Inspiring reading, learning, creativity and play

Annual Report and Accounts 2023

THE WORKS

Our ambition: to become one of the most loved retailers in the UK – the go-to place for reading, learning, creativity and play.

Contents

Highlights

Financial highlights

Revenue	Profit before tax	Basic EPS
£280.1m	**£5.0m**	**8.4p**
FY22: £264.6m	Restated FY22: £14.2m	Restated[1] FY22: 22.3p

Like-for-like (LFL) sales growth[2]	Adjusted PBT	Adjusted basic EPS
+4.2%	**£10.1m**	**16.5p**
FY22: +10.5%	Restated FY22: £16.5m	Restated[1] FY22: 26.0p

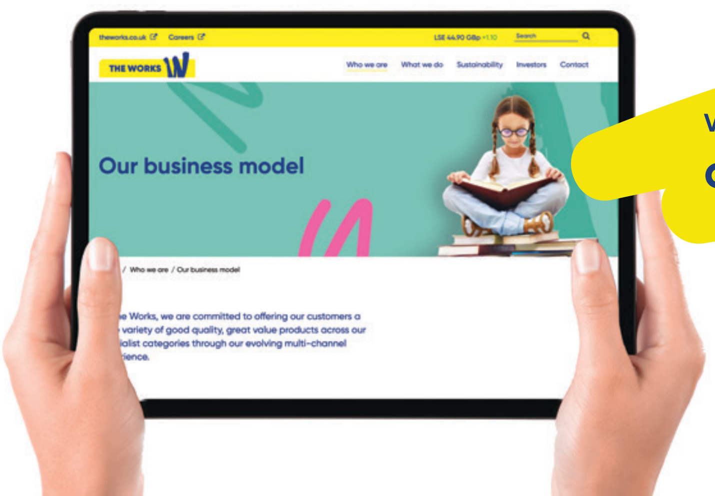
Non-IFRS 16 Adjusted EBITDA	Dividend
£9.0m	**1.6p**
FY22: £16.6m	FY22: 2.4p

1 See note 14 to the financial statements.

2 LFL sales growth has been calculated with reference to the FY22 comparative sales figures. In FY22's Annual Report, two-year comparatives were used because the use of a normal one-year LFL comparative was prevented by the various disruptions to store trading brought about by COVID-19 restrictions in the FY21 comparative period.

Operational highlights

- Resilient performance delivered in FY23 against challenging backdrop. Well-positioned to capitalise on opportunities and deliver growth in FY24.
- Continued to refine our customer proposition to more closely reflect our purpose - *to inspire customers to read, learn, create and play* – making lives more fulfilled. Rolled out evolved brand to stores and online to start changing legacy perceptions of The Works and more accurately reflect the business today.
- Refreshed the product offering, launching new own brand products such as "PlayWorks" toy range. Increased book market share by stocking more front-list titles from best-selling authors such as Julia Donaldson and Colleen Hoover.
- Further enhanced the quality of the store estate with 14 new openings (which are trading ahead of expectations), three relocations and 13 store closures. Continued to optimise the existing estate with an investment of c.£1.4m in 34 refits, improving the customer experience by enhancing layouts, improving signage and optimising space utilisation.
- Invested in operational improvements, the significant benefits of which are expected to be fully realised in FY24 and beyond. This included restructuring the distribution centre management team, implementing a new stock allocation system, and introducing a new automated packing machine at our online fulfilment provider, iForce.
- Launched a review of the business operating model to drive effectiveness and efficiencies, improve processes and IT systems, particularly in relation to the flow of stock through the business.
- Restructured management of the online operation to drive improved performance. Increased focus on customer experience of the website and introduced new tools to support analysis and provide insights into how best to improve performance.
- Placed 12th in 'Best Big Companies to Work For', up from 13th in each of the past two years, and maintained 2* accreditation for 'outstanding' workplace engagement.



Visit our corporate website
corporate.theworks.co.uk

Creating a better, not just bigger business

Our purpose and strategy aim to bring our well-loved brand to life and make The Works 'better, not just bigger'.

Our purpose

To inspire reading, learning, creativity and play – making lives more fulfilled.

Our ambition

To become one of the most loved retailers in the UK.

Our better, not just bigger strategy

- Develop our brand and increase customer engagement
- Enhance our online proposition
- Optimise our store estate
- Drive operational improvements

Read more about our strategy on **pages 16 and 17**

Our strategic enablers

- Our colleagues
- Our systems and data
- Our ESG commitments

Read more about our ESG approach on **pages 29 to 35**

Underpinned by our values

- Crafty
- Caring
- Can-do

Read more about our culture on **page 32**

A differentiated offering with significant organic growth potential in the value retail sector

1

Unique proposition

Better value than specialists and better choice and customer service than discounters.

c.3,500
product lines

2

Broad demographic appeal

Diverse customer base across four addressable markets creates significant growth opportunity.

Read more about our marketplace on **page 12**

£16.23bn
addressable market[1]

3

Flexible store estate

Small inexpensive shop units in a variety of locations with short leases that provide flexibility to respond to local market conditions.

526
stores

4

Simplicity over complexity

Focused on implementing best retail practice, as opposed to costly, high-risk concepts.

5

Real opportunity for growth

Previous under-potentialisation creates real opportunity for sales and profit growth.

Read more about our strategy on **pages 16 and 17**

+5.8%
FY23 revenue growth

1 The value of the UK craft, books, stationery, toys and games markets based on Craft Intelligence, Nielsen, IRI and Statista data.

A leading family friendly value retailer

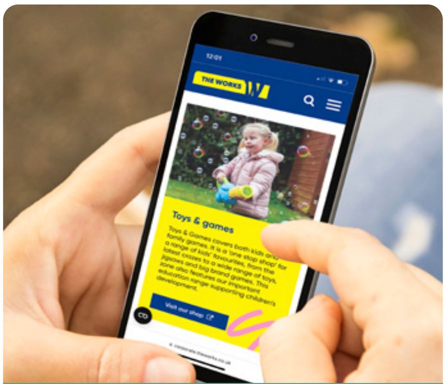
We make reading, learning, creativity and play accessible to everyone. Great value, fantastic ranges and excellent customer service are at the heart of our offering.

Store estate

- Diverse locations including high streets, shopping centres, retail parks, factory outlets and garden centres.
- Serve local communities and play a key role supporting local fundraising activities.

526
stores in the UK and Ireland

14
new store openings during FY23



Multi-channel

- Fully transactional online store.
- Exclusive online product offerings.
- Convenient click & collect service.

41 million
website visits during FY23

Colleagues

- Loyal, dedicated and highly engaged colleagues are key to our success.
- Ranked 12th in Best Big Company to Work for national list, up from 13th last year. Consistently ranked in the top 25 for the past five years.

Awarded second highest two star-rating
Best Big Company to Work for

c.4,000
colleagues

Develop our brand and increase customer engagement

Our loyalty scheme

During the year, following its relaunch, our 'Together' loyalty scheme has continued to grow and it now has c.1.7m active members. Giving 5 pence back for every £1 spent, the scheme offers customers a simple loyalty proposition and real savings. The growth in the scheme's membership was driven by a number of factors including double points promotions which also increased the number of transactions and average spend. As our Together scheme enters its tenth year we continue to see members consistently spend more money more often. As membership continues to grow, the scheme will provide us with invaluable data and insights about what our customers want.

c.1.7m
loyalty members

Our product offering is designed to appeal to all the family and focuses on supporting reading, learning, creativity and play in the categories detailed below. It includes our own brand ranges, which support our value offering and enable us to offer exclusive products to our customers, plus the most in-demand branded products across our categories.

Our products and brands

Our brands

Books

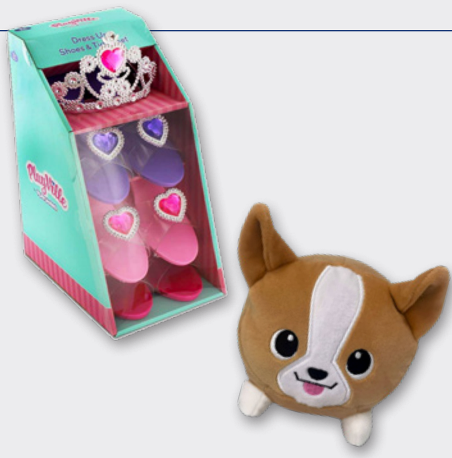
- A destination for children's books that includes bright board books for babies, amazing activity books and fascinating fiction for all ages including teenagers, authoritative non-fiction and educational workbooks to inspire children.
- Great value offered through our 10 for £10 picture book range and our 3 for £6 adult fiction selection.
- A curated range of the very latest trending adult books – both fiction and non-fiction.

Arts & Crafts

- Our exclusive range of Crawford & Black art essentials: canvases, sketchbooks, paints, brushes and art sets for beginners to artisans to create their own masterpieces.
- Our essential range of 'craft blanks' to personalise, craft kits and wooden items to transform and embellish with our own brand of Make & Create accessories.
- A collection of kids' exclusive own brand value kits, ready mix paints, colour-your-own range and bumper bags of essential accessories to inspire young budding artists and crafters.

Toys & Games

- Wide range of toys including our new own brand 'PlayWorks' range, designed to ignite imaginations and encourage cognitive development.
- £10 and under pocket money toys, perfect for kids' own purchases and gifting.
- Great value summer toys range promoting fun in the sun and aimed at getting kids outside.



Stationery

- Our own brand new 'Works Essentials' range and big key brands stationery to meet all home, office and school needs.
- A curated range of stationery and accessories to fill 'Back to School' bags and pencil cases.

Seasonal

- Great value ranges to make seasonal events including Christmas, Easter and Halloween extra special.
- A great range of partyware bringing communities and families together to celebrate national events such as the Jubilee and Coronation.

Good strategic progress

Some good strategic progress was made despite challenging trading conditions, and the underlying appeal and relevance of The Works' proposition continues to resonate with customers.

Introduction

Last year I wrote about the positive effect that the Group's new purpose - to inspire reading, learning, creativity and play - making lives more fulfilled – was having on the business soon after it was introduced. This year we embedded the purpose further across the business, informing the implementation of our 'better, not just bigger' strategy, inspiring the creation of our ESG plan and providing clarity about the future direction of the business.

The purpose has also helped to guide colleagues as they served customers and reinforced the incredible culture at The Works, one of the enduring strengths and unique attributes of the business. And whilst the economic environment has been extremely challenging, colleagues at The Works have responded thoughtfully to this backdrop, using it as an opportunity to inspire customers to enjoy reading, learning, creativity and play on a budget, whilst also supporting local communities and our charitable causes. I am proud to chair such a creative and purpose-led business and would like to thank everyone at The Works for their efforts.

Performance

I have long been impressed by the resilience of The Works, its ability to adapt to unforeseen circumstances and manage challenging trading conditions. In FY23 these traits were seen again as The Works delivered a resilient performance, with revenue increasing by 5.8% to £280.1m. This growth was delivered despite the business still recovering from a cyber security incident late in the previous financial year and an uncertain macroeconomic backdrop. Thanks to Gavin's steady leadership and the action taken to protect the business, the resonance of our value customer proposition and the patience and flexibility of our colleagues, we ended the year on a more positive sales trajectory. Going into FY24, we can now confidently say that The Works is a more operationally robust business, with greatly strengthened cyber security, and remains financially strong.

The inflationary environment did impact our profit performance, particularly in the first half of the year given rising freight, energy and other business costs. However, as a result of these cost pressures easing and an improvement in store sales growth in the second half, we ended the year in line with our revised profit expectations. Although this is not where we expected to be at the start of the year, it is a creditable performance given the challenges the business faced and we ended the year in a financially secure position.

Strategy

The Works announced its 'better, not just bigger' strategy in July 2021, committing to a greater focus on the customer and to strengthening the fundamentals of the business. This strategy not only made The Works more resilient during the COVID pandemic and challenging economic environment that followed, it has also aligned business decisions more closely with our purpose, and ultimately the customer.

Strategic progress was slower in the first half of FY23 as the business was primarily focused on recovering from the cyber security incident and the external environment saw retailers facing great uncertainty. However, more progress was made in the second half of the year and the foundations have now been laid for significant improvements in the year ahead.

The evolved brand has been rolled out across the business and we are now building on this to demonstrate to customers why The Works is the best value destination for reading, learning, creativity and play. This will attract more customers to shop with us and through our relaunched 'Together' loyalty scheme we now have an opportunity to engage more with our growing and loyal customer community.

Our active portfolio management continues. Our 14 new stores and 3 relocated stores opened during the year are performing ahead of expectations and, along with our 34 store refits undertaken in the year, continue to improve the overall quality of our store estate.

Our online performance has been disappointing, partly reflecting a normalisation of store/online sales mix post-COVID. Following a review of our website and online operations we now have the right resource and plans in place to improve the customer experience and profitability of this channel. During the year we implemented a number of structural changes to enable improvements in our stock allocation and distribution processes, which will help drive significant operational efficiencies across the business.

Together, these initiatives create a real opportunity for further strategic progress and a step-change in sales growth and improved profitability over the medium-term. We are excited by this potential and remain confident that our 'better, not just bigger' strategy is the right direction for the business.

Environmental, Social and Governance (ESG)

The Board has continued to oversee development of the Group's Environmental, Social and Governance plan and to monitor progress. Whilst we have put more structure around the ESG strategy in FY23 and made progress in key areas, the Board recognises that there is still much more to be done.

Progress on ESG was mostly made in the second half of the year, namely the new initiatives to support colleague engagement, wellbeing and career development, as well as the creation of new climate targets and an improved system of monitoring our environmental impact.

We have now set a target to be net-zero by 2045, with an ambition to do so by 2040 (in line with the British Retail Consortium), and we are now fully compliant with the TCFD disclosure recommendations, including the reporting of Scope 3 emissions. We still have a long way to go to reduce our environmental impact but now have both the strategy in place and the mechanisms to track progress, which will guide our decision making in the years ahead.

Although I believe that The Works is already a diverse, inclusive and supportive business, Diversity & Inclusion (D&I) is an area that I feel very strongly about and there is scope for us to do more. This year we conducted a full review of D&I at The Works and undertook a survey to understand colleague perceptions and experiences. Based on these insights we have now developed a strategy through which we can make significant progress to improve our diversity and inclusion in the years ahead. This will inspire colleagues to be even more supportive and embracing of differences, encourage new talent to join The Works and strengthen our special, collaborative and supportive company culture.

CFO Succession

As announced alongside our FY23 results, Steve Alldridge has advised the Board of his intention to step down from his role as CFO by the end of 2023. In line with our succession plans, we are delighted that Rosie Fordham our current Head of Finance, will be appointed as CFO when Steve steps down.

Dividend and outlook

Despite delivering a resilient performance in FY23 and ending the year in a strong financial position, the Board hopes that FY23's EBITDA was a low point and that it will increase progressively in future. Some good strategic progress was made despite challenging trading conditions, and the underlying appeal and relevance of The Works' proposition continues to resonate with customers.

During the period in which the business works to rebuild its levels of profit, a compromise is sought, between maintaining a reasonable dividend for shareholders, whilst ensuring that the Group continues to maintain its cash reserves. Taking this into consideration, along with the Company's resilient FY23 performance, and its confidence in the Group's prospects, the Board proposes a final dividend of 1.6 pence per share in respect of FY23 and outlines its policy in relation to capital distributions, which is included at the end of the financial review.

The Board believes that the business is well positioned to take full advantage of the opportunities ahead, make further strategic progress and grow sales profitably, and we remain confident in the Group's future prospects

Carolyn Bradley
Chair
30 August 2023

Our culture

The Works has a one-of-a-kind culture, shaped by strong values that underpin everything we do. In the past 12 months I have visited many stores and had the opportunity to meet colleagues who serve our customers every day. I have also been able to observe our culture 'in action' and I am pleased to report that I have seen many examples of the caring and can-do values we aim to embed across the Group. Above all, our people are passionate about what they do and committed to our purpose.

Recognising the many benefits that diversity of experiences, cultures and perspectives bring, during the year we have further progressed our diversity and inclusion strategy to ensure we foster an inclusive environment where everyone belongs and can thrive (see pages 32 to 34).

Demonstrating resilience

The Works delivered a resilient performance in FY23, with sales growth driven by our fantastic network of stores and team of talented colleagues.

Introduction

The Works delivered a resilient performance in FY23, with sales growth driven by our fantastic network of stores and team of talented colleagues. The economic backdrop was challenging, characterised by high inflation and dampened consumer confidence. This, combined with the residual impact of the cyber security incident at the start of the year, meant that the end result was lower than we had anticipated heading into the year. However, by continuing to focus on our purpose and offering exceptional value for our customers, we have enabled them to continue reading, learning, creating and playing – demonstrating that our value proposition has enduring relevance.

Over the past few years we have dealt with a host of external challenges, such as the COVID-19 lockdowns and global supply chain disruption, as well as internal ones like the cyber security incident. This has meant that our focus has been primarily on protecting and rebuilding the business and supporting our dedicated colleagues. Having established a clearer runway, our strategic progress accelerated in the second half of FY23 and we expect to make even more significant improvements in FY24. We remain confident in our ability to become an even 'better, not just bigger' business, driving a step-change in sales and profitability over the medium term.

Trading performance and financial results

The Works has always been a business that demonstrates its resilience when confronted with difficult trading conditions and the same can be said for FY23. The Group delivered a 5.8% increase in revenue to £280.1m and LFL sales growth of 4.2%, with store LFL sales increasing 7.5% and online sales declining by 15.0%. Outlined below are the main factors that contributed to this performance:

- The first quarter was particularly challenging given the residual impact of the cyber security incident, which occurred in March 2022. The action taken to protect the business and rebuild our systems slowed down sales in May and June 2022. However, as a result of this one-off event we have now accelerated the implementation of IT upgrades and have even more robust defences in place. Momentum built following our recovery with an improving store LFL sales performance in the second half of the year.
- Russia's invasion of Ukraine and political turmoil in the UK resulted in rising inflation and declining consumer confidence over the course of the year. Families have seen incomes and discretionary spending impacted. For value retailers like The Works we believe that sales have been impacted by cost-constrained consumers reigning in their spending, but that this has been balanced, to an extent, by shoppers seeking out the best value. This was particularly the case at Christmas, resulting in strong store trading during peak season and into the new calendar year.
- Retailers have witnessed a shift in consumer behaviour post-COVID, with shoppers increasingly returning to shop in-store and less so online. Stores have always been the lifeblood of the business and it has therefore resulted in a net gain for The Works given that stores represent c.90% of sales.

Profitability was constrained, particularly in the first half of FY23 given the lower than anticipated sales growth, high energy and freight costs and the absence of COVID-related business rates support, which had provided a boost in FY22. We revised our profit expectations for the year in August 2022 and have achieved a result in line with our rebased expectations, delivering a Pre-IFRS16 Adjusted EBITDA of £9.0m and Adjusted profit before tax of £10.1m. The statutory profit before tax was £5.0m, after impairment charges of £5.1m. We believe this level of EBITDA is the low point that we will build from in the years ahead, supported by greater strategic progress that we are now set up to deliver.

Strategy

Our 'better, not just bigger' strategy was announced in July 2021 to build on the existing strengths of the business – our loyal customer base, strong culture and fantastic store network. The strategy aims to provide The Works with a clearer purpose and a more focused brand identity and customer proposition that will help to drive a step-change in sales growth, as well as enabling us to improve the operations of the business, making The Works a more customer-focused and efficient retailer.

Since launching the strategy we have made decent progress in some areas, but the reality of the internal and external challenges noted above has meant more of our attention than we anticipated has been focused on protecting the business and not on growth. Strategic progress has been slower than we would have liked; however, the business is now well-placed to deliver progress in FY24 and beyond, which we expect will drive the step change growth in sales and profitability that we want to achieve over the medium term.

Below is a summary of the strategic progress made in FY23 and the plans we have to accelerate this in the year ahead.

Develop our brand and increase our customer engagement: We are working hard to ensure that our customer proposition and brand are consistent with our purpose, which will help to change legacy perceptions of The Works as a 'pile it high, sell it cheap' discounter, encourage new customers to shop with us and increase the spend of existing customers.

In FY23 we rolled out our evolved brand to our stores and website to ensure that the visual representation of The Works accurately reflects our purpose and the modern, fun and engaging business that The Works is today. We have completed the first phase of this work and will now begin to more actively communicate this to customers by developing and executing a marketing strategy to bring our purpose and evolved brand to life, particularly through our social channels.

We began to refresh our product offering to be better aligned with our purpose, whilst maintaining our commitment to low prices. This included the launch of new own brand ranges such as our children's toys 'PlayWorks' brand and a significantly extended range of front-list books, including titles by authors such as Colleen Hoover and Julia Donaldson, which helped to increase our book market share in terms of value by 0.7% and volume by 1.3% (to 3.9% and 10.3% respectively). There remains an opportunity to further increase market share in all categories and in the year ahead we will conduct an extensive refresh of our core art, craft, and stationery ranges and launch new kids' pocket money toys ranges.

We relaunched our 'Together' loyalty scheme this year and re-engaged store colleagues to promote sign-ups. We welcomed over 700,000 new members in FY23, with over 1.7m active members of the scheme at the end of the year.

Our loyalty customers typically spend 30% more than non-loyalty customers and shop more regularly. We will now focus on improving the insight we obtain from the loyalty scheme data through new software that will shortly be available, to support more effective CRM and loyalty activity.

Driving operational improvements

Making our business better

During the year we launched a review of our current operating model to identify opportunities to improve our processes and systems including product planning and product life cycle management.

While this review is ongoing, based on early findings, we have already started to introduce some changes including strengthening our merchandise planning function, which now includes a team of 25 people.

Read more about our strategy on **pages 16 and 17**

Strategy continued

Enhance our online proposition: Our customers and store colleagues want the experience of using our shopping channels to be more consistent and integrated, with the website acting as a shop window for our stores (and vice versa); however, to-date the website has operated too independently. This, combined with the fact that strategic progress in this area has been slower than planned, means that as online sales have declined and costs have risen, the website is not currently profitable.

We restructured the management of the online operation at the beginning of the calendar year to facilitate an increased rate of progress. We have also recently undertaken a series of website usability studies to inform areas of opportunity to improve the site, as well as introducing new tools to support performance analysis and provide insights into how best to improve the customer experience. To improve online profitability, we increased delivery charges to be more in line with peers, scaled back some online promotions and reduced fixed costs by reducing the space utilised at our third-party fulfilment centre. Plans are in place to enhance the online customer experience and to trial using the new EPOS solution to enable customers to order products from our website whilst in our stores, providing more convenient access to online range extensions. We also expect online sales and profitability to improve as we derive benefit from the new analytical tools introduced in late FY23. There is much more work to be done to improve this channel which we hope will return to sales growth and profitability, in due course.

Plans are in place to enhance the online customer experience and to trial using the new EPOS solution to enable customers to order products from our website whilst in our stores, providing more convenient access to online range extensions. We also expect online sales and profitability to improve as we derive benefit from the new analytical tools introduced in late FY23. There is much more work to be done to improve this channel which we hope will return to sales growth and profitability, in due course.

Optimise our store estate: We believe that a major strength of The Works is our large network of stores in communities across the UK and Ireland, which have been and always will be the main driver of sales.

This year we continued to optimise our store estate with 14 new store openings in great locations and are pleased that these new stores are trading ahead of expectations. We closed 13 stores and relocated a further three, trading from 526 stores at the end of the period. We also invested c.£1.4m in 34 store refits and continued to improve the store experience for customers by enhancing layouts, optimising the space utilisation across categories, and introducing clearer navigation and signage, supported by the evolved brand.

Sales densities in our stores remain relatively low and we believe there is a significant opportunity to increase this through winning new customers, better ranging and customer experience, space optimisation and improved product availability, all supported by a new labour structure put in place at the start of FY24. Whilst the priority in the short to medium term is to improve the existing store estate to realise its potential, in due course we will also consider whether to reintroduce a measured roll out programme, as we believe there is scope for the brand to trade successfully from at least 600 stores in the UK.

Drive operational improvements: Improving the operating effectiveness of the business is pivotal to our success. Although we will always maintain a lean operation, some areas of the business were previously inadequately resourced. This year we continued to invest ahead of time to ensure that we're capable of realising the sales potential we believe The Works can reach.

In FY23 we restructured the distribution centre management team. The new team made an immediate impact, reviewing the operation and proposing a series of improvements in the way we pick and fulfil store deliveries for implementation in FY24. We expect to see significant cost savings and improved product availability in-store as a result of these changes.

We implemented a new stock allocation system, Slimstock, to improve the quality of stock allocation decisions, which should improve store stock availability and therefore sales. At the start of the current calendar year we also significantly strengthened our merchandise planning function, and have been delighted to welcome some excellent new colleagues from respected retailers, which will drive a step change in our capability in this area. Allowing time for the new stock allocation system's algorithms to 'learn' The Works' data and for our new merchandising team to get fully up to speed with it, we expect to see further benefits in FY24 and beyond.

Towards the end of FY23 we successfully launched the pilot of our new EPOS software in stores. Plans are in place to roll this new software out across the store estate by the end of FY24.

A new automated packing machine and robotics were introduced to the online fulfilment operation during the year (operated by a third-party provider, iForce). We continue to work with iForce to further improve the fulfilment cost per order, and reduce our consumption of packaging.

Late in the financial year, we launched a planned review of the business operating model. The first phase of this project entails documenting our current ways of operating, confirming the desired future ways of working and mapping the plan to migrate to the improved model. There will be significant changes to processes and IT systems over the next two to three years, which will fundamentally improve the way our business buys, moves and allocates stock, driving cost efficiencies and improved product availability for our customers.

Colleagues

In an unpredictable and challenging year, our colleagues have remained steadfast in their dedication to helping customers to read, learn, create and play. We have worked hard to build and maintain our unique culture, underpinned by our values and a team of committed and enthusiastic colleagues. I am proud that 10% of colleagues were promoted in the year and was delighted that we moved up one place to 12th in the 'Best Big Companies to Work For' national list, from 13th in each of the past two years. We also maintained our 2* accreditation for "outstanding" workplace engagement (3* being the highest possible accreditation).

To continue to support the engagement, development and wellbeing of our colleagues, we launched 'MyWorks', a communications and engagement platform to keep colleagues informed about company news and benefits, and to enable access to resources on physical, mental and financial wellbeing. We also introduced the 'Can Do Academy', a system to support colleagues' learning and development, and in response to the challenges created by the cost-of-living crisis we launched Wagestream, an app that offers a range of financial wellbeing tools.

