disclosures in the FY20 Annual Report. The review of the FY19 Annual Report by the FRC does not provide any additional assurance regarding its accuracy and the FRC does not accept any liability in relation to its review.

Internal audit

We have received reports from Grant Thornton ("GT"), our outsourced internal audit function, at each of our meetings during the year, and discussed and agreed the key areas of focus for internal audit. More detail about the areas of internal audit focus in the year are set out on page 48.

External auditor

The Committee has reviewed the effectiveness of the FY19 external audit process, and our external auditor's (KPMG LLP) independence, and following that review we have recommended that KPMG LLP be reappointed as the Company's auditors at the next annual general meeting.

We have monitored the level of non-audit services provided by the external auditor (described on page 48), and confirm that all non-services provided were in line with our policy.

Performance evaluation

The Audit Committee has evaluated its performance this year by way of a questionnaire completed by each member of the Committee and other regular attendees. The outcome of the evaluation was discussed at the Board meeting held in April 2020. The evaluation confirmed that the Committee operates effectively, and indicated some suggested improvements to the Committee's annual schedule of activity to broaden its review of internal control and risk management systems.

Harry Morley
Chairman of the Audit Committee
27 August 2020

Report of the Audit Committee

Composition of Committee

Harry Morley – Chairman
Catherine Glickman

Harry Morley is a qualified Chartered Accountant, has an executive background in finance roles and is an experienced Audit Committee chair. The Board is therefore satisfied that Harry has recent and relevant financial experience as recommended under provision 24 of the UK Corporate Governance Code. The Board is also satisfied that the Committee as a whole has competence relevant to the sector in which the Company operates, with both Committee members having experience as directors in the retail and leisure sectors.

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 four occasions during the year, and has met twice 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:

- Review of the carrying value of consumable items.
- Monitoring progress of the HMRC review of import duty paid by the Company, and agreeing the value of provisions taken as a result of this review.
- Receiving regular reports from the Group's internal audit function.
- Going concern review, including consideration of the Group's debt financing arrangements, covenants and forecasts.
- Considering the treatment of asset impairments in light of COVID-19.
- Reviewing the transition to accounting under the requirements of IFRS 16.
- Review of the Company's risk register and the process and scenarios to support the long-term viability statement.
- Monitoring the application 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 the half-year financial statements, and the Annual Report and financial statements, and recommending their approval by the Board.
- Approving changes to the Committee's terms of reference to ensure they remain in line with the UK Corporate Governance Code and associated guidance.
- Responding to FRC review, as noted below.

Financial Reporting Council

During the year, the Financial Reporting Council ("FRC") carried out a review of the FY19 Annual Report & Accounts and exchanged correspondence with the Group. This review considered the Group's compliance with relevant reporting requirements and did not provide any assurance over the disclosures that were reviewed. The FRC (which includes the FRC's officers, employees and agents) has requested that we make clear that it accepts no liability for reliance on its review by the Company or any third party, including but not limited to investors and shareholders. At the conclusion of the review, the Group committed to making a number of enhancements to its disclosures relating to the impairment of non-current assets, inventory, prepayments and the carrying value of the Parent Company's investment in subsidiaries.

Significant issues considered in relation to the financial statements

Significant issues and accounting judgements are identified by the finance team and through the external audit process and are reviewed by the Audit Committee. The significant issues considered by the Committee in respect of the year ended 26 April 2020 are set out in the table below.

Significant issues and judgements	How the issues were addressed
Adjusting items	More comprehensive disclosure included in financial statements regarding treatment of adjusting items.
Hedge accounting	The accounting treatment was reviewed, in particular, the appropriateness of continuing to apply hedge accounting.
Impairment of property, plant and equipment, right-of-use assets and intangibles	One of the impacts of COVID-19 was that profit forecasts were reduced and, consequently, the FY20 accounts include significant impairment charges. The financial statements incorporate comprehensive disclosures in relation to these items.
Implementation of IFRS 16 Leases	In the current period, the Group has applied IFRS 16. Please refer to Note 1 (b) (ii) of the financial statements for details of how IFRS 16 has been implemented and its effect on the financial statements.
Valuation of inventory	Carrying values reviewed in the context of possible increased obsolescence due to COVID-19 impacts. A detailed review of consumables was undertaken.
Valuation and disclosure of import duty provisions	The Committee considered and approved the level of provisioning required as a result of an ongoing review by HMRC into historic application of duty rates.
Going concern	In light of the lowered profit forecasts, the Committee gave due consideration to the appropriateness of continuing to apply the Going Concern convention in preparing the financial statements. Significant additional disclosures relating to going concern are included within the financial statements.

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 the risk appetite. The Board has however delegated responsibility for review of the risk management methodology and effectiveness of 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 27 to 31.

Report of the Audit Committee continued

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 bank covenant compliance and financial and non-financial KPIs.

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

- Reviews the risk register compiled and maintained by senior managers within the Group and questions and challenges where necessary; and
- Regularly reviews the system of financial and accounting controls.

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 have been deemed to be significant.

Internal audit

During FY20, Grant Thornton has carried out a number of internal audits in accordance with the previously agreed internal audit plan. These included a review of controls over the use of cheque payments, cyber security and GDPR. The Committee has reviewed the outcome of these internal audits, including Grant Thornton's recommendations, and is satisfied that management's response to the recommendations has been appropriate.

Although the Committee is comfortable that the internal audit function is effective, the wider economic circumstances and the focus on preserving cash has led to the conclusion that the number of internal audit processes in FY21 will be fewer than in FY20. The areas of focus are likely to be in reviewing and testing management's implementation of actions arising from previous internal audits, and a review of GDPR controls and processes which was put on hold due to the impact of COVID-19. Grant Thornton and management will also consider changes to the Company's risk and control framework resulting from the COVID-19 lockdown, in particular the operation of internal control processes in remote working environments, and whether specific internal audit focus in these areas is appropriate to ensure that such controls remain robust and effective.

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 auditor's independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board as to the auditor's appointment (subject to shareholder approval) or otherwise.

Appointment and tenure

KPMG was first appointed as the external auditor of TheWorks.co.uk plc in 2018. The current lead audit partner, Tony Sykes, was appointed ahead of the FY19 audit process.

KPMG generally requires 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 10 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. 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.
- 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 26 April 2020, the only non-audit services which KPMG has been engaged to carry out relate to the issuance of store turnover certificates to landlords for the purposes of certifying turnover based rents. The fees paid to KPMG LLP in respect of non-audit services during the year totalled £1k, representing 0.7 per cent. of the total audit fee. Further detail is shown in Note 7 to the financial statements on page 91.

External audit effectiveness

During the year, the Audit Committee reviewed the external auditor's effectiveness in carrying out the FY19 year-end audit and concluded that the audit process had been carried out effectively. The Committee will formally review the effectiveness of the FY20 audit process during FY21.

Harry Morley
Chairman of the Audit Committee
27 August 2020

Report of the Nomination Committee

Chairman: Harry Morley

Other members:
Catherine Glickman
Dean Hoyle

Role and Responsibilities

The role of the Nomination Committee (the "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 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.
- Review annually the time required from non-executive directors.

The 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

The Committee meets at least once per year and otherwise as required in order to discharge its duties. Only members of the Committee have the right to attend meetings, but the CEO and People Director are typically invited to attend at least part of each meeting, particularly when executive succession planning is being discussed. Other Directors, executives or advisers may be invited to attend all or part of any meeting as appropriate.

The Committee met on one occasion during the year, and has met once since the year-end. Individual attendance at the meetings is set out in the table on page 44. The meetings focused on reviewing the composition of the Board and committees, the independence requirements of the Code and the time commitment of the Non-Executive Directors. We have also discussed succession planning, and recommended the approval of a Board Diversity Policy to the Board.

CEO Change

We announced in January that Kevin Keaney had stepped down as CEO. Gavin Peck had been previously identified as a candidate to succeed Kevin and the Board therefore approved his appointment as CEO from 16 January 2020. As such, no formal recruitment process was operated and no external recruitment agencies were engaged.

Succession Planning

In addition to the CEO change, there have been a number of senior management changes during the year. Stephen Alldridge is currently undertaking the CFO role on an interim basis. Our intention is to make a permanent CFO appointment to the plc Board and that will be a focus of the Committee in the coming year. Senior Management succession planning remains on our rolling agenda and will be considered regularly by the Committee moving forwards. We also intend to increase our focus on Board succession planning, this not having been seen as a particularly urgent requirement in FY20 given the Board was only formed on IPO in July 2018.

Diversity

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 25 per cent. (1) female and 75 per cent. (3) male board members.

As noted above, the Committee recommended a formal Board Diversity Policy for approval by the Board during the year. Under the Policy, the Committee is responsible for monitoring compliance with the objectives of that Policy. The Policy recognises the benefits of greater diversity, including gender diversity and sets out the Board's commitment to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives to the Group.

The key objective of the Policy is to set out the process to be followed by the Nomination Committee during the recruitment process in order to ensure that an appropriately diverse pool of candidates is considered to enhance the balance of skills and backgrounds on the Board. As the change in CEO was managed through internal succession, there has been no formal Board recruitment process during the year and therefore there is no progress to report against that objective.

The Policy also places other responsibilities and objectives on the Committee, including an annual review of the structure, size and composition of the Board and an annual review of the Diversity Policy. Both of these matters were addressed at the Committee's meeting in August 2020.

Annual Evaluation

The Committee has evaluated its own performance during the year by way of a questionnaire completed by each member of the Committee and key contributors to Nomination Committee meetings. The evaluation indicated that the Committee operates effectively, but highlighted the need for greater focus on Board and senior management succession planning in FY21.

Harry Morley
Chairman of the Nomination Committee
27 August 2020

Report on Directors' Remuneration

Remuneration Committee Chair – Annual Statement

Chair: Catherine Glickman

Other members:
Harry Morley

> **I would like to echo the Chairman's and CEO's comments on the way The Works' team dug deep and demonstrated our values of 'can-do' and 'caring' to achieve a creditable year end.**

Dear Shareholder,

As Chair of the Remuneration Committee, I present our Directors' Remuneration Report for the year ended 26 April 2020 ("FY20").

This has been a challenging year for the business, with slower performance in the first half of the year, a strong Christmas followed by improved performance at the start of 2020 as a result of the strategic changes and tight cost control. This was overtaken by store closures in March, the massive people management challenge of furloughing store staff, whilst continuing to deliver for customers through our online business. I would like to echo the Chairman's and CEO's comments on the way The Works' team dug deep and demonstrated our values of 'can-do' and 'caring' to achieve a creditable year end.

This year's report has a short summary of our remuneration policy, followed by the annual report on remuneration which sets out payments made to the Directors and demonstrates how Company performance and remuneration were aligned for FY20. The Directors' Remuneration Report is subject to an advisory shareholder vote at our 2020 AGM.

Remuneration framework

Our remuneration policy has been tested through the last months, but we do believe it continues to be relevant. We want to attract and retain high calibre talented individuals, encourage a high performance culture, align our leadership with shareholder interests, ensure remuneration aligns with good corporate governance and good risk management practice, and promote sustainable Company performance, linking outcomes to business performance.

Our performance and incentive outturn for FY20

As you would anticipate, the annual bonus plan, which was based on performance against a group adjusted EBITDA was not met and therefore no short term incentive will be paid for FY20. The targets and outcome are shown in the annual report on remuneration.

No LTIP awards vested during the year as the earliest vesting date for the LTIP awards made in 2018 is August 2021.

Other than in relation to the reductions to the Chair's fee and CEO's salary described below, the Committee has not exercised any discretion in the award of directors' remuneration during the year.

Board Changes

As we announced in January, Kevin Keaney stepped down as CEO with effect from 16 January 2020: his remuneration for the period to that date is set out in the single figure table on page 54. In line with the Remuneration Policy and the terms of his employment contract, Kevin received full pay and benefits whilst on garden leave (for 6 months to 15 July 2020), and received a further payment in lieu of notice (equivalent to 6 months' salary and benefits). These payments, and the treatment of Kevin's outstanding LTIP awards, are described in more detail in the 'Payments to past directors and for loss of office' section on page 58.

We were pleased to promote Gavin Peck to CEO on 16 January 2020: Gavin brings deep knowledge of both The Works and the industry. Gavin's salary on appointment was set at £300,000 per annum, slightly lower than that of his predecessor, and his pension contribution was aligned with that of the wider workforce at 3% of base salary, a reduction from the 10% of base salary rate that Gavin received as CFO. It is the Committee's intention that all future Executive Director pension contributions be set in line with the wider workforce.

COVID-19 – Salary and fee reductions

We closed our stores on 23 March 2020, ahead of the Government's "Stay at Home Measures". We used the Government's Job Retention Scheme, furloughing the majority of our colleagues. To align the Board with colleagues and retain cash within the business, the Chair volunteered to waive his fees and the CEO volunteered to reduce his salary, which the Committee approved. The following adjustments were made:

- Chairman's fee – 100% reduction for 3 months from 1 March 2020;
- CEO's salary – 33% reduction for 3 months from 1 April 2020.

The Committee also approved 20% salary reductions for the Company's Operational Directors, including the Interim CFO, for the period of store closures.

The Non-Executive Directors also agreed to a 33% fee reduction for three months from 1 April 2020.

Implementation of our Policy for the period ending 2 May 2021 ("FY21")

Salary and Fees

We are taking a responsible approach this year. As such, there will be no increase to the CEO's salary for FY21, which will remain at £300,000 per annum.

There have been no changes to Non-Executive Directors' fees since the IPO in 2018.

Annual bonus

In light of the continuing impact on our business of COVID-19, the Committee has given careful consideration to annual bonus arrangements for the senior team. Our original intention was that there would be no annual bonus for Operational Directors or the Executive Directors. However, we are mindful of the need to put in place an appropriate incentive arrangement given the team's critical importance to the business' recovery and we recognise the voluntary salary reductions already accepted.

Whilst the maximum bonus award permitted under the remuneration policy is 100% of salary, given the fragility of the retail environment, we anticipate that any award for this financial year will be likely to be below this level. Should an award be made, the majority will be based on stretching financial performance measures coupled with a small number of non-financial strategic metrics. The details are being determined as we gain understanding of the current and future impact of COVID-19, and analyse our business performance post lockdown. The details of the measures and out-turn will be disclosed in the Directors' Remuneration Report for FY21. There will be no payment in respect of any non-financial metrics unless a base level of financial performance is achieved. In addition to the overriding ability to amend any formulaic pay-out should it not reflect overall business performance, the Committee will specifically consider in relation to any bonus for FY21:

- the extent to which any bonus has been earned based on any governmental or other support provided in the year; and
- the broader employee experience over the year, including their bonus arrangements and the approach to pay awards.

To enhance the alignment of the Executive Directors' bonus arrangements with the interests of shareholders, the whole of any bonus earned in FY21 by an Executive Director will be delivered in the form of a deferred share award, vesting at the end of a two year deferral period.

LTIP

The current intention of the Committee is to grant the Executive Directors LTIP awards in respect of FY21 over shares with a value of up to 100% of salary. However, we currently intend that any grant will take place following the announcement of our half-year results when we have more clarity as to the performance of the business in these unprecedented times. The Committee is mindful of recent share price movements and the wider impact of the COVID-19 enforced store closures on shareholder and employee interests, and will therefore take a final decision as to the value of the award in advance of the grant. In making that decision, it will take into account the prevailing share price, the value inherent in previously issued LTIP awards and the level of stretch within the targets. The performance measure will be based on the Company's earnings per share and, as in previous years, a general performance underpin based on the overall financial performance of the Group over the performance period. Details of the performance targets will be included in the regulatory announcement when the awards are granted. We will also include in the terms of any award a specific provision to enable us to take into account, when approving vesting, whether there has been any "windfall gain".

Stakeholder Engagement

Whilst FY20 has proved to be very challenging in the last quarter, we are delighted to have been recognised as one of The Sunday Times 25 Best Big Companies to work for, for a second year. We know our colleagues are a key part of our customer experience in our stores: their passion and enthusiasm makes The Works a special place to shop and we know that staff engagement is precious.

The Board receives feedback from employees in a number of ways, including the annual Sunday Times Best Companies engagement survey in which colleagues provide feedback on leadership, personal growth, giving back as well as pay and benefits. The Committee receives regular updates on colleague pay and benefits, spends time in stores with retail colleagues, and considers employee remuneration in its review of Executive Director and Senior Management pay and benefits.

On behalf of the Board, I would like to thank shareholders for their continued support. 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
27 August 2020

Summary of Remuneration Policy

Directors' Remuneration Policy

The Directors' remuneration policy (the 'Policy') was approved by shareholders at the AGM on 28 August 2019 (99.99 per cent. of votes cast being in favour) and became effective from that date. There are no proposals to amend the Policy at the 2020 AGM.

A summary of the Policy is set out below for reference and to assist with the understanding of the contents of the Annual Report on Remuneration. The full Policy can be found in the 2019 Annual Report which is available to download from the Investors section of the Company's website, www.theworksplc.co.uk, under the heading 'Results, Reports and Presentations'.

The table summarising the policy below sets out each element of remuneration and how it supports the Group's short-term and long-term strategic objectives.