Looking ahead to FY24, we will continue to invest in our colleagues, including launching a new Reward and Recognition programme to positively reinforce our values, celebrate success and provide financial incentives linked to our purpose and values.

Environmental, Social and Governance (ESG)

This time last year we were at the fledgling stages of the environmental part of our ESG journey and I am pleased that we have made significant further progress since then. The business is now fully aligned around our mission of 'Doing Business Better', which is about making positive and sustainable changes.

A key development was the appointment of a Sustainability Manager in January 2023. The business has also adopted a more structured and rigorous approach to the environment, for example, to set longer-term ambitions to reduce the impact of our products, packaging and waste. We are also continuing to work with a specialist third-party ESG consultancy and during the year we set carbon reduction targets for Scope 1, 2 and 3 emissions and developed roadmaps to achieve them. Our Scope 1 and Scope 2 targets, together with our ambition to achieve net zero by 2040, fully align with the British Retail Consortium's climate action roadmap and we became fully compliant with the Task Force on Climate-related Financial Disclosures (TCFD) in FY23.

We are committed to creating an inclusive environment at The Works where everyone feels they belong and where different experiences, cultures and perspectives are embraced. We completed a review of our existing Diversity and Inclusion (D&I) policies and practices and have now developed a D&I strategy. Implementation of this will increase our collective understanding of D&I, improve training, enhance practical awareness and accountability at all levels and ensure that barriers to inclusion are removed.

'Giving back' is part of our psyche and I am hugely grateful to our colleagues and customers for their generosity in supporting our charity initiatives. We are pleased to be developing a new charity partnership with the National Literacy Trust this year, which is closely aligned to our purpose of inspiring people to read, learn, create and play.

Outlook

I am proud of the way everyone at The Works navigated a challenging year. We expect FY23 to be the low point in The Works' profitability post-COVID given that cost headwinds have now eased, the financial performance improved throughout the second half of the year and we have started to make more meaningful strategic progress, the benefits of which are expected to be realised in FY24 and beyond.

The macroeconomic outlook remains uncertain and we have entered the new financial year with a degree of caution, however, I am encouraged by the enduring appeal of The Works' value proposition and excited by the opportunities presented in the year ahead, which the business is now better equipped to capitalise on. The Board and I are comfortable with the Company compiled estimate of the market's forecast, an EBITDA of £10m for FY24, and remain confident in our ability to deliver profitable growth in the medium term.

Gavin Peck
Chief Executive Officer
30 August 2023

Developing our brand and increasing customer engagement

Creating Dex the dinosaur

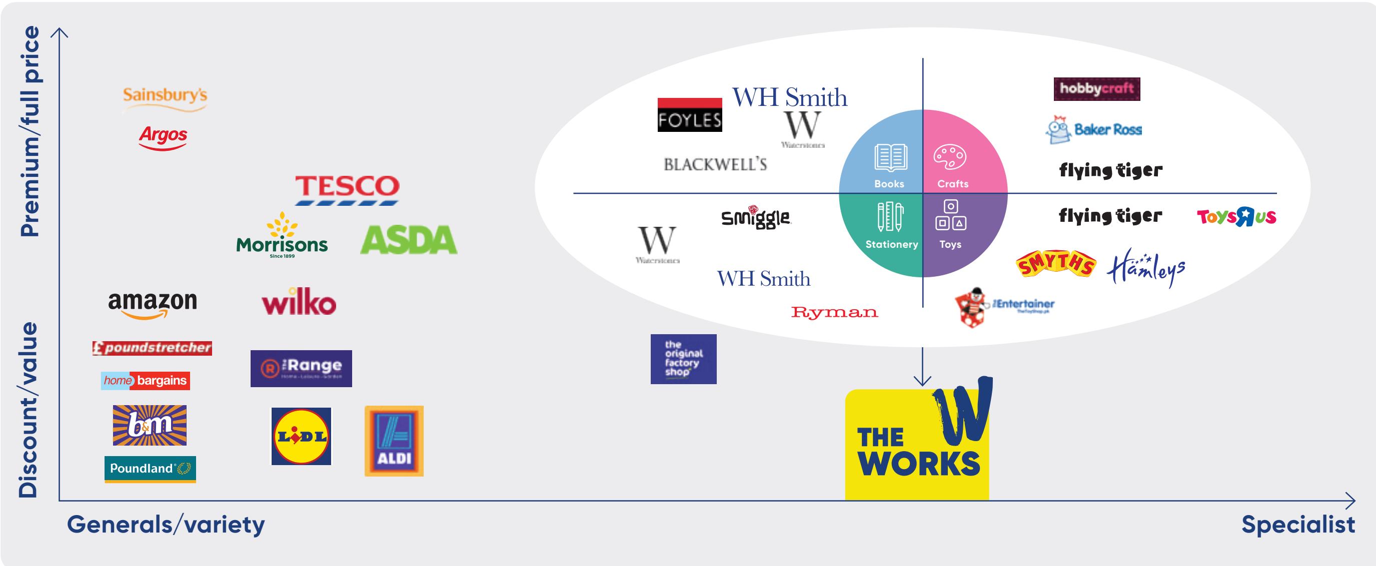
To increase our visibility and customer engagement, in June 2022 we created Dex the dinosaur, a very recognisable character to enable customers to build a tangible connection with our business and our products. Aligning with our key values of play, learning and fun, dinosaurs appeal to all genders and generations.

During the year, Dex, who is already becoming synonymous with our brand, visited many of our stores, including all our new store openings, adding fun to everyone's shopping day. Our Dex branded product offering has also been very successful and the Dex shopper has become our best-selling bag.

Read more about our strategy on **pages 16 and 17**

We are uniquely positioned in the value retail sector

Our purpose, which is inspiring our customers to read, learn, create and play, sets us apart. We offer lower prices than the specialists and more choice and better customer service than the discounters.



A number of market trends are affecting our business and shaping our business model and strategy including:

Spending trends

In the current economic environment consumers are spending less and they are seeking out good value quality products. Our price proposition and overall offering position us well. In addition our 'Together' loyalty scheme, which now has c.1.7 million active members, offers customers real savings.

Evolving shopping habits

Despite an uncertain macroeconomic backdrop and consumers being more cost conscious than ever, demand for convenient and enjoyable shopping experiences continues to grow. In response, our strategy is focused on making the overall shopping experience as straightforward as possible for customers shopping in store and online.

During the year we continued to optimise our store estate opening 14 new stores, closing 13 stores, relocating 3 others and completing refits of 34 existing stores (see following page). Our aim is to provide better in-store experiences through improved space planning, making our stores easier to shop in (e.g. by reducing the number of fixtures and amount of stock on the shop floor) and enhancing our click & collect channel.

Located on the high street, and in shopping centres, retail parks and garden centres, our stores are well positioned to benefit from the shift to more localised shopping which has continued post-pandemic. They also have a noticeable presence and are often actively involved in community activities including local charity fundraising.

To ensure we capitalise on the online growth opportunity we have reviewed our ecommerce operation and we are now enhancing our online proposition in a number of areas to improve the overall customer experience. In FY24, we will test using our new in-store till software for customers to order from our website while in-store, which will further integrate our channels and enhance customer convenience.

Consistent growth in our core markets

The games, toy, art & craft, book and stationery markets have grown consistently over the last two decades. Our product offering is focused on these key specialist areas which appeal to a large and diverse customer base.

According to a survey of the sector by Retail Week, published in May 2023, we were ranked the UK's fastest-growing value retailer.

Responsible consumption

Consumers are becoming more aware of the environmental impact of the things they buy and are seeking out more sustainable options. While the extent to which consumers are willing to pay higher prices to reduce their environmental footprint is less clear, we have a responsibility to do what we can to reduce our environmental impact. Information about the steps we are taking to do this is included on pages 30 to 31.

Enhancing the shopping experience

Optimising our store estate

New stores and refits

To create store environments that inspire our customers and reflect the communities we serve we have continued to enhance our store estate.

During the year we opened 14 new stores, completed 34 existing store refits, closed 13 stores and relocated 3 others. Eight of our new stores are located in shopping centres including Westfield London and Cribbs Causeway in Guildford. Six others are in high street locations in Paignton, Loughton, Minehead, Plymouth, Bude and Ringwood.

Our new and refitted stores offer our customers an improved shopping experience and enable us to make better use of space and deploy more effective merchandising.

Read more about our strategy on **pages 16 and 17**

14
new store openings

13
store closures

34
refits

Building on our core strengths

Our core strengths and competitive advantage create a compelling proposition capable of delivering long-term value for all stakeholders.

Key inputs

Colleagues
- Approximately 4,000 colleagues who are key to the success of our business.
- Loyal and dedicated.
- Highly engaged.

Brand value
- Exclusive own brands developed in house.
- Clear purpose, focused on inspiring reading, learning, creativity and play.

Suppliers
- Over 400 supplier relationships.
- Located in the UK, Europe and Asia.
- Close collaboration.

Infrastructure
- Store network.
- Online store.
- Centrally located Support and Distribution Centres.
- IT infrastructure – investing to ensure scale, efficiency and security.

Read more about our colleagues on **pages 32 to 34**

Our proposition and how we create value

Our competitive advantage

Affordable

Customer focused

Family friendly

Convenient

Multi-channel

Empowering

Design and innovate
- Identify and bring desirable and on-trend products to the UK market.
- Unique own brand products developed by in-house design studio in conjunction with suppliers.
- New product lines launched throughout the year.
- Five clear product zones: Books; Arts & Crafts; Toys & Games; Stationery; and Seasonal.

12
own brands

8
sub brands

c.10,000
new product lines introduced in FY23

Evolving and growing our business to make it better, not just bigger

Develop our brand and increase customer engagement

Enhance our online proposition

Source and distribute

- Experienced buying team sources and curates product ranges, including popular brands to complement own brand offer.
- Relationships with over 400 suppliers.
- Work closely with suppliers to ensure product safety and quality control.
- Warehousing and store distribution undertaken from 157,000 sq ft facility in Coleshill, Birmingham.
- Online orders fulfilled by third party or picked in store.
- Leading customer delivery proposition.

c.400
stock suppliers

157,000
sq ft warehousing and distribution facility

Sell to customers through convenient channels

- Stores across the UK and Ireland.
- Website – 24/7 trading with exclusive and extended ranges.
- Marketplaces (e.g. Amazon, eBay).
- Click & collect – linking stores and online.

526
stores

'Together' loyalty scheme increases customer engagement and provides valuable customer insights.

Read more about our strategy on **pages 16 and 17**

Optimise our store estate

Drive operational improvements

The value we create

Our people
Employment and a rewarding career for c.4,000 colleagues.

12th
Best Big Company to Work for

Our customers
Offer affordable, accessible, good quality products to inspire reading, learning, creativity and play.

Our suppliers
Indirectly support employment across our extensive supplier network.

Our community
£266k
fundraising in FY23 for Cancer Research UK, Mind, SAMH and Inspire. Many other local charities supported at store level.

Our shareholders
£1.0m
final dividend proposed for the year ended 30 April 2023.

We are improving and developing our business to be better, not just bigger

Since the launch of our 'better, not just bigger strategy' we have made good progress in some areas, however in others we still have work to do (see page 17). The business is well-placed to make more meaningful progress in FY24.

Our strategic pillars

Develop our brand and increase customer engagement

Through our brand and customer offer we want to reach more customers and improve the external view of The Works.

Enhance our online proposition

We want to increase awareness of our website and make it an inspiring destination for customers by improving our customer journey and making it easy to use, inspiring and engaging.

THE WORKS

Optimise our store estate

Our aim is to create a store environment that can inspire our customers and reflects the communities we serve.

Drive operational improvements

We aspire to improve our ways of working to become a better and more modern retailer. We want to ensure we operate efficiently and in a cost-effective way.

Progress to date and priorities for FY24

Develop our brand and increase customer engagement

Progress
- Rolled out our evolved brand to our stores and website to ensure that the visual representation of The Works accurately reflects our purpose and the modern, fun and engaging business that The Works is today.
- Refreshed our product offering to be better aligned with our purpose, whilst maintaining our commitment to low prices (see page 9).
- Relaunched our 'Together' loyalty scheme.

Priorities for FY24
- Develop and execute a marketing strategy to bring our purpose and evolved brand to life, particularly through our social channels.
- Conduct an extensive refresh of our core art & craft, stationery and kids' pocket money toys ranges.

Link to KPIs
A B

Link to risks
1 2 3 4 5 6 7 8 9 10 11

Enhance our online proposition

Progress
- Restructured management of the online operation.
- Undertaken a series of website usability studies to inform areas of opportunity to improve the site, as well as introducing new tools to support performance analysis and provide insights into how best to improve the customer experience (see page 10).

Priorities for FY24
- Enhance the customer experience including enabling customers to order from our website whilst in store (see page 10).

Link to KPIs
A B

Link to risks
1 2 3 4 6 7 8 10 11

Optimise our store estate

Progress
- Opened 14 new stores, closed 13 stores, relocated 3 others and refitted 34 existing stores (see page 10).
- Continued to improve the store experience for customers by enhancing layouts, optimising the space utilisation across categories, and introducing clearer navigation and signage, supported by the evolved brand.

Priorities for FY24
- Increase in-store sales densities.
- Continue improving the existing estate with refits and relocations.
- Embed new labour structure.

Link to KPIs
A B C

Link to risks
1 2 7 10 11

Drive operational improvements

Progress
- Restructured distribution centre management team and strengthened merchandise planning function.
- Implemented new stock allocation system (see page 20).
- Introduced new automated packing machine and robotics in third-party operated online fulfilment operation (see page 10).
- Launched the pilot of our new EPOS software in stores.
- Launched a planned review of business operating model (see page 10).

Priorities for FY24
- Begin implementation of changes to processes and IT systems identified by business operating model review.

Link to KPIs
C D E

Link to risks
1 2 7 10 11

Our KPIs are set out on **page 18**

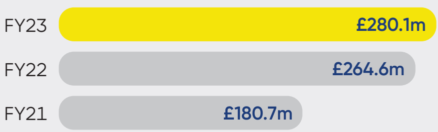
Our principal risks are set out on **pages 49 to 53**

We use five KPIs to monitor performance and strategic progress

These KPIs, together with 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 review.

A Revenue growth

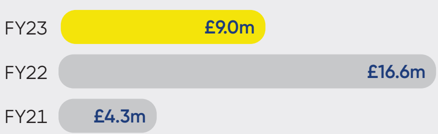
+5.8%



Definition
The percentage year-on-year change in Group total sales which excludes VAT and is stated after deducting the cost of loyalty points. A reconciliation between total sales and statutory revenue is included on page 21.

D Pre-IFRS 16 Adjusted EBITDA

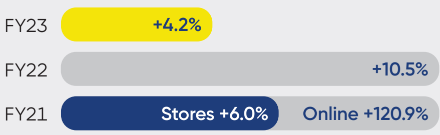
£9.0m



Definition
Represents profit for the period before IFRS 16, net finance costs, taxation, depreciation and amortisation, loss on disposals of property, plant and equipment and Adjusting items.

B Like-for-like sales growth

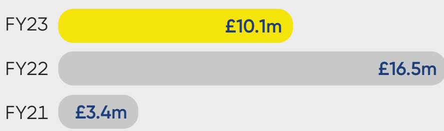
+4.2%



Definition
The FY23 like-for-like (LFL) sales increase has been calculated with reference to the FY22 comparative sales figures. In FY22, two-year comparatives were used because the use of a normal one-year LFL comparative was prevented by the various disruptions to store trading brought about by COVID-19 restrictions in the FY21 comparative period. LFL sales are defined by the Group as the year-on-year growth in gross sales from stores which have been trading for a full financial year prior to the current year and have been trading throughout the current financial period being reported on, and from the Company's online store, calculated on a calendar week basis.

C Adjusted profit before tax

£10.1m

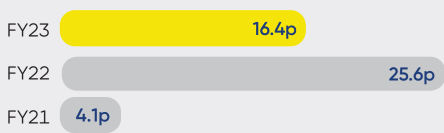


Definition
Represents profit for the period before taxation and adjusting items. Adjusting items are gains or losses incurred in a period which are not expected to be recurring (Adjusting items).

Restatement of prior years
FY22 and FY21 figures are restated. Information regarding the restatements is included in note 14 of the financial statements.

E Adjusted diluted earnings per share

16.4p



Definition
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.

Restatement of prior years
FY22 and FY21 figures are restated. Information regarding the restatements is included in note 14 of the financial statements.

A resilient performance

The FY23 accounting Period relates to the 52 weeks ended 30 April 2023 (also referred to as the period) and the comparative FY22 accounting period relates to the 52 weeks ended 1 May 2022.

The Group refers to alternative performance measures (APMs) as it believes these provide management and other stakeholders with additional information which may be helpful. These measures are routinely used by management in running the business, and include pre-IFRS 16 Adjusted EBITDA (EBITDA) and like-for-like (LFL) sales. Accordingly, reference is made to these measures in this report.

The Group made a profit before tax of £5.0m (restated FY22: £14.2m). This result includes a £5.1m impairment charge, most of which relates to the notional right of use asset created as a result of following the requirements of the IFRS 16 accounting standard. As in previous periods, impairments have been treated as Adjusting items. The Adjusted profit before tax excluding impairment charges was £10.1m (restated FY22: £16.5m).

The Pre IFRS16 Adjusted EBITDA for the Period was £9.0m (FY22: £16.6m). The FY23 Adjusted PBT is greater than the EBITDA because of the effect of IFRS 16. We would normally expect the Adjusted PBT to be less than the EBITDA. Please refer to note 5 of the financial statements for further information.

The FY23 results have been published later than originally intended. The delay was due to significant additional work being undertaken, principally in relation to asset impairment charges and related impacts on IFRS 16 calculations. As well as affecting the FY23 result, this also entailed the restatement of comparative figures for prior periods. Whilst the delay has been frustrating, we highlight that the issues in question have not affected the Board's assessment of the underlying performance of the business (for example, as represented by the EBITDA) and had no direct cash impact. Information regarding the restatements is included in note 14 of the financial statements.

Overview

The result for FY23 was in line with the revised forecast we referred to in August 2022. During the Period:

- Revenue increased by £15.5m, driven by 7.5% growth in store LFL sales and sales from new stores exceeding sales forgone from closed stores (through optimisation of the store estate). Online sales declined by 15%.
- The product gross margin percentage declined due to the planned increase in the mix of sales of lower margin books, and increased costs of stock, principally freight. These negative effects were partly offset by supplier rebates which were collected (£0.6m of which related to periods prior to FY23).
- Costs increased due to:
  - The cessation of COVID-19 business rates relief.
  - The increase in the National Living Wage by 6.6% in April 2022.
  - Electricity price inflation.
- There was a net increase in EBITDA of approximately £0.6m due to the opening and closure of stores during the year. Although the number of stores trading had only increased by one at the year end, we benefitted from being able to time the openings and closures such that we had a net six more stores trading during the peak Christmas period. In addition, the average sales levels from the new stores were greater than for the stores which were closed.
- The Group experienced a cyber security incident in March 2022. We believe the residual effects of this adversely affected FY23's result due to the Group taking a measured and cautious approach to reinstating systems whilst simultaneously accelerating the implementation of strengthened IT security. Due to the impossibility of accurately estimating the financial effect, it has been absorbed within the EBITDA result and not identified separately as an Adjusting item.

Overview continued

EBITDA bridge between FY22 and FY23

	£m
FY22 EBITDA	16.6
LFL stores and online	
Increased gross margin due to increase in sales in LFL stores/decline online	5.9
Lower gross product margin % (including impact of higher freight costs)	(4.5)
Cessation of COVID-19 business rates relief (LFL stores)	(5.6)
Increased payroll costs due to National Living Wage inflation	(2.5)
Energy price inflation	(1.0)
Other	(0.3)
	(8.0)
Non – LFL Stores	
Profit impact; including, timing benefit of trading more stores through peak	0.6
Cessation of COVID-19 business rates relief	(0.2)
FY23 EBITDA	**9.0**

Driving operational improvements

Improving our stock allocation process

In September 2022 we introduced a new forecasting and stock allocation system to improve our stock turn and ensure that we offer customers the best product availability. By analysing individual product and store sale combinations the system enables us to forecast effectively to ensure we make the right stock available to the right store locations.

The new system is already having a positive impact and has enabled us to increase in store availability of our core products.

Read more about our strategy on pages 16 and 17

We noted in the FY22 Annual Report that the net cash balance on 1 May 2022 was higher than normal as it included the benefit of increased creditor balances. These mostly related to the continuing effect of events connected with COVID-19 (such as rent deferrals) and, as expected, unwound finally during FY23. Therefore, although the FY23 net cash balance of £10.2m is lower than the prior year's £16.3m, it represents a more typical Period-end level, and has grown progressively compared with the £0.8m net cash balance at the end of FY21 and £7.1m of net debt at the end of FY20.

It has been reassuring, particularly during the periods of heightened uncertainty in recent years, to have the benefit of a large (£30.0m at the Period end) revolving credit bank facility, however, there is a cost associated with maintaining such a facility. Our forecasts indicate that even under a sensitised downside scenario, it is unlikely that we would ever use the entire facility. With this in mind, we have recently reduced the size of the facility to £20.0m, which will save approximately £0.15m in annual facility maintenance fees and, at the same time, extended the term of the facility so that it terminates at the end of November 2026 rather than November 2025.

The Board' will be recommending to shareholders at the AGM a final dividend of 1.6 pence per share in respect of FY23. Updated information regarding the Group's policy on dividends and capital distributions is included at the end of this report.

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 increased by 5.8% to £280.1 million (FY22: £264.6 million).

Total gross sales (1) increased by 6.1% compared to FY22. Two thirds of the total sales increase was from LFL sales (2) which grew by 4.2%, with positive growth in stores but a decline in online sales. The remaining sales growth was from the continued optimisation of the store estate (see table and narrative on the following page).

The quarterly LFL sales summary in the table below and the narrative which follows shows how store LFLs strengthened progressively during FY23 but that we were unable to achieve positive sales growth online, due to a combination of internal and external factors.

LFL sales growth	Stores	Online	Total
Q1	1.6%	(28.6%)	(2.4%)
Q2	5.1%	(8.9%)	3.0%
H1	**3.6%**	**(16.9%)**	**0.6%**
Q3	9.9%	(14.2%)	5.9%
Q4	12.0%	(11.7%)	9.4%
H2	**10.7%**	**(13.5%)**	**7.1%**
Full year	**7.5%**	**(15.0%)**	**4.2%**

Definitions of gross sales and LFL are included on the following page.

Q1 highlights

- Sales in Q1 FY23 were constrained, particularly online, a significant cause of which was the residual impact of the March 2022 cyber security incident.
- We also annualised against strong FY22 comparatives, which were the result of pent up demand following the end of the final COVID-19 lockdown in April 2021. The strong demand in early FY22 was also driven by a larger than usual post lockdown sale, which included stock that would normally have been sold in January/February 2021, and strong sales of 'fidget frenzy' toys.

Q2 highlights

- The Works had a good summer 2022. The newly refreshed outdoor play range performed well and the 'Back to School' season sales were very good.
- The LFL sales growth rate softened slightly in the latter part of Q2 due to losing a full trading day for the additional bank holiday in late September, as well as the comparatives in September and October 2021 being strong, when we believe Christmas shopping was brought forward due to consumers' concern about possible further lockdowns affecting Christmas shopping in 2021.

Q3 highlights

- In contrast, Q3 comparatives with the prior year weakened due to concerns in late 2021 about the potential effects of the emerging Omicron COVID-19 variant, supply chain disruption and the FY22 January sale being low key.
- Sales strengthened sharply just before Christmas, suggesting that consumers shopped much later than in 2021. We delivered strong store sales over Christmas, which continued in the January sale.
- Online sales were disappointing, impacted by reduced consumer confidence in fulfilment (due to postal strikes in late 2022) as well as the normalisation of shopping behaviour away from online, as seen across the retail industry.

Q4 highlights

- Trading was steady following the January sale, with store sales continuing to grow positively, and online sales continuing to be in decline. The rate of overall sales growth increased slightly during this quarter as the prior year comparatives weakened due to the aftermath of the March 2022 cyber security incident.

The table below shows the reconciliation of LFL sales used for year-on-year comparisons, with statutory revenue.

	FY23 £m	FY22 £m	Variance £m	Variance %
Total LFL sales for Period[2]	**297.0**	285.0	*12.0*	*4.2%*
Sales from new/ closed stores (optimisation of store estate)	**19.6**	13.4	*6.3*	*46.9%*
Total gross sales[1]	**316.6**	298.4	*18.3*	*6.1%*
VAT	**(35.1)**	(33.5)	*(1.7)*	*5.0%*
Loyalty scheme costs – points redeemed by customers	**(1.4)**	(0.3)	*(1.1)*	*404.6%*
Revenue (per statutory accounts)	**280.1**	264.6	*15.5*	*5.8%*
Loyalty points as % sales	**(0.5%)**	(0.1%)		
VAT as % of sales	**(11.1%)**	(11.2%)		

1 'Total gross sales' include VAT and are stated prior to deducting the cost of loyalty points which are adjusted out of the sales figure in the calculation of statutory revenue.

2 LFL sales growth has been calculated with reference to the FY22 comparative sales figures. In FY22's Annual Report, two-year comparatives were used because the use of a normal one-year LFL comparative was prevented by the various disruptions to store trading brought about by COVID-19 restrictions in the FY21 comparative period.

The year on year increase in the cost of loyalty points shown in the table above is larger than normal because the FY22 comparative was unusually low (as reported last year) due to the write back of expired points previously issued and accounted for. The underlying cost of loyalty points redeemed by customers during the year increased in the way we expected, both as a result of the year on year increase in sales, and due to the additional focus placed by the business on signing up new members and encouraging existing members to re-engage with the loyalty scheme.

Store numbers	FY23	FY22
Stores at beginning of period	**525**	527
Opened in the period	**14**	5
Closed in the period	**(13)**	(7)
Relocated (excluded from opened/ closed above, NIL net effect on store numbers)	**3**	6
Stores at end of period	**526**	525

The number of stores trading increased by one during the period, from 525 to 526. Despite this small change between the beginning and end of year numbers, the additional sales from new/closed stores in the table above shows a notable increase compared with the prior year. This was principally because we benefitted from being able to time the openings and closures such that a net six more stores were trading during the peak Christmas period, and secondarily because the new stores individually also generated more sales than the stores that were closed. The new stores are trading with sales levels at or above their financial appraisal targets.

Product gross margin and gross profit

	FY23		FY22 (Restated[1])			
	£m	% of revenue	£m	*% of revenue*	*Variance £m*	*Variance %*
Revenue	**280.1**		264.6		*15.5*	*5.8*
Less: cost of goods sold	**118.8**		107.7		*11.1*	*10.3*
Product gross margin	**161.3**	***57.6***	157.0	*59.3*	*4.4*	*(1.7)*
Other costs included in statutory cost of sales						
Store payroll	**46.8**	***16.7***	43.6	*16.5*	*(3.3)*	*(7.5)*
Store property and establishment costs	**51.8**	***18.5***	43.7	*16.5*	*(8.1)*	*(18.5)*
Store PoS and transaction fees	**2.3**	***0.8***	2.1	*0.8*	*(0.2)*	*(10.1)*
Store depreciation	**3.7**	***1.3***	3.4	*1.3*	*(0.2)*	*(6.7)*
Online variable costs	**18.4**	***6.6***	18.7	*7.1*	*0.3*	*1.5*
Adjusting items -impairment charges	**5.1**	***1.8***	2.3	0.9	*(2.8)*	*(100.0)*
IFRS 16 impact	**(10.7)**	***(3.8)***	(9.6)	*(3.6)*	*1.1*	*(11.2)*
Total non-product related cost of sales	**117.4**	***41.9***	104.2	*39.4*	*(13.2)*	*(12.7)*
Gross profit per financial statements	**43.9**	***15.7***	52.8	*19.9*	*(8.9)*	*(16.8)*

1 See note 14 to the financial statements.

Product gross margin and gross profit continued

The product gross margin rate decreased by 170bps to 57.6% (FY22: 59.3%) The most significant factors in the year on year movement were:

- An increase in the sales mix of front-list, lower margin books (as has been described previously) which reduced the margin percentage by approximately 100bps. We believe this generated incremental cash margin due to selling higher volumes of items which were higher priced.
- Higher freight costs, which remained high on a spot basis during H1 before falling significantly in H2. The interval between incurring the freight cost and selling the goods is such that the higher rates continued to affect FY23's margin for some time after the spot rates had fallen; this timing factor makes it difficult to estimate the precise impact on the margin rate, our best estimate of which is approximately 100bps.
- There was a small year on year margin rate increase due to other factors including stock provision movements, supplier rebates/ retrospective discounts and pricing changes. Towards the end of FY23, prices of some lines were increased to reflect the rise in inflation generally experienced during the year, to ensure that the business achieves an acceptable balance between offering value to customers and a reasonable margin.

Store payroll costs increased by £3.3m.

- The annual rise in the National Living Wage (NLW) accounted for £2.1m or 64% of the year-on-year increase, including the additional cost of maintaining sensible differentials between pay grades for colleagues paid more than the NLW, in light of the increased base wage level.
- The optimisation of the store estate, entailing the opening of 14 stores, the closure of 13, and the relocation of 3 stores, created an additional £0.7m of store payroll costs. This increase appears disproportionately high given that only one more store had been added by the year end; however, the timing of the openings and closures which benefitted the sales line (i.e. having more stores trading during the Christmas peak) also incurred corresponding additional costs.

Store property and establishment costs increased by £8.1m:

- The largest component of the increase was £5.8m of business rates charges. These costs had been comparatively lower in FY22 due to COVID-19 relief, but payments resumed in full during FY23.
- Electricity costs increased by £1.0m due to inflation.
- Despite a year-on-year reduction in like for like rents, total rent charges increased by £1.0m:
  - The ongoing process of renegotiating and renewing expiring leases resulted in a reduction of £0.6m in rents in the LFL store estate, including the release of accruals established in some situations where the effective date of the decrease was backdated to a prior period, due to the protracted nature of the rent negotiations (in these situations, we continue to accrue for the higher rent level until the reduction is confirmed in writing).
  - The timing of opening and closing stores referred to above, plus the full year cost of stores opened part way through FY22, resulted in additional rent costs of £0.7m (i.e. effectively a 'volume' related increase).
  - During COVID-19 rent negotiations with landlords (for example, where we were seeking rent concessions in respect of enforced store closures), concessions were sometimes informally agreed via a credit note, to be formalised subsequently. A provision is maintained for credit notes relating to amounts that have not been recovered after two years (although we still pursue and expect to recover most of the amount provided for), and this provision increased by £0.5m during FY23.
  - Turnover rents increased by £0.4m due to sales increases in the 129 stores where the rent is based wholly or partially on a percentage of turnover. Turnover rent mechanisms typically look back to earlier periods to calculate the applicable rent and, in FY22, the look back periods often included periods during FY21 when stores were closed due to COVID-19 restrictions and thus created a lower turnover. There have also been sales increases in some stores (overall store LFL sales growth was 4.2%) which have triggered the payment of, or increased, turnover rents.
  - Service charges increased by £0.3m due to the new/closed store timing effect described above and service charge inflation in the existing store estate.

Online variable costs decreased by £0.3m:

- The decrease was due to the year-on-year decrease in sales and the consequential reduction in marketing, fulfilment, transaction and other variable costs which were £1.3m lower than in FY22.
- These savings were partially offset by higher costs at the iForce fulfilment facility (third party operated) and higher packaging costs. The efficiency of the operation has been reviewed with iForce, and changes have been implemented for FY24 which are expected to reduce the fulfilment cost per unit, including a reduction in the space allocated in the facility.

Adjusting items and prior year adjustment:

- Adjusting items were £5.1m in FY23, (restated FY22 £2.3m), and comprised impairment charges. The prior period comparatives have been restated to reflect the allocation of central overheads to individual stores, which resulted in a higher impairment charge being required in respect of FY22 and prior periods. This is described in note 14 of the financial statements.
- 70% or £3.6m of the £5.1m FY23 impairment charge relates to the notional "right of use" asset which arises through the operation of IFRS 16.
- Consistent with the approach the Group has taken previously, impairment charges (and reversals) are treated as Adjusting items. As well as being consistent, this is appropriate due to the size of the total impairment charge, which is more reflective of the broader UK macroeconomic environment impacting many retail businesses than of the underlying performance of individual stores.

IFRS 16 impact:

- IFRS 16 has had the effect of significantly increasing the Adjusted profit before tax in FY23, by £7.0m compared with the non IFRS 16 figure (see note 5 of the financial statements). This £7.0m broadly comprises £10.7m included within cost of sales per the table above and £0.4m included within administrative costs, less £4.1m of IFRS 16 interest charges.
- Due to the restatement of impairment charges in relation to prior periods there is a significantly greater IFRS 16 impact than reported in previous years, particularly on Adjusted profit. The additional impairment charges reduced the net book value of the IFRS 16 "right of use" asset, as a result of which, the IFRS 16 depreciation charges were reduced. Meanwhile, the actual rents paid were unaffected, resulting in a greater disparity between the rents and the IFRS 16 P&L charges. Please refer to note 5 of the financial statements for a detailed analysis of the impact of IFRS 16 on the profit before tax.

Distribution costs to stores

	FY23		FY22			
	£m	***% of revenue***	£m	*% of revenue*	*Variance £m*	*Variance %*
Adjusted distribution costs	**10.2**	***3.6***	9.0	*3.4*	*(1.2)*	*(12.9)*
Depreciation	**0.1**	**–**	0.1	–	–	*3.1*
Distribution costs per statutory accounts	**10.3**	***3.7***	9.1	*3.4*	*(1.2)*	*(12.7)*

The costs of picking stock and delivering it to stores increased by £1.2m compared with FY22:

- Distribution labour costs increased by £0.5m, due to wage rate inflation from the increase in the NLW,, and an increase in the volume of items picked. Approximately half of the cost increase was due to inflation, and the remainder to the increase in volumes.
- The costs of delivering pallets from the DC to stores increased by £0.4m. Higher volumes accounted for £0.15m with the remainder due to inflation passed on by the pallet delivery company to which we outsource this task.
- Storage costs of £0.15m were incurred to accommodate additional stock prior to the Christmas sales peak. This was a precaution taken to mitigate against the risk of a repetition of the disruption experienced the prior year.

Administration costs

Administration costs (before depreciation and IFRS 16) decreased by £0.3m compared with FY22. The largest change was a £2.3m decrease in bonus costs, as no bonus will be paid in respect of FY23,

Head office salary and related costs (NI, pension etc.) increased by £1.3m due to the planned growth in headcount as well as wage rate inflation. Average salary rates for head office staff (including management) increased by 3.0%, a significantly lower rate than the 6.6% increase in the National Living Wage.

There was a net increase of £0.7m in other administration costs, due principally to IT software licence and maintenance costs, higher audit fees and stock taking costs.

	FY23		FY22			
	£m	***% of revenue***	£m	*% of revenue*	*Variance £m*	*Variance %*
Pre-IFRS 16, Adjusted administration costs	**22.9**	***8.2***	23.2	*8.8*	*0.3*	*1.4*
Depreciation	**1.8**	***0.6***	1.3	*0.5*	*(0.5)*	*(34.7)*
IFRS 16 impact	**(0.4)**	***(0.2)***	(0.4)	*(0.1)*	*0.1*	*13.8*
Administration costs per statutory accounts	**24.2**	***8.6***	24.1	*9.1*	*(0.1)*	*(0.3)*

Net financing expense

Net financing costs in the period were £4.4m (FY22: £5.2m), mostly relating to IFRS 16 notional interest.

Gross cash interest payable was £0.3m, in relation to facility availability charges (FY22: £0.4m). £0.2m of interest was received in FY23 (FY22: £Nil).

	FY23 £m	FY22 £m
Bank interest receivable	**(0.2)**	–
Bank interest payable (including non-utilisation costs)	**0.3**	0.4
Other interest payable (amortisation of facility set-up costs)	**0.2**	0.3
IFRS 16 notional interest on lease liabilities	**4.1**	4.5
Net financing expense	**4.4**	5.2

Tax

	FY23 £m	FY22 (Restated[1]) £m
Current tax (credit)/expense	**(0.4)**	1.3
Deferred tax expense/ (credit)	**0.1**	(1.0)
Total tax expense	**(0.3)**	0.3

1 See note 14 to the financial statements.

The impairment charges noted above, by reducing the taxable profits of prior periods, created available brought forward tax losses, which significantly reduced the effective tax rate and overall tax charge for FY23. As a result, there was a net tax credit of £0.3m (restated FY22: £0.3m expense) consisting of a £0.4m current tax credit and a £0.1m deferred tax charge. The £0.3m overall tax credit equated to an effective tax rate of (5.3%) (restated FY22: 1.9%).

The average headline corporation tax rate for FY23 was 19.5%, as the rate changed from 19% to 25% 11 months into the financial year (FY22: 19.0%).

Deferred tax has been calculated at a rate of 25.0% in both periods.

Earnings per share

The Adjusted basic EPS for the year was 16.5 pence (restated FY22: 26.0 pence).

The Adjusted diluted EPS was 16.4 pence (restated FY22: 25.6 pence).

The difference between the Adjusted basic and Adjusted diluted EPS figures is due to the exclusion from the diluted EPS calculation of outstanding potentially dilutive share options.

Capital expenditure

	FY23 £m	FY22 £m	*Variance £m*
New stores and relocations (net of landlord contributions to investment)	**1.1**	0.5	*(0.6)*
Store refits, maintenance and lease renewal costs	**3.0**	0.9	*(2.1)*
IT hardware and software	**2.4**	1.4	*(1.0)*
Other	**0.2**	0.2	–
Total capital expenditure	**6.7**	3.0	*(3.7)*

Capital expenditure continued

Capital expenditure in the Period was £6.7m (FY22: £3.0m):

- **New stores and relocations** – the net investment in new stores and relocations increased by £0.6m compared with FY22. 14 new stores were opened and 3 stores relocated to new units (FY22: 5 new stores, 6 relocations). In FY23, approximately 50% of the capital costs of opening the stores was funded by landlord contributions, a lower proportion than in FY22 when most of the investment was landlord funded.
- **Store refits, maintenance and lease renewal costs** – 34 stores were refitted in FY23 at a cost of £1.4m (FY22: 16 refits costing £0.4m). Maintenance capex was £1.2m (FY22: £0.4m) and lease renewal costs were £0.4m (FY22: £0.2m).
- **IT hardware and software** – the largest item of expenditure was the cost of configuring and testing the new store EPOS software prior to its implementation in stores during FY24.

FY24 capex is expected to be approximately £7.0m.

Inventory

Stock levels were £33.4m at the end of FY23 (FY22: 29.4m).

					Provisions as % of gross stock	
	FY23 £m	FY22 £m	*Variance £m*	*Variance %*	**FY23 %**	FY22 %
Gross stock	**31.3**	29.8	*(1.5)*	*(5.0)*		
Unrecognised shrinkage provision	**(0.4)**	(1.9)	*(1.5)*	*(78.9)*	**1.3**	6.4
Obsolescence provision	**(0.6)**	(1.3)	*(0.7)*	*(53.8)*	**1.9**	4.4
Total provisions	**(1.0)**	(3.3)	*(2.3)*	*(69.7)*	**3.2**	10.7
Net stock on hand	**30.2**	26.6	*(3.7)*	*(13.5)*		
Stock in transit	**3.2**	2.8	*(0.4)*	*(14.3)*		
Stock per balance sheet	**33.4**	29.4	*(4.1)*	*(13.6)*		

Gross stock, £31.3m, increased by 5% compared with FY22. This is a lower percentage increase than the corresponding year-on-year increase in the cost of sales (10%) and it is due to an increase in the average cost per unit of stock (due to mix as well as an increase in overall cost prices), as the number of units in stock at the Period end declined year on year.

Stock provisions decreased significantly, due to both volume and rate effects.

- The provision for unrecognised shrinkage decreased due to the introduction of full '4-wall' stock counts in all stores between Christmas and the year end. As a result, the time elapsed between the date of the most recent store stock count and the year end, which is one of the key variables affecting the calculation, was significantly less than in the prior year, resulting in a lower provision. The other key variable, the underlying weekly rate of store stock loss, was not materially different to the rate in FY22.
- There was a further reduction in the stock obsolescence provision (it was £1.8m at the end of FY21), due to continued improvements in the management of terminal and slow moving stocks.

Cash flow

The table shows a summarised non-IFRS 16 presentation cash flow; The net cash outflow for the year was £6.1m (FY22: inflow of £15.5m).

	FY23 £m	FY22 £m	*Variance £m*
Cash flow pre-working capital movements	**6.7**	19.1	*(12.4)*
Net movement in working capital	**(2.8)**	7.3	*(10.1)*
Net cash from investing activities	**(6.5)**	(2.9)	*(3.6)*
Tax paid	**(1.5)**	(0.2)	*(1.3)*
Interest and financing costs	**(0.7)**	(0.2)	*(0.5)*
Dividends	**(1.5)**	–	*(1.5)*
Purchase of treasury shares	**(0.5)**	–	*(0.5)*
Cash flow before loan movements	**(6.7)**	23.1	*(29.8)*
Repayment of bank borrowings	**(4.0)**	(7.5)	*3.5*
Drawdown of bank borrowings	**4.0**	–	*4.0*
Exchange rate movements	**0.6**	(0.1)	*0.7*
Net increase in cash and cash equivalents	**(6.1)**	15.5	*(21.6)*
Opening net cash balance excluding IAS 17 leases	**16.3**	0.8	
Closing net cash balance excluding IAS 17 leases	**10.2**	16.3	

As noted at the end of FY22, the cash balance at that time included favourable working capital timing differences which have unwound in FY23 and resulted in a negative movement in working capital during the Period. In most years, there would be expected to be a broadly neutral or slightly positive movement in working capital. The other main year-on-year variable which affected the cash flow was the reduction in profit level compared with FY22.

Bank facilities and financial position

The Group ended the Period in a strong financial position, with net positive bank balances of £10.2m (FY22: £16.3m). At the Period end the Group had liquidity availability of £40.0m, including its undrawn £30.0m bank facility.

Since the Period end, the Group has implemented a reduction in the size of the facility, which was undrawn throughout most of FY23, to £20.0m, and simultaneously extended its term such that it now expires on 30 November 2026 rather than 30 November 2025. The reduction in the facility will save approximately £0.15m in annual cash interest costs, and the smaller facility continues to provide liquidity availability significantly in excess of the actual anticipated requirement.

Basis of preparation of the financial statements

The Directors believe that it is appropriate to prepare the financial statements on a going concern basis. We note for completeness that, despite the Directors' confidence in the Group's financial position and prospects, note 1 (b) of the financial statements includes reference to a "material uncertainty" in relation to the adoption of the going concern basis of preparation of the financial statements. The reasons for this are explained in the note.

Capital distributions and FY23 final dividend recommendation

Following a strong performance in FY22, the Group paid a final dividend of 2.4 pence per share in respect of that year, in November 2022. The FY22 Annual Report stated that future payment levels will be reviewed based on conditions at the time, with the Group confirming its intention to resume a progressive dividend policy in due course once conditions stabilise.

The business has an ongoing capex requirement (including discretionary capex) approximately in line with its non-IFRS 16 depreciation charge and generates strong cash flows. However, in setting the capital distribution policy, the Board is mindful of the principal risks that the Group faces, as outlined within this Annual Report. At present, two of these risks, in relation to macroeconomic conditions and the execution of the Group's strategy, are at increased levels. In these circumstances, we will operate with a capital structure and capital distribution approach that ensures the business remains financially resilient, whilst making appropriate returns to shareholders.

Our objective is to ensure that, under normal circumstances, ordinary dividends (in pence per share) are 2.5x covered by Adjusted EPS. We do not believe that normal circumstances apply in the context of setting the FY23 dividend, as outlined below.

FY23 dividend

As noted previously in the report, the Board hopes that FY23's EBITDA was a low point and that it will increase progressively in future. During the period in which the business works to rebuild its levels of profit, a compromise is sought, between maintaining a reasonable dividend for shareholders, whilst ensuring that the Group continues to maintain its cash reserves.

We believe that in FY23, the effects of:

- impairment charges (including the effect of prior year adjustments on earlier periods);
- IFRS 16; and
- an unusually low tax charge,

have resulted in an Adjusted EPS which is inconsistent with our perception of the underlying profitability as represented by the Adjusted pre IFRS 16 EBITDA. Using EBITDA as an alternative reference point for illustration, if the FY23 dividend was set by pro rating using the ratio of the FY23 EBITDA (£9.0m) to the FY22 EBITDA (£16.6m), it would be 1.3 pence per share.

Taking into account the foregoing and, in seeking to achieve a reasonable compromise between returns to shareholders and prudence, the Board will propose at the forthcoming AGM a final dividend for FY23 of 1.6 pence per share (amounting to a £1.0m total payment).

Although this is a smaller dividend than was paid in relation to FY22, we believe that it is in keeping with FY23's performance (for example, the EBITDA did not meet the threshold for payment of executive bonuses). However, it does not reflect a reduction in the Board's belief in the future prospects of the business, in which it remains confident.

Indicative outlook for FY24 dividend

As previously noted, the Company compiled estimate of the market's forecast for FY24 is an EBITDA of approximately £10.0m. If the actual result for FY24 transpires to be in line with this forecast, it is anticipated that the total dividend for FY24 would grow approximately in proportion with the EBITDA. Assuming that the effects of non-cash accounting variables such as IFRS 16, and tax, are more neutral in FY24, we would expect that the resulting cover from this approach would be more in line with the 2.5x objective outlined above.

Other forms of distribution

It is anticipated that distributions will be made solely via ordinary dividends for the foreseeable future.

In the event that performance improves at a faster rate than anticipated, and that this is sustained, or that for some other reason the Group accumulates cash reserves which it deems surplus to requirements for operation and investment purposes, and for which it can envisage no requirement to maintain on the balance sheet, other forms of distribution will be considered, such as share buy backs.

Decisions as to the quantum and frequency of such alternative distributions would be made at the time, in light of the specific circumstances.

Share buybacks for the purposes of share schemes

To avoid dilution of existing shareholder interests, the Board's intention is for the Group to purchase shares in the market for re-issue under employee share schemes.

Steve Alldridge
Chief Financial Officer
30 August 2023

To succeed it is essential that we engage with our stakeholders

Our stakeholders and how we engage with them are detailed on this and the adjacent page. To succeed it is essential that we understand what matters to them and consider this information as part of our decision-making process.

Our Section 172 Companies Act statement is set out over the page.

	Our people Enable us to fulfil our purpose and deliver our strategy.	**Our customers** Buy our products.
What matters to them	• Safe, healthy and good working environment. • Fair rewards. • Enjoyable work. • Being part of a company that has a clear purpose and values that resonate. • Engagement and support. • Development opportunities.	• Wide variety of great products. • Good value and quality. • Customer experience. • Reliable and convenient service.
Group-wide engagement	• Interaction through various channels including the recently launched MyWorks communications and engagement platform (see page 32) and regular briefings. • Annual engagement survey to give us an independent view of what we are doing well and where we can improve. • Local-level engagement including team meetings, video calls and briefings.	• Active social media engagement. • 'Together' loyalty programme. • Customer surveys. • Day-to-day interactions between customers and store colleagues.
Board-level engagement	• Regular Director store visits and meetings with senior management and store colleagues. • Presentation to the Board by the People Director covering people and talent strategy and its linkage to the Group's purpose, culture and strategy. • People Director regularly provides updates at Board, and Nomination and Remuneration Committee meetings.	• Regular Director store visits including direct engagement with customers. • Commercial Director, Retail Director and Head of Brand regularly provide customer feedback to the Board.
Outcomes	• Awarded two-star rating (with three stars being the highest rating) in the 2022 Best Companies survey for outstanding levels of engagement and ranked 12th Best Big Company to Work for (see pages 32 and 33).	• Monitor emerging trends and create products that customers want and need. • Continued growth in LFL sales. • Increased loyalty membership.
	Read more on **pages 32 and 33**	Read more on **page 9**

Our suppliers Support our sourcing and distribution activities.	**Communities** Impacted by our activities.	**Shareholders** Seek returns on their investment.
• Long-term relationships. • Fair treatment. • Payment in accordance with contractual terms. • Responsible business practices.	• Employment opportunities. • Positive social impact. • Sustainable operations.	• Competent execution of strategy. • Good governance. • Sustainable and growing returns. • Regular clear and understandable communications and transparency. • ESG performance.
• Regular commercial dialogue. • In-person meetings with suppliers, factory visits and attendance at trade fairs. • Our quality assurance team works closely with suppliers to ensure product safety and quality control.	• 'Giving Something Back' programme (see page 35). • Local community initiatives (see page 35).	• Easily accessible investor information, including announcements, results and presentations, is available on the Company's website.
• Commercial Director provides regular updates to the Board on supplier matters and relationships. • The Board and Audit Committee review the Group's payment practices. • In October 2022 the Board visited our ecommerce logistics supplier (see page 59).	• Board oversees development of ESG strategy and monitors progress. • ESG steering group regularly updates the Board on relevant ESG matters. • Board in-depth review of the Group's community engagement activities.	• Annual General Meeting. • The Chair and Committee Chairs are available to shareholders to discuss specific matters as they arise. • CEO and CFO participate in meetings and calls with investors and analysts and provide regular Board updates following such engagement.
• Board review of payment practices ensures that suppliers are treated fairly. • Promote fair and ethical business practices through supply chain management (see page 35). • Many long-term supplier relationships. • Increasing collaboration with key publishers.	• Strengthening ESG strategy given growing importance to stakeholders (see pages 29 to 35). • £172k raised in partnership with Cancer Research UK during FY23 (see page 35). • £94k raised in partnership with Mind, SAMH and Inspire during FY23 (see page 35).	• Dividend payment, subject to shareholder approval, and progressive dividend policy. • Strengthening ESG strategy given growing importance to stakeholders.
Read more on **page 5**	Read more on **page 35**	Read more on **page 3**

Promoting the Company's long-term success

This disclosure forms the Directors' statement under Section 414CZA of the Companies Act 2006.

The Directors have had regard to the matters set out in Section 172(1) (a) to (f) of the Companies Act 2006 in their decision-making processes.

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) to (f) of the Companies Act 2006) in all decisions taken by the Board during the 52-week period ended 30 April 2023 (FY23).

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.

Approval of carbon net-zero targets

In April 2023 the Board approved the carbon reduction targets detailed on page 46.

As part of the approval process the Board considered the Group's role and the responsibility it has to contribute to a sustainable economy, which in the long term will benefit all stakeholders including employees, customers and the communities within which it operates. The Board also took into account shareholders' increasing focus on ESG matters when making investment decisions and growing demand from customers to engage with businesses that operate in a responsible way.

The Board noted that achievement of the Scope 3 target was dependent on the Group's supply chain and suppliers' participation in a sustainability assessment process. While recognising that this process may not be welcomed by all suppliers, the Board considered that it was in the best long-term interests of the Group's other stakeholders and that the environmental benefits outweighed any short-term commercial inconvenience.

Creating a sustainable economy and transitioning to net zero is the challenge of our times. The responsibility rests collectively with governments, businesses and the general public. As a retail business we recognise our role in this effort, as well as our responsibility to be socially conscious and maintain high standards of governance.

We are committed to 'Doing Business Better'. We are making positive and sustainable changes for our people, our communities and our planet that will enable us to continue inspiring reading, learning, creativity and play – for generations to come.

Our approach

We are continuing to evolve our overall ESG strategy which is focused on the areas outlined in the graphic below.

In 2021 we launched our ESG steering group. Its role is to ensure we operate responsibly in line with our purpose and values, and to monitor our ESG agenda. It is chaired by our CEO, includes members of our Operations Board, and meets on a quarterly basis. The ESG steering group and Operations Board provide regular updates to the Board on the development and implementation of the Group's sustainability strategy.

In 2023 we hired a full-time Sustainability Manager and launched our ESG 'action groups' - cross-functional groups dedicated to the implementation and monitoring of work across our ESG strategy.

In evolving our ESG strategy we are building on well-established and effective processes that underpin our social and governance responsibilities and obligations. As required we engage specialist third-party consultants to support our work in these key areas.

In relation to the development of our environmental strategy, including building roadmaps and setting targets to achieve net zero, and to ensure we adhere to all relevant reporting requirements including TCFD and SECR (see pages 36 to 48), we are continuing to work with a specialist third-party ESG consultancy.