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.	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.	None.
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.	No absolute maximum on level of benefits, however 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.
Pension	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.	Although the policy approved by shareholders in 2019 permits a pension contribution of up to 10% of salary, Gavin Peck's pension contribution was reduced to 3% on his promotion to CEO, aligned with the wider workforce. In accordance with the policy approved in 2019, the contributions for any Executive Director appointed in the future will be similarly aligned with the wider workforce. If an Executive Director sacrifices any remuneration into pension, they may also receive a contribution equal to the amount of employer social security saving.	Not applicable

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	Rewards Executive Directors for performance in the relevant year against targets and objectives linked to the delivery of strategy.	Targets and objectives are reviewed annually and any pay-out determined by the Committee after the year-end. Annual bonuses will ordinarily be paid in cash, but the Committee has discretion to defer part of the bonus earned into shares for up to two years.	Maximum bonus opportunity is 100% of base salary.	At least 50% of bonus opportunity is based on EBITDA or other measure of profit. The balance will be based on financial measures and/or the delivery of strategic/individual measures.
Long Term Incentive Plan (LTIP)	Rewards Executive Directors for the creation of value for shareholders by rewarding the Executive Directors for the achievement of longer-term objectives aligned to shareholders' interests.	Awards may be granted annually to Executive Directors in the form of nil-cost options or conditional awards of shares. Awards will be subject to a three year vesting period subject to satisfaction of the performance conditions and a two-year post-vesting holding period.	Award maximum of 100% of base salary, or 200% of base salary in exceptional circumstances.	Performance measures 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.
All employee share plans	Aligns staff with the Group and provides a sense of ownership across the employee base.	The Company operates a Save As You Earn Scheme which is open to all eligible staff (including Executive Directors).	UK scheme in line with HMRC limits as amended from time to time.	None.
Shareholding requirement	To support long-term commitment to the Company and the alignment of Executive Directors' interests with those of shareholders.	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 is equal to the agreed thresholds.	200% of salary for CEO; 100% of salary for other Executive Directors.	None.
Chairman and Non-Executive fees	Provides a level of fees within a market competitive range reflecting the individual responsibilities of the role and the expected time commitment.	The Chairman and Non-Executive Directors are paid a base fee. An additional fee is paid for the role of Senior Independent Director and holding the position of chair of the Audit Committee; an additional fee may be paid for holding the office of chair of the Remuneration Committee.	The base fees for the Chairman and Non-Executive Directors are set taking into account the responsibilities of the role and expected time commitment.	None.

Annual Report on Remuneration

This report has been prepared in accordance with the applicable regulations and the UK Corporate Governance Code.

Single figure table – Audited Information

The following table sets out total remuneration for each Director in respect of FY20. As the Executive Directors were appointed just prior to Admission and the Non-Executive Directors were appointed on Admission on 19 July 2018, the comparator figures in the table below reflects each individual's remuneration from the date of Admission to 28 April 2019.

		Salary and fees[(a)] £'000	Benefits[(b)] £'000	Pension[(C)] £'000	Annual Bonus[(d)] £'000	Long term incentive[(e)] £'000	Total £'000
Executive Directors							
Gavin Peck	**2020**	**223**	**11**	**17**	**–**	**–**	**251**
(as CFO until 16 January 2020, and CEO from that date)	2019	155	8	16	–	–	179[1]
Kevin Keaney	**2020**	**223**	**21**	**22**	**–**	**–**	**267**
(ceased to be a Director on 16 January 2020*)	2019	240	24	23	–	–	288
Non-Executive Directors							
Dean Hoyle	**2020**	**83**	**–**	**–**	**N/A**	**N/A**	**83**
	2019	78	–	–	N/A	N/A	78
Harry Morley	**2020**	**53**	**–**	**–**	**N/A**	**N/A**	**53**
	2019	43	–	–	N/A	N/A	43
Catherine Glickman	**2020**	**48**	**–**	**–**	**N/A**	**N/A**	**48**
	2019	39	–	–	N/A	N/A	39

* The remuneration included in this table in respect of Kevin Keaney is his remuneration earned to 16 January 2020. Amounts paid to him after this date are set out on page 58.

(a) Salary and fees — The amount of salary/fees earned in respect of the year. In the case of Gavin Peck and the Non-Executive Directors the salary or fees for 2020 reflect the voluntary reductions referred to on page 51.

(b) Benefits — The taxable value of benefits received in the year. For both Executive Directors these are principally private medical insurance, car or car allowance. For Kevin Keaney, the 2019 benefits figure also included accommodation expenses which ceased in February 2019. For Kevin Keaney the 2020 benefits figure includes his SAYE option granted in August 2019, valued as the aggregate discount of the exercise price from the share price used to determine the exercise price.

(c) Pension — The pension figure represents the cash value of pension contributions for the Executive Directors to the defined contribution pension arrangement and any cash payments in lieu of pension contributions made in the year.

(d) 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.

(e) Long-term incentives — The first awards granted under the Company's Long-Term Incentive Plan ('LTIP') were made in FY19. LTIP awards are subject to three-year vesting periods and therefore no LTIP awards have vested with respect to performance in the financial years FY19 or FY20. Therefore no figures are included for LTIP 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

With effect from 1 May 2019, the Executive Directors received a modest salary increase of 1.5%, lower than the average salary increases to other employees in the Group (excluding increases due to National Minimum and Living Wages). On appointment as CEO on 16 January 2020, Gavin Peck's salary was increased to £300,000 per annum and his pension contribution was reduced to align with rates available to the wider workforce at 3%. In response to the closure of stores and furloughing of staff due to the COVID-19 pandemic, Gavin Peck agreed to a 33% salary reduction for 3 months from 1 April 2020.

	Base salary from Admission	Base salary from 1 May 2019
Kevin Keaney	£310,000	£314,650
Gavin Peck	£200,000	£203,000*

* Increased to £300,000 with effect from 16 January 2020

Details of Chairman and Non-Executive Directors' fees are set out below. These are the same fee levels as have applied since Admission. In response to the closure of stores and furloughing of staff due to the COVID-19 pandemic, the Chairman agreed to a 100% fee reduction for 3 months from 1 March 2020, and the Non-Executive Directors agreed to a 33% fee reduction for 3 months from 1 April 2020.

	Base fee £000
Chairman's fee	100,000
Harry Morley	55,000
Catherine Glickman	50,000

Annual incentive plan – Audited Information

For FY20, 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	16.3	0%		
Target	17.1	50%	10.8	0%
Maximum	17.9	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 – Awards granted during the financial year – Audited Information

Awards equal to 100% of salary were granted to the Executive Directors on 3 September 2019, on the following basis:

	Type of award[1]	Maximum opportunity	Number of shares	Face value at grant (£)[2]	% of award vesting at threshold	Performance period[3]
Kevin Keaney	LTIP	100% of salary	388,456	314,649	20%	April 2019 to April 2022
Gavin Peck	LTIP	100% of salary	250,617	202,999	20%	April 2019 to April 2022

1 In addition to their LTIP award, the Executive Directors were also granted a tax qualifying CSOP Award over 37,037 shares at an exercise price of 81 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 81 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 2019 to April 2022 (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 interests under Share Schemes section below.

SAYE options granted during the financial year – Audited Information

Kevin Keaney was granted an SAYE option on 20 August 2019 on the basis set out below as part of the SAYE offer made to all eligible employees on 25 July 2019. The option lapsed on 15 July 2020.

	Type of award	Number of Shares	Exercise price[1]	Face value at grant (£)[2]
Kevin Keaney	SAYE option	15,517	£0.58	11,095

1. In line with the scheme, this is set at a 20% discount to 71.5 pence, the average closing share price on 22, 23 and 24 July 2019, the 3 business days prior to the date of invitation.
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 71.5 pence, the average closing share price for each of the 3 business days prior to the date of invitation.

Statement of Directors' shareholding and share interests – Audited Information

The number of shares of the Company in which current Directors had a beneficial interest and details of long-term incentive interests of Executive Directors, as at 26 April 2020 (or their leaving date if earlier) are set out in the table below.

	Outstanding scheme interests 26 April 2020 (or date of cessation if earlier)			Beneficially owned shares		
	Unvested LTIP interests subject to performance conditions	Scheme interests not subject to performance measures	Total shares subject to outstanding scheme interests	28 April 2019	26 April 2020 (or leaving date if earlier)	Total of all scheme interests and shareholdings at 26 April 2020 (or leaving date if earlier)
Executive Directors						
Kevin Keaney (ceased to be a Director on 16 January 2020)	569,742	15,517*	585,259	1,094,600	1,194,600	1,779,859
Gavin Peck	367,576	–	367,576	454,636	554,636	922,212

Annual Report on Remuneration continued

	Outstanding scheme interests 26 April 2020 (or date of cessation if earlier)			Beneficially owned shares		
	Unvested LTIP interests subject to performance conditions	Scheme interests not subject to performance measures	Total shares subject to outstanding scheme interests	28 April 2019	26 April 2020 (or leaving date if earlier)	Total of all scheme interests and shareholdings at 26 April 2020 (or leaving date if earlier)
Non-Executive Directors						
Dean Hoyle	–	–	–	8,891,378	10,470,956	10,470,956
Harry Morley	–	–	–	15,625	31,125	31,125
Catherine Glickman	–	–	–	15,625	31,812	31,812

* This is the SAYE option granted to Kevin Keaney on 20 August 2019. As noted above, this lapsed on 15 July 2020.

Harry Morley acquired 44,382 shares on 14 July 2020 taking his total beneficially held interest to 75,507. There have been no other changes to the interests of the other Directors between 26 April 2020 and the date of this report.

Executive Directors' interests under Share Schemes – Audited Information

The table below sets out the Executive Directors' interests in the LTIP and SAYE scheme.

Awards under the SAYE scheme are not subject to any performance conditions (other than continued employment on the vesting date). The LTIP awards are subject to performance conditions as set out in the table below.

	Award date	Vesting, exercise or release date	As at 28 April 2019	Granted during the year	Exercised during the year	Lapsed during the year	Number of shares at 26 April 2020	Exercise price
Kevin Keaney								
LTIP	22 August 2018[1]	22 August 2021	181,286	–	–	–	181,286	N/A
	3 September 2019[1]	3 September 2022	–	388,456	–	–	388,456	N/A
SAYE	20 August 2019	20 August 2022	–	15,517	–	–	15,517*	£0.58
Gavin Peck								
LTIP	22 August 2018[1]	22 August 2021	116,959	–	–	–	116,959	N/A
	3 September 2019[1]	3 September 2022	–	250,617	–	–	250,617	N/A

* This option lapsed on 15 July 2020.
1 In addition to their LTIP award, the Executive Directors were also granted tax qualifying CSOP awards over 17,543 shares with an exercise price of £1.71 (2018) and 37,037 shares with an exercise price of £0.81 (2019). To the extent a CSOP award is exercised at a gain, the extent to which the associated 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.

LTIP awards vest on the basis of compound annual growth in the Company's underlying basic earnings per share over the three year performance period. Vesting of the awards shown in the table above will be based on the following compound annual growth in EPS targets:

	Vesting level		
Award year	20%	Straight line between 20% and 100%	100%
2018	17.5%	Greater than 17.5% but less than 26.5%	26.5%
2019	10%	Greater than 10% but less than 22.1%	22.1%

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.

Directors' share ownership guidelines – Audited Information

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 26 April 2020 (or leaving date if earlier), based on the share price at the end of the financial year, is summarised below. In the case of Gavin Peck, the value as a percentage of his base salary is based on the salary of £300,000 which has applied since his appointment as CEO on 16 January 2020.

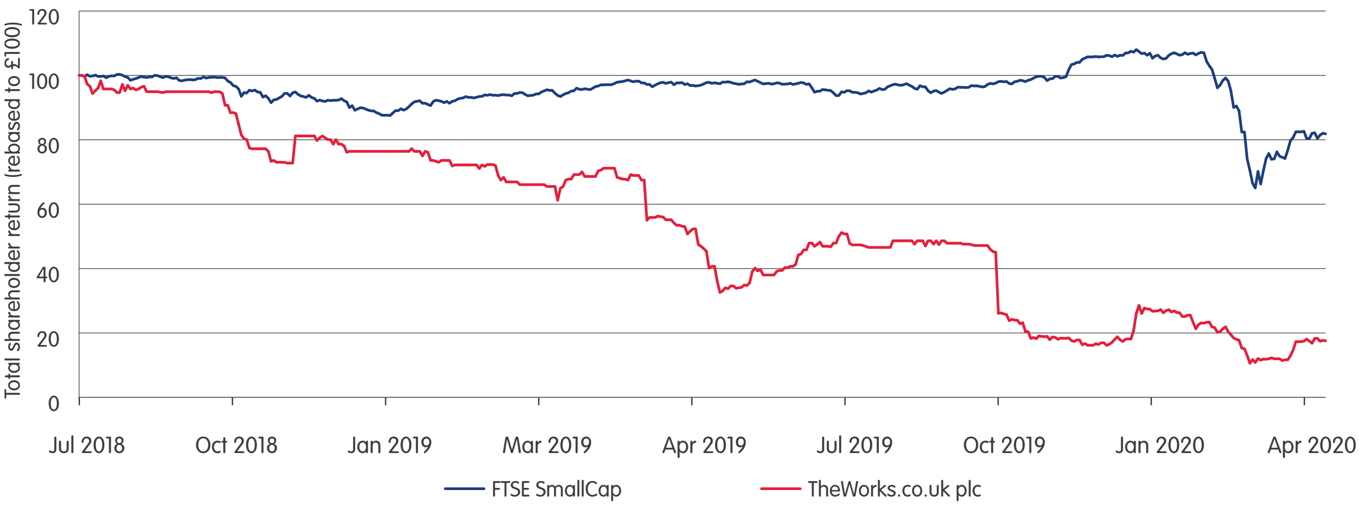
Whilst Gavin Peck's shareholding as a percentage of his salary is less than reported at the end of FY19, the Committee considers him to be deeply aligned with shareholders through his substantial holding of The Works' shares awarded at IPO, which he increased in July 2019 with the acquisition of a further 100,000 for an aggregate purchase price of £68,750 (c.33% of his then salary and c22% of his salary with effect from his appointment as CEO). In line with the Policy, Gavin will be required to retain shares from future LTIP vestings to build up his shareholding.

Executive Director	Shares counting towards the guideline at 26 April 2020 (or leaving date if earlier)	Value of shares counting towards the guideline[1]	Value of shares as a percentage of base salary
Kevin Keaney (ceased to be a Director on 16 January 2020)	1,194,600	£348,823	111%
Gavin Peck[2]	554,636	£161,954	54%

1 Based on a share price of 29.2 pence as at 26 April 2020
2 Value as a percentage of salary calculated on Gavin's salary as CEO (£300,000 per annum).

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 26 April 2020. 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 26 April 2020, of £100 invested in shares in the Company on 19 July 2018 compared with £100 invested in the FTSE SmallCap.



The table below sets out the total remuneration delivered to the CEO over the last two financial years, valued using the methodology applied to the single total figure of remuneration. The Remuneration Committee does not believe that the remuneration paid in earlier years as a private company bears any comparative value to that paid in its time as a public company and, therefore, the Remuneration Committee has chosen to disclose remuneration only for the two most recent financial years (with the figures for FY19 being for the period from Admission on 19 July 2018 to 28 April 2019):

Year (CEO)	Total single figure remuneration £'000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)[1]
2020 (Gavin Peck – from 16 January 2020)	85	0%	N/A
2020 (Kevin Keaney – until 16 January 2020)	267	0%	N/A
2019 (Kevin Keaney)	288	0%	N/A

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

Change in remuneration of CEO compared to group employees

The table below sets out the change in salary, fees and bonus paid to the Company's CEO, and the average percentage change from FY19 to FY20 for the Group's UK employees as a whole. The Company has selected the UK employees in order that exchange rates and country specific differences do not distort the comparison.

	% change in element between FY19 and FY20		
	Salary and fees	Taxable benefits	Annual bonus
CEO	(2.26%)[1]	(22.58%)[2]	N/A[3]
UK employees' average[4]	3.54%	13.91%[5]	(62.2%)[6]

1. In FY20 Kevin Keaney was CEO until 16 January 2020 and Gavin Peck was CEO from that date until the end of the financial year. The change in salary compares the annual rate of salary for Kevin Keaney with effect from Admission in the case of FY19 (£310,000) to the salary earned by each during the period in which they were CEO in the case of FY20 (£303,000 in aggregate).
2. The change in benefits compares the benefits for Kevin Keaney as stated in the single figure table for FY19 annualised to reflect that figure was only for the period from Admission in the case of FY19 (£31,000) to the benefits for Kevin Keaney and Gavin Peck during the period in which they were CEO in the case of FY20 (£24,000 in aggregate).

Annual Report on Remuneration continued

3. No CEO bonus was earned in respect of FY19 or FY20.
4. The UK employees' average changes are calculated comparing the remuneration for the tax year ended 5 April 2019 with the remuneration for the tax year ended 5 April 2020 as this data is more readily available than data in respect of the financial years. The value of SAYE options granted in August 2019 have been excluded for consistency with the CEO Pay Ratio calculation on page 58.
5. The increase in the UK employees' average benefits reflects the introduction of Private Medical Insurance for Senior Management during the year. Although there is a relatively large percentage increase, this reflects an increase in the average value of benefits provided from c.£103 to c.£117.
6. The reduction in the UK employees' average bonus reflects that in FY19 bonuses were paid in connection with Admission and that FY20 bonuses were impacted by COVID-19.

Relative importance of spend on pay

The following table sets out the total remuneration for all employees and the total shareholder distributions in FY19 and FY20. All figures provided are taken from the relevant Company accounts.

	FY19 £'000	FY20 £'000	Percentage change
Total Remuneration for all employees (including Executive directors)	48,213	54,400	12.8%
Dividends and share buybacks	750	2,250	200.0%

CEO Pay ratio

The table below shows how the CEO's remuneration (as taken from the single figure remuneration table on page 54 compares to equivalent remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Ratio	Option C	21:1	19:1	17:1
Employee Salary (£)		17,077	18,013	19,925
Employee Total Pay and Benefits (£)		17,077	18,094	20,338

Notes to the CEO pay ratio

1. The regulations set out three methodologies for determining the CEO Pay ratio. We have chosen "Option C" because the other options were considered inappropriate given the impact of the furloughing of employees in response to the COVID-19 pandemic and the suspension of gender pay gap reporting for FY20 on the sourcing of robust and relevant data.
2. As ratios could be unduly impacted by joiners and leavers who may not participate in all remuneration arrangements in the year of joining and leaving, the Committee has modified the statutory basis to exclude any employee not employed throughout the financial year.
3. Employee pay data is based on full-time equivalent (FTE) base pay for UK employees as at 31 March 2020 (based on FTE salary for salaried employees and hourly pay rates for hourly paid employees), to which actual pension contributions, bonus and benefits have been added, except that the value of SAYE options granted in August 2019 have been excluded as their value is not considered to have a significant impact on the CEO Pay Ratios and sourcing the data for each employee is administratively burdensome. The employees have then been ranked by FTE pay and benefits calculated on this basis and the employees at the 25th percentile, 50th percentile (median) and 75th percentile have been identified. The FTE pay and benefits for those three groups of employees are then compared to the CEO single figure of remuneration to calculate the ratios.
4. The CEO single figure of remuneration used comprises the single total figure for FY20 for Kevin Keaney, plus the single total figure for Gavin Peck for the period of the year from his appointment as CEO (16 January 2020) to 26 April 2020.

The Company considers that the median pay ratio is consistent with pay, reward and progression policies for the Company's employees as a whole.

Payments to past Directors and for loss of office – Audited information

As announced on 16 January 2020, Kevin Keaney stepped down as CEO and as a Director of the Company on 16 January 2020. The single figure table on page 54 includes his remuneration earned to 16 January 2020.

Kevin remained with the business on garden leave for the period from 16 January 2020 to 15 July 2020 ('Leaving Date'). Whilst on garden leave Kevin continued to receive full pay and benefits as follows:

- Salary: £156,479
- Benefits: £13,425
- Pension contribution: £15,648

Following the Leaving Date, Kevin received a lump-sum payment equivalent to 6 months' base salary and benefits in lieu of notice (a total amount of £202,395 consisting of £157,325 in lieu of salary, £15,732 in lieu of a company pension contribution and £29,338 in respect of benefits).

Kevin Keaney's LTIP awards granted on 22 August 2018 and 3 September 2019 will continue and vest following the end of the applicable performance period, subject to the satisfaction of the performance conditions and the requirement that Kevin is not working for a business in competition with the Company. To the extent they vest, the awards will then be released to Kevin Keaney (so that he can acquire the vested shares) following the end of a further two year holding period from the vesting date. The number of shares in respect of which any award is released will be reduced to reflect the proportion of the applicable performance period which has elapsed at the Leaving Date. Kevin Keaney's outstanding SAYE award lapsed in accordance with the standard leaver provisions of the SAYE scheme rules.

Other than the payments described above, no other remuneration payment has been paid to Kevin Keaney after 16 January 2020. All payments are in line with the Company's Remuneration Policy approved by shareholders at the 2019 AGM.

Implementation of the Directors' Remuneration Policy for FY21

Information on how The Works intends to implement the Directors' Remuneration Policy for FY21 is set out below.

Gavin Peck's salary was increased to £300,000 with effect from 16 January 2020 to reflect his appointment as CEO from that date. As noted above, Gavin agreed to a 33% reduction in salary for 3 months from 1 April 2020. He will not receive a salary increase for FY21, and therefore his base salary will remain £300,000.

The Chairman and Non-Executive Fees have not changed since being set at Admission. The Chairman agreed to a 100% reduction in his fee for 3 months from 1 March 2020, and the Non-Executive Directors agreed to a 33% reduction in their fees for 3 months from 1 April 2020.

Incentive arrangements

The Executive Directors' maximum bonus and LTIP opportunities for FY21 will be up to 100% of salary under each element. Further information in relation to our approach having regard to the unprecedented circumstances of COVID-19 are set out in the statement from the Chair of the Remuneration Committee on page 50. As targets under the annual incentive are considered commercially sensitive, these will be disclosed retrospectively in the FY21 Annual Report. As noted in the statement from the Chair of the Remuneration Committee on page 50, we currently intend that any LTIP grant will take place following the announcement of our half-year results, and details of the performance targets will be included in the regulatory announcement when the awards are granted.

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 four times during the year, and has met twice since the year-end and all members of the Remuneration Committee attended those meetings. 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.

The Remuneration Committee has evaluated its performance this year with a questionnaire completed by Committee members and regular attendees. The evaluation outcome was discussed at the Remuneration Committee's April 2020 meeting. It confirmed that the Committee operates effectively, but it needed to ensure the remuneration policy motivated and retained key executives, particularly through the effectiveness of the LTIP, as a result of the impact of COVID-19.

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, People 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 £20,000 for FY20. 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.

Shareholder voting at AGM

The following table shows the results of the advisory vote on the Directors' Remuneration Report, and the binding vote on the Directors' Remuneration Policy, at our Annual General Meeting held on 28 August 2019:

	Approval of the Directors' Remuneration Report		Approval of the Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	50,116,302	99.99	50,116,302	99.99
Against	1,500	0.01	1,500	0.01
Withheld	0	N/A	0	N/A

Approval

This Report was approved by the Board on 27 August 2020 and signed on its behalf by:

Catherine Glickman
Chairman of the Remuneration Committee
27 August 2020

Directors' Report

The Directors present their report for the financial year ended 26 April 2020. 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 15
Greenhouse gas emissions	CSR Report – page 38
Employee engagement	CSR Report – pages 38 to 39 and Governance Report page 45
Diversity policy	Nomination Committee report – page 49
Viability	Viability Statement – pages 32 to 34
Section 172 Statement	Page 35
Stakeholder engagement in key decisions	CSR Report – page 36 and Section 172 statement
Corporate Governance Statement	Page 43
Financial risk management objectives and policies (including hedging policy and use of financial instruments)	Note 24 to the financial statements – pages 101 to 104
Details of long-term incentive schemes	Directors' Remuneration Report – page 51
Statement of Directors' responsibilities	Page 63

Directors
The Directors of the Company who held office during the period are set out below, summaries of the current Directors' key skills and experience can be found on pages 40 to 41 of the Corporate Governance Report.

Dean Hoyle (Chairman)	
Kevin Keaney (CEO)	Stepped down from the Board on 16 January 2020
Gavin Peck (CFO to 16 January 2020, CEO from that date)	
Harry Morley (Senior Independent Director)	
Catherine Glickman (Non-Executive Director)	

Results and dividend
The results for the year are set out in the consolidated Income Statement on page 73. The Directors are not proposing a final dividend for the year ended 26 April 2020.

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 26 April 2020, 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.

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.

At the Company's Annual General Meeting held on 28 August 2019, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Companies Act 2006) purchase up to a maximum of 6,250,000 of its ordinary shares. The Company has not repurchased any of its ordinary shares under this authority, which is due to expire at the Annual General Meeting to be held on 30 September 2020, and accordingly has an unexpired authority to purchase up to 6,250,000 ordinary shares with a nominal value of £62,500.00. A resolution to renew the authority for a further year will be proposed at the 2020 Annual General Meeting.

Directors' interests

The number of Ordinary shares of the Company in which the Directors were beneficially interested as at 26 April 2020 are set out in the Directors' Remuneration Report on page 55.

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 58.

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 26 April 2020, and 25 August 2020 (being the latest practicable date prior to publication of the Annual Report):

	As at 26 April 2020		As at 25 August 2020	
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
Schroders plc	10,630,141	17.01%	11,430,141	18.29%
Dean Hoyle[1]	10,329,378	16.53%	10,329,378	16.53%
Cannacord Genuity Group plc	6,872,100	10.99%	5,899,600	9.44%
Jupiter Fund Management plc	N/A	N/A	5,766,500	9.22%
Endless LLP	6,153,416	9.85%	6,153,416	9.85%
Jupiter Asset Management Limited	3,165,000	5.06%		Below 5%
Standard Life Aberdeen plc	3,109,275	4.97%	3,109,275	4.97%
Bennbridge Limited	3,054,597	4.89%	3,054,597	4.89%

1 Includes interest of Janet Hoyle

Branches outside the UK

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

Employee involvement

Information relating to employees of the Group and how the Company engages with its workforce can be found in our CSR Report on page 38 to 39.

Disabled employees

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.

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 13 August 2020 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 on 30 September 2020. The Notice of Annual General Meeting is contained in a separate letter from the Chairman accompanying this report.

Post balance sheet events
Other than as disclosed in the Strategic Report, there have been no material post balance sheet events as at the date of this report.

The Strategic Report on pages 10 to 39 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 Executive Officer
27 August 2020

Statement of Directors' Responsibilities

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 FRS 101 Reduced disclosure framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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

Gavin Peck
Chief Executive Officer
27 August 2020

Independent Auditor's Report

to the Members of TheWorks.co.uk plc

1. Our opinion is unmodified

We have audited the financial statements of The Works.co.uk PLC ("the Company") for the 52 week period ended 26 April 2020 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 30.

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 26 April 2020 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 2 financial years ended 26 April 2020. 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. Material uncertainty related to going concern

We draw attention to Note 1(b) to the financial statements which indicates that the Group's net debt has increased from a £3.7m net cash position as at 28 April 2019 to a net debt position of £7.1m as at 26 April 2020, which comprised a draw-down of £10.0 million against its £25.0 million revolving credit facility ('RCF'), expiring in June 2021 and cash balances of £2.9 million.

In March 2020, due to COVID and the resulting national lockdown, all of the Group's retail stores closed and were reopened progressively from May 2020 in line with national government requirements. The online channel traded throughout this period.

The Group has announced a number of measures to preserve liquidity including, cutting overhead costs, temporarily suspending dividends, scaling back capital expenditure, agreeing rent reductions and/or deferrals with landlords, re-scheduling, cancelling or deferring stock purchases and agreeing revised payment terms with suppliers.

The Group will also benefit from approximately £12m of business rates relief in FY21, and the government's job retention scheme to help meet the cost of furloughed roles contributed cash savings of approximately £8m between the beginning of lockdown and the end of July 2020.

On 13 August 2020 the Group extended its £25.0 million RCF to September 2022 and secured an additional £7.5 million facility under the Government's CBILS scheme, which also expires in September 2022 (together 'the facilities'). The facilities are subject to financial covenants outlined below:

1. Minimum EBITDA: A 12 month rolling monthly minimum Earnings Before Interest, Tax, Depreciation and Amortisation,
2. Maximum total net debt: a 12 month rolling monthly maximum net debt covenant and
3. Capital expenditure. An annual maximum capital expenditure spend.

Whilst a number of the sensitised cash flow forecasts referred to in Note 1 do not breach the covenants referred to above there is limited headroom. As there remains considerable uncertainty over the potential development of the COVID-19 pandemic, any future Government response and the economic impact of those developments on the cash flow forecasts of the Group, it is difficult to rule out the potential for further increases in local social distancing measures or even the possibility of a further national lockdown and the effect that it will have on the forecast cash flows. In light of this level of uncertainty over the duration and severity of any disruption, there are scenarios in which the Group breaches its EBITDA covenants.

These events and conditions, along with the other matters explained in Note 1(b) to the financial statements, constitute a material uncertainty that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

The risk: Disclosure quality
The financial statements 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 and Company's business model, including the impact of Brexit, and how those risks might affect the Group and 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 risk for our audit is whether or not those risks are such that they amount to a material uncertainty that may cast significant doubt about the ability to continue as a going concern. If so, that fact is required to be disclosed (as has been done) and, along with a description of the circumstances, is a key financial statement disclosure.

Our Response
Our procedures included:

- **Evaluating assumptions**: Challenged the key assumptions in the forecasts used by the Director's in assessing the Going Concern assumptions and considering the reasonableness of their risks and sensitivities to these assumptions;
- **Sensitivity analysis**: We considered sensitivities over the inputs to the cash flow forecasts which determine 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 COVID.
- **Funding assessment**: 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.
- **Assessing transparency:** Assessing the completeness and accuracy of the matters covered in the going concern disclosure by agreeing the information to the cash flow forecasts and the sensitised cash flow forecasts.
- **Historical comparisons:** We reviewed the historical accuracy of management's forecasts v actual cashflows by completing a retrospective review of the prior year forecasts to actual cashflows achieved for the period May 2019 – February 2020 (pre lockdown).
- **Evaluating directors' intent**: We evaluated the achievability of the actions Management consider they would take to improve the position should the risks materialise, by challenging what mitigating actions were within their control, how quickly these mitigating actions could materialise and whether such actions would have an impact on the underlying cash flow assumptions.

Our results
We found the disclosure of the material uncertainty to be acceptable (2019: Going Concern disclosure with no material uncertainty: acceptable).

3. Other Key audit matters: our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgment, 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. Going concern is a key audit matter and is described in section 2 of this report. We summarise below the other key audit matters, in decreasing order of audit significance, 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.

3.1 Carrying amount of store assets (including property, plant and equipment plant and equipment

£21,061k (2019: £20,786k) and right of use assets £116,763k (2019: Nil)

Refer to page 47 (Audit & Risk Committee Report), page 86 (Accounting Policies Note 1o) and page 95 (financial disclosures Note 14).

The risk	Our response
Forecast-based valuation The UK government trade restrictions implemented on 23 March 2020 as a result of the COVID-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment. An impairment charge of £3.5 million has been recognised within adjusting items as set out in Note 6 to the financial statements. The Group considers that each retail store constitutes its own cash generating unit ('CGU') and is assessed for impairment separately. As described in Note 14 to the financial statements, the Group has estimated the recoverable amount of store assets based on their value in use, derived from a discounted cash flow model prepared by management. The model relies on certain assumptions and estimates of future trading performance all of which involve a high degree of estimation uncertainty (as disclosed in Note 1 and Note 14). The key assumptions applied by management in the impairment reviews performed are future revenue growth and changes in gross margin; long term growth rates; and discount rates. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of store assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 14) disclose the sensitivity estimated by the Group. We believe the level of risk related to the impairment of UK store assets has increased, both due to the increased level of uncertainty in forecasting future cash flows as a result of the COVID-19 pandemic, and in light of current retail market conditions and the impact of wider economic uncertainty.	Our procedures included: • **Our valuation expertise**: We used our experience to assist us in assessing appropriateness of the impairment review methodology and assumptions. In addition, we used our discount rate tool to assist us in assessing the discount rate assumptions used by the Group; • **Evaluating assumptions**: assessing the key assumptions (including growth rates in turnover and margin expectations) as included in the directors' business plans and approved at the period-end date; • **Sensitivity analysis**: applying sensitivity analysis on the key assumptions used in the cash flow forecasts to assess the possible range of outcomes and the overall risk of any material impairment; • **Test of detail**: testing the accuracy of amounts included in the impairment tests to underlying information included in the directors' business plans, and testing the completeness of store assets included in the Group's store-by-store impairment tests; • **Testing application**: assessing the impact of the newly adopted standard IFRS 16 on Leases for full consideration in the Group's store-by-store impairment tests; • **Tracing differences**: tracing adjustments made as a consequence of our procedures through to final reported numbers; • **Assessed transparency**: assessing the transparency of the disclosure about the judgments and estimates made, the impairments recorded and the sensitivity of those impairments to reasonable possible changes in key assumptions included in the financial statements We repeated relevant procedures for updates made to the store-by store impairment tests following our initial findings. **Our results** The results of our testing were satisfactory and we found the impairment charge recorded and the resulting carrying value of store assets to be acceptable (2019: acceptable).

3.2 Valuation of goodwill

£nil (2019: £16.2 million)

Refer to page 47 (Audit & Risk Committee Report), page 86 (Accounting Policies Note 1n) and page 94 (financial disclosures Note 13).

The risk	Our response
Forecast-based valuation Valuation of goodwill is inherently judgemental due to the subjectivity and uncertainty involved in selecting the appropriate key assumptions and preparing future discounted cash flows. An impairment charge of £16.2 million has been recognised within adjusting items as set out in Note 6 to the financial statements. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of goodwill has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 13) disclose the sensitivity estimated by the Group. We believe the level of risk related to the impairment of goodwill has increased, both due to the increased level of uncertainty in forecasting future cash flows as a result of the COVID-19 pandemic, and in light of current retail market conditions and the impact of wider economic uncertainty.	Our procedures included: • **Our sector experience**: We corroborated our understanding of any changes in the business with the Group's forecasts and considered whether these had been appropriately captured in the impairment models; • **Our valuation expertise**: We used our experience to assist us in assessing appropriateness of the methodology and assumptions. In addition we used our discount rate tool to assist us in assessing the discount rate assumptions used by the Group; • **Benchmarking assumptions**: We challenged and compared the Group's assumptions to externally derived data and our expectation based on our knowledge and experience of the Group, in relation to key inputs such as terminal growth rates; • **Sensitivity analysis**: We applied sensitivities to key assumptions to assess their impact on the recoverability of the assets; • **Historical comparison**: We evaluated the historical accuracy of the Group's forecasts by comparing budget to actual results; • **Comparing valuations**: We compared the results of discounted cash flows against the Group's market capitalisation, after adjusting for its net debt to assess the reasonableness of those cash flows; and • **Assessing transparency**: We also considered the adequacy of the Group's disclosure of the key risks and sensitivity around the outcome, and whether that disclosure reflected the risks inherent in the valuation of goodwill and indefinite life intangible assets. **Our results** The results of our testing were satisfactory and we found the impairment charge recorded and the resulting carrying value of store assets to be acceptable (2019: acceptable).

3.3. Recoverability of Parent Company's investment in subsidiaries

£19.0m (2019: £51.6m)

Refer to page 47 (Audit & Risk Committee Report), page 113 (Accounting Policies Note 30g) and page 114 (financial disclosures Note 33).

The risk	Our response
Forecast-based valuation The carrying amount of the Parent Company's investments in subsidiaries represents 39.9% (2019: 64.4%) of the Parent Company's total assets. The net assets of the subsidiaries are less than the carrying amount of the Parent Company's investment which is therefore assessed with reference to their discounted forecast future cash flows. This is inherently judgemental due to the subjectivity and uncertainty involved in selecting the appropriate key assumptions and preparing future discounted cash flows. An impairment charge of £32.7 million has been recognised. The effect of these matters is that, as part of our risk assessment, we determined that the carrying value of the Parent Company's investment in subsidiaries has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 33) disclose the sensitivity estimated by the Company. We believe the level of risk related to the impairment of the Parent Company investment has increased, both due to the increased level of uncertainty in forecasting future cash flows as a result of the COVID-19 pandemic, and in light of current retail market conditions and the impact of wider economic uncertainty.	Our procedures included: • **Our sector experience**: We corroborated our understanding of any changes in the business with the Group's forecasts and considered whether or not these had been appropriately captured in the impairment models; • **Our valuation expertise**: We used our experience to assist us in assessing appropriateness of the methodology and assumptions. In addition we used our discount rate tool to assist us in assessing the discount rate assumptions used by the Group; • **Benchmarking assumptions**: We challenged and compared the Group's assumptions to externally derived data and our expectation based on our knowledge and experience of the Group, in relation to key inputs such as terminal growth rates; • **Sensitivity analysis**: We applied sensitivities to key assumptions to assess their impact on the recoverability of the assets; • **Historical comparison**: We evaluated the historical accuracy of the Group's forecasts by comparing budget to actual results; • **Comparing valuations**: We compared the results of discounted cash flows against the Group's market capitalisation, after adjusting for its net debt to assess the reasonableness of those cash flows; and • **Assessing transparency**: We also considered the adequacy of the Group's disclosure of the key risks and sensitivity around the outcome, and whether that disclosure reflected the risks inherent in the valuation of goodwill and indefinite life intangible assets. **Our results** The results of our testing were satisfactory and we found the impairment charge recorded and the resulting carrying value of the investment in subsidiaries to be acceptable (2019: acceptable).