Our ESG pillars

Environment

- Carbon emissions
- Products and packaging
- Waste and recycling

Read more on **pages 30 to 31**

Social

- Our people
- Health, safety and wellbeing
- Diversity and inclusion
- Giving something back

Read more on **pages 32 to 34**

Governance

- Operating responsibly
- Supply chain management

Read more on **page 35**

Environment

Reducing our environmental impact

We care about our impact on the planet and we are committed to reducing our carbon footprint, minimising waste, and sourcing more environmentally friendly materials and products where possible.

Our targets and ambitions

During the year we set the carbon emission reduction targets detailed below. Our Scope 1 and Scope 2 targets, together with our Scope 3 ambition, align with the British Retail Consortium's climate action roadmap. In developing these targets we completed our first Scope 1, 2 and 3 carbon balance sheet using predominantly a spend-based approach. Over the next few years we will focus on moving towards a supplier-based approach.

Carbon net-zero targets[1]

Scope 1 – Net zero by	Scope 2 – Net zero by	Scope 3 – Net zero by
2035	2030	2045[2]

1 We aspire to achieve our net-zero targets through a 90% absolute reduction in our emissions and by offsetting the remaining 10%. Our targets have been established using a market-based methodology and our FY22 carbon emissions performance is the baseline against which we will measure our absolute reductions.

2 With an ambition to achieve net zero by 2040.

In addition to our carbon net-zero targets, we have set longer-term ambitions (see adjacent panel) to reduce the impact our products, packaging and waste have on the environment.

Longer-term ambitions

- Minimise our packaging, increase the use of recycled materials in our packaging and products, and switch to more environmentally friendly product materials and packaging where possible.
- Ensure that 100% of paper in our books, and arts and crafts ranges are Forest Stewardship Council (FSC) certified.
- Offer take-back schemes on our key product ranges, such as books, toys and games, to help our customers minimise their waste and extend the life of our products.
- Offer recycling services for our products and packaging which are not accepted by household recycling facilities.

To assess and monitor the delivery of our longer-term ambitions we set annual targets. Our FY24 targets are detailed on the following page.

Carbon emission reduction performance

We have been calculating our Scope 1 and 2 carbon emissions, in line with the Streamlined Energy and Carbon Reporting (SECR) initiative, since 2019. During FY23, for the first time, we calculated our FY22 Scope 3 carbon emissions (see page 46).

Scope 1 and 2

Our carbon emissions across Scope 1, 2 and Scope 3 (grey fleet) decreased by 3.6%. The majority of this decrease resulted from an improved emissions factor as a result of the continued decarbonisation of the UK grid. Scope 1 emissions decreased slightly due to an improvement in our data collection, resulting in some company car emissions transferring from Scope 1 to Scope 3 (grey fleet). This transference also explains why our Scope 3 emissions have increased slightly.

Our carbon emission performance during FY23 is detailed on page 46.

During the year we have continued to implement changes to improve our energy efficiency. In particular, we have continued to install LED lighting in our stores and, as at year end, 67% of our store estate now operates with LED lighting. We also began undertaking Energy Savings Opportunity Scheme site surveys to identify energy efficiency opportunities. The findings of these surveys have informed our Scope 1 and 2 net-zero roadmaps.

In the coming year we will:

- Continue to roll out LED lighting across our store estate.
- Establish a new and remodelled store energy efficiency policy.
- Develop an energy efficiency behaviour change programme for our colleagues across stores, our Distribution Centre and our Support Centre.
- Engage with our landlords to identify and implement energy efficiency opportunities across our store estate.

Scope 3

To support the delivery of our Scope 3 net-zero target, in the coming year all our suppliers will be asked to complete a sustainability self-assessment. As part of this assessment they will be asked to provide details of the steps they are taking to reduce their environmental footprint and information about the targets they have set to measure and monitor progress. This aligns with the Supplier Engagement Scope 3 approach adopted by many retailers.

Products and packaging

We are committed to reducing our product packaging and we are already implementing changes that will help us achieve our longer-term ambitions detailed above. As we refresh our product lines we will also introduce more environmentally friendly products.

We are already making good progress and during the year we:

- Removed the shrink wrap on our own brand kids' jigsaw puzzles.
- Removed the plastic cover on the majority of our diaries and calendars.
- Removed the swing tag on our Christmas gift bags and replaced with a small price label instead.
- Reworked the packaging on our Christmas gift tags, bags and roll wrap to reduce the amount of packaging required.
- Reworked the packaging on our kids' arts and crafts range to reduce the amount of packaging required.
- Continued to ensure no blister packs are used in our craft ranges.
- Added a QR code to our Prima range box sets which give customers ideas on how to upcycle their packaging.

We are also moving away from plastic packaging, and switching to paper alternatives where possible. All our Christmas ribbons are now packaged in paper backing card instead of plastic and our Christmas gift tags are now packaged in new open window paper sleeve packaging, replacing the previously used polybags. Our novelty squidgy toys (balls) are now packaged in plastic-free boxes and we have introduced paper packaging across all of our stationery and outdoor toy ranges.

We are increasing the amount of recycled content in our product ranges and packaging. All yarn in our Prima range is now made from 100% recycled materials and our best-selling 'Create Your Own Christmas' bag and stockings are now made from 100% recycled bottles. Where polybags and other forms of plastic packaging are still required across our craft, paper, stationery, Christmas, Easter, toys and PlayWorks ranges, they are predominantly made from 30% recycled content.

We are switching to FSC-certified paper packaging across all of our product ranges where possible, with many ranges now at 100% FSC certified. We are also sourcing strategically to increase the amount of responsibly sourced paper in our books, with four of our main suppliers using between 92-100% FSC-certified or PREPS 3* paper in their manufacturing processes. 100% of the wooden SKUs in our Christmas craft ranges are now FSC certified.

FY24 product and packaging targets

In the coming year we will:

- Remove all glitter from our Christmas cards.
- Remove the plastic shrink wrap from our own brand Christmas wrapping paper and replace with a paper alternative.
- Ensure that all our wooden toys are manufactured with traceable timber.
- Continue to reduce packaging size and increase its recycled content, with the goal of ensuring the packaging in our own brand craft ranges and our Prima range is 100% recycled content.
- Increase the amount of books that are FSC certified from 45% in FY23 to 60% by the end of FY24.
- Introduce a recycled product range within our craft embellishments collection.

Waste recycling

We are committed to reducing the level of waste our business generates and to maximising the proportion that is recycled. Our colleagues share this commitment.

To reduce waste and increase recycled materials we have continued to educate our teams to maximise the level of waste that can be recycled, minimise store waste sent to landfill and reduce the number of waste collections. We operate recycling facilities at all store locations capable of recycling mixed papers, cardboard (which constitutes a very large proportion of store waste) and mixed plastics including HDPE, PET and PP. Our Support and Distribution Centres in Coleshill, Birmingham, also operate a recycling programme to ensure all mixed film plastics and cardboard materials are baled on site and removed for recycling.

FY24 waste recycling targets

In the year ahead we will work to continue to identify further opportunities to increase our recycling rates across our stores, Distribution Centre and Support Centre and explore opportunities for in-store customer product takeback/donation or recycling schemes.

In particular we will:

- Provide educational resources to our store, Distribution Centre and Support Centre colleagues to help maximise recycling and reduce contamination.
- Place additional recycling bins in back of house areas and behind tills to increase our recycling rates.

Social

Making a positive social contribution

Our objective is to make a positive contribution to our people, our customers and the communities where we operate.

c.4,000
colleagues

People

At the end of FY23 we employed 3,968 permanent colleagues. During our 2022 Christmas peak trading period we took on nearly 500 temporary seasonal colleagues and we are delighted that we have been able to make over 50% of our temporary colleagues permanent members of our team.

In a challenging and competitive retail environment, our colleagues are fundamental to the delivery of great customer experience. They are what makes The Works so special. In order to succeed we need to attract and retain good people and our culture is key to that.

Culture and feedback

Our values, together with our purpose, shape our culture. The sense of family that comes from working in our business and the variety and fun that a career in retail can provide are what our culture is based on. We believe more than ever that we are creating something special that our colleagues (and future colleagues) want to be part of, despite being in a competitive and ever-challenging environment. We stand out, for all the right reasons.

We continuously listen to colleagues across the Group and encourage a two-way conversation around how best we can improve and support them. The various channels we use are described on page 33.

In August 2022 we launched a new communications and engagement platform MyWorks (powered by Reward Gateway). This interactive platform provides our colleagues with:

- Company news and business updates.
- Information on Company benefits.
- Updates about new charitable initiatives.
- Access to discounts and savings from hundreds of retailers and services.
- Access to resources on physical, mental and financial wellbeing through our MyWellbeing Hub.

Our values

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

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

Being **can-do** means focusing on what matters and getting it done. Whatever the situation, we rise to it because of the can-do spirit and resilience we all share.

On an annual basis we invite our colleagues to participate in the Best Companies 'Make a Difference' engagement survey. This well-recognised third-party survey covers a number of areas including Leadership, My Manager, Personal Growth, Wellbeing, Fair Deal and Giving Something Back. Colleagues also have the opportunity to leave open comments on what is great about working at The Works and what could be better. 76% of our team completed the 2022 full survey and we were awarded a two-star rating (with three stars being the highest rating) in recognition of outstanding workplace engagement.

The survey provided us with valuable insights about our culture and the issues that matter to our colleagues. Key findings from the survey this year included:

- 82% of colleagues feel a strong sense of family in their team and 81% fed back that people in their team go out of their way to help them.
- 88% of colleagues believe their team is fun to work with.
- 79% of colleagues say their manager takes an active interest in their wellbeing and 79% recognise that help is available to support their mental wellbeing.
- 85% of colleagues said we encourage charitable activities.

To continue the momentum and address areas where improvements are required we are:

- Launching a Reward & Recognition programme to positively reinforce our values, celebrate success and provide financial incentives linked to our purpose and values.
- Evolving our store team structures to reduce levels of hierarchy, improve flexibility and upskill colleagues. The new structures will also create opportunities for more responsibility and higher pay.
- Sharing our progress on our environmental and sustainability activity.
- Continuing to embed our partnership with the Retail Trust and upskilling colleagues on wellbeing.

Health and safety

The health and safety (H&S) of all our colleagues and everyone who visits our stores or any of our operations is of paramount importance.

We deploy a number of H&S policies including our main Health and Safety Policy, and H&S processes are embedded in our day-to-day operations. As part of their induction, all colleagues participate in H&S training appropriate to their role and annual refresher H&S training is mandatory for all employees. Our H&S 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.

We operate a dedicated H&S Committee which meets on a quarterly basis. Its members include representatives from all parts of our operations and our H&S Manager. The overriding objective of decisions taken at these meetings is to make our stores and all our operations safe places to work and visit. Material issues arising from the H&S Committee's discussions are escalated to senior management and the Board receives regular reports on H&S matters.

During FY23 there were no fatalities (FY22: nil) and eight reportable accidents (FY22: 13). Seven of these accidents occurred in our stores and one occurred in our Distribution Centre. All accidents were thoroughly investigated.

We take a proactive approach in relation to all H&S matters and our aim is to continuously improve our H&S performance. To drive continuous improvement we operate a web-based portal and online reporting system which allows all stores to immediately record accidents, incidents and near misses. This real-time data and visibility across our entire store estate helps us better understand risks and identify the most effective mitigation. Our store managers all use streamlined H&S checklists that focus on things they need to monitor daily during regular floor walks, including identifying potential hazards and ensuring fire escape routes are always kept clear.

Wellbeing

Supporting our colleagues from a wellbeing perspective is a key part of our people strategy and our ESG commitments. We recognise the difficulty that financial pressures can have on our colleagues' overall wellbeing and this year, in response to the cost-of-living crisis, we launched Wagestream, an app that offers a range of financial wellbeing tools, including the ability to draw down salary through the month as it is earned rather than waiting until pay day and set up savings accounts. MyWorks, our new communications and engagement platform (see page 32), also provides information on physical, mental and financial wellbeing as well as access to discounts and savings.

We also provide an Employee Assistance Programme for all colleagues through our partnership with Retail Trust (www.retailtrust.org.uk), a long-established charity, whose mission is 'to create hope, health and happiness' for everyone in the retail sector. To date with the support of Retail Trust over 50 of our senior leaders have participated in training in relation to mental health and wellbeing management and in the coming year we are aiming to provide even more line managers with training in this important area. In January 2023, via our e-learning platform, we also launched three new Retail Trust mental wellbeing modules: 'Wellbeing for Everyone'; 'Supporting Yourself and Others'; and 'Mental Health & Wellbeing – A Manager's Toolkit'. To date over 900 colleagues have completed these modules.

To further support colleagues we introduced 50 Wellbeing Warriors across the business. These colleagues are specifically trained to support the mental wellbeing of their peers, act as an impartial, confidential, listening ear and provide unbiased support to colleagues. In particular, as required, they help colleagues build confidence to seek advice from professionals and provide information about how to find relevant specialist support.

Diversity and inclusion (D&I)

We value every one of our colleagues for their skills and experience and the unique contribution they offer, irrespective of their personal characteristics. We are committed to creating an inclusive environment where everyone belongs and can thrive and recognise the many benefits that diversity of experiences, cultures and perspectives bring.

During FY23 we partnered with an external D&I consultant to develop our D&I strategy. Based on the findings of an employee survey and a review of our existing policies and practices we have developed a roadmap to create an inclusive workplace across all levels of our workforce. Our key priorities are to:

- Further improve our understanding of D&I across our business.
- Improve D&I training and enhance awareness.
- Review our internal processes to ensure barriers to inclusion are removed.
- Ensure everyone at The Works is accountable for their role in creating an inclusive workplace.

Diversity and inclusion (D&I) continued

To help us deliver our D&I strategy and our wellbeing strategy, we are recruiting a Diversity, Inclusion & Wellbeing Manager.

We are a signatory to the British Retail Consortium Better Jobs Diversity and Inclusion Charter, which aims to improve D&I across the retail industry and help drive change, and partake in its surveys and insights sessions.

Our 2022 Gender Pay Gap Report is available at https://corporate.theworks.co.uk/who-we-are/corporate-governance/our-policies. As at 5 April 2022, when measured as a median average, male colleagues were paid 2.9% more and when measured as a mean average the hourly rate of pay for male colleagues was 12.1% higher than female colleagues. This is because we have more men than women in senior leadership roles, a position we are working to address through the implementation of our D&I strategy.

The gender diversity profile across the Group as at 30 April 2023 is detailed below.

	Male	Female
Board[1]	3/60%	2/40%
Operations Board[2]	7/78%	2/22%
Direct reports[3]	21/52.5%	19/47.5%
Senior leadership[4]	19/58%	14/42%
Other employees[5]	1,017/26%	2,892/74%

1 The Board (see pages 60 and 61) includes three Non-Executive Directors and two Executive Directors.

2 Information about the members of the Operations Board, which includes the two Executive Directors, is available at https://corporate.theworks.co.uk/who-we-are/our-leadership. As at the date of this Annual Report the gender diversity profile of the Operations Board was 6/86% male and 1/14% female.

3 Direct reports to senior management (the Operations Board).

4 Senior leadership includes heads of department or equivalent.

5 Other employees includes all other colleagues who are permanent employees.

Development and retention

Our colleagues are the heart of our business and we work hard to retain them and provide development opportunities.

In September 2022 we launched the Can-Do Academy, our new learning and development system that provides all colleagues with online learning covering compliance, management and leadership skills training. The Academy has been very well received and every colleague across the Group has interacted with the system. Building on this platform we will continue to expand our accessible tailored training to support our colleagues' personal growth and development.

Our retail developmental programme 'I can be...' enables colleagues to discuss their career aspirations with their line manager and train accordingly, making good on our promise to upskill colleagues ready for the next step in their career. The programme also helps us create and maintain a strong talent pipeline.

Operating in a responsible way

We must maintain high standards of governance and operate in a responsible way. It is the right thing to do. It is also essential to maintain our reputation and protect our brand.

Our performance and development framework, which was launched in June 2022, continues to support our ambition to grow and develop our own talent and during the year we were pleased to be able to promote 10% of our colleagues.

Giving something back

Making a difference to society is not only a part of our ESG responsibilities, but also part of our culture. We are proud to work with national charity partners, and local causes, to give back in the communities which we serve.

Following seven years of successful partnership with Cancer Research UK (CRUK) we have made the decision to partner with a new charity aligned with our purpose. We are delighted to announce the launch of our corporate and charity fundraising partnership with the National Literacy Trust (NLT), an independent charity working with schools and communities to give disadvantaged children the literacy skills to succeed in life. We will work closely with the NLT to improve accessibility, and awareness of the importance, of literacy for all, helping us fulfil our purpose of inspiring reading, learning, creativity and play.

We continue to partner with Mind, SAMH and Inspire and are committed to optimising strategic opportunities to make a real difference by fundraising and supporting campaigns to raise awareness of the importance of wellbeing.

In the coming year we will launch our first complete, commercial charity range that will support all of our national partners. We will also introduce our 'local causes programme', supporting local causes is already very popular in our stores, introducing this programme will ensure we are providing our colleagues with the tools to fundraise for causes they are passionate about.

We continue to offer two schemes that enable colleagues to make monthly charitable donations from their net pay. Through Payroll Giving in Action colleagues can donate any amount to any charity, while the Pennies from Heaven scheme enables colleagues to donate the pennies from their payslips to our charity partners.

	FY23 impact	To date impact
National partnership Cancer Research UK (CRUK)	£172k	£1.3m since August 2016
National partnership Mind, SAMH and Inspire	£94k	£170k since May 2021

We care about good ethical business practices and are fully committed to conducting business fairly, ethically and with respect to fundamental human rights. This includes the prevention of all forms of slavery, forced labour or servitude, child labour and human trafficking, both in our business and supply chains. Our Modern Slavery Statement is available at www.corporate.theworks.co.uk/who-we-are/corporate-governance/our-policies.

Supply chain management

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

Our Code of Conduct clearly outlines our social and ethical requirements, which include but are not limited to: prevention of child and forced labour, safety standards, health and hygiene, anti-discrimination and coercion, working hours and wages and other fundamental human rights.

In order to ensure that our suppliers meet the social and ethical standards we expect, we implement the following arrangements:

- We require all suppliers to sign our Terms and Conditions of Purchase which state the supplier has read and understood and conforms to our Code of Conduct. These Terms and Conditions of Purchase must be signed before we will place orders.
- We share our supplier manual with our suppliers to educate them about our operating requirements. We also give clear points of contact to ensure queries reach the appropriate person and are dealt with quickly and effectively, with support from relevant functions including merchandising, technical and buying.
- In partnership with TUV Rheinland, an independent specialist in social responsibility auditing, we have developed a bespoke supplier factory audit programme. Incorporated within this programme are questions covering the prevention of modern slavery, forced labour and child labour and other fundamental human rights, which are detailed within our Code of Conduct. Suppliers are encouraged to declare their business relationships with individual factories that produce for us, which provides us with a view of how sustainable our supply chain is. Our audit programme (which also incorporates a section on supplier capability and their QA functions) also provides ethical visibility of suppliers and an understanding of their production capabilities.
- We also conduct independent product testing as part of our product surveillance test programme.

If a factory fails to reach an acceptable standard or there is any evidence of child labour or forced labour as described in the modern slavery legislation, the factory will be delisted and all orders will be cancelled.

TCFD statement

We have followed the Task Force on Climate-related Financial Disclosures (TCFD) framework and are committed to providing information about climate-related risks and opportunities that are relevant to our business.

We are evolving our strategy and governance framework, to take account of these risks and opportunities. We have complied with the requirements of LR 9.8.6R by including climate-related financial disclosures consistent with all of the TCFD recommendations and disclosures. In aligning with the TCFD we have also complied with the BEIS mandatory climate-related financial disclosure requirements under the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, details of which can be found below.

TCFD recommendation	BEIS disclosure	Page
Governance		
a) Describe the Board's oversight of climate-related risks and opportunities.	(a) A description of the governance arrangements of the Company in relation to assessing and managing climate-related risks and opportunities.	37
b) Describe management's role in assessing and managing climate-related risks and opportunities.		37
Strategy		
a) Describe the climate-related risks and opportunities identified over the short, medium and long term.	(d) A description of: (i) The principal climate-related risks and opportunities arising in connection with the operations of the Company. (ii) The time periods by reference to which those risks and opportunities are assessed.	37 to 44
b) Describe the impact of climate-related risks and opportunities on business, strategy and financial planning.	(e) A description of the actual and potential impacts of the principal climate-related risks and opportunities on the business model and strategy of the Company.	44
c) Describe the resilience of the strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	(f) An analysis of the resilience of the business model and strategy of the Company, taking into consideration of different climate-related scenarios.	44 and 45
Risk management		
a) Describe the processes for identifying and assessing climate-related risks.	(b) A description of how the Company identifies, assesses, and manages climate related risks and opportunities.	45
b) Describe the processes for managing climate-related risks.		45
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management.	(c) A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management process in the Company.	45
Metrics and targets		
a) Disclose the metrics used to assess climate-related risks and opportunities in line with the strategy and risk management process.	(h) The key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based.	45 and 46
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and related risks.		46
c) Describe the targets used to manage climate-related risks and opportunities and performance against targets.	(g) A description of the targets used by the Company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets.	46

Overview

Our business activities entail the sourcing, distribution and sale of a range of books, toys, arts and crafts and stationery products. The environmental impact of these activities is outlined on pages 47 to 48 and, in the main, relates to product manufacturing, packaging, waste recycling and energy consumption. We are committed to reducing the impact our activities have on the environment. While climate change does not pose a significant direct threat to our business, we have identified a number of risks and opportunities that could impact the business over the longer term. During the year we have assessed the impact of climate-related risks and opportunities on our strategy and financial planning. To ensure we mitigate risks and capitalise on opportunities we have embedded appropriate management processes. This work has been led by our Sustainability Manager, who joined the Group in January 2023, and has been supported by a specialist third-party ESG consultancy, Inspired ESG (INESG).

Governance

Board oversight of climate-related risks and opportunities

The Board has overall responsibility for the Group's climate-related risks and opportunities.

The Board is responsible for ensuring that appropriate risk management processes and controls are in place and has delegated responsibility for overseeing risk management processes and controls to the Audit Committee. Collectively, the Audit Committee and the Board on an annual basis review the Group's risk register and the principal risks facing the Group which, since FY22, has included an 'Environmental (including climate change)' risk. As part of this review process the Audit Committee and the Board deliberate and discuss the risk register, allocate ratings for each risk, and review and update the Group's register of principal risks and mitigating actions. As part of these discussions and review processes, the Board considers the threat associated with climate change, as detailed below, and discusses and agrees actions to mitigate its impact.

The Board factors climate change considerations into its planning and decision-making processes. During the year the Board approved a rollout of LED lighting in stores to improve the Group's energy efficiency, and the appointment of a Sustainability Manager to lead the development of the Group's sustainability strategy and support its implementation.

The Board receives regular updates from the ESG steering group and Operations Board on the development and implementation of the Group's sustainability strategy, including on a formal basis annually. To support the Board in making informed decisions in relation to the Group's sustainability strategy, in January 2023 the Directors participated in a training session facilitated by INESG. The session, which focused on climate change and net-zero, enabled the Board to make informed judgements regarding the identification and assessment of climate-related risks and opportunities associated with the Group's operations and footprint. In April 2023, following an update on the Group's decarbonisation plan (page 30) the Board approved net-zero targets which are a component part of the Group's overall environmental strategy (see page 30).

Management's role in assessing and managing climate-related risks and opportunities

Management of climate-related issues has been embedded into the Group's existing governance structure. Please refer to the governance structure included on page 62 of the Corporate Governance report. Reporting to the CEO, the Operations Board is responsible for managing the day-to-day activities of the Group and implementing the strategy agreed by the Board. The Board has delegated the management of climate-related risks and opportunities to the Operations Board, to ensure climate change is integrated across core functions of the business accordingly.

The ESG steering group supports the Operations Board by ensuring climate change is integrated into the planning and execution of the Group's strategy. The ESG steering group is chaired by the CEO, and includes two Operations Board members. As noted above, to support the Operations Board, a Sustainability Manager was appointed in January 2023, to coordinate the management of climate-related issues, and to ensure all relevant risks and opportunities are identified and assessed at least annually.

We are committed to building capacity internally and equipping our senior management with the appropriate knowledge, to deliver on our objectives as a business. The Operations Board, ESG steering group and Sustainability Manager consider and assess the Group's climate-related risks and opportunities in an annual climate risk-management workshop facilitated by INESG. The TCFD guidance on transition and physical risks and opportunities, and the latest climate science structures the climate risk-management workshop. The findings from the workshop inform our climate risk and opportunity register which will be annually reviewed. The inaugural climate risk management workshop was held in August 2022 to develop management's knowledge and understanding of climate change and help identify and assess the associated risks and opportunities.

In March 2023 members of the Operations Board also attended our net-zero strategy workshop. This session provided an overview of net-zero and our FY22 Carbon Balance Sheet, which forms the baseline measure of our emissions. The net-zero strategy workshop has supported the business in developing carbon reduction targets and a decarbonisation plan, bespoke to our operations and aligned with how the Company will grow over time. The outcome of this session was presented to the Board in April 2023, where the Group's carbon reduction targets were agreed.

Strategy

The climate-related risks and opportunities identified over the short, medium and long term

Supported by INESG, we have conducted a detailed climate scenario analysis to identify and assess the potential effect of direct physical risks (the physical impact of climate change on our sites and assets) and transition risks (the impact on our business, including our supply chain, associated with the global transition to a low-carbon economy). During FY24 we will undertake further analysis across our key suppliers and critical supply chain routes to identify opportunities to improve the measures we are implementing to mitigate potential climate-related risks within the supply chain.

Strategy continued

The climate-related risks and opportunities identified over the short, medium and long term continued

Our climate scenario analysis considered climate-related risks and opportunities under the three warming scenarios detailed below. Each scenario refers to differing severities of irreversible climatic shifts, leading to permanent new climate states that could be detrimental to society. Several established climate models were used during this exercise, including the 'Climada natural catastrophe damage model', 'CORDEX regional climate projections' and 'Integrated Assessment Models'.

Scenario warming pathways	
Below 2°C scenario: Organisations follow a co-ordinated and orderly transition to a low-carbon economy, aligning closely with the Paris Agreement and Science Based Targets Initiative.	Harmonious collaboration between governmental bodies and organisations to introduce and adhere to policy and legislation associated with emissions reductions. Businesses strive to exhibit proactive behaviour in reducing their carbon emissions, with low-carbon technology being readily available and widely implemented. Market preferences shift as consumers demand low-carbon alternatives for products and services, with businesses responding and adapting their operations. As a result, transition risks will be more prevalent due to efforts to decarbonise the economy, but many climate tipping points are not reached.
Between 2-3°C scenario: Policies and legislation are introduced with a staggered effect with inconsistent levels of action being taken, aligning with current forecasts.	Uncoordinated approach regarding the introduction of policies and legislation, which leaves businesses with little time to become compliant. As a result, investment into low-emissions technology is staggered, causing companies to decarbonise in potentially abrupt steps. With warming unable to be limited to below 2°C, some climate tipping points will be reached, resulting in increased physical risks. Some transition risks will also manifest themselves as efforts are still made to transition to a low-carbon economy, even though disjointed and sporadic.
Above 3°C scenario: Minimal climate action is taken and emissions go unchecked, resulting in a worst-case climate scenario.	'Business as usual' approach is followed, with little or no climate action being taken by governments or businesses. Few companies set net-zero targets, with emissions continuing to go unchecked as low-emissions technology remains untested with little capital investment. As a result, many climate tipping points are reached, creating detrimental conditions for society as the physical risks posed by climate change materialise. Transition risks are not prevalent here, as there has been no movement towards a low-carbon economy.

Climate-related risks and opportunities

The climate scenario analysis findings were presented to and discussed with the Operations Board during the August 2022 climate risk management workshop. Our short term (up to 2025) assesses the immediate risks and opportunities we may experience over a three-year period.

Our medium term (2025 - 2035) is consistent with The Works' net-zero targets for Scope 2 by 2030 and Scope 1 by 2035.

Our long-term (2035 - 2050) is consistent with the UK Government's net-zero pledge by 2050 and the Works' long-term goal is to be net-zero across Scopes 1, 2 and 3 by 2045.

Taking into consideration the climate scenario analysis results along with detail of existing processes and mitigation strategies across the business, the climate-related risks and opportunities identified were assessed and classified as 'Low', 'Medium' or 'High' by members of the Operations Board which ascribes a financial threshold to each risk category. This is a high level financial assessment of each risk and opportunity and will be developed further as our process continues to evolve. The risks and opportunities marked medium are deemed to be material to our operations. All climate-related risks and opportunities identified through our scenario analysis are detailed in the tables on pages 39 to 44. For each risk we have highlighted in which scenario there will be the greatest impact, and the measures we are implementing to increase our resilience.

Transition risks

As the global economy begins to decarbonise, we anticipate that the potential impacts from transition risks will increase as more efforts are made by governments and businesses to reduce emissions. Our analysis suggests that the transition risks are most significant in the 'below 2°C' scenario and 'between 2-3°C' scenario, as there is more change entailed in adapting to increasingly aggressive policies and legislation implemented by governments and regulatory authorities.

As we work to decarbonise our business to be net zero in relation to Scope 1, 2 and Scope 3 emissions, this will mitigate the risk posed by emerging policy and legislation, such as carbon taxing and increases to greenhouse gas pricing. We have assumed that the benefits from achieving the net-zero targets we have set will outweigh the upfront costs of doing so.

Building resilience into our supply chain by developing deeper relationships with key suppliers will help to minimise the potential risks posed by climate change in relation to changing markets.

Category	Trend and highest impact	Potential impact	Risk mitigation
Policy and legal	**Increase in carbon/GHG pricing.** **Highest impact in the:** • **Medium term** • **2-3°C Scenario**	**MEDIUM** **Potential financial impact area: Expenditures – increased direct costs.** The UK has committed to a series of five-year carbon budgets. If carbon emissions do not decrease enough to meet targets, a tax on carbon emissions may be introduced. We estimate that this impact could be highest in the 2-3°C Scenario in the medium term, when carbon pricing is projected to peak. Based on FY22 Scope 1 and 2 emissions (3,088 tCO_2e), an estimated potential tax of approximately £0.2m could arise in the medium term, assuming no reduction to carbon emissions.	• The Group has committed to becoming net-zero for Scope 2 by 2030 and Scope 1 by 2035. As our carbon emissions decrease, the potential impact of this risk will reduce. • Monitor and review our carbon emissions each year against a carbon pricing model.
	Increase in climate change regulation including increased emissions-reporting obligations. **Highest impact in the:** • **Short to medium term** • **<2°C and 2-3°C Scenarios**	**LOW** **Potential financial impact area: Expenditures - Increased direct costs.** We are required to comply with environmental reporting requirements and anticipate that additional requirements will be introduced over time as the UK transitions to a net-zero economy. If we do not meet developing reporting requirements there is a risk of potential sanctions imposed by regulatory bodies. Costs will increase if additional resource is required to meet increased reporting requirements.	• The Group's CFO and Company Secretary oversee regulatory compliance with support from external advisers. • Senior management team is aware of compliance requirements under their areas of responsibility and liaise with the CFO and external advisers to identify and manage issues. • Policies and procedures in place to ensure the Group has capacity to support increased reporting and transparency (e.g. data collection processes). • Partner with INESG to support environmental reporting disclosures.
	Mandates on and regulation of existing products and services. **Highest impact in the:** • **Short to medium term** • **<2°C Scenario**	**LOW** **Potential financial impact area: Expenditures - Increased direct and indirect costs.** We and/or our suppliers may be subject to increased regulation in relation to plastics and packaging (e.g. UK Plastic Tax and Extended Producer Responsibility). Regulations relating to products and packaging are likely to intensify over time. This may increase the cost of direct taxes or increase materials costs.	• Introduced initiatives to reduce plastic packaging (see page 31).

Strategy continued

Transition risks continued

Category	Trend and highest impact	Potential impact	Risk mitigation
Policy and legal continued	**Exposure to litigation.** **Highest impact in the:** • **Short to medium term** • **2-3°C Scenario**	**LOW** **Potential financial impact area: Expenditures –increased direct costs.** Legal standards and reporting requirements may become more onerous in the short to medium term. This could increase the risk of lawsuits, compliance issues and fines. Any litigation could negatively impact our brand and reputation.	• The Group's CFO and Company Secretary oversee regulatory compliance with support from external advisers. • Senior management team is made aware of key compliance requirements within their business areas and liaise with the CFO and external advisers to identify and manage issues.
Market	**Increased cost of energy and raw materials.** **Highest impact in the:** • **Short to medium term** • **<2°C and 2-3°C Scenarios**	**MEDIUM** **Potential financial impact area: Expenditures - increased direct (operating) costs.** Disruptions in recent years, including the period of increased ocean freight rates and reduced availability of shipping containers, have already impacted our business, albeit these impacts have now abated. Future increases in costs could adversely impact the Group's profitability. This risk is currently heightened, due to the generally high levels of cost inflation being experienced. Climate change is likely to exacerbate this, potentially increasing costs, creating supply disruptions and delays. Energy costs, although lower than the highest peaks reached following Russia's invasion of Ukraine, are nevertheless expected to rise over time.	• Maintain focus on cost control. • Continually review supply base and diversify and/or change supply options where needed. • Introducing energy efficiency technology across the store estate. • Conduct site surveys to identify energy saving opportunities.
	Changing customer behaviour. **Highest impact in the:** • **Medium term** • **<2°C and 2-3°C Scenarios**	**MEDIUM** **Potential financial impact area: Revenue - decreased revenue due to reduced demand for products and services.** With ESG growing in importance, customers may change their shopping preferences, which could potentially impact demand for the Group's products. Failure to effectively predict and respond to any such changes could affect the Group's sales and financial performance.	• Implementing a net-zero strategy and enhancing our reporting to communicate our actions to make our proposition more sustainable to stakeholders, including customers.

Category	Trend and highest impact	Potential impact	Risk mitigation
Reputation	**Increased stakeholder concern regarding environmental issues.** **Highest impact in the:** • **Short to medium term** • **<2°C and 2-3°C Scenarios**	**MEDIUM** **Potential financial impact area: Capital and Financing – decreased access to capital.** ESG is becoming increasingly important to stakeholders. Interest in, and scrutiny of, our ESG credentials is likely to increase. Reputational damage could affect the financial performance of the business.	• Invested in sustainability function, recruiting a new Sustainability Manager in FY23. • The Group's CFO and Company Secretary oversee regulatory compliance, with support from external advisers. • Partnered with INESG to support us in relation to environmental matters. • Adopt internationally aligned frameworks to ensure our ESG strategy develops using best practice.
	Stigmatisation of the sector. **Highest impact in the:** • **Medium term** • **<2°C and 2-3°C Scenarios**	**LOW** **Potential financial impact area: Revenue - Decreased revenue due to reduced demand for products and services.** If value retail companies are unable to demonstrate their commitment to environmental sustainability and wider ESG aspects, customers may reduce their purchasing, adversely impacting sales.	• Monitor customer trends to anticipate changes and react accordingly. • Implementing an ESG programme and developing our reporting to communicate this to stakeholders, including customers.
Technology	**Substitute existing products with lower-emissions alternates.** **Highest impact in the:** • **Short to long term** • **<2°C and 2-3°C Scenarios**	**MEDIUM** **Potential financial impact area: Expenditures – increased capital expenditures.** As customers become more environmentally conscious, the costs to ensure our products are sustainable could increase. This reflects costs associated with sustainable and recycled materials, which are likely to increase as demand increases.	• Implementing a net-zero strategy. • Work with suppliers to explore lower-emission alternative products.
	Costs to transition to lower-emissions technology. **Highest impact in the:** • **Short to long term** • **<2°C and 2-3°C Scenarios**	**MEDIUM** **Potential financial impact area: Expenditures – increased capital expenditures.** To reduce our Scope 1 and Scope 2 carbon emissions and meet our net-zero targets for Scope 2 by 2030 and Scope 1 by 2035, we will need to invest in lower emission technology. Decarbonisation actions identified to date including LED lighting installation, Company energy policy implementation, installation of lighting sensors and a behavioural change programme will require an estimated £0.7m investment over the next six years. Cost savings will likely mitigate the investment outflow through reduced energy costs.	• Installing energy efficient technology in stores. • Implementing a net-zero strategy and understanding and accounting for the additional costs.

Strategy continued

Physical risks

We have identified several physical risks requiring appropriate levels of management, to ensure that any potential disruption to our operations is minimised. These physical risks primarily materialise in the above 3°C scenario in the long term, where numerous climate tipping points would be reached due to the unchecked increase in carbon emissions. We anticipate that the likelihood of extreme weather events occurring will increase as global temperatures rise, with phenomena such as flooding posing a potential threat to several of our sites. We will continually monitor physical risks by running annual climate scenario analysis, and expand the scope of this to include our key suppliers and supply routes in subsequent years of reporting.

Category	Trend and highest impact	Potential impact	Risk mitigation
Acute	**Increased severity of flooding.** **Highest impact in the:** • **Long term** • **>3°C Scenario**	**MEDIUM** **Potential financial impact area: increased direct and indirect costs and decreased revenue.** If flooding in the UK occurs with more severity and frequency it could impact our sites and operations, through direct damage to buildings and assets. Disruptions may impact transport networks, which could increase costs and cause delays. We may experience an increase in property insurance premiums. As a substantial part of the Group's profit is currently generated during the Christmas peak sales period, extreme weather events during this time could have an adverse short-term effect by disrupting shopping behaviour, stock flow, deliveries of products to our stores and the fulfilment of online orders.	• Disaster recovery plan is in place. • Maintain appropriate business interruption insurance cover. • Scenario analysis of the store estate will be undertaken annually to monitor high risk sites for potential long-term impacts. • Online fulfilment capability could support some ongoing operations, if many sites were closed simultaneously due to physical damage.
	Heatwaves/Extreme heat. **Highest impact in the:** • **Short to long term** • **2-3°C and >3°C Scenarios**	**LOW** **Potential financial impact area: increased direct and indirect costs and decreased revenue.** In the event of heatwaves and/or periods of extreme heat occurring more frequently, there will be an increased demand for cooling. This will increase energy costs, and impact our efforts to reduce Scope 2 emissions. There is an increased risk of power outages becoming more frequent due to greater demand on the grid. Staff health, wellbeing, comfort and productivity may be impacted. Extreme weather events could also have an adverse short-term effect by disrupting shopping behaviour as local footfall decreases, stock flow, deliveries of products to our stores and the fulfilment of online orders.	• Introducing energy saving initiatives and technology to reduce the impact of increased energy usage. • Develop and implement appropriate response strategies including supplying plenty of drinking water, to keep staff hydrated. • An emergency generator is installed at the support centre/DC to mitigate the impact of power cuts. • Monitor health and wellbeing of colleagues.

Category	Trend and highest impact	Potential impact	Risk mitigation
Acute continued	**Increased frequency of wildfires.** **Highest impact in the:** • **Long term** • **>3°C Scenario**	**LOW** **Potential financial impact area: increased direct and indirect costs.** Even though this is not traditionally considered as a material risk for UK operations, the frequency and severity of wildfires may increase over time if extreme weather events become more common.	• A disaster recovery plan is in place. • Maintain appropriate business interruption insurance cover. • Monitor events which may impact the health and safety of our employees, customers and wider communities.
Chronic	**Water stress.** **Highest impact in the:** • **Medium to long term** • **>3°C Scenario**	**LOW** **Potential financial impact area: increased direct and indirect costs.** We may be impacted by restricted water usage as well as additional regulation to report on water consumption and usage. Access to and use of water supplies may become prohibited, as demand outweighs the supply of freshwater. Water may require greater treatment which could increase water costs.	• Developing plan to measure water consumption to understand usage. • Expanding scope of climate scenario analysis to understand impact of water stress on business.
	Sea level rise. **Highest impact in the:** • **Long term** • **>3°C Scenario**	**LOW** **Potential financial impact area: increased direct and indirect costs.** As sea level rises, rates of erosion and the likelihood of storm surges occurring increase. This can lead to sites in coastal zones being damaged, eventually leading to closures and increased insurance premiums. These impacts could also manifest themselves in our supply chain, if key shipping ports are affected.	• Conduct annual scenario analysis of store estate, to monitor high-risk sites for long-term impacts. • When leases are up for renewal, take climate scenario analysis into account and consider relocating away from high-risk sites.

Climate-related opportunities

Category	Trend and highest impact	Potential impact	Opportunity management
Products and services	**Development of new products.** **Highest impact in the:** • **Medium term** • **<2°C Scenario**	**MEDIUM** **Potential financial impact area: Revenue – increased revenue from an increased demand for sustainable products and services.** As customers become more concerned about ESG, their shopping behaviours may change, if they wish to purchase more sustainable products.	We may be able to capitalise on this, if it is possible to develop more sustainable alternative products at prices which customers are willing to pay.

Strategy continued
Climate-related opportunities continued

Category	Trend and highest impact	Potential impact	Opportunity management
Energy resources	**Use of lower-emission sources of energy.** **Highest impact in the:** • **Short to medium term** • **<2°C Scenario**	**MEDIUM** **Potential financial impact area: Expenditures – reduction in operating expenses from increased efficiency (for example, decreased energy costs).** The introduction of lower-emission sources of energy across our estate would contribute to reduced energy consumption and associated costs over time. It would also help reduce our carbon emissions and contribute to our carbon-reduction and net-zero targets. The continued rollout of LED lighting, Company energy policy implementation, installation of lighting sensors and a behavioural change programme will result in an estimated carbon saving of 686 tCO_2e.	• Conduct energy site surveys to identify energy saving opportunities bespoke to our operations. • Implementing net-zero strategy and understanding and accounting for the additional cost to the business.

Impact of climate-related risks and opportunities on business, strategy and financial planning

We have assessed the impact of climate-related risks and opportunities on our business, strategy and financial planning. Based on our assessment, our business is more likely to be impacted by transition risks. As the global economy begins to decarbonise, we anticipate that the potential impacts from transition risks will increase as more efforts are made by governments and businesses to reduce emissions. We are likely to face increased operating costs as we invest in resources required to navigate enhanced reporting requirements as well as adapting to increased costs of energy and raw materials in our supply chain. As outlined in the Viability statement in this Annual Report, the Group operates a three-year financial planning cycle. Currently identified and quantifiable transition costs (such as the costs of retaining expert consultants INESG, and the cost of employing the recently appointed Sustainability Manager) have been incorporated into the Group's financial plans.

Further, as customers and wider stakeholders become more interested in our sustainability credentials over time we may see a reduced demand for products, as well as a potential decreased access to capital. However, the Group has not allowed for any of these and other potential costs relating to other transitional or physical climate risks in its current planning horizon, as these are presently too remote to be included. The process of periodic reviews of the risks and the operation of the planning cycle will ensure that if it becomes evident that costs (or revenues) associated with the climate risks will affect the business, they will be reflected in financial plans in due course.

A substantial part of the Group's profit is currently generated during the Christmas peak sales period, therefore extreme weather events during this time could have an adverse short-term effect by disrupting shopping behaviour, stock flow, deliveries of products to our stores and the fulfilment of online orders. We anticipate that the likelihood of extreme weather events occurring will increase as global temperatures rise, with phenomena such as flooding posing a potential threat to several of our sites. Detail of the impact of climate-related risks and opportunities facing our business can be found in the tables above.

The Sustainability Manager works closely with the ESG Steering Committee, members of the Operations Board and Heads of Departments to ensure sustainability and climate change criteria are integrated into decision making when fulfilling their roles across the business. Focusing on immediate priorities for the business, an Environmental Action Group has been established and meets monthly to consider plans to operate more sustainably which are presented to the Board on an ad hoc basis.

To reduce our Scope 1 and 2 carbon emissions and meet our net-zero targets for Scope 2 by 2030 and Scope 1 by 2035, we will need to introduce lower emission technology, as well as engage additional resources. During the year the Board approved a rollout of LED lighting in stores to improve the Group's energy efficiency, and the appointment of a Sustainability Manager to lead the development of the Group's sustainability strategy and support its implementation. Moving forward, decarbonisation actions such as further LED lighting installation, Company energy policy implementation, installation of lighting controls and a behavioural change programme will require investment.

Resilience of strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario

While climate change does not pose a significant direct threat to our business, we have identified a number of risks and opportunities that could impact the business over the longer term and assessed their impact.

As described above, we considered climate-related risks and opportunities under three different warming scenarios, varying from a best-case scenario (below 2°C) to a worst-case scenario (above 3°C). As the types of risks that present themselves will vary under different warming scenarios, to effectively assess the resilience of our strategy, analysing climate-related risks and opportunities against these different warming scenarios is necessary. Our analysis suggests that the transition risks are most significant in the 'below 2°C' scenario and 'between 2-3°C' scenario, as more change will be required to adapt to increasingly aggressive policies and legislation implemented by governments and regulatory authorities. As we work to decarbonise our business to be net zero in relation to Scope 1 and Scope 2 emissions, the risk posed by emerging policy and legislation, such as carbon taxing and increases to greenhouse gas pricing, will be mitigated and the benefits from achieving our net-zero targets will outweigh the upfront costs of doing so.

Building resilience into our supply chain by developing deeper relationships with key suppliers and also diversifying our supplier base, will help minimise the potential risks posed by climate change in relation to changing markets.

We have identified several physical risks requiring appropriate levels of management, to ensure that any potential disruption to our operations is minimised. These physical risks primarily materialise in the 'above 3°C' scenario in the long term, where numerous climate tipping points would be reached due to the unchecked increase in carbon emissions. We will continue to monitor physical risks through our annual climate scenario analysis, which we will expand to include further analysis across our key suppliers and critical supply chain routes to identify opportunities to improve the measures we are implementing to mitigate potential climate-related risks within the supply chain.

The information detailed above in relation to transition and physical risks also provides an insight into the resilient nature of our business model and, in particular, the processes and steps we are taking to mitigate the impact of climate-related risks.

Risk management

We have an established framework used by the Group for managing general risks which incorporates processes to make decisions to manage or accept those risks, and to monitor steps taken to achieve risk mitigation. The management of climate-related risks falls within this umbrella, and uses an analogous framework process. As this is our first climate-related risk and opportunity assessment, the initial analysis was limited to our direct operations. As we evolve our assessment annually and begin to include our suppliers we will get a better understanding of the potential size and scope of the identified climate-related risks and opportunities over the short, medium and long term.

The processes for identifying and assessing climate-related risks

To support management in its identification and assessment of climate-related risks, we conducted climate scenario analysis across all our operations in FY22 and FY23 for the first time. Alongside this process, we launched an internal due diligence process, to review existing business functions through a climate lens. In conjunction with mapping of our existing business risks and operations against those outlined by the TCFD guidance, this informed the identification of the climate-related risks and opportunities applicable to our locations and operations.

We have assessed the impact of each climate-related risk and opportunity across all three scenarios (a below 2°C, a 2-3°C and an above 3°C scenario), and three time horizons (short, medium and long term), to understand the scenario and timeframe within which our business is most vulnerable to each risk, or best positioned to capitalise on each opportunity. A climate risk management workshop was held during FY23 with members of the Operations Board, followed by subsequent one-to-one discovery sessions, to collect supporting data, to inform the assessment of each risk and opportunity, including high-level financial modelling which ascribes a financial threshold to each risk category. The risks and opportunities marked medium are deemed to be material to our operations. All climate-related risks and opportunities identified through our scenario analysis are detailed in the tables on pages 39 to 44. For each risk we have highlighted in which scenario there will be the greatest impact, and the measures we are implementing to increase resilience.

The process for managing climate-related risks

Through the internal stakeholder engagement process, we identified existing mitigation processes, which could be developed or adopted to mitigate the impact of climate change. Details of existing mitigation actions can be found on page 31. As explained on page 37 the Operations Board is responsible for managing the Group's climate-risks and opportunities supported by the ESG steering group and the Sustainability Manager. In addition senior managers are assigned specific responsibilities to ensure climate-related risks and opportunities are accurately assessed and effectively managed. The climate scenario analysis undertaken in FY23 will be repeated annually.

The Sustainability Manager works closely with the ESG Steering Committee, members of the Operations Board and Heads of Departments to ensure sustainability and climate change criteria is integrated into decision making when fulfilling their roles across the business. These sessions, along with monthly Environmental Action Group meetings, are used to identify opportunities to manage risks.

Integration of processes for identifying, assessing and managing climate-related risks into overall risk management

Following a detailed operational risk review completed by our Head of Finance, an environmental (including climate change) risk was highlighted and included in the updated risk register in FY22. The review included individual meetings with each Operations Board member covering current and emerging risks affecting their respective areas of responsibility and broader corporate risks in other parts of the business.

We have considered our existing risk process and structure of our risk register, when creating a climate risk register, to ensure climate-related risks and opportunities are easily integrated into existing business functions, where appropriate. We mapped our existing business risks against those outlined by the TCFD guidance to identify risk owners.

Following our FY23 climate risk management workshop, we held one-to-one discovery sessions with members of the Operations Board to further inform the assessment of climate-related risks and opportunities and establish risk mitigation actions across the business. This process will be repeated annually.

The Board and Audit Committee will continue to review the business' principal risks, including climate change risk, twice per year.

With support from the Sustainability Manager, the CFO will be responsible for the climate risk register, to ensure climate-related risks and opportunities are reported annually. The climate risk register contains all transition and physical risks highlighted and informs the annual assessment of the environmental (including climate change) risk.

Metrics and targets

Metrics used to assess climate-related risks and opportunities in line with strategy and risk management processes

We use a range of metrics to assess and manage our climate-related risks and opportunities, including carbon emissions (see pages 45 and 46), energy consumption (see page 47), waste and recycling (see page 31) and products and packaging (see page 31). We have considered cross-industry metrics including transition and physical risks, climate-related opportunities, capital deployment, carbon pricing and executive remuneration when reviewing the impact of climate change on our business. Reporting against these metrics can be found from pages 46 and 47. Each year we aim to develop these metrics while enhancing our TCFD reporting.

Metrics and targets continued

Metrics used to assess climate-related risks and opportunities in line with strategy and risk management processes continued

Every year we will set short-term annual targets which will help us achieve our longer term environmental ambitions (see page 30). We will also review industry remuneration best practice and guidance and consider linking executive remuneration with the delivery and performance of our net-zero strategy and related targets.

Scope 1, Scope 2 and Scope 3 GHG emissions and related risks

We have been calculating our Scope 1 and 2 carbon emissions, in line with the Streamlined Energy and Carbon Reporting initiative (SECR) since 2019 (page 47). This year, as part of the work we undertook to develop our carbon balance sheet, we calculated our Scope 3 carbon emissions for the first time. To establish a baseline for reporting we have used FY22 financial data to estimate our prior year Scope 3 emissions. We will use this baseline to measure progress against our emissions reductions targets. In FY24, our efforts will focus on aligning our Scope 3 data collection with our Scope 1 and 2 collection processes.

Our Scope 1, Scope 2 and Scope 3 emissions in relation to FY23 are set out below.

Carbon emissions (tCO_2e) (tonnes)

Scope	FY23	FY22
Scope 1	**199**	219
Scope 2	**2,576**	2,869
Scope 3	**30**	19
Total	**2,805**	3,107

Calculations have used the methodology based on the Greenhouse Gas Protocol (GHG Protocol) Corporate Value Chain standards. Within Scope 3, there are 15 categories, with 12 applicable to our operations. Over time we aim to improve our data collection processes to increase the accuracy of our Scope 3 emissions data.

Targets used to manage climate-related risks and opportunities and performance against targets

We are committed to becoming net-zero for Scope 2 emissions by 2030, Scope 1 emissions by 2035, and Scope 3 emissions by 2045, with an ambition to be net-zero in our Scope 3 emissions by 2040. Our Scope 1 and 2 targets, with our Scope 3 ambition, align with the British Retail Consortium's Climate Action Roadmap.

We are in the process of developing our transition plan and setting near-term targets. More information on how we are reducing our environmental impact can be found on pages 30 and 31.

Target	Progress so far
Net-zero Scope 1 emissions by 2035	We continue to build our roadmap for achieving net-zero in Scope 1, and are currently reviewing our car fleet options to determine when we will transition to a hybrid and/or electric fleet.
Net-zero Scope 2 emissions by 2030	We have installed LED lighting and energy efficient equipment in all new stores to help reduce our in-store energy consumption. We are also retrofitting our existing estate with LED lighting to continue the decarbonisation of our Scope 1 and 2 emissions. We conducted ESOS surveys across a number of our key sites to identify energy-savings opportunities. We will utilise the outputs of the surveys to implement energy efficiency measures across our estate.
Net-zero Scope 3 emissions by 2045[1]	We have calculated our Scope 3 emissions for the first time for the FY21/22 reporting period. This has provided us with a Scope 3 baseline from which we can understand emissions across our value chain, and begin formalising a decarbonisation strategy to meet our net-zero target. A number of Scope 3 categories will be targeted for data methodology improvements, where we will look to transition from average and spend-based data to activity-based data.