3.4 Carrying amount of Parent Company Intercompany receivable

£28.5m (2019: £28.5m)

Refer to page 47 (Audit & Risk Committee Report), page 112 (Accounting Policies Note 30c) and page 115 (financial disclosures Note 35).

The risk	Our response
Recoverability of parent's debt due from Group entities **Low risk, high value** The carrying amount of the intra-Group debtor balance represents 59.3 % of the Parent Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement due to the level of net assets in the underlying trading entity However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had a greater effect on our overall Parent Company audit.	Our procedures included: • **Tests of detail**: Assessing 100% of Group debtors to identify, with reference to the underlying trading entity's balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether the trading entity has historically been profit-making. • **Evaluating assumptions:** We challenged the cashflow forecasts of the underlying trading entity to determine whether going forward, the trading entity is forecast to generate cash to support the repayment of the Parent Company intercompany debtor. **Our results** We found the Group's assessment of the recoverability of the Group debtor balance to be acceptable (2019: acceptable).

3.5 Carrying Value of Inventories

£25.8m (2019: £20.6m)

Refer to page 47 Audit Committee report, page 86 (accounting policy Note 1p) and page 97 (financial disclosures Note 16).

The risk	Our response
Subjective Estimation 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, something exacerbated by COVID-19. The carrying value of goods for resale is considered a risk as changes in consumer trends, "crazes" and demand 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. Our assessment is that the risk has increased since last year as a result of COVID, with stores being shut, the risk of "missed mega-trends" and decreasing consumer confidence due to economic uncertainty.	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** From the evidence obtained, we considered the provision for inventory obsolescence to be acceptable (2019: acceptable).

3.4 Brexit

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. We continue to perform procedures over Brexit. However, as a result of developments (including the Group's own preparation for Brexit) the relative significance of this matter on our audit work has reduced (including in relation to going concern, which is now a key audit matter). Accordingly, we have not assessed Brexit as one of the most significant risks in our current year audit and it is therefore not separately identified in our report, but is considered as a secondary factor in our going concern key audit matter.

4 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 £331k (2019: £300k) determined with reference to a benchmark of revenue of £225m (2019: Group loss before tax normalised to exclude adjusting items recognised in that financial year, giving a normalised Group profit before tax of £6.7 million) of which it represents 0.15% (2019: 4.5%) respectively.

Materiality benchmark was changed from profit before tax to revenue during the course of audit, in response to the impact of COVID 19 on the financial results of the Group. It was considered that the Group is now operating at a low profit or at a loss, such that PBTCO no longer usefully serves as the appropriate benchmark.

Materiality calculated based on the revenue benchmark was capped at £331k, representing 0.15% of revenue. This is lower than the materiality we would ordinarily have determined by reference to this benchmark, however it was deemed appropriate when compared with prior year materiality and in reference to a benchmark of company net assets, of which it represents 1.1%.

Materiality for the Parent Company financial statements as a whole was set at £265k (2019: £270k), 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 £15k (2019: £15k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected all three (2019: three) of the Group's reporting components to full scope audits for Group purposes. The components within the scope of our work accounted for 100% (2019:100%) of the Group's revenue, profit before tax and total assets.

The Group audit team approved the component materialities, which ranged from £182k to £331k (2019: £270k to £285k), 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.

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, other than the material uncertainty related to going concern referred to above, we have nothing further material to add or draw attention to in relation to:
- the directors' confirmation within the Viability Statement (page 32) 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 disclosures 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 judgments 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 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.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 63, 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, 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, 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
27 August 2020

Consolidated Income Statement
For the year ended 26 April 2020

		52 weeks to 26 April 2020			52 weeks to 28 April 2019 (Restated – Note 1c)		
	Note	Result before adjusting items £000	Adjusting items £000	Total £000	Result before adjusting items £000	Adjusting items £000	Total £000
Revenue	3	**225,042**	**–**	**225,042**	217,469	–	217,469
Cost of sales		**(190,557)**	**(4,110)**	**(194,667)**	(178,882)	(130)	(179,012)
Gross profit		**34,485**	**(4,110)**	**30,375**	38,587	(130)	38,457
Other operating income	4	**4,677**	**–**	**4,677**	8	–	8
Distribution expenses		**(12,656)**	**–**	**(12,656)**	(12,025)	(495)	(12,520)
Administrative expenses		**(19,619)**	**(16,295)**	**(35,914)**	(18,668)	(4,148)	(22,816)
Operating profit/(loss)	7	**6,887**	**(20,405)**	**(13,518)**	7,902	(4,773)	3,129
Finance income		**12**	**–**	**12**	20	–	20
Finance expenses		**(4,466)**	**–**	**(4,466)**	(1,064)	240	(824)
Net financing expense	9	**(4,454)**	**–**	**(4,454)**	(1,044)	240	(804)
Profit/(loss) before tax		**2,433**	**(20,405)**	**(17,972)**	6,858	(4,533)	2,325
Taxation	10	**(529)**	**799**	**270**	(1,481)	276	(1,205)
Profit/(loss) for the period		**1,904**	**(19,606)**	**(17,702)**	5,377	(4,257)	1,120
Profit before tax and IFRS 16	5	**3,338**	**(17,560)**	**(14,222)**	6,858	(4,533)	2,325
Basic earnings per share (pence)	12	**3.0**		**(28.3)**	9.2		1.9
Diluted earnings per share (pence)		**3.0**		**(28.3)**	9.2		1.9

Profit for the period is attributable to equity holders of the Parent.

Consolidated Statement of Comprehensive Income

For the year ended 26 April 2020

	2020 £000	2019 £000
(Loss)/Profit for the year	**(17,702)**	1,120
Items that may be recycled subsequently into profit and loss		
Cash flow hedges – changes in fair value	**932**	96
Cash flow hedges – reclassified to profit and loss	**(91)**	2
Cost of hedging reserve – changes in fair value	**312**	37
Cost of hedging reserve – reclassified to profit and loss	**(197)**	(17)
Tax relating to components of other comprehensive income	**(248)**	–
Other comprehensive income for the period, net of income tax	**708**	118
Total comprehensive (loss)/income for the period attributable to equity shareholders of the Parent	**(16,994)**	1,238

Consolidated Statement of Financial Position

As at 26 April 2020

	Note	2020 £000	2019 £000
Non-current assets			
Intangible assets	13	**3,194**	18,494
Property, plant and equipment	14	**21,061**	20,786
Right-of-use assets	14	**116,763**	–
Deferred tax assets	15	**1,802**	351
		142,820	39,631
Current assets			
Inventories	16	**26,594**	25,157
Trade and other receivables	17	**8,130**	17,589
Derivative financial asset	24	**1,531**	158
Current tax asset		**687**	–
Cash and cash equivalents	18	**6,546**	3,687
		43,488	46,591
Total assets		**186,308**	86,222
Current liabilities			
Bank overdraft	18, 19	**3,605**	–
Interest-bearing loans and borrowings	19	**9,938**	(45)
Lease liabilities	19	**22,002**	275
Trade and other payables	20	**26,189**	46,646
Provisions	21	**979**	218
Derivative financial liability	24	**–**	25
Current tax liabilities		**–**	300
		62,713	47,419
Non-current liabilities			
Interest-bearing loans and borrowings	19	**(11)**	(91)
Lease liabilities	19	**110,200**	494
Provisions	21	**–**	63
		110,189	466
Total liabilities		**172,902**	47,885
Net assets		**13,406**	38,337
Equity attributable to equity holders of the parent			
Share capital	23	**625**	625
Share premium	23	**28,322**	28,322
Merger reserve		**(54)**	(54)
Share-based payment reserve		**1,506**	1,373
Hedging reserve		**1,171**	144
Retained earnings		**(18,164)**	7,927
Total equity		**13,406**	38,337

These financial statements were approved by the Board of Directors on 27 August 2020 and were signed on its behalf by

G Peck
Director

Company registered number: 11325534

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company						
	Share capital £000	Share premium £000	Merger reserve £000	Share-based payment reserve £000	Hedging reserve[1] £000	Retained earnings £000	Total equity £000
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 24)	–	–	–	–	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	393	–	–	–	–	(393)	–
Issue of shares on IPO	178	28,322	–	–	–	–	28,500
Share-based payment charges	–	–	–	1,373	–	–	1,373
Dividend (Note 11)	–	–	–	–	–	(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)**	**1,373**	**144**	**7,927**	**38,337**
Transition to IFRS 16	**–**	**–**	**–**	**–**	**–**	**(6,139)**	**(6,139)**
Restated balance at 29 April 2019	**625**	**28,322**	**(54)**	**1,373**	**144**	**1,788**	**32,198**
Total comprehensive income for the period							
(Loss)/Profit for the period	**–**	**–**	**–**	**–**	**–**	**(17,702)**	**(17,702)**
Other comprehensive income	**–**	**–**	**–**	**13**	**695**	**–**	**708**
Total comprehensive income for the period	**–**	**–**	**–**	**13**	**695**	**(17,702)**	**(16,994)**
Hedging gains and losses and costs of hedging transferred to the cost of inventory (Note 24)	**–**	**–**	**–**	**–**	**332**	**–**	**332**
Transactions with owners of the Company							
Share-based payment charges	**–**	**–**	**–**	**120**	**–**	**–**	**120**
Dividend (Note 11)	**–**	**–**	**–**	**–**	**–**	**(2,250)**	**(2,250)**
Total transactions with owners	**–**	**–**	**–**	**120**	**–**	**(2,250)**	**(2,130)**
Balance at 26 April 2020	**625**	**28,322**	**(54)**	**1,506**	**1,171**	**(18,164)**	**13,406**

1 Hedging reserve includes £137,387 (2019: £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 year ended 26 April 2020

	2020 £000	2019 £000
(Loss)/Profit for the year (including adjusting items)	**(17,702)**	1,120
Adjustments for:		
Depreciation of property, plant and equipment	**5,261**	4,912
Impairment of property, plant and equipment	**509**	176
Reversal of impairment of property, plant and equipment	**(176)**	(135)
Depreciation of right-of-use assets	**20,611**	–
Impairment of right-of-use assets	**2,991**	–
Amortisation of intangible assets	**1,170**	1,049
Impairment of intangible assets	**16,180**	–
Derivative exchange loss/(gain)	**(290)**	(16)
Financial income	**(12)**	(20)
Financial expense	**425**	801
Interest on lease liabilities	**4,041**	23
Loss on disposal of property, plant and equipment	**299**	403
Loss on disposal of right-of-use asset	**795**	–
Profit on disposal of lease liability	**(870)**	–
Share-based payment charges	**120**	1,351
Taxation	**(270)**	1,205
Operating cash flows before changes in working capital	**33,082**	10,869
Decrease/(Increase) in trade and other receivables	**6,336**	(365)
Increase in inventories	**(1,410)**	(3,635)
(Decrease)/Increase in trade and other payables	**(13,822)**	3,643
Increase in provisions	**792**	102
Cash flows from operating activities	**24,978**	10,614
Corporation tax paid	**(1,039)**	(1,221)
Net cash inflow from operating activities	**23,939**	9,393
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(6,625)**	(7,120)
Acquisition of intangible assets	**(2,050)**	(1,044)
Interest received	**12**	20
Net cash outflow from investing activities	**(8,663)**	(8,144)
Cash flows from financing activities		
Payment of lease liabilities (capital)	**(19,829)**	(241)
Payment of lease liabilities (interest)	**(4,041)**	(23)
Other interest paid	**(230)**	(1,357)
Proceeds from share issue	**–**	28,500
Dividends paid	**(2,250)**	(750)
Repayment of bank borrowings	**–**	(31,200)
Issue of bank loan	**10,000**	–
Net cash outflow from financing activities	**(16,350)**	(5,071)
Net decrease in cash and cash equivalents	**(1,074)**	(3,822)
Exchange rate movements	**328**	89
Cash and cash equivalents at beginning of year	**3,687**	7,420
Cash and cash equivalents at end of year	**2,941**	3,687

Notes
(Forming part of the financial statements)

1 Accounting policies
(a) General information
TheWorks.co.uk plc (the Company) is a public limited company (11325534) 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 26 April 2020 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. The Works sells its quality products at affordable prices across four specialist categories comprising: Kids; Arts, Crafts & Hobbies, Stationery and Family Gifts, which are supplemented by both seasonal and regional offerings.

The Group operates a network of over 500 stores in the UK & Ireland. Stores can be found on high streets, in retail parks, shopping centres, factory outlets and as concessions in various locations. The Works 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.

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

(b) Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, future budgets and forecasts, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Group's significant judgements and estimates relate to the classification of adjusting items, hedge accounting, and impairment of property, plant and equipment, right-of-use assets and intangibles, and are described in Note 1(v).

(i) Going concern
The financial statements have been prepared on a going concern basis, which the Directors consider appropriate for the reasons set out below.

The Directors have assessed the prospects of the Group, taking into account the Group's current position and the potential impact of the principal risks documented in the Strategic Report on pages 27 to 31.

The Group operates a plan, within which, scenario planning and stress testing has been carried out.

In assessing the basis of preparation the Directors have considered:
- The external environment.
- The Group's financial position and bank facilities.
- Measures taken to increase and maintain liquidity.
- The potential impact on the financial performance of the business of the risks described in the Strategic Report.
- The output of a "Base Case" scenario financial model, which includes the impact on the Group's Three-year Plan of the recent COVID-19 lockdown, and an estimate of the most likely continued effect on trading.
- The resilience of the Group to the manifestation of a more severe impact of these risks, evaluated via a revised model referred to as the "Reasonable Worst Case" ("RWC") scenario financial model.
- The availability and expected effectiveness of any mitigating actions that would be taken in response to circumstances arising such as those modelled under the RWC.
- The Board has considered the impact on the Group's cash flows, headroom and covenants.

These factors are described below.

The Base Case and RWC scenario models cover a period of three years. The outputs of the models for the first 18 months of this period (the "Going Concern Period") have been used to make a judgement regarding using the Going Concern basis of preparation of the financial statements.

External environment
There continues to be significant uncertainty as to the future impact on the Group of the COVID-19 global pandemic; the potential effects of this have been considered as part of the Group's viability assessment and its confirmation of the adoption of the going concern basis. In March 2020, all of the Group's retail stores closed to protect its employees and customers, in accordance with various national government requirements.

The online channel traded successfully throughout the period of lockdown; certain retail concession stores reopened in May 2020, with the majority of stores opening during June when the easing of government restrictions permitted. Sales from the online channel, during lockdown, and store sales since the end of lockdown, have been better than the Board's initial expectations. Despite this, there remains uncertainty, for example, over how long social distancing measures will be required to be in place and the possible effects on the level of consumer demand.

The lack of clarity arising from the UK leaving the European Union also creates increased levels of economic and consumer uncertainty and, consequently, the longer-term impact this may have on the Group also remains uncertain.

Financial position and bank facilities

The cash and borrowings of the Group at the period end are shown in Notes 18 (Cash and cash equivalents) and 19 (Borrowings) of the financial statements. In addition, Note 24 to the financial statements (Financial risk management) includes the Group's objectives, 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.

The Group's net debt balance drawn from its principal lending bank at 26 April 2020 was £7.1m (2019: net cash of £3.7m), which comprised a draw-down of £10.0m against its revolving credit facility ("RCF") and cash balances of £2.9m.

At the time of the Group's IPO in 2018, new bank facilities were put in place, principally comprising a £25m revolving credit facility, with a term of three years, expiring in July 2021.

On 13 August 2020, the Group completed an agreement with HSBC to enhance and extend the facilities, as follows:

- The term of the RCF is extended, to expire in September 2022, with step downs from the initial £25.0m facility, of £2.5m in January 2021 and £2.5m in January 2022, to reflect the profile of the expected facility requirement.
- Provision of an additional £7.5m term facility, under the Government's CLBILS scheme, which also expires in September 2022. No repayments are due until the expiry date.
- The facility includes financial covenants in relation to the level of EBITDA, net debt and capital expenditure.
- The EBITDA and net debt covenants are based on limits set and measured every month. The EBITDA covenant is measured with reference to EBITDA over the last twelve months (LTM). The Group's ability to meet the EBITDA covenant is heavily influenced by trading during the peak months of November and December.

Measures to maintain liquidity

The Directors have implemented a number of measures to maintain or improve liquidity including cutting costs, temporarily suspending dividends, scaling back capital expenditure, agreeing rent reductions and/or deferrals with landlords, cancelling or deferring stock purchases and agreeing revised payment terms with suppliers.

The Group will also benefit from approximately £13m of business rates relief between the beginning of lockdown and the end of FY21. In addition, the government's job retention scheme to help meet the cost of furloughed roles contributed cash savings of approximately £8m, between the beginning of lockdown, and the end of July 2020.

As a result of the steps taken by the Board and the support received from the Government schemes, the Group's cost base was significantly lower than normal during the lockdown period. Although the reopening of stores has inevitably resulted in expenditure increasing from lockdown levels, operating and overhead cost savings will be maintained to the fullest extent possible.

Given the foregoing, and as noted above, to assist the Board in confirming the continued appropriateness of using the going concern basis in the preparation of the financial statements, and in making its assessment of the Group's viability, two financial scenarios have been prepared to quantify the possible impacts on liquidity of applying differing assumptions. These scenarios cover the FY21 to FY23 financial years (the "Projection Period"). It is emphasised that these are not forecasts, but models used to assist the Board in connection with viability and going concern considerations.

Potential impact of risks on financial scenarios

The Strategic Report, "Principal risks and uncertainties" section on pages 27 to 31, sets out the risks that the Board considers could threaten its business model, future performance, solvency or liquidity.

It is considered unlikely that all risks would manifest themselves simultaneously and/or all in a direction that would adversely affect the business. The Directors have estimated what a reasonably likely combination of risks might be that could materialise within the next three years and how the business might be affected. The most prominent risks in the near term would appear to be connected with COVID-19, which could affect sales, costs and liquidity. Other risks, such as market and economic environment could have similar manifestations to COVID-19, and Brexit could impact these areas as well as supply chain.

Taking these factors into consideration, the Directors have prepared scenarios which seek to show how these risks might affect the business, in a Base Case and RWC scenario, as described below.