1 With an ambition to achieve net zero by 2040.

Streamlined Energy and Carbon Reporting (SECR)

In accordance with the SECR requirements the information below summarises our energy usage, associated emissions, energy efficiency actions and energy performance.

This year, for the first time, the disclosure covers all our operations including the Republic of Ireland.

Carbon emissions are categorised as follows:

- Scope 1: Consumption and emissions related to direct combustion of natural gas and fuels utilised for transportation operations, such as company vehicle fleets.
- Scope 2: Consumption and emissions related to indirect emissions relating to the consumption of purchased electricity in day-to-day business operations.
- Scope 3: Consumption and emissions related to emissions resulting from sources not directly owned by us. These relate to grey fleet (business travel undertaken in employee-owned vehicles) only.

Group data

Total Group reportable energy supplies consumption (kWh):

Utility and scope	FY23	FY22
Scope 1: Gaseous and other fuels	**155,792**	185,387
Scope 1: Transport (company fleet)	**733,868**	798,916
Scope 2: Electricity	**13,040,136**	13,513,022
Scope 3: Transport (grey fleet)	**129,005**	81,962
Total	**14,058,801**	14,579,287

Total Group emissions (tCO_2e)

Utility and scope	FY23	FY22
Scope 1: Gaseous and other fuels	**28.44**	33.96
Scope 1: Transport (company fleet)	**170.67**	185.25
Scope 2: Electricity	**2,575.87**	2,869.22
Scope 3: Transport (grey fleet)	**29.87**	19.01
Total	**2,804.85**	3,107.44

Group intensity metric

An intensity metric of tCO_2e per £m revenue has been applied to our annual total emissions and is detailed in the table below.

Intensity metric	FY23	FY22
tCO_2e/£m revenue	**10.01**	11.75

Regional data

Total reportable energy supplies consumption (kWh) for UK operations

Utility and scope	FY23	FY22
Scope 1: Gaseous and other fuels	**155,792**	185,387
Scope 1: Transport (company fleet)	**727,618**	798,916
Scope 2: Electricity	**12,855,807**	13,513,022
Scope 3: Transport (grey fleet)	**127,216**	81,962
Total	**13,866,433**	14,579,287

Total emissions (tCO_2e) for UK operations

Utility and scope	FY23	FY22
Scope 1: Gaseous and other fuels	**28.44**	33.96
Scope 1: Transport (company fleet)	**169.23**	185.25
Scope 2: Electricity	**2,514.97**	2,869.22
Scope 3: Transport (grey fleet)	**29.42**	19.01
Total	**2,742.06**	3,107.44

Intensity metric for UK operations

Intensity metric	FY23	FY22
tCO_2e/£m revenue	**9.79**	11.75

Total reportable energy supplies consumption (kWh) for Republic of Ireland operations[1]

Utility and scope	FY23
Scope 1: Gaseous and other fuels	**–**
Scope 1: Transport (company fleet)	**6,250**
Scope 2: Electricity	**184,328**
Scope 3: Transport (grey fleet)	**1,789**
Total	**192,367**

Total emissions (tCO_2e) for Republic of Ireland operations

Utility and scope	FY23
Scope 1: Gaseous and other fuels	**–**
Scope 1: Transport (company fleet)	**1.44**
Scope 2: Electricity	**60.90**
Scope 3: Transport (grey fleet)	**0.41**
Total	**62.75**

Intensity metric for Republic of Ireland operations

Intensity metric	FY23
tCO_2e/£m revenue	**13.36**

1 As highlighted above this is the first year our Republic of Ireland operations have been included in our disclosure; therefore, no prior year data is available.

Streamlined Energy and Carbon Reporting (SECR) continued

Energy efficiency improvements

We are committed to improving energy efficiency across our operations, which is paramount if we are to achieve our Scope 1 and Scope 2 net-zero targets. In FY23, we implemented several energy efficiency measures to reduce our overall energy consumption including:

- Continuing the rollout of LED lighting across our store estate. As at year end 67% of our store estate now operates with LED lighting.
- Began undertaking Energy Savings Opportunity Scheme (ESOS) surveys to identify energy efficiency opportunities. The findings of these surveys have informed our Scope 1 and 2 net-zero roadmaps.

We are planning further efficiency improvements in the coming year including:

- Continuing to rollout LED lighting across our store estate.
- Establishing a new and remodelled store energy efficiency policy.
- Developing an energy efficiency behaviour change programme for our colleagues across our stores, Distribution Centre and Support Centre.
- Engaging with our landlords to identify and implement energy efficiency opportunities across our store estate.

Reporting methodology

The above information (including the Scope 1, 2 and 3 consumption and CO_2e emissions data) has been developed and calculated using the GHG Protocol – A Corporate Accounting and Reporting Standard (World Business Council for Sustainable Development and World Resources Institute, 2004); Greenhouse Gas Protocol – Scope 2 Guidance (World Resources Institute, 2015); ISO 14064-1 and ISO 14064-2 (ISO, 2018; ISO, 2019); Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance (HM Government, 2019).

For our UK operations, UK Government Emissions Factor Database 2022 version 1 has been used, utilising the published kWh gross calorific value (CV) and kgCO_2e emissions factors relevant for reporting period 01/05/2022–30/04/2023. For our Republic of Ireland operations, Sustainable Energy Authority of Ireland (SEAI) 2022 conversion factors have been used, utilising the kgCO_2e emission factors for relevant reporting period 1 May 2022 to 30 April 2023.

Estimations were undertaken to cover missing billing periods for properties directly invoiced to The Works. These were calculated on a kWh/day pro-rata basis at the meter level.

Intensity metrics have been calculated using total tCO_2e figures. Total turnover used for the performance indicator for FY23 was £280.1m (FY22: £264.6m).

Effective risk management helps us identify, evaluate and manage the risks which could impact the business

Risk management framework

The Board is responsible for ensuring that appropriate risk management processes and controls are in place. The Board has delegated responsibility for overseeing risk management processes and controls to the Audit Committee. Day-to-day risk management is the responsibility of the senior management team. Further details of the governance structure are set out in the Corporate governance report on page 62.

Risks are identified and assessed using a bottom-up review process. Senior management determines the potential risks that could affect their areas of responsibility and the likelihood and impact. This information is used to create the Group's primary risk register and capture principal risks which are subsequently considered by the Audit Committee and the Board.

Risk appetite

The Board determines the Group's risk appetite. Where a conflict exists between risk management and strategic ambitions, the Board seeks to achieve a balance which facilitates the long-term success of the Group.

Principal and emerging risks and changes in principal risks

The Board conducts a robust assessment of the principal risks facing the Group and emerging risks, including those that could threaten the operation of its business, future performance or solvency. The Board formally reviews the Group's principal risks at least twice a year.

A detailed operational risk review was undertaken by the Head of Finance during November 2022. This review included discussions with members of the Operations Board covering current, principal and emerging risks affecting their respective areas of responsibility and broader corporate risks. Following this review, the Group's primary risk register and its principal risks and mitigation plans were updated, and considered by the Audit Committee and the Board in January 2023, March 2023 and July 2023.

A climate risk workshop, facilitated by INESG, the Group's specialist third-party ESG consultancy, was held in August 2022. Members of the Operations Board participated in the workshop which covered: an introduction to climate change and climate scenarios; risk classification; transition and physical risks identified; and how to approach climate change as a material risk to the business. Using the outputs from the workshop the Group's first climate risk register was developed and subsequently reviewed and approved by the Board in January 2023. Further information in relation to the Group's climate risks is included on pages 37 to 46.

The principal risks and uncertainties facing the Group as at the date of this Annual Report are set out in order of priority on pages 50 to 53, together with details of how these are currently mitigated. The adjacent heatmap illustrates the Board's assessment of the likelihood of the principal risks occurring and the resulting impact, after taking into account mitigating actions.

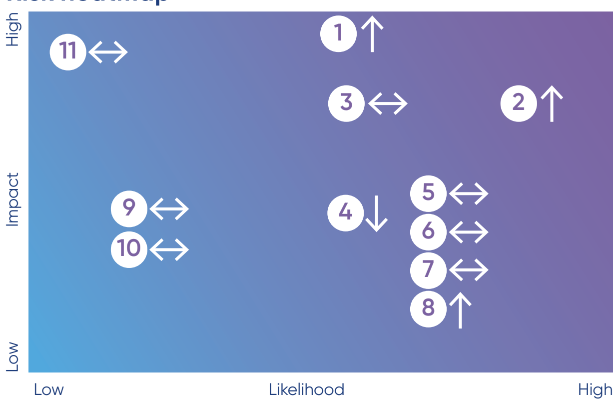
During the year the main changes to the principal risks were as follows:

- Removal of COVID-19 risk: Given the significantly reduced impact of risks associated with COVID-19 this risk is no longer considered to be a principal risk.
- Renaming of 'Market' risk: The 'Market' risk has been renamed 'Design and execution of strategy', and has been refined to reflect the importance of the Group's strategy and the direct correlation between successful strategic execution and market performance. This risk has also been assessed as having a high priority and ranked accordingly.

During the year a geopolitical emerging risk was identified. Approximately two thirds of the Group's stock is sourced from China and if drastic economic sanctions were to be imposed on China this could have a material impact on the Group's ability to obtain stock. Moving the product mix away from goods sourced from China could mitigate this risk; however, a significant lead time would be required to do this. Currently the probability of this risk crystallising is considered to be very low. Accordingly this emerging risk will be maintained on our secondary risk register and we will continue to monitor it.

The Group may be exposed to other risks and uncertainties not presently known to management, or currently deemed less material, that may subsequently 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 or the nature of risks change.

Risk heatmap



Change from prior year

↑ Increased ↓ Decreased ↔ Unchanged

Principal risks

1 Design and execution of strategy (previously 'Market' risk)
2 Economy
3 Supply chain
4 IT systems and cyber security
5 Brand and reputation
6 Seasonality of sales
7 People
8 Environmental (including climate change)
9 Regulation/compliance
10 Liquidity
11 Business continuity

Principal and emerging risks and changes in principal risks continued

Risk, profile change and link to strategy	Mitigation

1. Design and execution of strategy (previously 'Market' risk)

The Group generates its revenue from the sale of books, toys and games, arts and crafts and stationery.

Although it has a track record of understanding customers' needs for these products, the market is competitive. Customers' tastes and shopping habits can change quickly. Failure to effectively predict or respond to changes could affect the Group's sales and financial performance.

Failure to effectively execute the 'better, not just bigger' strategy (e.g. due to insufficient capacity or inadequate capability) would have an adverse impact on the Group's ability to grow, particularly if the envisaged sales growth drivers fail to increase sales. Furthermore achieving increased sales growth could be more challenging if consumer confidence is impacted by deteriorating economic conditions.

Change from prior year
Increased risk level. The Board believes that the previous risk rating needs to increase to reflect the significant impact this risk could have on the profitability of the Group and therefore increased the risk rating.

Link to strategy

Mitigation

- Increased strategic focus on developing the brand and increasing customer engagement to further differentiate the Group from competitors.
- Emerging trends monitored by a recently strengthened trading team that has a track record of responding to changing consumer tastes.
- Monitor competitors' propositions and discuss key developments at weekly trading meetings and at Board level on a regular basis.
- Monitor and review customer feedback.
- Use sales data and online feedback channels to inform purchasing and marketing decisions.
- Flexible lease terms allow the Group to adapt its store portfolio (which continues to be highly relevant to customers) to suit evolving shopping habits.
- Ongoing investment in the Group's online capability ensures complementary digital and store propositions, as customers increasingly engage with both channels.
- Significant investments have been made to date and further investment is planned in FY24 to drive operational improvements.

2. Economy

A deterioration in macroeconomic conditions or a reduction in consumer confidence could impact customer spending and reduce the Group's revenue and profitability.

Change from prior year
Increased risk level. Inflation remains high and the cost-of-living challenge looks likely to persist for some time. Although we have not yet observed any quantifiable effect on our business, this could impact consumer spending and, as a result, the Group's sales. The current economic environment, including the following issues, is also causing costs to be higher which could impact profitability:

- Raw materials and energy costs. Our energy rates are hedged in the short term, but at higher rates than those which prevailed historically.
- Continued increases in National Living and Minimum Wages affects the business because most of the Group's colleagues are paid the National Minimum or Living Wage.
- Geopolitical issues, including the Russian invasion of Ukraine, which has had direct inflationary effects.
- FX rates. The pound is now stronger compared with the dollar than during certain points in FY23. There is reduced risk in FY24 due to the Group's hedging policies, although we remain indirectly exposed to FX rates, through indirect sourcing which represents approximately 60% of purchases for resale.
- Freight rates, which have significantly affected our costs in recent years, are now at pre-COVID levels, and are not expected to represent a threat for the foreseeable future.

Link to strategy

Mitigation

- Take account of expected impact in the strategic planning process, budgets and forecasts.
- Control costs while making carefully considered investments in certain areas to support growth.
- Increase direct sourcing to improve gross margin. While this initiative was delayed by COVID-19 in China, momentum should increase in FY24.
- Operate stores on flexible short-term leases to benefit from reductions in rents through the rolling renegotiation of leases. Store estate can be adapted relatively quickly in the event of material local changes in demand.

Develop our brand and increase customer engagement

Enhance our online proposition

Optimise our store estate

Drive operational improvements

Risk, profile change and link to strategy	Mitigation

3. Supply chain

Risk, profile change and link to strategy

The Group uses third parties, including many in Asia, for the supply of products. Risks include the potential for supplier failures, risks associated with manufacturing and importing goods from overseas, potential disruption at various stages of the supply chain and suppliers failing to act or operate ethically.

Failure to execute the restructuring of the supply chain team successfully to implement necessary changes to the stock process could prevent the right stock getting to the right stores at the right time and materially impact sales growth.

Supply chain disruption due to COVID-19 restrictions potentially being maintained in certain parts of the world, particularly China, could cause disruption to stock availability and cost inflation. Any significant increase in geopolitical tensions between the West and China could affect the ability to purchase stock.

Due to the Group's low level of exposure to sales outside the UK risks connected with Brexit are low.

Change from prior year
Unchanged level of risk.

Link to strategy

Mitigation

- Strengthened buying and supply chain teams and further investment is ongoing in FY24.
- Ongoing review of supplier base and diversification and change implemented as appropriate to provide flexibility and reduce reliance on individual suppliers.
- Independent monitoring of suppliers undertaken by third-party auditors with local country knowledge and an understanding of social and ethical requirements.
- In-house product quality assurance team undertakes product testing as part of a product surveillance test programme.
- Implement policies that reinforce the Group's values and its commitment to conduct business fairly, ethically and with respect to human rights which suppliers are required to adhere to.
- Proactive management of supply chain to ensure stock levels are appropriate.
- Continue to review freight costs (including measures to mitigate them) and monitor alternative sourcing arrangements where practicable.

4. IT systems and cyber security

Risk, profile change and link to strategy

The Group relies on key IT systems. Failure to develop and maintain these, or any prolonged system performance problems or lack of service, could affect the Group's ability to trade and/or could lead to significant fines and reputational damage.

Reliable systems and data integrity are key to the execution of the strategy. Ensuring systems and processes are fit for purpose will enable the delivery of improvements to the proposition.

Change from prior year
Reduced risk. The Group experienced a cyber security incident at the end of March 2022. Actions taken in response to the incident have significantly reduced the risk of the business suffering major loss or disruption in the event of subsequent attacks.

Link to strategy

Mitigation

- Modern two-factor authentication for access, combined with up-to-date end point detection capabilities (to monitor devices and assess unexpected/risky activity) and network segmentation, lowers the probability of malicious entry and speed of movement of malware across the business.
- 24/7/365 Security Operations Centre, established in FY23, monitors and responds to any unusual activities in systems or networks.
- Enhanced working from home capabilities established in response to the pandemic have reduced the level of dependence on a single-site head office.
- Regular IT investment strategy review undertaken by the Operations Board, including security and infrastructure investment programmes.
- Further strengthened in-house IT capabilities during FY23.

5. Brand and reputation

Risk, profile change and link to strategy

The Group's brand is vital to its success. Failure to protect the brand, in particular product quality and safety, could result in the Group's reputation, sales and future prospects being adversely affected.

Diversity and inclusion issues have become more prominent in customer preferences; failure to stock a diverse range of products and ensure inclusivity could create reputational damage.

Change from prior year
Unchanged level of risk. Developing our brand and increasing customer engagement is a strategic aim. In autumn 2022 we launched an updated brand to ensure that the visual representation and tone of voice of The Works aligns with its purpose and reflects the more modern, fun and engaging business we are today.

Link to strategy

Mitigation

- Communicate to colleagues our clarified purpose and values.
- Provide intellectual property guidance and education to design and sourcing teams.
- Monitor customer product reviews and take appropriate action to remove products from sale and take other actions as appropriate where quality issues are identified.
- In-house product quality assurance team works with suppliers to ensure product quality, safety and ethical production.
- Conduct third-party technical and ethical audits.
- Monitor the Group's ESG responsibilities and implement processes to ensure the Group operates in a responsible way (see pages 29 to 35).
- Recruiting a D&I manger to lead our D&I strategy including reviewing our product range to ensure inclusivity.
- Operate brand tracking that provides feedback from customers and highlights potential brand damaging issues.

Principal and emerging risks and changes in principal risks continued

Risk, profile change and link to strategy	Mitigation
6. Seasonality of sales	
The Group generally makes substantially all of its profit in the second half of the financial year during the peak Christmas trading period. Interruptions to supply, adverse weather or a significant downturn in consumer confidence or a failure to successfully execute strategy in this period could have a significant impact on the short-term profitability of the Group. **Change from prior year** Unchanged level of risk. **Link to strategy**	• Continue to develop the year-round appeal of the proposition. • Hold weekly trading meetings to ensure that immediate action is taken to maximise sales based on current and expected trading conditions. • Plan rigorously for product proposition, supply chain and retail operations to ensure the success of the peak Christmas trading period.
7. People	
The Group's success is strongly influenced by the quality of the Board, senior management team and staff generally. A lack of effective succession planning and development of key colleagues could harm future prospects. **Change from prior year** Unchanged level of risk. **Link to strategy**	• Discuss and review succession plans at Nomination Committee meetings. • Establish development programmes to support future leaders. • Operate the 'Can Do Academy' to facilitate training and development. • Launched a new employee communications and engagement platform MyWorks (see page 32). • Well-managed search and recruitment processes, together with appealing proposition and welcoming culture, enables recruitment of high-calibre executives. • Implement a Remuneration Policy designed to ensure management incentives support the Group's long-term success for the benefit of all stakeholders, including a Long-Term Incentive Plan for Executive Directors and restricted share awards for Operations Board members. For further details see pages 76 to 77.
8. Environmental (including climate change)	
There is an increased focus on sustainable business from consumers and regulators. In our business this applies to products and packaging in particular. Failure to respond to these demands could affect the Group's reputation, sales and financial performance. Supply chain disruptions due to more extreme weather events created as a result of global warming could damage operations, in particular the flow of stock which could adversely impact sales. There are increased reporting and disclosure requirements relating to climate change and environmental impact including new taxes, regulation and compliance risks as noted in risk 9 below. **Change from prior year** Increased level of risk. Reporting and disclosure requirements are continuing to increase and achievement of the Group's longer-term environmental ambitions are dependent on effective implementation of the Group's sustainability strategy and suppliers taking steps to reduce their environmental footprint (see pages 30 and 31). **Link to strategy**	• An ESG steering group meets quarterly and reports to the Board and the Operations Board on a regular basis. • Implementing initiatives to reduce our impact on the environment (see pages 30 and 31). • Retain specialist third-party ESG consultancy, Inspired Energy, to assist in the further development of the Group's environmental strategy and ensure compliance with TCFD requirements. • Appointed a Sustainability Manager in January 2023 to lead the development and implementation of our environmental strategy. • Working with third-party logistics providers to explore and invest in energy efficient solutions within the supply chain. • Developed a climate risk register (see pages 38 to 45).

Develop our brand and increase customer engagement

Enhance our online proposition

Optimise our store estate

Drive operational improvements

Risk, profile change and link to strategy | Mitigation

9. Regulation/compliance

The Group is exposed to an increasing number of legal and regulatory compliance requirements including the Bribery Act, the Modern Slavery Act, the General Data Protection Regulation (GDPR) and the Listing Rules. Failure to comply with these laws and regulations could lead to financial claims, penalties, awards of damages, fines or reputational damage which could significantly impact the financial performance of the business.

There are extensive and increasingly onerous laws and regulations (including reporting and disclosure requirements) surrounding climate change and environmental reporting. Failure to comply with these could result in financial penalties, legal consequences and/or reputational damage.

Change from prior year
Unchanged level of risk.

Link to strategy

Mitigation:

- Oversight of regulatory compliance by Group CFO and Company Secretary with support from external advisers.
- Implement policies and procedures in relation to both mandatory requirements and measures the Group has adopted voluntarily (e.g. anti-bribery and corruption, adherence to National Living Wage requirements).
- Operate a Whistleblowing Policy and procedure which enable colleagues to confidentially report any concerns or inappropriate behaviour.
- Operate a GDPR Policy which is overseen by a suitably experienced data supervisor and monitored by members of a GDPR governance monitoring group who meet regularly and report key issues to the senior management team.
- Retain experienced advisers where necessary to cover gaps in expertise in the in-house team.

10. Liquidity

Insufficient liquidity available and/or insufficient headroom in banking facilities. Potential for breach of banking covenants if financial performance is significantly worse than forecast.

Availability of credit insurance to suppliers may be reduced or removed resulting in an increased cash requirement.

Change from prior year
Unchanged level of risk.

Link to strategy

Mitigation:

- Financial forecasts and covenant headroom monitored and reported to the Board and the bank monthly.
- Strategy focuses on driving like-for-like sales and improving efficiency, rather than previous store rollout plan, which is a less capital intensive strategy.
- The Group's bank facility at year end FY23 comprised a committed RCF of £30m with an expiry date of 30 November 2025. Since the Period end, the Group has implemented a reduction in the size of the facility, which was undrawn throughout most of FY23, to £20.0m, and simultaneously extended its term such that it now expires on 30 November 2026.
- Careful management of banking relationship increases the likelihood of a supportive response in the event that it should be needed.

11. Business continuity

Significant disruption to the operation, in particular internal IT systems, Support Centre or Distribution Centre, could severely impact the Group's ability to supply stores or fulfil online sales resulting in financial or reputational damage.

Change from prior year
Unchanged level of risk.

Link to strategy

Mitigation:

- IT recovery plans fully tested in the response to the March 2022 cyber security incident.
- Implemented new cloud back-ups which improve the flexibility of any disaster recovery plan response.
- Enhanced business continuity plan in place including system recovery.
- Subscribe to a cloud-based technology recovery centre to improve speed and execution of a recovery.
- Undertake disaster recovery dry run exercises. Emergency generator installed at the Group's Support Centre to insulate the business from the impact of power cuts.
- Maintain appropriate business interruption insurance cover.

Viability statement

In accordance with Provision 31 of the UK Corporate Governance Code (the Code), the Directors have assessed the prospects and viability of the Group taking into account the Group's current position and the potential impact of the principal risks documented in this report.

The Directors have used a period of three years to make this assessment, a period which they consider to be appropriate for the following reasons:

- Retail market trends evolve rapidly, including the way customers shop and the impact of new technologies. The potential uncertainty as to how the market may have evolved more than three years into the future is considered 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.
- The average remaining term of the Group's property portfolio leases is approximately three years.

The text which follows closely reflects the text in Note (1) (b) (i) of the financial statements, relating to the preparation of the accounts on a going concern basis. The accounts have been prepared on a going concern basis, but Note (1) (b) (i) refers to the existence of a material uncertainty regarding the availability of borrowing facilities in the event that they may be needed under a sensitised "severe but plausible" downside case.

The Group has prepared cash flow forecasts for FY24 to FY26, referred to as its 'Base Case' scenario. In addition, a 'severe but plausible' 'Downside Case' sensitivity has been prepared to support the Board's conclusion regarding viability, by stress testing the Base Case to indicate the financial headroom resulting from applying more pessimistic assumptions.

In assessing the Group's viability the Directors have considered:

- The external environment.
- The Group's financial position including the quantum and expectations regarding the availability of bank facilities.
- The potential impact on financial performance of the risks described in the Strategic report.
- The output of the Base Case scenario, which represents the Group's view of the most likely financial performance over the viability period.
- Measures to maintain or increase liquidity in the event of a significant downturn in trading.
- The resilience of the Group to these risks having a more severe impact, evaluated via the Downside Case which shows the impact on the Group's cash flows, bank facility headroom and covenants.

These factors are described below.

External environment

The risks which are considered the most significant relate to the economy and the market, specifically their effect on the strength of trading conditions, and the Group's ability to successfully execute its strategy. The risk of weaker consumer demand is considered to be the greater of these risks currently, due to the continued high level of inflation and its potential effect on economic growth and consumer spending.

An emerging risk has been noted in relation to the possible effects of climate change, but this is not expected to have a material financial impact on the Group during the viability period.

Financial position and bank facilities

At the end of FY23 the Group held net cash at bank of £10.2m (FY22: of £16.3m).

After the Period end, the Group extended the term of its bank facility by one year and it now expires on 30 November 2026, thereby covering the entirety of the viability period. At the same time, following a review of the historic utilisation of the facility, the Group's anticipated future cash requirements, and the costs of maintaining the facility, the Group requested that HSBC reduce the size of the facility from £30m to £20m.

The facility includes two financial covenants which are tested quarterly:

1. The 'Leverage Ratio' or level of net debt to LTM (last 12 months') EBITDA must not exceed 2.5 times during the life of the facility.
2. The 'Fixed Charge Cover' or ratio of LTM EBITDA prior to deducting rent and interest, to LTM rent and interest. This covenant increases in steps to reflect the expectation of progressively improving financial performance during the life of the facility, as follows: until October 2023, the ratio must be at least 1.20 times; for the following 12 months the ratio must be at least 1.25 times, and thereafter at least 1.30 times.