The Base Case incorporates the Board's estimate of the most likely level of risk impact arising from the factors noted above. The RWC assumes that the effects are more severe, particularly in relation to COVID-19.

Notes continued
(Forming part of the financial statements)

1. Accounting policies continued
(b) Basis of preparation continued
Base Case scenario
The Base Case scenario has been modelled using the following key assumptions/incorporating the following information:
1. The closure of the Group's retail stores during lockdown, with the majority of stores remaining closed until mid-June 2020.
2. Continuing social distancing measures and a potential downturn in the economy have been assumed to have an adverse impact on store sales throughout the Projection Period. Sales during the peak pre-Christmas 2020 trading season have been assumed to be 10% lower than in FY20 and sales throughout FY21 are modelled as being below FY20 levels. Only a partial recovery has been assumed in FY22, such that sales in the model are still lower than in FY20.
3. Online revenue as a proportion of total revenue is higher than previously, reflecting the strong growth experienced during lockdown, albeit sales are not expected to continue to grow at the same rate.
4. An improved gross margin rate reflecting the expected benefits of implementing improved sourcing strategies.
5. The impact of cost saving measures implemented or identified.
6. Significantly reduced capital expenditure, of approximately £3.0m in FY21 and £3.5 million per annum in FY22 and FY23.
7. Initiatives to preserve cashflow, for example, revised supplier and landlord payment terms already agreed and the suspension of dividend payments.

Under the Base Case scenario, the Group expects to have sufficient financial resources to continue to be viable and the Going Concern basis of preparation of the financial statements is appropriate.

Reasonable Worst Case scenario
Under the RWC scenario, store revenues are 10% and 7% lower than in the Base Case in FY21 and FY22 respectively, and 20% and 30% below FY20 levels on a like-for-like basis during November and December 2020 respectively, illustrating a situation whereby trading is affected more severely by social distancing measures and the potential consequences of a more severe and sustained economic downturn. Note that the Base Case model for FY21 already incorporates an assumption of lower sales post lockdown than in FY20, and only a partial recovery in FY22.

This scenario does not build in the benefit of additional mitigation that, in practice, would be implemented in these circumstances. These may include, further reducing stock purchases, stock liquidation, and further reductions in capital expenditure. In addition, other than to the extent that they are directly variable with revenue, the Company's forecast cost base has not been significantly reduced in this RWC scenario.

Actual trading results since the beginning of the FY21 financial year have been better than factored into the Base Case and RWC assumptions. This, together with the opportunity to take mitigating actions as described above, and the assumption that the Group would continue to be able to access the liquidity from its bank facilities, in the opinion of the Board, provides sufficient financial resources for the Group to continue to be viable under the RWC, albeit with limited headroom.

Conclusion regarding basis of preparation
In addition to the foregoing, in considering the appropriateness of adopting the going concern basis of preparation, the Directors also took account of the fact that it is difficult to predict with confidence the overall impact of COVID-19 on the Group's profitability in the next financial year.

As there remains considerable uncertainty over the potential development of the COVID-19 pandemic, any future Government response and the economic impact of those developments on the cash flow forecasts of the Group, it is difficult to rule out the potential for further increases in local social distancing measures or even the possibility of a further national lockdown and the effect that that will have on the forecast cash flows. Whilst the RWC referred to above, after mitigating actions, shows headroom, as the level of headroom is relatively small, a further decline over and above the 20% and 30% sales declines in November and December 2020, could result in a potential breach of the EBITDA covenant later in 2021. Whilst the Group believes that it would have time before a potential breach to mitigate further, there is no certainty as to the size of the potential breach and, therefore, whether the mitigating actions could resolve this in time.

In light of this level of uncertainty over the duration and severity of any disruption, there are scenarios under which the Group could breach its EBITDA covenant, which represents a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

Based on all of the above considerations, and having carefully considered the material uncertainty and mitigating actions available, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

(ii) New accounting standards
The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 29 April 2019:
- IFRS 16 Leases.
- IFRIC 23 Uncertainty over Income Tax Treatments.
- Amendments to IFRS 9 Prepayment Features with Negative Compensation.
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement.
- Annual Improvements to IFRS Standards 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23).

The nature and effect of the changes to the Group's accounting policies as a result of the adoption of IFRS 16 is set out below. Details of the impact of the adoption to IFRS 16 are given in Note 14 (Property, plant and equipment), Note 19 (Borrowings) and Note 28 (Impact on transition).

The adoption of the other standards and interpretations listed above has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

IFRS 16

In the current period, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 29 April 2019.

IFRS 16 provides a single model for lessees which recognises a right-of-use asset (RoUA) and a lease liability for all leases, with exceptions available for short-term and low-value leases. The impact of IFRS 16 is to recognise a lease liability and a corresponding asset in the Group Balance Sheet for leases previously classified as operating leases.

The most significant impact has been that the Group's retail store operating leases are now recognised on the Group Balance Sheet as right-of-use assets representing the economic benefits of the Group's right to use the underlying leased assets, together with the associated future lease liabilities. Previously lease rentals payable under operating leases were not recognised in the Consolidated Balance Sheet and were charged to the Consolidated Income Statement on a straight-line basis over the term of the relevant lease.

The Group adopted IFRS 16 from 29 April 2019 using the modified retrospective transition approach as described in paragraph C5 (b) of the standard. The comparative information presented for the 52 weeks ended 28 April 2019 has not been restated and therefore continues to be shown under IAS 17 'Leases.'

Accounting policy under IFRS 16 'Leases'

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities at the lease commencement date.

Identifying an IFRS 16 lease

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the Group has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. For each lease or lease component, the Group follows the lease accounting model as per IFRS 16 – Leases, unless the recognition exceptions can be used.

Recognition exceptions

On transition to IFRS 16, the Group elected to apply the following practical expedients:

(i) applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
(ii) to apply the short-term exemption for all asset classes with a lease term of 12 months or less and to apply low value exemptions;
(iii) reliance on previous assessments of whether leases are onerous instead of performing an impairment review;
(iv) to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
(v) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
(vi) to grandfather the assessment of which transactions are leases, the Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed as to whether there is a lease under IFRS 16.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease.

For leases where the Group has taken the short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Group accounts for the lease as a new lease.

For leases where the Group has taken a recognition exemption as detailed above, rentals payable under these 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.

Lessee accounting under IFRS 16

Upon lease commencement the Group recognises a right-of-use asset and a lease liability.

Initial measurement

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate.

Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the index or rate as at the commencement date. Amounts expected to be payable by the lessee under residual value guarantees are also included. Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another accounting standard.

Notes continued
(Forming part of the financial statements)

1. Accounting policies continued
(b) Basis of preparation continued
Subsequent measurement
After lease commencement, the Group measures right-of-use assets using a cost model. Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

The lease liability is subsequently re-measured to reflect changes in: the lease term (using a revised discount rate); the assessment of a purchase option (using a revised discount rate); the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); and future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The re-measurements are matched by adjustments to the right-of-use asset. Lease modifications may also prompt re-measurement of the lease liability unless they are determined to be separate leases.

Depreciation of right-of-use assets
The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The payments related to leases are presented under cash flows from financing activities and cash flows from operating activities in the cash flow statement.

Applicable before adoption of IFRS 16 on 29 April 2019
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease rental payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Reverse lease premiums and other incentives receivable for entering into a lease agreement are recognised in the income statement on a straight-line basis over the life of the lease.

(iii) New accounting standards in issue but not yet effective
New standards and interpretations that are in issue but not yet effective are listed below:
- Amendments to IAS 1 and IAS 8 Definition of Material.
- Amendments to IFRS 3 Definition of a Business.
- Amendments to References to the Conceptual Framework in IFRS Standards.
- IFRS 17 Insurance Contracts.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The adoption of the above standards and interpretations is not expected to lead to any changes to the Group's accounting policies or have any other material impact on the financial position or performance of the Group.

(c) Alternative Performance Measures
In reporting financial information, the Group presents alternative performance measures (APMs). These are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Group believes that these alternative performance measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets.

These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance.

The key APMs that the Group uses include: like-for-like revenue growth; Earnings before interest, tax, depreciation and amortisation (EBITDA), Profit before tax and IFRS 16, Adjusted EBITDA, Adjusted Profit; and Adjusted earnings per share. Each of these APMs, and others used by the Group, are set out in Note 5 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

Adjusted measures are calculated by adding back or deducting Adjusting Items. Adjusting Items are those items which the Group analyses separately in order to present a further measure of the Group's performance. Each of these items, costs or incomes, is considered to be significant in nature and/or quantum or are consistent with items treated as adjusting in prior periods. Separately identifying these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is planned by, and reported to, the Board and the Chief Operating Decision Maker.

On this basis the following items were included in Adjusting Items in the 52 weeks ended 26 April 2020:

- Impairment charges, including those resulting from the COVID-19 pandemic[1].
- Under-declared duty and penalties for late payment associated with the misclassification of certain imported goods in prior years.

1 As a result of the COVID-19 pandemic and subsequent UK Government restrictions introduced on 23 March 2020 that has resulted in significant and unprecedented market and business disruption, the Group has classified store impairments as Adjusting Items for the first time. The impact of the COVID-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 27 as well as set out within the basis of preparation on page 78.

The prior year has been restated on a consistent basis. The restatement of the prior year has no impact on the prior year's statutory measures of reported profit or on the Group's cash flows or financial position for the year ended 28 April 2019. The prior year's adjusted profit measures have increased by £0.1 million, being the net store impairment charge and onerous lease provision charge not treated as an adjusting item in 2019.

Refer to Note 6 for a summary of the Adjusting Items.

(d) Accounting convention
The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities (including derivative instruments), which are held at fair value.

(e) Basis of consolidation
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.

(f) Business combinations
Subject to the transitional relief in IFRS 1, 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.

(g) Foreign currencies
The consolidated financial statements are presented in pounds Sterling, which is the functional currency of the Company.

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 24 for derivative financial instruments, which are used to manage the Group's foreign currency risk.

(h) Revenue
Revenue comprises sales of goods to customers less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when performance obligations are satisfied and goods are delivered to the customer and the control of goods is transferred to the buyer.

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.

(i) Pension costs
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.

Notes continued

(Forming part of the financial statements)

1. Accounting policies continued

(j) Share-based payments

The Group operates an equity-settled share-based compensation plan.

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.

(k) 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 24.

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 24.

(l) 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.

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.

(m) 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.

(n) Goodwill and intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the consideration paid and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement.

Software

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll-related costs for employees who are directly associated with the project. Internal payroll-related costs are capitalised it the recognition criteria of IAS 38 'Intangible Assets' are met or are expensed as incurred otherwise.

Notes continued
(Forming part of the financial statements)

1. Accounting policies continued
(n) Goodwill and intangible assets continued
Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three and seven years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement.

(o) Property, plant and equipment
Items of property, plant and equipment are stated at cost of acquisition or production 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	15.00 per cent. per annum straight-line or depreciated on a straight-line basis over the remaining life of the lease, whichever is shorter.
Computer equipment	25.00 to 50.00 per cent. per annum straight-line.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

(p) Inventories
Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition.

All inventories are finished goods. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The initial cost of hedged inventory is adjusted by the associated hedging gain or loss transferred from the cash flow hedge reserve ("basis adjustment").

Provision is made for an estimate of the extent to which items will need to be marked down to a selling price that is less than cost (NRV provision). The NRV provision is based on a variety of factors, including whether an item is seasonal in nature and will become obsolete, the length of time an item has been on hand and the Group's policy of marking down items to achieve a sale. Very little of the value of items on hand at the year-end related to seasonal items with a limited shelf life. Furthermore, the high number of SKUs and the very low average cost per item means that the risk of material under or overstatement of the NRV provision is not considered a key source of estimation uncertainty and the sensitivity analysis provided in Note 16 is provided as additional information for the benefit of users.

Provision is also made for an estimate of shrinkage between the date of the last physical count and the year end. The shrinkage provision reflects historic levels of shrinkage and is not considered a source of key estimation uncertainty on the basis that, given historic experience, it is unlikely to be materially over or understated.

(q) Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

(r) 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.

(s) Borrowing costs
Borrowing costs directly attributable 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 or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(t) Government grants
Since the closure of the Works stores on 23 March 2020 amid the outbreak of COVID-19, the Group has been able to utilise the Coronavirus Job Retention scheme (CJRS), the Government's support measure for organisations throughout the pandemic. It offers grants of up to 80% of wages, up

to a maximum of £2,500 per month plus national insurance and auto-enrolled pension contributions, to cover the salary costs of those employees that have been furloughed. The Group received government grants under this scheme for the period from 23 March until the year end on 26 April 2020 and beyond for all applicable employees. The Group has also benefited from business rates relief in the current financial year and into 2020/21.

Income under these schemes is classified as a government grant and is accounted for under IAS 20 Government Grants. Such grants are recognised in the Income Statement in the period in which the associated costs for which the grants are intended to compensate are incurred. The grant income is reported as 'Other income' expense in the Income Statement.

(u) Reserves

The following describes the nature and purpose of each reserve within equity:

- **Share premium account:** Proceeds received in excess of the nominal value of shares issued, net of any transaction costs.
- **Hedging reserve:** Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges.
- **Merger reserve:** Originally created in 2018 on the formation of TheWorks.co.uk plc. It represents the difference between the cost of the investment in The Works Investment Limited (and its subsidiaries, 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 payment reserve:** Represents the cumulative charges to income under IFRS 2 'Share-based payments' on all share options and schemes granted, net of share option exercises.
- **Retained earnings:** All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

(v) Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next 12 months are discussed below.

Critical accounting judgements

Adjusting items

The Directors believe that the adjusted profit and earnings per share measures provide additional useful information to shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee. The profit before tax and adjusting items measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definitions of adjusting items are outlined within both the Group accounting policies and Note 6. These definitions have been applied consistently year on year, with additional items included this year relating to store impairments, including those resulting from the COVID-19 pandemic.

Note 5 provides further details on current year adjusting items and their adherence to Group policy.

Hedge accounting

The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing certain products from Asia which are paid for predominantly in US dollars. The Group hedges these exposures using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, which include that a forecast transaction must be "highly probable".

The Group has applied judgement in assessing whether the forecast purchases remain "highly probable", particularly in light of the decline in expected sales resulting from the COVID-19 pandemic and the related temporary store closures.

The Group's policy is that approximately 50% of the forecast purchase requirements are initially hedged, approximately 12 months prior, with incremental hedges taken out over time, as the buying period approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, reducing the supply pipeline of inventory, should this occur,does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Key sources of estimation uncertainty

Impairment of property, plant and equipment, right-of-use assets and intangibles

Property, plant and equipment, right-of-use assets and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. The Directors consider an individual retail store to be a cash-generating unit ('CGU'). The UK Government trade restrictions implemented on 23 March 2020 as a result of the COVID-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment.

Notes continued

(Forming part of the financial statements)

1. Accounting policies continued

(v) Critical accounting judgements and key sources of estimation uncertainty continued

Management performs an impairment review for each CGU that has indicators of impairment. When a review for impairment is conducted, the recoverable amount of an asset or CGU is determined based on value-in-use calculations using the Group's latest forecast cash flows, covering a three-year period to April 2023 (the "Three-year Plan") and are discounted using the Group's pre-tax discount rate.

The Three-year Plan has regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows reflect the Board's current best estimate of the range of possible impacts arising from COVID-19, which anticipates a significant reduction in sales and profits in the short to medium term compared to previous estimates. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations. Pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta).

Goodwill is reviewed for impairment annually on the same basis as described above for the period covered by the Three-year Plan together with a terminal value based on an assumed long-term growth rate.

The value in use method requires the Group to determine appropriate assumptions (which are key sources of estimation uncertainty) in relation to the growth rates of sales and cash margins, operating costs, long-term growth rates and the post-tax discount rate used to discount the assumed cash flows to present value. Future events could cause the forecasts and assumptions used in impairment reviews to change with a consequential adverse impact on the results and net position of the Group as actual cash flows may differ from forecasts and could result in further material impairments in future years.

See Notes 13 and 14 for further details on the Group's assumptions and associated sensitivities.

2. Segmental reporting

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

The Group has two revenue streams, in store and online, the results of which are aggregated into one reportable segment. This 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. Aggregation is deemed appropriate due to both operating segments having similar economic characteristics, similar products on offer and a similar customer base.

3. Revenue

	2020 £000	2019 £000
Sale of goods		
– UK	**220,581**	212,780
– EU	**4,461**	4,689
Total revenues	**225,042**	217,469

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 profit results than the second half.

4. Other operating income

	2020 £000	2019 £000
COVID-19 Furlough Scheme government grants receivable	**3,650**	–
COVID-19 Business Rates Relief	**1,020**	–
Rent receivable	**7**	8
	4,677	8

5. Alternative performance measures ("APM")

The Group tracks a number of alternative performance measures in managing its business, which are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Group believes that these alternative performance measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets.

These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance. However, they may not be comparable with similarly-titled measures reported by other companies due to possible differences in the way they are calculated.

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. The measure is used widely in the retail industry as an indicator of sales performance. A reconciliation of revenue to revenue on a like-for-like basis is set out below. Like-for-like sales include a full 52 weeks of trading for the year ended 28 April 2019, as such the reconciliation below shows LFL sales pre lockdown and post lockdown:

	2020 £000	2019 £000
LFL sales pre lockdown	**218,583**	217,037
LFL sales during lockdown	**4,873**	17,677
Total like-for-like sales	**223,456**	234,714
FY19 and FY20 new stores	**30,950**	6,374
Closed stores	**98**	4,686
Temporary closures	**130**	593
Total gross sales	**254,634**	246,367
VAT	**(27,931)**	(26,872)
Loyalty points	**(1,661)**	(2,026)
Turnover per consolidated income statement	**225,042**	217,469

EBITDA, Adjusted EBIDTA and Adjusted profit after tax

EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortisation and profit/loss on the disposal of fixed assets. Adjusted EBITDA is calculated by adding back or deducting Adjusting Items to EBITDA. See Note 1 for a description of Adjusting Items.

As consequence of the adoption of IFRS 16 during the year, the Group has shown another measure of Adjusted EBITDA, which removes the impact of IFRS 16 to allow the reader to compare against the prior year. The following table provides a reconciliation of Adjusted EBITDA to profit after tax, and shows the impact of IFRS 16 on Adjusted EBITDA:

	52 weeks ended 26 April 2020 £000	52 weeks ended 28 April 2019 (Restated – Note 1c) £000
Non-IFRS 16 Adjusted EBITDA[1]	**10,809**	13,872
IAS 17 income statement charges not recognised under IFRS 16	**23,433**	–
Foreign exchange difference on euro leases	**(89)**	–
Loss on disposal of right-of-use assets recognised under IFRS 16	**(795)**	–
Profit on disposal of lease liability recognised under IFRS 16	**870**	–
Post IFRS 16 Adjusted EBITDA	**34,228**	13,872
Loss on disposals of property, plant and equipment	**(299)**	(9)
Depreciation	**(25,872)**	(4,912)
Amortisation	**(1,170)**	(1,049)
Finance expenses	**(4,466)**	(1,064)
Finance income	**12**	20
Tax charge	**(529)**	(1,481)
Adjusted profit/(loss) after tax	**1,904**	5,377
Adjusting items (including impairment charges and reversals)	**(20,405)**	(4,533)
Tax charge	**799**	276
Profit/(loss) after tax	**(17,702)**	1,120

[1] Refer to Note 28.

Notes continued

(Forming part of the financial statements)

5. Alternative performance measures ("APM") continued

Profit before tax and IFRS 16

The following tables provides a reconciliation of profit/(loss) before tax and IFRS 16 adjustments to profit/(loss) before tax.

	52 weeks ended 26 April 2020		
	Adjusted £000	Adjusting Items £000	Total £000
Profit / (loss) before tax before IFRS 16 adjustments	**3,338**	**(17,560)**	**(14,222)**
Remove IAS 17 rental charge	23,292	–	23,292
Remove hire costs from hire of equipment	141	–	141
Remove depreciation charged on the existing assets	298	–	298
Remove interest charged on the existing liability	30	–	30
Depreciation charge on right-of-use assets	(20,611)	–	(20,611)
Interest cost on lease liability	(4,041)	–	(4,041)
Loss on disposal of right-of-use assets	(795)	–	(795)
Profit on disposal of lease liability	870	–	870
Foreign exchange difference on euro leases	(89)	–	(89)
Additional impairment charge under IAS 36	–	(2,991)	(2,991)
Onerous lease provision not applicable under IFRS 16	–	146	146
Net Impact on profit/(loss)	**(905)**	**(2,845)**	**(3,750)**
Profit/(loss) before tax	**2,433**	**(20,405)**	**(17,972)**

Adjusted profit metrics

Key profit measures including operating profit, profit before tax, profit for the period and earnings per share are calculated on an adjusted basis by adding back or deducting Adjusting Items. See Note 1 for a description of Adjusting Items. 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 6.

6. Adjusting items

During the period, the items analysed below have been classified as adjusting:

	2020 £000	2019 (Restated – Note 1c) £000
Cost of sales		
Onerous lease provision charges[1]	–	89
Impairment charges[2]	**3,500**	176
Impairment reversals[2]	**(176)**	(135)
HMRC duty provision[3]	**786**	–
Total cost of sales	**4,110**	130
Distribution expenses		
Relocation of eCommerce[4]	–	495
Total distribution expenses	–	495
Administrative expenses		
Goodwill impairment[5]	**16,180**	–
Salary costs[6]	**115**	–
Professional fees – one-off non-operational activities[7]	–	2,936
Staff incentives on IPO[8]	–	1,212
Total administrative expenses	**16,295**	4,148
Finance expenses		
Write-off capitalised costs, interest and fees associated with loan repaid on IPO[9]	–	(240)
Total finance expenses	–	(240)
Total adjusting items	**20,405**	4,533

1 This relates to onerous lease provision charges for loss-making stores in the prior year.
2 These relate to fixed asset impairment charges and reversals of prior year impairment charges.
3 This relates to a provision recognised regarding an ongoing HMRC review of the Group's duty rates.
4 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 prior year following completion of the transition to the third party logistics provider for the eCommerce warehouse and order fulfilment.

5 This relates to the impairment of goodwill during the year. Refer to Note 13 for further detail.
6 Salary costs relate to payments to past Directors. Refer to the Director's Remuneration Report on pages 50 to 59 for further detail.
7 Professional fees relate to IPO and refinancing costs incurred in the prior year.
8 Staff incentive on IPO represents nil cost share options awarded to an employee in preparation of the IPO. Refer to Note 25.
9 This includes £386,000 in relation to capitalised loan costs written off in the prior year 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.

7. Operating profit

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

	2020 £000	2019 £000
Loss on disposal of property, plant and equipment	**299**	9
Loss on disposal of right-of-use assets	**795**	–
Profit on disposal of lease liability	**(870)**	–
Depreciation	**25,872**	4,912
Amortisation	**1,170**	1,049
Adjusting items (see Note 6)	**20,405**	4,533
Operating lease payments:		
– Hire of plant and machinery[1]	**345**	509
– Other operating leases[1]	**4,730**	26,138
Net foreign exchange losses	**208**	84
Cost of inventories recognised as an expense	**86,398**	81,369
Staff costs	**54,401**	48,213

1 For the year ended 26 April 2020 these balances relate to non-IFRS 16 operating lease rentals during the year, please refer to Note 28 for further details of these balances.

Auditor's remuneration:

	2020 £000	2019 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**70**	60
Amounts receivable in respect of other services to the Company and its subsidiaries		
Audit of the accounts of subsidiaries	**70**	70
Audit-related assurance services	**1**	14
Tax advisory services[1]	**–**	15
Other assurance services[1]	**–**	495
Other services pursuant to legislation[1]	**–**	6
Total services	**141**	660

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

Please refer to the Audit Committee Report on pages 46 to 48 for details regarding the safeguarding of auditor objectivity and independence.

8. 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	
	2020	2019
Office and management	**204**	196
Shop staff	**3,498**	3,268
Warehouse and distribution staff	**147**	152
	3,849	3,616

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	**50,449**	44,794
Social security costs	**3,169**	2,872
Contributions to defined contribution plans	**782**	547
	54,400	48,213
Agency labour costs	**1,058**	1,792
	55,458	50,005

Notes continued

(Forming part of the financial statements)

9. Finance income and expense

Recognised in statement of comprehensive income

	2020 £000	2019 £000
Finance income		
Bank interest receivable	**12**	20
Total finance income	**12**	20
Finance expense		
Bank interest payable	**363**	221
Other interest payable	**62**	820
Interest on lease liabilities	**4,041**	23
Total adjusted finance expense	**4,466**	1,064
Write-off of capitalised costs, interest and fees associated with loan repaid on IPO[1]	**–**	(240)
Total finance expense	**4,466**	824

1 Refer to Note 6 for further details.

10. Taxation

Recognised in Consolidated Income Statement

	2020 £000	2019 £000
Current tax expense/(credit)		
Current year	**(173)**	1,200
Adjustments for prior years	**209**	(71)
Current tax expense	**36**	1,129
Foreign tax expense		
Current year	**–**	106
Adjustments for prior years	**–**	–
Foreign tax expense	**–**	106
Deferred tax expense		
Origination and reversal of temporary differences	**(78)**	(139)
Reduction in tax rate	**(206)**	14
Adjustments for prior years	**(22)**	95
Deferred tax expense	**(306)**	(30)
Total tax expense	**(270)**	1,205

The UK corporation tax rate for FY20 and FY19 was 19.0%. The deferred tax asset at 26 April 2020 has been calculated based on these rates. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016.

As the deferred tax assets and liabilities should be recognised based on the corporation tax rate at which they are anticipated to unwind, the assets and liabilities on UK operations have been largely recognised at a rate of 19% (2019: 17%). Assets and liabilities arising on foreign operations have been recognised at the applicable overseas tax rates.

The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020. This will not materiality impact the future current tax charge or deferred tax assets and liabilities.

Reconciliation of effective tax rate

	2020 £000	2019 £000
(Loss)/Profit for the year	**(17,972)**	2,325
Tax using the UK corporation tax rate of 19.00% (2019: 19.00%)	**(3,415)**	442
Non-deductible expenses	**123**	819
Goodwill impairment – non-qualifying	**3,074**	–
Effect of tax rates in foreign jurisdictions	**(32)**	(55)
Tax over-provided in prior periods	**186**	24
Change in tax rate	**(206)**	15
Income not taxable	**–**	(14)
Share options	**–**	(26)
Total tax (credit) / expense	**(270)**	1,205

The Group's total income tax credit in respect of the year ended 26 April 2020 was £270k (28 April 2019: charge of £1,205k). The effective tax rate on total loss before tax was 1.5% (28 April 2019: 51.8%) whilst the adjusted tax rate was 21.7% (28 April 2019: 21.6%). The difference between the total effective tax rate and the adjusted tax rate for the year ended 26 April 2020 mainly relates to goodwill impairment within adjusting items being non-deductible for tax purposes (2019: related to certain non-recurring costs associated with the listing being non-deductible for tax purposes).

11. Dividends

	Pence per share	**2020 £000**	2019 £000
Final dividend for the year ended 26 April 2019	2.4p	**1,500**	–
Interim dividend for the year ended 26 April 2020	1.2p	**750**	–
Interim dividend for the year ended 28 April 2019	1.2p	**–**	750
Total dividend paid to shareholders in the year		**2,250**	750

Dividend equivalents totalling £30,772 (2019: £11,643) were accrued in the year in relation to share-based long-term incentive schemes.

The Board is not recommending a final dividend in respect of the financial year ended 26 April 2020 (28 April 2019: 2.4 pence per share). An interim dividend of £750,000 was paid on 12 March 2020.

12. 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 6 for further details) to reflect the Group's underlying profit for the year.

			Proforma	Proforma
	2020 Number	2019 (Restated – Note 1c) Number	**2020 Number**	2019 (Restated – Note 1c) Number
Number of shares in issue	**62,500,000**	58,536,226	**62,500,000**	62,500,000
Number of dilutive share options	**–**	30,109	**–**	30,109
Number of shares for diluted earnings per share	**62,500,000**	58,566,335	**62,500,000**	62,530,109
	£000	£000	**£000**	£000
(Loss)/profit for the financial period	**(17,702)**	1,120	**(17,702)**	1,120
Adjusting items	**20,405**	4,533	**20,405**	4,533
Taxation charge/(credit) on adjusting items	**(799)**	(276)	**(799)**	(276)
Total adjusted profit for adjusted earnings per share	**1,904**	5,377	**1,904**	5,377
	pence	pence	**pence**	pence
Basic earnings per share	**(28.3)**	1.9	**(28.3)**	1.8
Diluted earnings per share	**(28.3)**	1.9	**(28.3)**	1.8
Adjusted basic earnings per share	**3.0**	9.2	**3.0**	8.6
Adjusted diluted earnings per share	**3.0**	9.2	**3.0**	8.6

Notes continued

(Forming part of the financial statements)

13. Intangible assets

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 29 April 2019	16,180	6,365	22,545
Additions	–	2,050	2,050
Balance at 26 April 2020	16,180	8,415	24,595
Amortisation and impairment			
Balance at 29 April 2019	–	4,051	4,051
Amortisation charge for the year	–	1,170	1,170
Impairment charges	16,180	–	16,180
Balance at 26 April 2020	16,180	5,221	21,401
Net book value			
At 29 April 2019	16,180	2,314	18,494
At 26 April 2020	–	3,194	3,194

	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 impairment testing

Goodwill of £16.2 million arose in 2015 when The Works Investments Limited (TWIL) acquired The Works Stores Limited (TWSL) in a share-for-share transaction. As such, all of the goodwill has been allocated to one cash-generating unit (CGU) being TWSL.

Goodwill is not amortised but is tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill is monitored by management at a country level and has been tested for impairment on that basis.

The annual impairment test has resulted in an impairment charge of £16.2 million, reflecting the adverse impact of COVID-19 on the business' short to medium term prospects. The basis on which the value in use has been determined is described below.

As described in Note 1(v), the key assumptions for the value in use calculation are those regarding the discount rate, long-term growth rates and expected trading performance (sales, cash margin and operating costs).

The post-tax cash flows used for impairment testing are based on the Group's latest forecast cash flows, covering a three-year period to April 2023 (the "Three-year Plan"), which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include estimates of ongoing capital expenditure required to maintain the store network, but exclude any significant growth capital initiatives not committed. The Three-year Plan reflect the Board's current best estimate of the range of possible impacts arising from COVID-19, which anticipate a significant reduction in sales and profits in the short to medium term compared to previous estimates.

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of its achievable long-term growth is 2%, reflecting its best estimate.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to the Group. The post-tax discount rate is derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The rate used to discount the forecast cash flows is 14.0% (last year: 10.26%), which reflects the additional risks presented by COVID-19 as at 26 April 2020.

As a result of this analysis, the goodwill balance has been impaired to nil. No further downside sensitivities have therefore been performed by management.

14. Property, plant and equipment

	RoUA – property £000	RoUA – plant and equipment £000	Land and buildings £000	Plant and equipment £000	Fixtures and Fittings £000	Total £000
Cost						
Balance at 29 April 2019	**–**	**–**	**9,253**	**2,529**	**21,457**	**33,239**
Adoption of IFRS 16	**103,086**	**841**	**–**	**–**	**–**	**103,927**
Adoption of IFRS 16 – Transfer to RoUA	**–**	**457**	**–**	**(457)**	**–**	**–**
Additions	**36,350**	**426**	**1,366**	**503**	**4,756**	**43,401**
Disposals	**(966)**	**–**	**(28)**	**(36)**	**(475)**	**(1,505)**
Balance at 26 April 2020	**138,470**	**1,724**	**10,591**	**2,539**	**25,738**	**179,062**
Depreciation and impairment						
Balance at 29 April 2019	**–**	**–**	**3,329**	**1,756**	**7,368**	**12,453**
Depreciation charge for the year	**20,152**	**459**	**1,092**	**609**	**3,560**	**25,872**
Impairment charge	**2,991**	**–**	**152**	**17**	**340**	**3,500**
Impairment reversals	**–**	**–**	**–**	**(176)**	**–**	**(176)**
Disposals	**(171)**	**–**	**13**	**(21)**	**(232)**	**(411)**
Balance at 26 April 2020	**22,972**	**459**	**4,586**	**2,185**	**11,036**	**41,238**
Net book value						
At 29 April 2019	**–**	**–**	**5,924**	**773**	**14,089**	**20,786**
At 26 April 2020	**115,498**	**1,265**	**6,005**	**354**	**14,702**	**137,824**

	RoUA – property £000	RoUA – plant and equipment £000	Land and buildings £000	Plant and equipment £000	Fixtures and 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
Impairment charge	–	–	–	176	–	176
Impairment reversals	–	–	–	(135)	–	(135)
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

Right-of-use assets

From 29 April 2019, the Group has adopted IFRS 16 Leases. Refer to Notes 1 and 28 for the accounting policy and restatements respectively. As shown above, there are two separate right-of-use asset classes recognised on adoption of the new leasing standard: property and plant and equipment.

Notes continued
(Forming part of the financial statements)

14. Property, plant and equipment continued

Impairment losses

For impairment testing purposes, the Group has determined that each store is a separate CGU. Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. The UK Government trade restrictions implemented on 23 March 2020 as a result of the COVID-19 pandemic are considered an impairment trigger for all stores and as a result all stores have been tested for impairment.

As described in Note 1(v), the key assumptions for the value in use calculation are those regarding the discount rate, long-term growth rates and expected trading performance (sales, cash margin and operating costs).

The value in use of each CGU is calculated based on the Group's latest forecast cash flows, covering a three-year period to April 2023 (the "Three-year Plan"), which has regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include estimates of ongoing capital expenditure required to maintain the store network, but exclude any significant growth capital initiatives not committed. The Three-year Plan reflects the Board's current best estimate of the range of possible impacts arising from COVID-19, which anticipate a significant reduction in sales and profits in the short to medium term compared to previous estimates.

Cash flows beyond the three-year period are extrapolated using an estimated average long-term growth rate of 2.0% across all CGUs, which is based on inflation forecasts by recognised bodies.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to the Group. The post-tax discount rate is derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The post-tax WACC is subsequently adjusted to reflect the specific amount and timing of the future tax cashflows to obtain the pre-tax rate of 16.3% (last year: 10.26%), which reflects the additional risks presented by COVID-19 as at 26 April 2020.

During the year, the Group has recognised an impairment charge against property, plant and equipment of £3.5m. The stores subject to an impairment charge were impaired to their 'value in use' recoverable amount of £121.3m, which is their carrying value at the period end. These impairments have been recognised within adjusting items (see Note 6). Furthermore there were prior year impairment reversals of £0.2m.

As disclosed in the accounting policies (Note 1), the impairment charge represents a significant accounting judgement due to assumptions used in calculating the pre-tax WACC in addition to assumptions used within the forecast cash flows. Cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the store portfolio. The impairment charge relates to 100 stores which continue to have a residual book value. Their carrying value is sensitive to any change in the underlying assumptions and reasonably possible changes could result in an additional impairment or a reversal of the impairment, but not a material one at an individual store level.

A total reduction in sales of 5% from the Three-year Plan to reflect a potential downside scenario would result in an increase in the impairment charge of £1,750k. A reduction in the long-term growth rate to 0% would result in an increase in the impairment charge of £402k. A 1% reduction in cash margin or a 3% increase in operating costs would increase the impairment charge by £265k and £853k respectively. Reasonably possible changes of other key assumptions, including a 20 basis point increase in the pre-tax discount rate across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

15. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets		Liabilities	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Property, plant and equipment	**685**	292	**–**	–
Temporary timing differences	**1,325**	–	**–**	–
Financial assets/liabilities	**(208)**	–	**–**	–
Other	**–**	59	**–**	–
Tax assets	**1,802**	351	**–**	–

Movement in deferred tax during the year

	Fixed assets £000	Temporary timing differences £000	Financial assets/ liabilities £000	Other timing differences £000	Total £000
At 28 April 2019	292	–	–	59	351
IFRS 16 opening balance adjustment	–	1,378	–	–	1,378
Adjustment in respect of prior years	67	59	(24)	(59)	43
Deferred tax credit/(charge) to profit and loss	292	(66)	52	–	278
Deferred tax credit/(charge) in equity profit and loss	34	(46)	(236)	–	(248)
At 26 April 2020	**685**	**1,325**	**(208)**	**–**	**1,802**

16. Inventories

	2020 £000	2019 £000
Goods for resale	**25,750**	21,144
Goods not for resale	**–**	982
Stock in transit	**844**	3,031
Inventory	**26,594**	25,157

The cost of inventories recognised as an expense during the year ended 26 April 2020 was £86.4m (2019: £81.4m).