The Group expects to be able to operate and have sufficient headroom within these covenants.

Potential impact of risks on financial scenarios

It is considered unlikely that all the risks described in the Strategic report would manifest themselves to adversely affect the business at the same time. The Base Case scenario/the Group's three-year financial plan, implicitly already takes into account the risks described, and assumes that they manifest themselves in a way or to an extent that might be considered 'neutral'.

The Downside Case scenario assumes that there are more severely negative effects than in the Base Case. In particular, the Downside Case assumptions are that macroeconomic conditions are significantly worse, resulting in reduced consumer spending and lower sales. It should be noted that the Base Case already takes into account the current subdued consumer market conditions. The Downside Case assumes that conditions become worse still from the second half of the FY24 financial year.

Base Case scenario

The Base Case scenario assumptions reflect the following factors:

- Store sales (which represent over 85% of total sales) during the first part of FY24 are above the Base Case requirement but online sales are below it. The Group is implementing plans to improve its online profitability in the medium term; in the short term, costs relating to the online business are being tightly controlled to ensure that they reflect the reduced sales level.
- The Base Case gross margin percentage reflects the expected full year effect in FY24 of targeted price increases applied since the beginning of 2023 and also significantly lower ocean container freight costs. These favourable factors are partially offset by a less favourable hedged FX rate than in FY23.
- Anticipated further inflationary effects, in particular the increase in the National Living Wage. In respect of other costs, notably property occupancy costs, it is not expected that there will be further significant inflationary effects during FY24 and FY25, following the significant increases (for example in electricity costs) already experienced during FY23.
- Capital expenditure levels are in line with the Group's strategic plan. A significant proportion of the Group's capital expenditure is discretionary, particularly over a short-term time period. As a result, if required, it can therefore be reduced substantially, for example, in the event the Group needs to preserve cash.
- The anticipated costs of the Group's net zero climate change commitments have been incorporated within the Base Case model within the next three years. As set out in the climate related disclosures on pages 36 to 46, the impact on the Group's financial performance and position is not expected to be material in the short term.
- The plan makes provision for dividend payments.

Under the Base Case scenario, the Group expects to make routine operational use of its bank facility each year as stock levels are increased in September-October, prior to peak sales occurring. This is consistent with the normal pattern experienced prior to COVID-19.

The output of the Base Case model scenario indicates that the Group has sufficient financial resources to remain viable over the three-year period.

Measures to maintain or increase liquidity in circumstances such as are described below

If necessary, mitigating actions can and would be taken in response to a significant downturn in trading, such as is described below, which would increase liquidity.

These include, for example, delaying and reducing stock purchases, stock liquidation, reductions in capital expenditure, the review of payment terms and the review of dividend levels. Some of these potential mitigations have been built into the Downside Case model, and some are additional measures that would be available in the event of that scenario, or worse, actually occurring.

Severe but plausible Downside Case scenario

The Downside Case makes the following assumptions to reflect more adverse macroeconomic conditions compared to the Base Case:

- Store LFL sales are assumed to be 5% lower than in the Base Case from October 2023 until January 2025.
- In this scenario online sales are assumed to be lower than in the Base Case during FY24 despite the Group's attempts to increase them, but show recovery in FY25.
- The product gross margin assumptions are the same as in the Base Case other than in January 2024 when it is lower, to allow for the clearance of stock which is assumed would have accumulated due to the inability to reduce stock purchases immediately in response to the lower sales level.
- Expected FX requirements are hedged until mid-FY25, and freight rates are hedged until the end of 2023. Beyond that time, it is not anticipated that there will be any interruption to global freight systems as was experienced as a result of the COVID-19 pandemic, which were a consequence of unique circumstances. Other gross margin inputs are relatively controllable, including via the setting of selling prices to reflect any systematic changes in the cost price of goods bought for resale.
- Volume related costs in the Downside Case are lowered where they logically alter in a direct relationship with sales levels, for example, forecast online fulfilment and marketing costs. The model also reflects certain steps which could be taken to mitigate the effect of lower sales, depending on management's assessment of the situation at the time. These include adjustments to stock purchases, reducing capital expenditure, reductions in labour usage, a reduction in discounts allowed as part of the Group's loyalty scheme and the suspension of dividend payments.
- The combined financial effect of the modified assumptions in this scenario compared with the Base Case, during the viability assessment period FY24 to FY26, including implementing some of the mitigating activities available, would result in:
  - A reduction in store net sales of approximately £63m.
  - A reduction in online net sales of approximately £1m.
  - A reduction to EBITDA of approximately £15m.

Under this scenario the Group will draw on its bank facility prior to Christmas 2023 but, as a result of the mitigating actions that would be taken in H2 FY24 in response to a downturn in sales, particularly in reducing the value of stock bought for resale, it would not make subsequent use of the bank facility.

The bank facility financial covenants are complied with during the pre-Christmas 2023 period when the facility is being used, but the forecast indicates that the Fixed Charge covenant will not be complied with throughout FY25, although at this time the facility is not expected to be in use under this scenario.

On the basis of this Downside Case scenario with the 'severe but plausible' set of assumptions as described, the business would continue to have adequate resources to continue in operation on a viable basis.

Severe but plausible Downside Case scenario continued

However, the cash headroom at certain quarterly covenant testing points in FY25 and FY26 is limited, and there are reasonably plausible scenarios in which this headroom could be eroded and create a borrowing requirement. For example, if sales decreased by a further 1% during the going concern period (which covers the earlier part of the viability assessment period) compared with the Downside Case, a small borrowing requirement could arise.

The Group has a strong relationship with its bank, HSBC, and has a recent track record of working collaboratively with the bank to resolve potential covenant issues, for example, a waiver was agreed by HSBC in 2021 as noted in the Group's FY21 Annual Report. Despite this strong relationship with the bank and the recent evidence of successfully managing comparable situations, if a borrowing requirement arose when the financial covenants are not complied with, there is a risk that the Group would not be able to utilise its borrowing facilities if required.

The Directors believe that, should such a situation arise in practice, it would have time before a potential breach to mitigate further, and potentially to make arrangements with the bank, as has occurred previously, to adjust the covenant levels to prevent a breach. Furthermore, the Group has successfully managed through challenging conditions during the recent COVID-19 pandemic, and the Directors believe it unlikely that comparably challenging conditions will be experienced during the forecast period, despite the concerns regarding the current macroeconomic conditions. Nevertheless, despite the Directors' confidence in relation to these matters, there is no certainty as to whether the mitigating actions would provide the level of liquidity required in the time available to implement them, nor whether the bank would make adjustments to the financial covenants.

Conclusion regarding viability

Having considered the possibilities modelled under the scenarios described above, including the Board's assessment of the likelihood that each scenario transpires, and the likelihood that the Group would be able to take actions to successfully mitigate the effects should such events occur, the Board is satisfied that the Group can maintain its financial commitments. The Directors therefore 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 three-year viability assessment period.

Non-financial and sustainability information statement

In accordance with Sections 414CA and 414CB of the Companies Act 2006 the information below is provided to help our stakeholders understand our position in relation to key non-financial and sustainability matters. The further information highlighted below is incorporated by cross-reference.

Key matter	Policies and standards that govern our approach	Further information
Environment and climate-related financial disclosures	• Sustainability strategy.	• ESG review: pages 29 to 35. • TCFD statement: pages 36 to 46. • Our stakeholders: page 26.
Employees	• Health & Safety Policy. • Dignity & Respect Policy. • Equality, Diversity & Inclusion Policy. • Whistleblowing Policy. • Colleague handbook. • Social Media Policy. • Disciplinary & Grievance Policies. • Data protection.	• ESG review: pages 32 to 34. • Our stakeholders: pages 26 and 27. • Remuneration report: pages 73 to 85. • Corporate governance report: pages 62 to 65.
Respect for human rights	• Modern Slavery Statement. • Ethical Trading Code of Conduct. • Whistleblowing Policy.	• ESG review: page 35. • Corporate governance report: pages 62 to 65.
Social	• Sustainability strategy. • Data protection.	• ESG review: pages 30 to 34. • Our stakeholders: pages 26 and 27.
Anti-corruption and anti-bribery	• Bribery Policy. • Whistleblowing Policy.	• ESG review: page 35. • Corporate governance report: page 63.
Additional disclosures		• Business model: pages 14 and 15. • Key performance indicators: page 18. • Principal risks: pages 49 to 53.

> The Board is fully committed to implementing the highest standards of corporate governance.

Dear shareholder

I am delighted to present our Corporate governance report for the year ended 30 April 2023, which sets out how our governance framework has operated and developed during the course of the year.

The Board remains fully committed to implementing the highest standards of corporate governance, and I am pleased to report that it has applied the principles of the 2018 UK Corporate Governance Code in so far as it applies to smaller listed companies (below the FTSE 350).

The Company's performance in FY23 has continued to be impacted by the uncertain economic environment, and in particular concerns around the cost of living, as well as ongoing (but reducing) effects of supply chain disruption due to the Covid-19 pandemic. The lingering effects of the cyber security incident towards the end of FY22 also affected the business' operations.

During the year the Company's leadership team and structure have continued to evolve and we have continued to make operational improvements to ensure that the business is run in the most efficient and cost-effective way, including through proposed changes to the store labour model which were reviewed by the Board during the year.

As a Board, we have also devoted time to monitoring initiatives to support our people and culture. This has included updates on our employee engagement survey, and progress against actions arising from it, as well as receiving a detailed talent review covering various workstreams to support the development of our colleagues.

Our governance framework has also been further strengthened. In particular, in line with our commitment to reduce our impact on the environment and implement the TCFD recommendations, we have increased our focus on environmental and climate-related matters. In setting our emission reduction targets to achieve our net-zero ambitions (which are described in more detail on page 30) the Board has spent a significant amount of time discussing, challenging management on, and ultimately approving the approach adopted.

Our programme of Operations Board member presented 'deep dives' at our scheduled Board meetings continues to work well in both ensuring that the Board is kept well informed of progress against key strategic and operational projects, as well as providing opportunities to engage directly with senior management and their direct reports. During FY23, 'deep-dives' have focused in particular on IT projects and security (with the Board keen to oversee progress to enhance our IT security infrastructure following the cyber attack last year), and ESG and net zero (as noted above). We have also devoted significant time to projects aimed at improving stock management processes, including the review of the Group's operational structure, enhancement of its merchandising functions, and proposals to enhance underlying systems.

I led an internal Board evaluation process during the year which is summarised on page 64. I am delighted to report that the unanimous conclusion was that the Board dynamics are working well, and that the Board, its Committees and individual Directors are operating effectively. We have identified some actions to take forward in FY24 to ensure that we continue to support management and the business in the best way possible. These include allocating additional time for store visits and strategy review, improving the visibility and understanding of the Board across the business, and continuing to review the information included in monthly reporting to the Board.

I have also enjoyed increased levels of direct engagement with our shareholders during the year including participating in a number of face-to-face meetings. These interactions are extremely beneficial; they provide a deeper understanding of what really matters to our shareholders, and this invaluable information better equips the Board when considering the shareholder context in its discussions and debates.

I look forward to meeting shareholders at our forthcoming Annual General Meeting (AGM), which will be held on 4 October 2023.

Carolyn Bradley
Chair
30 August 2023

Drive operational improvements

Site visit to iForce

Managing a cost-effective and efficient fulfilment process is vital to the delivery of the Group's ability to maintain a competitive value offering online. Given the importance of this process, in early October 2022 the Board held its meeting at the iForce distribution centre in Rugby (the site from which the majority of the Group's online channel sales are fulfilled).

The visit included a tour of the iForce operation, and the opportunity to see in action the Company's investment in an automated packing machine and robots to improve the efficiency of the stock picking operation. Board members were also able to engage directly with the Company's key contacts at iForce, enabling them to assess the strength of the supplier relationship and understand the challenges and improvement opportunities to support the efficient delivery of online purchases to customers.

Read more about our strategy on pages 16 and 17

An experienced team

N R

Carolyn Bradley

Chair and Non-Executive Director

Date of appointment

September 2021

Committee membership

Chair of the Nomination Committee and member of the Remuneration Committee.

Relevant skills and experience

- Extensive retail, marketing and commercial experience in executive and non-executive roles including 25 years at Tesco plc where her roles included Group Brand Director, UK Marketing Director and Chief Operating Officer for Tesco.com.
- Significant consumer experience including leading Tesco's Clubcard loyalty scheme, the 'Every Little Helps' service campaign and the grocery home delivery business.

Current external appointments

Senior Independent Director and Chair of the Remuneration Committee of SSP Group plc and Non-Executive Director of Majid Al Futtain Retail LLC and The Mentoring Foundation.

A N R

Harry Morley

Senior Independent Non-Executive Director

Date of appointment

July 2018

Committee membership

Chair of the Audit Committee and member of the Nomination and Remuneration Committees.

Relevant skills and experience

- Extensive retail and consumer experience, including as co-founder of Tragus Holdings Ltd, owner of Café Rouge and Bella Italia restaurant chains and a Non-Executive Director of Bibendum Wine Holdings Ltd.
- Significant financial and commercial expertise as Chief Financial Officer of Tragus Holdings Ltd and CEO of Armajaro Asset Management LLP. He also held senior management roles at P&O.
- Chartered accountant.

Current external appointments

Non-Executive Director and Chair of the Audit Committee at JD Wetherspoon plc, a Trustee of the Ascot Authority and from 1 September 2023, a Non-Executive Director of Schroder UK Mid Cap Fund plc. Director of Cadogan Group Limited and two related subsidiary companies.

A N R

Catherine Glickman

Independent Non-Executive Director

Date of appointment

July 2018

Committee membership

Chair of the Remuneration Committee and member of the Audit and Nomination Committees.

Relevant skills and experience

- Significant retail experience as Group HR Director of Genus plc, having previously held the same role at Tesco plc 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.
- Extensive people and reward expertise having developed reward structures that align leadership motivation with strategy at both Genus plc and Tesco plc.

Current external appointments

Non-Executive Director and Chair of the Remuneration Committee at Renishaw plc.

Committee membership

- **A** Audit Committee
- **N** Nomination Committee
- **R** Remuneration Committee
- Chair of Committee

Gavin Peck
Chief Executive Officer

Date of appointment
January 2020

Committee membership
None

Relevant skills and experience
- Significant financial, retail and commercial expertise, including as Chief Financial Officer of The Works, and, prior to that, as Commercial Director at Card Factory plc where he was responsible for the commercial function (buying, space and merchandising) and leadership of the commercial finance team. He played a key role in the successful IPO of Card Factory in 2014 and its subsequent growth and evolution as a listed business.
- Chartered Accountant, having started his career at PwC where he spent eight years working in the audit and corporate finance departments.
- Joined The Works as CFO in April 2018, overseeing the IPO and serving as an Executive Director of TheWorks.co.uk plc since the IPO in July 2018.

Current external appointments
None

Steve Alldridge
Chief Financial Officer

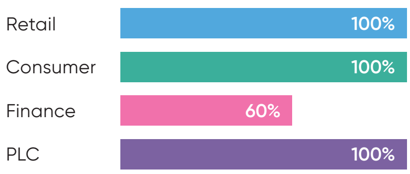
Date of appointment
May 2021

Committee membership
None

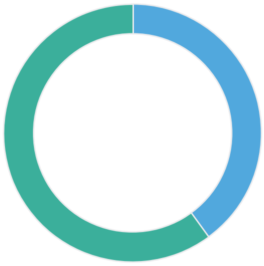
Relevant skills and experience
- Significant financial and retail expertise having initially joined The Works on an interim basis as CFO in June 2020. Prior to that, over 20 years' experience of working in retail, most recently as CFO of Bonmarché Holdings plc, where he led a highly effective finance function, and completed several significant transactions, including a private equity backed management buyout, and two stock market listings. Previously he worked at Peacocks, the discount retailer, and chartered accountants EY.
- Chartered accountant.

Current external appointments
None

Experience

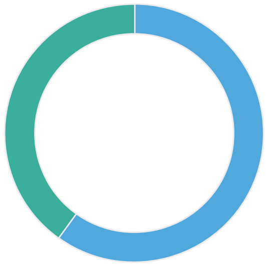


Tenure



1–3 years	40%
3–6 years	60%

Gender



Male	60%
Female	40%

Corporate governance report

UK Corporate Governance Code – compliance statement

The Company has applied all of the principles of the 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. Full details of the Code are available at www.frc.org.uk. Details explaining how the Company has applied the principles of the Code can be found throughout this Annual Report.

Governance structure

Board

- Overall leadership of the Group.
- Oversees and embeds sound principles of corporate governance.
- Ensures appropriate policies, procedures and controls are in place to support effective risk management and performance against agreed financial and operational metrics.
- Sets strategy, purpose, values and culture.
- Approves major contracts.
- Approves business plan and budget.
- Sets and oversees environment and climate strategy and targets.

Certain matters are reserved to the Board and formally documented in a Schedule of Matters Reserved to the Board. The Board has delegated a number of its responsibilities to the Audit Committee, Nomination Committee and Remuneration Committee. The Schedule of Matters Reserved to the Board and each Committee's terms of reference are available at https://corporate.theworks.co.uk/who-we-are/corporate-governance.

Audit Committee

- Reviews annual and interim financial statements.
- Reviews accounting policies and financial reporting and regulatory compliance.
- Reviews internal control system.
- Monitors processes for internal audit, risk management and external audit.
- Monitors independence of external auditor.
- Oversees relationship with external auditor.

Read more on **pages 66 to 69**

Nomination Committee

- Identifies and nominates appointments to the Board.
- Reviews Non-Executive Directors' time commitments.
- Oversees succession planning.
- Reviews size and composition of the Board.
- Promotes diversity.
- Undertakes annual performance evaluation of the Board, its Committees and individual Directors.

Read more on **pages 70 to 72**

Remuneration Committee

- Sets Remuneration Policy.
- Determines Executive Director and senior management remuneration.
- Approves annual bonus plan and Long-Term Incentive Plan targets.
- Reviews workforce remuneration policies and practices.
- Ensures that provisions regarding disclosure of remuneration are fulfilled.

Read more on **pages 73 to 85**

Operations 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.

Information about the Operations Board is available at https://corporate.theworks.co.uk/who-we-are/our-leadership.

How the Board operates

The Board meets at least ten times per year, and its activity at each meeting is planned in accordance with a formal schedule of activity which is updated on a rolling basis and is 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, and for store or Distribution Centre visits to be incorporated into the annual meeting activity. The schedule includes regular 'deep-dive' presentations from Operations Board members on specific areas of their responsibility, which increase the Non-Executive Directors' understanding of key operational initiatives and challenges and provide the opportunity for senior executives to meet and discuss their areas of responsibility with the Board.

To support consistency of information, a Board pack is circulated in advance of each meeting. It includes summary reports from the CEO, the CFO and each of the other Operations Board members, as well as underlying supporting data and metrics. The Company Secretary also prepares a standard format report for each meeting to ensure the Board is kept up to date on recent and upcoming announcements, share dealing requests and statutory or regulatory filings, and regulatory or legislative developments which may impact the Company. Separate papers are prepared to support any specific matters requiring Board decision or approval, or to provide updates on actions raised at previous meetings.

The Non-Executive Directors provide ongoing feedback to the CEO and 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 Operations Board members and other senior managers should they require additional information on any of the items to be discussed at Board meetings. The Board and the Audit Committee also receive regular and specific reports to enable monitoring of the effectiveness 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 from 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.

Composition, independence and attendance

There were no changes to the Board during FY23, and it therefore continues to be comprised of five Directors (including the Chair). The Board (on the recommendation of the Nomination Committee) continues to determine that both of the Non-Executive Directors (Catherine Glickman and Harry Morley) are independent, and therefore, excluding the Chair, half of the Board comprises independent Directors in compliance with provision 11 of the Code.

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

Director	Board meetings held/ attended	Audit Committee meetings held/ attended	Remuneration Committee meetings held/ attended	Nomination Committee meetings held/ attended
Carolyn Bradley	11/11	N/A	4/4	2/2
Gavin Peck	11/11	N/A	N/A	N/A
Steve Alldridge	11/11	N/A	N/A	N/A
Catherine Glickman	11/11	4/4	4/4	2/2
Harry Morley	11/11	4/4	4/4	2/2

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 two days per month to the Company but clarify that more time may be required. In addition, the Non-Executive Directors are expected to commit appropriate preparation time ahead of each meeting.

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

Roles and division of responsibilities

There have been no changes to the roles and responsibilities of the members of the Board during the year. As previously reported, there is a clear division of responsibilities between the Chair and the CEO (with the Chair's primary role being to lead the Board and ensure its independence and effectiveness, and the CEO's primary role being the day-to-day management and leadership of the Company). Harry Morley is the Senior Independent Director, and his duties in that role include acting as a sounding board for the Chair, being available as an additional point of contact for shareholders, and leading the evaluation of the Chair's performance.

The Company Secretary supports the Board and each of the three Board Committees, and attends all meetings. The Company Secretary is available to all the Directors to advise on company law, governance and best practice, whilst assisting the Board in ensuring that the correct policies, processes and information are tabled for discussion, noting or approval at the correct point in time throughout the year.

Board activities during the year

The Board met formally on 11 scheduled occasions during the year. It also undertook three site visits. In October 2022 the Directors visited the Group's third-party fulfilment partner's (iForce) distribution centre in Rugby (see page 59) and in November 2022 its Watford Atria store. In April 2023 the Board also undertook a tour of the Group's Distribution Centre (co-located within its head office at Boldmere House) to see the new pick matrix that has been introduced to improve the efficiency of the store replenishment process.

In addition to scheduled meetings, the Board also met on two separate occasions by video conference at short notice to review trading performance and to deal with final approval of the FY22 results announcement and Annual Report.

The key matters the Board focused on during the year are detailed in the table below. In addition the standing agenda for each scheduled Board meeting includes discussion of the information contained within the Board pack circulated in advance of each meeting (see previous page).

Topic	Activity
Strategy	• Mid-year progress review against strategic objectives. • Approved investment in stock transformation (including review of operational structure and enhancement of the merchandising function).
Financial and reporting	• Reviewed and approved the FY24 budget. • Reviewed and approved the half-year and full-year financial statements. • Approved the Group tax strategy.
People and culture	• Received an update on Company culture and reviewed a summary of key workforce policies and procedures. • Reviewed employee engagement survey. • Received detailed talent review, and update on workstreams to support colleague development and internal succession. • Reviewed proposed changes to store labour model.
Shareholder engagement	• Received regular updates from CEO and CFO on their engagement with analysts and institutional investors. • Discussed feedback from the Chair's meeting with investors during the year. • Approved appointment of Singer Capital as corporate broker.
ESG	• Reviewed the Group's carbon balance sheet and approved methodology for assessing Scope 3 emissions. • Agreed net-zero strategy and targets. • Reviewed climate-related risks and opportunities facing the business. • Received updates on development of the diversity and inclusion strategy, and approved the updated Board Diversity Policy.
Risk management	• Reviewed the Group's risk register and internal controls structure. • Received regular updates on internal financial control improvements. • Reviewed detailed progress reports on steps being taken to enhance IT security infrastructure following last year's cyber security incident. • Reviewed and proposed amendments to the Group's policy relating to bribery and corruption.
Governance	• Reviewed the results of the Board evaluation, and agreed an action plan for FY24. • Reviewed various governance policies, including the Disclosure Policy, Whistleblowing Policy, Share Dealing Code and Board Diversity Policy. • Reviewed and approved changes to the Board's Schedule of Matters Reserved and its Committees' terms of reference.

Training and development

The efficient and effective operation of the Board depends on the ability of individual Directors (and in particular the Non-Executive Directors) to bring the benefit of their own business knowledge and experience. Ensuring that all Directors have an in-depth understanding of the Company's own operations is an important element in enabling the benefit of that experience, and we seek to support this understanding through the detailed materials circulated in advance of Board meetings, as well as collective and individual Director site visits or days out in stores, which are usually accompanied by different members of the Operations Board.

We also expect our Directors to keep themselves up to date in relation to developments in regulation and corporate governance best practice. As highlighted above the Company Secretary ensures that the Board is briefed on forthcoming legal and regulatory developments, and Directors are encouraged to attend externally facilitated seminars, webinars and workshops to develop their knowledge and experience in particular areas relevant to their role with the business.

Evaluation and effectiveness

In accordance with provision 21 of the Code, the Board considered whether it would be appropriate to conduct an externally facilitated evaluation process during the year. Given the size of the Board, the relative cost of an externally facilitated process, and a desire to allow the Executive Directors to maintain focus on managing the business in a challenging environment without unnecessary distraction, the Board agreed that an internal evaluation process would again be the best approach. However, to gather more qualitative feedback the Board agreed that the process should move away from a questionnaire-based approach to one led by the Chair and involving face-to-face conversations with each member of the Board. Information about the FY23 evaluation process, including its findings and key actions, is summarised in the table below:

Process	Discussions and output
1. PLC Board interviews	Carolyn Bradley met with each member of the Board. Discussions focused on: • Board dynamics. • Meeting content and process. • Governance and activity programme. • Committee performance. • Individual Director performance.
2. Operations Board feedback session	Gavin Peck led a group discussion with the Operations Board seeking feedback on: • Their interactions with Board Directors (through one-to-one meetings or their attendance at PLC Board meetings). • Broader business/colleague perception and understanding of the Board's role. • The culture promoted by the Board.
3. Feedback	Summary feedback compiled by Carolyn Bradley was discussed at the April 2023 Board meeting. Key findings were: • Universal agreement that Board dynamics are good. • Meetings are effective, with appropriate content, papers and governance. • Appropriate time is spent on strategy. • Interactions with Operations Board are positive and well received. • Committees are well chaired and operate effectively. • More time could be spent in stores and monitoring trends and developments in the retail sector. • Challenge from the Non-Executive Directors is appropriate and well received.
4. Next steps	The Board agreed the following actions: • Hold an extended two-day meeting each year to accommodate store visits alongside a strategy review. • Consider the level of detail required in Operations Board reports to the Board, including whether they could be more succinct. • Consider ways to deepen broader business understanding/knowledge of the Board and its role.