The value of stock loss written off as an expense during the year was £4.5m (2019: £3.1m), including a net increase in the provision of £0.2m.

During the year, £0.3m of amounts previously categorised as goods not for resale have been transferred to property, plant and equipment which reflects more accurately their nature. The balance of £0.6 million has been expensed in the year.

An inventory provision of £1.9m (2019: £1.7m) for obsolescence and shrinkage has been recognised in the year. The provision is an estimate, which is based on stock ageing and historical trends and is reviewed by management throughout the year. The Directors do not consider there to be any reasonably possible scenarios in which this provision might increase or decrease to a material extent in the next 12 months. An illustration of the sensitivity of the calculation may be illustrated with reference to the fact that a 10 per cent. reduction in the estimated net realisable value of inventory would lead to an increase in the provision at 26 April 2020 of £101,867 (2019: £55,000).

17. Trade and other receivables

	2020 £000	2019 £000
Current		
Trade receivables	**832**	250
Other receivables	**528**	361
Prepayments	**3,120**	16,978
Accrued income	**3,650**	–
Trade and other receivables	**8,130**	17,589

Trade receivables disclosed above are attributable to online sales, which currently represent 11.1 per cent. of Group revenue (2019: 9.8 per cent). 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 and nature of trade receivables is such that any expected credit losses are immaterial, therefore no loss allowance has been recorded at the period end (2019: nil).

Prepayments relate to prepaid property costs and other expenses. The reduction in the balance from 2019 is attributable to a decrease in the business rates prepayment due to the COVID-19 business rates relief for the 12 months ended 31 March 2021. In addition, the rent prepayments previously recognised under IAS 17 have decreased due to the adoption of IFRS 16 in the period.

The accrued income balance at 26 April 2020 relates to the COVID-19 furlough scheme government grants receivable as detailed in Note 4.

18. Cash and cash equivalents

	2020 £000	2019 £000
Cash and cash equivalents per balance sheet	**6,546**	3,687
Bank overdraft per balance sheet	**(3,605)**	–
Net cash and cash equivalents	**2,941**	3,687

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

	2020 £000	2019 £000
Sterling	**(3,605)**	2,425
Euro	**1,531**	1,243
US dollar	**5,015**	19
Net cash and cash equivalents	**2,941**	3,687

Notes continued
(Forming part of the financial statements)

19. Borrowings

	2020 £000	2019 £000
Non-current liabilities		
Lease liabilities	110,200	494
Unamortised debt issue costs	(11)	(91)
Non-current liabilities	**110,189**	403
Current liabilities		
Bank overdraft	3,605	–
Secured bank loans	10,000	–
Lease liabilities	22,002	275
Unamortised debt issue costs	(62)	(45)
Current liabilities	**35,545**	230

At the time of the Group's IPO in 2018, new bank facilities were put in place, principally comprising a £25m revolving credit facility provided by HSBC, with a term of three years, expiring in July 2021.

On 13 August 2020, the Group completed an agreement with HSBC to enhance and extend the facilities, as follows:
- The term of the RCF is extended, to expire in September 2022, with step downs from the initial £25.0m facility, of £2.5m in January 2021 and £2.5m in January 2022, to reflect the profile of the expected facility requirement.
- Provision of an additional £7.5m facility, under the Government's CLBILS scheme, which also expires in September 2022. No repayments are due until the expiry date.
- The facility includes financial covenants in relation to the level of EBITDA, net debt and capital expenditure.

Reconciliation of borrowings to cashflows arising from financing activities

	2020 £000	2019 £000
Borrowings at start of year (excluding overdraft[1])	633	31,458
Additional lease liabilities recognised on adoption of IFRS 16	115,314	–
Restated borrowings at start of year (excluding overdrafts[1])	**115,947**	31,458
Changes from financing cashflows		
Payment of lease liabilities (capital)	(19,829)	(241)
Payment of lease liabilities (interest)	(4,041)	(23)
Proceeds from loans and borrowings	10,000	–
Repayment of bank borrowings	–	(31,200)
Total changes from financing cashflows	**(13,870)**	(31,464)
Other changes		
Lease liability additions	36,729	307
Disposal of lease liabilities	(870)	–
The effect of changes in foreign exchange rates	89	–
Interest expense	4,104	332
Total other changes	**40,052**	639
Borrowings at end of year (excluding overdrafts[1])	**142,129**	633

1 The bank overdraft has been excluded in this reconciliation as it is included within the net cash and cash equivalents balance reconciled within the consolidated cash flow statement. There was no overdraft as at 28 April 2019.

Net debt reconciliation

	2020 £000	2019 £000
Net debt (excluding unamortised debt costs)		
RCF	**10,000**	–
Bank overdraft	**3,605**	–
Cash and cash equivalents	**(6,546)**	(3,687)
Net debt/(cash) from bank	**7,059**	(3,687)
Non-IFRS 16 lease liabilities	**952**	769
Non-IFRS 16 net debt/(cash)	**8,011**	(2,918)
IFRS 16 lease liabilities	**131,250**	–
Net debt/(cash) including IFRS 16 lease liabilities	**139,261**	(2,918)

20. Trade and other payables

	2020 £000	2019 £000
Current		
Trade payables	**18,020**	33,128
Other tax and social security	**700**	724
Accrued expenses	**7,469**	12,794
	26,189	46,646

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 reduction in the balance from 2019 is attributable to a decrease in the business rates payable due to the COVID-19 business rates relief for the 12 months ended 31 March 2021.

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

Accrued expenses comprise various accrued property costs, payroll costs and other expenses. The reduction in the balance from 2019 is due to the rent accrual and rent-free creditor previously recognised under IAS 17 decreasing due to the adoption of IFRS 16 in the period.

The Group has net US Dollar denominated trade and other payables of £1.5 million (2019: £4.0 million).

21. Provisions

	Dilapidations £000	Onerous lease provision £000	HMRC Duty 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)
Balance as at 28 April 2019	192	89	–	281
Adjustment due to adoption of IFRS 16	–	(89)	–	(89)
Balance as at 28 April 2019 – adjusted	192	–	–	192
Provisions made during the year	192	–	787	979
Provisions used during the year	(192)	–	–	(192)
Balance as at 26 April 2020	192	–	787	979
Non-current	–	–	–	–
Current	192	–	787	979

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 during the course of the year and therefore are not discounted.

HMRC Duty provision
During the year HMRC has initiated a review of the import duty paid by the Company. This review, which is ongoing, has identified that duty has been potentially underpaid in the Stationery, Canvases and Toys product categories.

Notes continued

(Forming part of the financial statements)

21. Provisions continued

HMRC duty provision continued

HMRC has issued a Right to be Heard letter in respect of Stationery and Canvases in the sum of £138k which has been provided for and which has been settled since the year end.

A detailed review of the Toys category is in progress. The largest SKUs by value have been assessed and on this basis a provision of £568k has been established to cater for potentially underpaid duty on this category. The provision reflects a duty rate of 2.5% on a sample the largest value SKUs specifically reviewed with external professional support and an estimate of 4.7% on the remaining SKUs compared to a potential range of between 0% and 11%. The provision increases by £75k for every percentage point increase in the duty rate applied.

Professional fees of £51k and potential penalty interest of £30k have also been provided.

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 £782,000 (2019: £547,000).

At the end of the year contributions of £68,000 (2019: £181,000) were outstanding.

23. Share capital and share premium

On 24 April 2018, the Company was incorporated with 1 share of £0.01. On 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 undertaken. 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 10 July 2018 to convert £51,445,545 of share premium into retained earnings.

On 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.

	2020 Number	2019 Number
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	**62,500**	–
Issued in the period	**–**	62,500
At the end of the period	**62,500**	62,500

	2020 £000	2019 £000
Share capital		
At the start of the period	**625**	–
Issued in the period	**–**	625
At the end of the period	**625**	625
Share premium		
At the start of the period	**28,322**	–
Issued in the period	**–**	28,322
At the end of the period	**28,322**	28,322

24. Financial instruments

Financial risk management

The Board has overall responsibility for managing risks and uncertainties across the Group and these are reviewed on an ongoing basis. The principal financial risks faced by the Group 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 27-31 and in the Corporate Governance Report on pages 43 to 45.

(a) 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.

(i) 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. A significant proportion of the Group's retail products are procured from overseas suppliers denominated in US dollars.

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 takes a prudent, but flexible, approach to hedging the risk of exchange rate fluctuations, with the following guidelines in place:

- Fully hedge US dollar requirements 6 months in advance of the requirement;
- Hedge at least a further 50% of cover for the period 6 to 12 months in advance of the requirement;
- Between 13 and 18 months in advance of the requirement, up to 100% may be hedged but there is no requirement to do so;
- Between 19 and 24 months in advance of the requirement, up to 50% may be hedged but there is no requirement to do so.

Currently, the Group has hedges in place to cover substantially all of its anticipated dollar requirements until the end of April 2021.

At 26 April 2020, the Group held forward contracts with a nominal value of $35.3m (2019: $19.5m), all with maturity dates of less than one year. These contracts have an average forward rate of $1.3049 (2019: $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	
	2020 £000	2019 £000	**2020 £000**	2019 £000
US Dollar	**1,482**	4,050	**5,015**	3,447
Euro	**475**	282	**1,885**	1,613

Currency sensitivity analysis

The Group is exposed to the US Dollar and, to a lesser extent, the Euro.

The following table details the Group's sensitivity to a 10% increase or decrease in sterling against the relevant foreign currencies. 10% 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% change in foreign currency rates. A positive number below indicates a decrease in profit and other equity where sterling strengthens 10% against the relevant currency. For a 10% 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.

	USD impact		Euro impact	
	2020 £000	2019 £000	**2020 £000**	2019 £000
Profit or (loss) for the period	**321**	55	**128**	(121)

This is mainly attributable to the exposure outstanding on US Dollar and Euro cash, 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.

Notes continued
(Forming part of the financial statements)

24. Financial instruments continued
Financial risk management continued
(ii) Interest rate risk
The Group is also exposed to fluctuation in the interest rate on its banking facility. The sensitivity analysis below has been determined based on an increase in the interest rate of 1.0% on the average cash balances throughout the year.

	2020 £000	2019 £000
Variable-rate instruments (100 bp increase)	**33**	56
Variable-rate instruments (100 bp decrease)	**(33)**	(56)

(b) 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 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 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.

The carrying amount of the financial assets recorded in the financial statements represents the Group's and the Company's exposure to credit risk.

(c) 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 assets and 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.

Contractual maturity of financial liabilities

	Within 1 year £000	2-5 years £000	5+ years £000	Total £000
26 April 2020				
Interest bearing	**10,000**	**–**	**–**	**10,000**
Non-interest bearing	**27,169**	**–**	**–**	**27,169**
Finance lease liability (discounted cash flows)	**22,002**	**76,835**	**33,365**	**132,202**
Derivative				
Forward currency contracts	**–**	**–**	**–**	**–**
	59,171	**76,835**	**33,365**	**169,371**
28 April 2019				
Non-interest bearing	47,158	–	–	47,158
Finance lease liability (discounted cash flows)	275	494	–	769
Derivative				
Forward currency contracts	25	–	–	25
	47,458	494	–	47,952

Hedge accounting
The Group has 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 and applies a hedge ratio of 1:1. 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 qualitative and forward-looking approach to assessing hedge effectiveness.

The Group determines the existence of an economic relationship between the hedging instrument and the 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 using the hypothetical derivative method.

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.

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 (i.e. as prices) or indirectly (i.e. 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:

	2020 £000	2019 £000
Net Derivative Financial Instruments		
Foreign exchange contracts	**1,531**	133

Classification of financial instruments
The table below shows the classification of financial assets and liabilities as at 26 April 2020.

The fair value of financial instruments have been assessed as approximating to their carrying value.

	Mandatorily at FVTPL £000	**Cash Flow hedging instruments £000**	**Financial assets at amortised cost £000**	**Other financial liabilities £000**
As at 26 April 2020				
Financial assets measured at fair value				
Derivative financial instruments	**–**	**1,531**	**–**	**–**
Financial assets not measured at fair value				
Trade and other receivables	**–**	**–**	**8,130**	**–**
Cash and cash equivalents	**–**	**–**	**6,546**	**–**
Financial liabilities measured at fair value				
Derivative financial instruments	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value				
Bank overdraft	**–**	**–**	**–**	**(3,605)**
Unsecured bank loans	**–**	**–**	**–**	**(10,000)**
Lease liabilities	**–**	**–**	**–**	**(132,202)**
Trade and other payables	**–**	**–**	**–**	**(26,189)**
As at 26 April 2020	**–**	**1,531**	**14,676**	**(171,996)**

Notes continued
(Forming part of the financial statements)

24. Financial Instruments continued
Classification of financial instruments continued

	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	–	–	17,725	–
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	–	–	–	–
Finance lease liabilities	–	–	–	(769)
Trade and other payables	–	–	–	(46,646)
As at 26 April 2019	–	133	21,412	(47,415)

25. Equity-settled share-based payment arrangements
During the year ended 26 April 2020, the Group had two (2019: one) share-based payment schemes, which are described below.

TheWorks.co.uk Long Term Incentive Plan ('LTIP')
The LTIP provides for the grant of performance related and restricted awards. LTIP awards are subject to a three-year vesting period and will usually vest following the assessment of the applicable performance conditions, but will not be released until the end of a holding period of two years beginning on the vesting date. Performance measures under the LTIP will be based on financial measures, for FY20 the vesting conditions are three years' service from grant date and 10%+ compound annual growth in EPS (2019 awards: three years' service from grant date and 17.5%+ compound annual growth in EPS). In addition, restricted stock awards were granted to key management and senior employees, with a two-year vesting period. Restricted awards are not subject to performance conditions.

Further details on the Executive Director LTIP awards are provided in the Director's Remuneration Report on page 50 to 59.

Save As You Earn Scheme ('SAYE')
During the year a save as you earn scheme was set up to encourage share ownership across our workforce. This is a UK tax-qualified scheme under which eligible employees (including Company Directors) may save up to the maximum monthly saving limit of £250 (as determined by the Remuneration Committee) over a period of three years. Under the scheme, participants are granted an option to acquire shares at up to a 20% discount to the price as at the date of grant. The number of shares under option is that which can be acquired at that price using savings made.

	LTIP	SAYE
Number of share options		
Outstanding at 28 April 2019	812,343	–
Granted[1]	1,044,915	2,622,411
Forfeited	(745,836)	(1,119,415)
Restricted stock awards granted	79,118	–
Outstanding at 26 April 2020	1,190,540	1,502,996

1 Includes 185,185 share options under TheWorks.co.uk 2018 Long Term Incentive (CSOP Options) Plan.

	LTIP	SAYE
Weighted average exercise price (£)		
Outstanding at 28 April 2019	1.71	–
Granted	0.81	0.58
Forfeited	1.24	0.58
Restricted stock awards granted	0.81	–
Outstanding at 26 April 2020	1.15	0.58

Weighted average remaining contractual life (years)	4.0	2.3

The exercise prices of outstanding share options as at 26 April 2020 range from £0.58 to £1.71.

Expense recognised in the Income Statement

	2020 £000	2019 £000
LTIP – Share-based payment expense	14	139
SAYE – Share-based payment expense	106	–
Adjusting items staff incentives on IPO	–	1,212
Total IFRS 2 charges	**120**	1,351
Taxation relating to IFRS 2 charges	–	22
	120	1,373

26. Capital commitments

Capital commitments

At 26 April 2020 the Group had capital commitments of £94,000 (2019: £294,000).

27. 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.

There were no transactions with related parties who are not members of the Group in the current period. During the prior year, Endless LLP was a related party of the Group. The management fee paid during the prior year was £25,000.

Transactions with key management personnel

The compensation of key management personnel (including the Directors) included in the subsidiary financial statements is as follows:

	2020 £000	2019 £000
Key management remuneration – including social security costs	2,001	3,535
Pension contributions	84	100
Long-term incentive plan – including social security costs	80	130
Total transactions with key management personnel	2,165	3,765

Further details on the key management personnel compensation are provided in the Director's Remuneration Report on pages 50 to 59.

28. Transition to IFRS 16 – Leases

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 29 April 2019 with no restatement of comparative information. Comparative information continues to be reported under IAS 17 and related interpretations.

IFRS 16 introduced a single, on Balance Sheet accounting model for leases. As a result, the Group, as a lessee has recognised right-of-use assets (RoUA) (representing its right to use the underlying assets) and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

Definition of a lease

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16 a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 29 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components where the lease does not stipulate an amount and will instead account for the lease and non-lease components as a single lease component.

Notes continued
(Forming part of the financial statements)

28. Transition to IFRS 16 – Leases continued

As a lessee

The Group leases many assets, including properties, IT equipment, motor vehicles and warehouse equipment. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

The Group has elected not to recognise right-of-use assets and lease liabilities for motor vehicle leases and leases of low-value assets. The Group continues to recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation (straight-line) and impairment losses, and adjusted for certain re-measurements of the lease liability.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. These include the following elements:

- Future fixed lease rental payments;
- Variable lease payments that depend on an index or a rate (these are initially measured at the index or rate as at the commencement date);
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if there is reasonable certainty that the Group will exercise that option;
- Payments of penalties for terminating the lease earlier, if the conditions reflect the Group exercising an option to terminate the lease;
- Estimate of costs to be incurred in dismantling and removing the asset where specifically stipulated in the lease agreement assessed under the IAS 37 requirements.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in one of the following:

- A lease extension has been agreed prior to the term expiry;
- Change in future lease payments as a result of renegotiation of terms;
- Change in future lease payments as a result of a change in the index rate;
- Change in the Groups estimate of the amount expected to be payable under a residual value guarantee;
- The Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The Group's incremental borrowing rates used to discount future lease payments at adoption on 29 April 2019 range between 1.195% and 3.926%. These have been determined based on comparable bond yields and are lease-specific varying by lease length.

The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Group classified property leases and equipment leases as operating leases under IAS 17. Leases are typically made for fixed periods of time. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Some leases provide for additional rent payments that are based on changes in local price indices which are not yet known.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 29 April 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the lessee's incremental borrowing rate as at 30 April 2019, adjusted by the amount of any prepaid or accrued lease payments and lease incentives.

In applying IFRS 16 – Leases for the first time, the Group has used the following practical expedients permitted by the standard:

(i) the use of a single discount rate for portfolios of leases with reasonably similar characteristics;
(ii) reliance on previous assessments of whether leases are onerous instead of performing an impairment review;
(iii) accounting for low-value operating leases and operating leases with a remaining lease term of less than 12 months as at 29 April 2020 on straight-line basis as an expense without recognising a right-of-use asset or a lease liability;
(iv) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease.

The Group leases a number of items of IT equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 29 April 2019 were determined by discounting the future cashflow payments due to interest not being included in the liability as at 29 April 2019.

Impact on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	£000
Right-of-use assets	104,384
Lease liabilities	(116,083)
Property, plant and equipment	(458)
Deferred tax asset	1,378
Accruals and prepayments	(1,889)
Rent-free creditor	6,529
Net impact on retained earnings	**(6,139)**

	£000
Operating lease commitments disclosed at 28 April 2019	135,057
Additional lease commitments not included in 2019 Annual Report	1,248
Restated operating lease commitments	136,305
Discounted under the lessee's incremental borrowing rate as at 29 April 2019	(17,334)
Exempt under IFRS 16	(3,656)
Finance lease liabilities as at 28 April 2019	768
Lease liability recognised as at 29 April 2019	**116,083**

Comprising:	
Current lease liabilities	18,944
Non-current liabilities	97,139

Right-of-use assets

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item in the Consolidated Statement of Financial Position. The carrying amount of right-of-use assets are as detailed below. An impairment adjustment to the right-of-use assets of £94k in relation to previous onerous lease provisions was recognised at the date of initial application.

	Right-of-use assets		
	Property	Plant and equipment	Total
Cost			
At 28 April 2019	–	–	–
Restatement for IFRS 16	**103,086**	**1,298**	**104,384**
At 29 April 2019	**103,086**	**1,298**	**104,384**
Additions	**36,350**	**426**	**36,776**
Disposals	**(966)**	–	**(966)**
At 26 April 2020	**138,470**	**1,724**	**140,194**
Depreciation and impairment			
At 28 April 2019	–	–	–
Depreciation charge	**20,152**	**459**	**20,611**
Impairment charge	**2,991**	–	**2,991**
Disposals	**(171)**	–	**(171)**
At 26 April 2020	**22,972**	**459**	**23,431**
Net book value			
At 26 April 2020	**115,498**	**1,265**	**116,763**

Notes continued
(Forming part of the financial statements)

28. Transition to IFRS 16 – Leases continued
Lease liabilities
Lease liabilities included in the statement of financial position are as follows (2019 figures represent the finance lease liability):

	2020 £000	2019 £000
Current	**22,002**	275
Non-current	**110,200**	494
Total discounted lease liabilities	**132,202**	769

Please refer to Note 19 for a detailed reconciliation of lease liabilities to cash flows arising from financing activities.

Maturity analysis – contractual discounted cash flows

	2020 £000
Less than 1 year	**22,002**
2 to 5 years	**76,835**
More than 5 years	**33,365**
Total discounted lease liabilities	**132,202**

Impact in the period
As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £116,763k right-of-use assets and £132,202k of lease liabilities as at 26 April 2020. Also, in relation to those leases under IFRS 16, the Group has recognised depreciation, impairment and interest costs, instead of operating lease expenses. During the 52-week period ended 26 April 2020, the Group recognised £20,611k of depreciation charges, £2,845k of impairment charges and £4,011k of interest costs from these leases.

The impact on the profit/(loss) for the period is summarised below:

	£000
Profit/(loss) before tax before IFRS 16 adjustments[1]	**(14,222)**
Remove IAS 17 rental charge	23,292
Remove hire costs from hire of equipment	141
Remove depreciation charged on the existing assets	298
Remove interest charged on the existing liability	30
Depreciation charge on right-of-use Asset	(20,611)
Interest cost on lease liability	(4,041)
Loss on disposal of RoUA	(795)
Profit on disposal of lease liability	870
Foreign exchange difference on euro leases	(89)
Additional impairment charge under IAS 36	(2,991)
Onerous lease provision not applicable under IFRS 16	146
Net Impact on profit/(loss)	**(3,750)**
Profit/(loss) before tax	**(17,972)**

[1] Refer to Note 5.

Rental expense in the period

During the period ended 26 April 2020 the rental charge recognised in the consolidated statement of comprehensive income was £5,075k as disclosed in Note 7. These operating lease payments are split out as follows:

	2020 £000
Operating lease rentals – hire of plant and equipment	
Motor vehicle lease payments	**326**
Low value leases	**19**
Total plant and equipment operating lease rentals	**345**
Operating lease rentals – store leases	
Stores included within IFRS 16 RoUA and lease liabilities as at 26 April 2020[1]	**2,769**
Stores leases excluded from IFRS 16 assessment due to:	
– Concession leases, the landlord has substantial substitution rights	**1,347**
– Low value leases	**1**
– Lease has rolling break clauses	**228**
– Lease has expired and the premises is occupied on a flexible, rolling basis[1]	**385**
Total store operating lease rentals	**4,730**
Total operating lease rentals	**5,075**

1 These categories relate to temporary or rolling lease agreements. An assessment of the inclusion of leases for which the initial agreed term has expired with no new agreed terms is considered as follows:
- Where the Groups intention is to renew the lease agreement and continue to occupy the property, balances relating to the lease are included within RoUA and lease liabilities as at 26 April 2020. Assumptions are made regarding the lease term and annual rent based on the average agreed lease terms and annual rentals agreed during the financial year
- For all remaining stores, the Groups intention is to occupy the property on a rolling month-to-month basis, and there is no obligation to remain in the property. As such, these leases are excluded from the IFRS 16 balances as at 26 April 2020.

29. Subsidiary undertakings

The results of all subsidiary undertakings are included in the consolidated financial statements. The principal place of business and the registered office addresses for the subsidiaries are the same as the Company.

Company	Active / Dormant	Direct / indirect control	Registered number	Class of shares held	Ownership
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 26 April 2020

	Note	2020 £000	2019 £000
Non-current assets			
Investment	33	**19,000**	51,583
Deferred tax asset	34	**40**	16
		19,040	51,599
Current assets			
Loan receivable (due for repayment after 12 months)	35	**28,500**	28,500
Trade and other receivables	36	**21**	1
		28,521	28,501
Total assets		**47,561**	80,100
Current liabilities			
Trade and other payables	37	**5,563**	2,808
		5,563	2,808
Total liabilities		**5,563**	2,808
Net assets		**41,998**	77,292
Share capital	38	**625**	625
Share premium	38	**28,322**	28,322
Share-based payment reserve		**1,489**	1,358
Retained earnings		**11,562**	46,987
Total equity		**41,998**	77,292

These financial statements were approved by the Board of Directors on 27 August 2020 and were signed on its behalf by

G Peck
Director

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
Balance as at 29 April 2018	–	–	–	–	–
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 on IPO	178	28,322	–	–	28,500
Share-based payment charge	–	–	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**
Total comprehensive income for the period					
Loss for the period	**–**	**–**	**–**	**(33,175)**	**(33,175)**
Other comprehensive income	**–**	**–**	**11**	**–**	**11**
Total comprehensive income for the period	**–**	**–**	**11**	**(33,175)**	**(33,164)**
Transactions with owners of the Company					
Share-based payment charge	**–**	**–**	**120**	**–**	**120**
Dividend	**–**	**–**	**–**	**(2,250)**	**(2,250)**
Transactions with owners of the Company	**–**	**–**	**120**	**(2,250)**	**(2,130)**
Balance as at 26 April 2020	**625**	**28,322**	**1,489**	**11,562**	**41,998**

Notes to the Company Financial Statements

30. Accounting policies

(a) 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.

EU Endorsed International Financial Reporting Standards effective in the year

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

(b) Income statement

The Company made a loss after tax of £33.2 million for the year ended 26 April 2020 (2019: loss of £3.3 million). 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 effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- 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 the following disclosures:

- IFRS 2 Share-based payments in respect of group-settled share-based payments

(c) Loan receivable

Loans to subsidiaries are initially recorded at fair value. Subsequent to initial recognition they are measured at amortised cost, less any impairment losses. The loans are non-interest bearing and repayable on demand. The provision for impairment of loans receivable is based on lifetime expected credit losses. Lifetime expected credit losses are reassessed at each reporting date and any movement in the provision is recognised in the Company income statement.

(d) 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.

(e) Share capital

On 24 April 2018, the Company was incorporated with 1 share of £0.01. On 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 undertaken. 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 10 July 2018 to convert £51,445,545 of share premium into retained earnings.

On 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.

(f) Reserves

The following describes the nature and purpose of each reserve within equity:

- **Share premium account:** Proceeds received in excess of the nominal value of shares issued, net of any transaction costs.
- **Share-based payment reserve:** Represents the cumulative charges to income under IFRS 2 'Share-based payments' on all share options and schemes granted, net of share option exercises.
- **Retained earnings:** All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

(g) Key sources of estimation uncertainty

The preparation of consolidated financial statements requires the Company to make estimates and judgements that affect the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Company accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next 12 months are discussed below.

Impairment of investments in subsidiaries

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is determined based on value in use. The value in use method requires the Group to determine appropriate assumptions (which are key sources of estimation uncertainty) in relation to the growth rates of sales and cash margins, operating costs, future capital maintenance expenditure, long-term growth rates and the post-tax discount rate used to discount the assumed cash flows to present value.

Estimation uncertainty arises due to changing economic and market factors, particularly in light of the ongoing COVID-19 pandemic. The Three-year Plan cash flow projections have been adjusted for the impact of COVID-19 as detailed within Note 1b (i) to the consolidated financial statements.

See Note 33 for further details on the Company's assumptions and associated sensitivities.

31. 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 59.

32. Dividends

	Pence per share	**2020 £000**	2019 £000
Final dividend for the year ended 26 April 2019	2.4p	**1,500**	–
Interim dividend for the year ended 26 April 2020	1.2p	**750**	–
Interim dividend for the year ended 28 April 2019	1.2p	**–**	750
Total dividend paid to shareholders in the year		**2,250**	750

Dividend equivalents totalling £30,772 (2019: £11,643) were accrued in the year in relation to share-based long-term incentive schemes.

The Board is not recommending a final dividend in respect of the financial year ended 26 April 2020 (28 April 2019: 2.4 pence per share). An interim dividend of £750,000 was paid on 12 March 2020.

Notes to the Company Financial Statements continued

33. Investments in subsidiaries

	2020 £000
At 28 April 2019	51,583
Additions	149
Impairment	(32,732)
At 26 April 2020	**19,000**

Investments in subsidiaries represent the Company's investment in its subsidiary, The Works Investments Limited.

Impairment of investments in subsidiaries

The Company evaluates its investments in subsidiaries annually for any indicators of impairment. The Company considers the relationship between its market capitalisation and the carrying value of its investments, among other factors, when reviewing for indicators of impairment. As at 26 April 2020, the market capitalisation of the Group was significantly below the carrying value of its investment in The Works Investments Limited, indicating a potential impairment. In addition, the ongoing COVID-19 pandemic and subsequent lockdown has resulted in significant market and business disruption; these have led to significant uncertainties regarding trading and the longer-term impact on the business.

As described in Note 30(g), the key assumptions for the value in use calculation are those regarding the discount rate, long-term growth rates, future capital maintenance expenditure and expected trading performance (sales, cash margin and operating costs).

The recoverable amount of the investment in The Works Investments Limited of £19,000k has been determined based on the Group's latest forecast post-tax cash flows, covering a three-year period to April 2023 (the "Three-year Plan"), which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include estimates of ongoing capital expenditure required to maintain the store network, but exclude any significant growth capital initiatives not committed. The Three-year Plan reflects the Board's current best estimate of the range of possible impacts arising from COVID-19, which anticipates a significant reduction in sales and profits in the short to medium term compared to previous estimates.

Cash flows beyond the three-year period are extrapolated using an estimated average long-term growth rate of 2.0%, which is based on inflation forecasts by recognised bodies.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to the Group. The post-tax discount rate is derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The rate used to discount the forecast cash flows is 14.0% (last year: 10.26%), which reflects the additional risks presented by COVID-19 as at 26 April 2020.

As a result of this analysis, the Company has recognised an impairment charge of £32,732k.

Sensitivity analysis

As disclosed in the accounting policies note, the cash flows used within the impairment model, future capital maintenance expenditure, the long-term growth rate and the discount rate are sources of estimation uncertainty and small movements in these assumptions could lead to further impairment.

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions:

- A 20 basis point decrease in the long-term growth rate would result in an additional impairment charge of £1,858k.
- A 5% reduction in cash flows from the Three-year Plan would result in an additional impairment charge of £362k.
- A 10% increase in future capital expenditure would result in an additional impairment charge of £1,938k
- A 20 basis point increase in the discount rate would result in an additional impairment charge of £2,557k.

In the event that all four were to occur simultaneously, an additional impairment charge of £5,561k would be recorded.

34. Deferred tax asset

	2020 £000	2019 £000
Deferred tax asset	40	16
	40	16

Deferred tax assets of £40k (2019: £16k) relate to temporary differences arising from trading, of which £11k (2019: £7k) has been charged directly to equity.

35. Loans receivable

	£000
At incorporation	–
Loans issued	28,500
As at 28 April 2019	28,500
Loans issued	–
Loans repaid	–
As at 26 April 2020	28,500

The loans issued balance of £28,500,000 (2019: £28,500,000) relates to a non-interest bearing intercompany loan repayable on demand by subsidiary undertaking The Works Investments Limited. The ability of subsidiary undertakings to repay outstanding balances to the Company is assessed at each reporting date and counterparty credit risk is reviewed on a regular basis using the IFRS 9 expected credit loss impairment model. If a significant increase in the credit risk occurs, credit losses are recorded in the income statement. As at 26 April 2020 and 28 April 2019 no impairment of the receivable was recorded.

36. Trade receivables

	2020 £000	2019 £000
Prepayments and accrued income	**21**	1
	21	1

37. Trade payables

	2020 £000	2019 £000
Non-trade payables and accrued expenses	**97**	71
Corporation tax	**–**	–
Other taxes on social security	**–**	7
Accruals	**178**	–
Amounts owed to Group undertakings	**5,288**	2,730
	5,563	2,808

Amounts owed to Group undertakings relate to trade payables are non-interest bearing and repayable on demand.

38. Share capital and share premium

	2020 Number	2019 Number
Share capital		
Allotted, called up and fully paid ordinary shares of one pence:		
At the start of the period	**62,500**	–
Issued in the period	**–**	62,500
At the end of the period	**62,500**	62,500

	2020 £000	2019 £000
Share capital		
At the start of the period	**625**	–
Issued in the period	**–**	625
At the end of the period	**625**	625
Share premium		
At the start of the period	**28,322**	–
Issued in the period	**–**	28,322
At the end of the period	**28,322**	28,322

Notes to the Company Financial Statements continued

39. Equity-settled share-based payment arrangements

During the year ended 26 April 2020, the Company had two (2019: one) share-based payment schemes, which are described below.

TheWorks.co.uk Long Term Incentive Plan ('LTIP')

The LTIP provides for the grant of performance related and restricted awards. LTIP awards are subject to a three-year vesting period and will usually vest following the assessment of the applicable performance conditions, but will not be released until the end of a holding period of two years beginning on the vesting date.

Further details on the Executive Director LTIP awards are provided in the Director's Remuneration Report on pages 50 to 59.

Save As You Earn Scheme ('SAYE')

During the year a save as you earn scheme was set up to encourage share ownership across our workforce. This is a UK tax-qualified scheme under which eligible employees (including Company Directors) may save up to the maximum monthly saving limit of £250 (as determined by the Remuneration Committee) over a period of three years. Under the scheme, participants are granted an option to acquire shares at up to a 20% discount to the price as at the date of grant. The number of shares under option is that which can be acquired at that price using savings made.

For more information, refer to Note 25.

Expense recognised in the Company Income Statement

	2020 £000	2019 £000
Share-based payment expenses		
(Credit)/expense recognised in the Company income statement	**(29)**	56
Adjusting items – staff incentives on IPO[1]	**–**	1,212
Expense recognised in the subsidiary income statement	**149**	83
Total IFRS 2 charges recognised in the Group income statement	**120**	1,351
Taxation relating to IFRS 2 charges	**–**	7
	120	1,358

1 Staff incentive on IPO represents nil cost share options awarded to an employee in preparation of the IPO.

40. Related party transactions

	2020 £000	2019 £000
Loans receivable from subsidiary undertaking The Works Investments Limited	**28,500**	28,500

The Works Investments Limited is a 100% owned subsidiary, with a principal place of business and registered office address the same as that of the Company. The loan is non-interest bearing and repayable on demand.

Advisors & Contacts

Corporate Brokers
Investec Bank plc
30 Gresham Street
London
EC2V 7QP
Tel: 020 7597 4000

Legal Advisors
Walker Morris LLP
Kings Court
12 King Street
Leeds
LS1 2HL
Tel: 0113 283 2500

Squire Patton Boggs (UK) LLP
6 Wellington Place
Leeds
LS1 4AP
England
Tel: 0113 284 7000

Auditor
KPMG LLP
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH
Tel: 0121 740 3516

Principal Bankers
HSBC Bank Plc
Birmingham Corporate Centre
6th Floor, 120 Edmund Street
Birmingham
B3 2QZ
Tel: 03455 852 569

Registrars
Equiniti Limited
Aspect House, Spencer Road
Lancing
West Sussex
BN99 6DA

Financial Public Relations and Investor Relations
Teneo Blue Rubicon
5th Floor
6 More London Place
London
SE1 2DA
020 7367 6033
theworks@teneobluerubicon.com

Registered Office
Boldmere House, Faraday Avenue
Hams Hall Distribution Park
Coleshill
Birmingham
B46 1AL
Tel: 0121 313 6050

TheWorks.co.uk plc

Boldmere House,
Faraday Avenue,
Hams Hall Distribution Park,
Coleshill,
Birmingham
B46 1AL

Find out more at www.theworksplc.co.uk
www.theworks.co.uk