Progress made in addressing some of the actions identified in the FY22 evaluation process is summarised below:

Key matter	Actions	Progress in FY23
Purpose, values and strategy	• Develop an overall execution plan encompassing all elements of the Company's strategy. • Create a dashboard to monitor and measure progress against relevant KPIs.	• Regular updates provided by the CEO on progress against strategic pillars.
Stakeholders	• Build on recent good stakeholder engagement with both colleagues and shareholders. • Develop and support the Company's ESG programme, at Board and executive level, recognising that the programme requires more definition and data provision.	• Continued focus on colleague engagement. • Chair has met with a number of shareholders in the year. • Significant focus on ESG (particularly climate and net zero) in the year.
The Board and succession	• Increase Nomination Committee focus on succession planning at Board and executive levels. • Create more opportunities for the Board to meet rising stars and future executive leaders.	• Additional time devoted to succession planning during the year. • Operational 'deep-dive' presentations to the Board expanded to include presentations by Operations Board members' direct reports.

Appointment and election

The Board considers all Directors to be effective and committed to their roles and to have sufficient time to perform their duties. In accordance with the Company's Articles of Association (articles), all members of the Board will be offering themselves for reappointment at the Company's AGM on 4 October 2023.

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

Executive Director service contracts

Name	Position	Date of service agreement	Notice period by Company (months)	Notice period by Director (months)
Gavin Peck	CEO	19 July 2018	12	12
Steve Alldridge	CFO	14 May 2021	6	6

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

Non-Executive Director appointments

Name	Date of appointment	Appointment letter commencement date	Unexpired term as at 4 October 2023
Carolyn Bradley	30 September 2021	30 September 2021	12 months
Catherine Glickman	19 July 2018	26 July 2022	22 months
Harry Morley	19 July 2018	26 July 2022	22 months

Conflicts of interest and external appointments

In accordance with the Board's approved procedure relating to the disclosure of any conflicts or potential conflicts of interest, all Directors have confirmed that they did not have any conflicts of interest with the Group during the year. None of the Directors took on any new external appointments during FY23.

Whistleblowing

The Company has in place procedures by which colleagues 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 colleagues across the Group, and the Board is responsible for monitoring the policy and ensuring that the arrangements are effective. A review of the Whistleblowing Policy and arrangements was initiated in the latter part of FY23, and while the Board continues to be of the view that existing arrangements are appropriate it is anticipated that the language of the policy will be updated in FY24 to bring it in line with that of other workforce policies.

Stakeholder engagement

The CEO and Operations Board members are responsible for the day-to-day management of stakeholder relationships and ensuring that stakeholder issues are appropriately reported to the Board. Further information on how we engage with stakeholders is set out on pages 26 and 27. 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 colleagues, customers and suppliers are at the front of mind in the Board's decision-making process. The Company's Section 172 statement is included on page 28.

Engagement with the workforce

The Board recognises that the Company's culture underpins its long-term success. Accordingly, assessing and monitoring the culture that is being fostered across the Group forms part of the Board's activity schedule. This assessment is conducted through a combination of reviews of the output of our regular employee engagement surveys, updates from the People Director through our programme of Operations Board members' 'deep-dive' presentations to the Board, formal reporting on people related statistics in the monthly Board pack, and Board members' own interactions with colleagues across the Group (including through Board or individual Director site visits). The Board also regularly reviews workplace policies and practices.

As part of its review of Code compliance during the year, the Board again assessed the various methods by which the Directors engage with the wider workforce. The Board continues to be of the view that the combination of existing engagement mechanisms ensures that the Board is appropriately informed about, and understands, workforce views, and therefore this approach continues to appropriately address the requirement to engage with the workforce under provision 5 of the 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 are matters reserved for the Board. Day-to-day responsibility for investor relations is delegated to the CEO and the CFO, who are supported by the Company's retained financial PR advisers, and its corporate brokers. 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 the Company's website (https://corporate.theworks.co.uk/investors).

The Chair has also met with a number of shareholders during FY23.

Investor relations is a standing item on the Board's agenda. The Executive Directors and the Chair provide feedback directly to the Board on key matters arising in their meetings with shareholders, ensuring that all Directors are aware of shareholder views. These matters are discussed and assessed by the Board before deciding on whether any further action or engagement is required.

The Company's AGM provides a further opportunity for shareholders to engage directly with the Board. The Company's 2023 AGM will take place at 9am on 4 October 2023 at Boldmere House, Faraday Avenue, Hams Hall Distribution Park, Coleshill, Birmingham B46 1AL. This Annual Report and financial statements and Notice of the AGM will be made available to shareholders in accordance with the required notice periods.

Audit Committee report

Members
- Harry Morley (Chair)
- Catherine Glickman

Number of meetings held in the year:
4

Committee's role and responsibilities
- Reviews the annual financial statements, including accounting estimates and judgements.
- Assists the Board with the discharge of its responsibilities in relation to the external audit including audit scope, external auditor appointment and the extent of non-audit work undertaken by the external auditor.
- Reviews the effectiveness of the Group's internal control and risk management systems.
- Monitors the Group's internal audit arrangements.

Main activities during FY23
- Assessing the effectiveness of the Group's internal control framework.
- Monitoring stock control improvements. Reviewing and challenging management's assessment of the Company's principal risks.
- Consideration of the viability and going concern assessment and store impairment.

Terms of reference:

Available at https://corporate.theworks.co.uk/who-we-are/corporate-governance

Dear shareholder

I am pleased to present the Audit Committee's report for the 52-week period ended 30 April 2023. The report sets out the Committee's work in relation to financial reporting, internal control and audit, risk management and oversight of the external audit process.

Timing of the FY23 results

The FY23 results have been published later than originally intended. The delay was due to significant additional work being undertaken, principally in relation to asset impairment charges and related impacts on IFRS 16 calculations. As well as affecting the FY23 result, this also entailed the restatement of comparative figures for prior periods. Whilst the delay has been frustrating, we highlight that the issues in question have not affected the Board's assessment of the underlying performance of the business (for example, as represented by the EBITDA) and had no direct cash impact. Information regarding the restatements is included in note 14 of the financial statements.

Composition of Committee, role and main activities in FY23

The Committee's members, its role and main activities are detailed in the adjacent panel. I am a qualified chartered accountant. I also have an executive background in finance roles and am an experienced audit committee chair. The Board is satisfied that I have recent and relevant financial experience as recommended under provision 24 of the Code. Both Catherine Glickman and I have significant knowledge and experience of the retail and leisure sectors; accordingly the Board is also satisfied that the Committee has competence relevant to the sector in which the Company operates.

Meetings and attendees

The Committee met on four occasions during the year, and has met three times since the year end. All meetings were attended by all members of the Committee as shown in the table on page 63.

The external auditor has the right to attend meetings, and the Board Chair, Executive Directors and Head of Finance typically attend each meeting by invitation. Other members of the management team may also attend meetings by invitation from time to time.

Outside of the formal meeting programme, the Audit Committee Chair maintains a dialogue with key individuals involved in the Company's governance, including the Chair, the CEO, the CFO and the external auditor. At least twice per year, the Committee also meets the external auditor without members of the management team present.

Activity during the year

The Committee's activities during the year are set out in the table below. In addition to its ongoing oversight of the Company's external financial reporting, the Committee spent time on:

- Assessing the effectiveness of the Group's internal control framework and ensuring it continues to develop to meet the evolving needs of the business and adapts to align with new systems and processes.
- Monitoring stock control improvements.
- Reviewing and challenging management's assessment of the Company's principal risks given continued economic uncertainty and the need to assess and manage climate-related risks and opportunities.

Audit Committee activity in FY23

Financial statements and reporting	Risk management and internal control systems
• Reviewed significant accounting estimates and judgements in connection with full-year and half-year financial statements. • Reviewed half-year and full-year financial statements and associated narrative reporting, and recommended approval of them by the Board. • Reviewed scenario analysis in support of going concern and long-term viability assessments.	• Received updates on workstreams to improve stock control systems and processes. • Reviewed internal financial controls, and progress against agreed improvement plans. • Received regular updates on actions to strengthen finance team capability. • Reviewed delegated authorities. • Reviewed and challenged risk register, principal risks facing the business, and process for identifying emerging risks.
External audit relationship	**Governance and other matters**
• Received and reviewed FY23 audit plan and strategy. • Received regular reports from KPMG on audit progress and status. • Reviewed effectiveness of FY22 audit process. • Reviewed auditor's independence (including non-audit services). • Agreed audit fees.	• Approved FY23 tax strategy. • Reviewed payment practices reporting and performance against supplier payment terms. • Reviewed and recommended minor changes to Audit Committee terms of reference.

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 30 April 2023 are set out in the table below.

Significant issues and judgements	How the issues were addressed
Going concern	The Committee considered the appropriateness of applying the going concern convention in the preparation of the financial statements. The Committee noted that under a "severe but plausible" downside scenario model prepared to assess the appropriateness of the basis of preparation, the Group could breach its fixed charge bank covenant when the bank facility is being drawn upon. Whilst the Directors do not consider this a likely scenario in practice, it is nevertheless a plausible one, and to comply with the approach required by the relevant accounting standards, a material uncertainty in relation to the basis of preparation has been included in Note 1 (b) of the financial statements.
Carrying value of Parent Company investments	Judgement was required to assess the carrying value of the parent company's investment in its subsidiaries, particularly given the current disparity between the estimated value in use derived by management, and the Group's market capitalisation. The Committee noted that a significant impairment charge has been recognised in FY23 although the carrying value remains significantly higher than the market capitalisation, even after taking this into account. The Committee noted that the market capitalisation appears unusually low compared to the Group's peers, when compared on the basis of, for example, multiples of earnings.
Impairment of property, plant and equipment, right-of-use assets and intangibles	The committee considered the approach taken to calculating the value in use estimate used in assessing the impairment of store fixed assets and the IFRS 16 right of use asset. It was considered appropriate to allocate a greater proportion of the Group's central overhead costs to cash generating units than in previous years. This judgement resulted in a significant impairment charge for the Period, and, the requirement to retrospectively adjust impairment charges reported in respect of prior periods.
Existence, completeness and valuation of inventory	As noted in the 'Risk management and internal control' section of the committee's report, the committee reviewed the Group's arrangements for improved stock taking processes. The implementation of these reduced the level of judgement required in the valuation of inventory compared with FY23. Although a degree of judgement will always be required in relation to the valuation of stock, the process is now more mechanistic than previously.

Financial Reporting Council (FRC) letter

In April 2023, the Company receive a query from the FRC following a review of our Annual Report and Accounts for the 52-week period ended 1 May 2022. The Committee reviewed all correspondence between the Group and the FRC, and also discussed the matters raised with our auditor. The matters raised by the FRC related to the valuation of the Parent Company investment in subsidiaries, and the calculation of income tax on gains recognised in other comprehensive income. As a result of the review, in the FY23 Annual Report and Accounts, the disclosure of the assumptions regarding Parent Company investment have been increased.

The FRC's enquiries, which were limited to a review of the FY22 Annual Report and Accounts, are now complete. The FRC does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into, and accordingly the review provides no assurance that the FY22 Annual Report and Accounts is correct in all material respects.

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 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 reviewed the Group's risk register, and challenged management on the classification of risks and the mitigations in place. This included a consideration of the principal risks and uncertainties facing the Group and a discussion of emerging risks and how these are identified. This process informed the Committee's year-end review of principal risks and uncertainties and its recommendation to the Board. Further details of the Group's risk management approach, structure and principal risks are set out on pages 49 to 53.

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 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 supplemented by other policies and procedures which are communicated to colleagues through the employee handbook.

Management has identified the key operational and financial processes which exist 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 the 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 an organisational structure with defined responsibilities and levels of authority.
- Ensuring there are documented policies and procedures in place.
- Regularly reviewing reports containing detailed information regarding financial performance, 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.
- Regularly reviews the system of financial and accounting controls.

The Committee's review of the effectiveness of internal control and risk management systems is an ongoing process. The key areas of focus during FY23 are detailed below.

- As reported in the Company's 2022 Annual Report, a Profit Protection Manager (PPM) was appointed in January 2022. During FY23, the Committee received and reviewed the PPM's strategy and plan to drive improvements across the Company's operational controls in order to reduce losses. The Committee also received updates on the implementation of the plan, including the introduction of a new rolling stock count process covering the Group's entire store estate, and discussed KPMG's audit of the FY23 stock position. The Committee also considered plans to improve EPOS data analysis to support better detection of in-store stock discrepancies.
- In September 2022 the finance team presented a detailed schedule of internal financial controls and planned improvements, and the Committee has regularly reviewed this schedule in order to monitor progress and assess the effectiveness of the control improvements.
- Delegated authority limits are subject to regular review by the Committee. During the last year, the finance team has implemented a new and more sophisticated accounts payable (AP) system which has improved the control environment for invoice approval and embedded a workflow structure that supports more effective controls. An updated delegated authority matrix, including the documentation of the improvements driven by the new AP system has been developed.

The Committee is satisfied that the internal controls and risk management systems, including processes to identify and improve such systems and controls where necessary, continue to operate effectively.

Internal audit

In accordance with the Code, the Committee continues to keep the need for an internal audit function under review. In making that assessment, the Committee takes into account the risk and controls environment of the Group, and in particular any areas where additional assurance as to the effectiveness of controls and processes (over and above assurance provided through the Committee's own reviews and the external audit process) may be required. As previously reported, the Group has engaged specialist independent advisers to review and make recommendations in relation to certain IT matters, and in FY23 dedicated resource within its finance team to review systems and processes, oversee and/or implement improvements and review internal controls.

The Committee is satisfied that the work of the dedicated function within the finance team has operated effectively to provide appropriate assurance over internal controls during FY23. On this basis, and with the option to use specialist independent advisers to review any priority areas of focus, the Committee remains of the view that there is no current requirement for the establishment of a permanent dedicated internal audit function, but will continue to keep this under review.

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 appointed as the Company's external auditor in 2018. The current lead audit partner, Gordon Docherty, was appointed following the conclusion of the FY22 audit. In line with KPMG's internal policy, and subject to there having been no change in external auditor, it is anticipated that Gordon Docherty will remain as the lead audit partner for five years concluding with the FY27 audit. In accordance with the Code, the Audit Committee intends to put the external audit out to tender at least every ten years.

Non-audit services

The engagement of the external audit firm to provide non-audit services to the Group can impact on the independence assessment. 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 which the CFO and the Audit Committee have pre-approved.

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, the only non-audit services which KPMG was engaged to carry out related to the issuance of turnover certificates for a small number of stores where the terms of the lease require them to be independently verified. The fees paid to KPMG LLP in respect of these services totalled £1k, representing less than 1% of the total audit fee. Further detail is included in Note 7 to the financial statements on page 110.

External audit effectiveness

During the year, the Committee reviewed the effectiveness of the FY22 year-end audit process. The format of the review included taking into account the views of the internal finance team, members of the Committee and others involved in the audit process which were discussed at the Committee's meeting in January 2023. In general, all parties had concluded that the FY22 audit process had been rigorous, exhaustive and effective, and that KPMG had demonstrated independence, objectivity and an appropriate level of professional scepticism throughout the process.

Performance evaluation

The evaluation of the performance of the Committee was conducted as part of the broader Board evaluation process set out on page 64 of this Annual Report. I am pleased to report that feedback relating to the Committee was positive, indicating that the Committee continues to operate effectively.

Harry Morley
Chair of the Audit Committee
30 August 2023

> Promoting diversity and inclusion will be key factors in our succession planning and NED appointment processes.

Members

- Carolyn Bradley (Chair)
- Catherine Glickman
- Harry Morley

Number of meetings held in the year:
2

Committee's role and responsibilities

- Oversees succession planning.
- Identifies and nominates appointments to the Board.
- Reviews Non-Executive Directors' time commitments.
- Reviews size and composition of the Board.
- Promotes diversity.

Main activities in FY23

- Succession planning at Board and senior management level.
- Diversity.

Terms of reference:
Available at https://corporate.theworks.co.uk/who-we-are/corporate-governance

Dear shareholder

I am pleased to present the Nomination Committee's report for the 52-week period ended 30 April 2023. This report summarises the work of the Nomination Committee during the year.

Composition of Committee, role and main activities in FY23

The Committee's members, its role and main activities are detailed in the adjacent panel. During the year there has been specific focus on succession planning, both at Board and senior management level, and diversity.

Meetings and attendees

The Committee met twice during the year. All meetings were attended by all members of the Committee as shown in the table on page 63.

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 and other workforce related matters are being discussed. Other Directors, executives or advisers may be invited to attend all or part of any meeting as appropriate.

Succession planning

The Committee discussed Board succession planning and in particular the need to plan appropriately for the rotation of the Non-Executive Directors to support Board stability and avoid a situation where both Catherine Glickman and Harry Morley (who were appointed on the Company's IPO in 2018) step down at the same time. Although no Board changes are imminent, the Committee has agreed in principle that Catherine and Harry will step down in a staggered fashion and, given their respective key roles as Chairs of the Remuneration and Audit Committees, that there may be some overlap between the appointment of their replacements and the date that they step down.

The Committee has also agreed that Board diversity (particularly gender and ethnicity) will be key factors in any search process for new Non-Executive Directors, albeit recognising that appointments will always be made on merit and based on objective criteria.

In March 2023 the Committee received an update on Executive Director and senior management succession led by the CEO and People Director. This included a high-level analysis of potential internal successors for Executive Director and Operations Board roles. It is intended that more formal internal succession plans will be developed, and this topic will continue to be a regular point of discussion for the Committee. The Board will also monitor and review initiatives to support the identification and development of internal talent through its regular updates from the People Director, and the action plans arising from our employee engagement activity.

In line with our Executive Director succession plans, we were delighted to announce that Rosie Fordham will succeed Steve Alldridge as CFO following an orderly handover of responsibilities and by the end of 2023.

Diversity and inclusion (D&I)

The Committee is responsible for monitoring compliance with the objectives of the Board Diversity Policy (the D&I Policy). During the year, the Committee considered and approved an updated D&I Policy to ensure alignment with D&I policies and initiatives across the wider business. The updated D&I Policy reflects the Board's aspiration to achieve the gender and ethnic diversity targets introduced into the Listing Rules in 2022, which reflect the recommendations of the FTSE Women Leaders Review and the Parker Review.

The updated D&I Policy also sets out the Company's commitment to promote equality, diversity and inclusion, and a supportive culture that actively values difference. It also recognises:

- That a key driver in building a workforce that is truly representative of all sections of society and the Group's customers is a Board that has a balance of skills, knowledge, strengths, experience, diversity and independence which enables it to provide a range of perspectives, insight and challenge.
- The expectation that the Board will role model inclusive language, behaviours and practice, and set a clear message about the importance of diversity and inclusion across the Company.

The specific objectives and Nomination Committee responsibilities set out in the D&I Policy, together with current status and progress against those objectives and responsibilities, is set out below.

Aspirational objective or responsibility	Status and progress
Board to comprise at least 40% women.	Met. Current Board comprises 40% female members.
At least one of Chair, CEO, CFO or SID to be a woman.	Met. Chair is female.
At least one Director from a non-white ethnic minority background.	Not met. Aim to address through future Board succession planning.
Regularly review the structure, size and composition of the Board.	Annually recurring item on the Nomination Committee agenda.
Encourage diversity in the recruitment process by: • Only engaging search firms that are signatories to the Executive Search Firm's Voluntary Code of Conduct. • Ensuring the search firm brief includes appropriate emphasis on diversity. • Encouraging long lists to include women, people from ethnic minority backgrounds and other under-represented groups with the skills and experience required. • Considering candidates who may not have previous executive/non-executive directorship roles.	No external search process has been instructed to date, but any future search process will be conducted in line with these points.
Have regard to the D&I Policy when considering Board succession planning.	D&I Policy is taken into account when discussing Board succession.
Review the D&I Policy annually, assessing its effectiveness and recommending any changes to the Board.	The updated D&I Policy was approved in March 2023 and will be reviewed annually as part of the Nomination Committee's programme of work.

Currently it is not anticipated that the size of the Board will be increased. Therefore all Non-Executive Directors in post at any one time will also be members of each of the Audit, Remuneration and Nomination Committee, and the D&I Policy does not contain any specific diversity objectives relating to the composition of the Board's Committees.

Diversity and inclusion (D&I) continued

As required under Listing Rule 9.8.6R, the breakdown of the gender identity and ethnic background of the Company's Directors and executive management (the Operations Board) as at 30 April 2023 is set out in the tables below. To compile this data each Board and Operations Board member was asked to complete a survey. In the future the Company will seek to gather this data on the appointment of any new Board or Operations Board member.

Gender identity	Number of Board members	Percentage of the Board	Number of senior positions on the Board[1]	Number in executive management	Percentage of executive management
Men	3	60%	3	7	78%
Women	2	40%	1	2	22%
Not specified/prefer not to say	–	–	–	–	–

Ethnic background	Number of Board members	Percentage of the Board	Number of senior positions on the Board[1]	Number in executive management	Percentage of executive management
White British or other White	5	100%	4	8	89%
Mixed/multiple ethnic groups	–	–	–	1	11%
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

1 Includes CEO, CFO, Chair and Senior Independent Director.

As shown in the tables above, as at 30 April 2023, the Company achieved the Listing Rule targets of 40% of its Board of Directors being women, and at least one of the senior Board positions (in our case, the Chair) being held by a woman.

The Company has not achieved the target of at least one member of the Board being from a minority ethnic background. Given the size of our Board, which the Committee continues to believe is appropriate, and the tenure of the existing Non-Executive Directors, it is unlikely that this target will be achieved until at least the first round of Non-Executive Director rotation.

The Committee will continue to keep the D&I Policy, and broader diversity targets, under review and both will continue to be important factors in our succession planning discussions and any search process for new appointments.

Other matters considered

At its meeting in March 2023 the Committee conducted its annual review of the size, structure and composition of the Board, the independence of the Non-Executive Directors, and Non-Executive Director time commitments. The Committee concluded that the size, structure and composition of the Board and its Committees remain appropriate taking into account the size and cost structure of the business, and that the Board's balance of skills and experience is appropriate and supports effective debate and decision making.

None of the factors which could impact the independence of Non-Executive Directors (as set out in provision 10 of the Code) apply to our Non-Executive Directors, and the Committee is satisfied that both Catherine Glickman and Harry Morley remain independent in thought and judgement. Catherine and Harry have both confirmed, as have I, that we continue to be able to devote sufficient time to fulfil our roles as Directors of the Company.

Performance evaluation

The evaluation of the Committee's performance in 2023 was conducted as part of the wider Board evaluation process described on page 64. The Committee was found to be operating effectively.

Carolyn Bradley
Chair of the Nomination Committee
30 August 2023

The Committee has continued to ensure that remuneration reflects performance, incentivises management and aligns with shareholders' interests.

Members

- Catherine Glickman (Chair)
- Carolyn Bradley (member since 2021)
- Harry Morley (member since 2018)

Committee's role

- Sets Remuneration Policy.
- Determines Executive Director and senior management remuneration.
- Approves annual bonus and LTIP targets.
- Reviews workforce remuneration policies and practices.

Main activities during FY23

- Finalised Remuneration Policy and recommended its approval at the 2023 AGM.
- Considered proposed increase to CEO maximum LTIP opportunity, and amended Policy for approval at the 2023 AGM.
- Approved LTIP awards and targets.
- Monitored annual bonus targets and outturn.
- Reviewed Executive Director salaries.
- Reviewed wider workforce pay and benefits.

Dear shareholder

As Chair of the Remuneration Committee, I present our Directors' remuneration report for the 52-week period ended 30 April 2023.

This year's report consists of this letter, a summary of our Directors' Remuneration Policy (the Policy) and how we propose to apply the Policy in FY24, and the annual report on remuneration which sets out payments made to the Directors and demonstrates how Company performance and remuneration were aligned during FY23.

The Policy was approved at the 2022 AGM, with over 99% of votes cast in favour of it, reflecting the strong shareholder support for our responsible approach to Directors' remuneration. During FY23, we have considered the overall remuneration package for Gavin Peck, our CEO. Gavin is an exceptional leader and in order to reward him appropriately, we are proposing an amendment to the Policy reflecting our proposal to increase Gavin's maximum LTIP award opportunity to 150% of salary. I explain our rationale for the proposal below.

At the 2023 AGM, we will be asking shareholders to vote on three resolutions relating to remuneration as follows:

1. To approve an amendment to the Policy.
2. To approve an amendment to the rules of our LTIP to reflect the Policy amendment.
3. The advisory vote on the annual report on remuneration.

FY23 remuneration in the context of our business performance

As detailed in the Strategic report, the Group delivered a resilient performance in FY23 against a challenging backdrop. In particular:

- Total sales growth increased 6.1% (with like-for-like sales growth of 4.2%).
- Further improvements were made to our customer-focused proposition, including through the expansion of our front list book offer.
- Continued optimisation of the store estate by opening 14 new stores and refitting 34 existing stores.
- Ended the year in a strong financial position, with net cash of £10.2m.

The FY23 bonus opportunity for Gavin Peck and Steve Alldridge was up to a maximum of 100% of salary, with 90% of the award based on stretching EBITDA targets and the remaining 10% based on performance against key strategic objectives (details of the measures and targets are set out on page 79). Our Adjusted EBITDA result for FY23 was in line with revised market expectations at £9.0m, but below our original EBITDA budget and the threshold level of post-bonus EBITDA performance for Executive Director bonuses. Therefore, not withstanding the Committee's assessment that Gavin Peck and Steve Alldridge had made good progress against the strategic objectives set (as described on page 79), no bonus was payable to the Executive Directors for FY23.

FY23 remuneration in the context of our business performance continued

The Committee was impressed by progress, but ultimately determined that it would not be appropriate to award any bonus in respect of the strategic element based on the broader financial performance of the Company and the fact that, in general, bonuses were not payable to staff or senior management below Executive Director level.

Gavin Peck was granted a Long-Term Incentive Plan (LTIP) award in February 2021 which was subject to performance conditions based on EPS performance over the three financial years ending with FY23 and a share price target. Details of the targets are set out on page 80. As Adjusted EPS is impacted by the prior year restatements described in note 14 to the financial statements, the Committee's assessment of the outturn of the EPS target is estimated. This estimate excludes the impact of a £0.6m tax credit received during the year. This exclusion results in Adjusted EPS (before the impact of prior period restatements) below the threshold target and accordingly the Committee's estimate is that the LTIP award will lapse in full. The Committee considers that exercise of discretion in this way is appropriate taking into account operational performance. The Committee retains discretion to make adjustments to formulaic vesting outturns (whether up or down) in appropriate circumstances, including to take into account changes in tax rates. The final vesting is being reviewed to ensure that performance is being assessed on a fair and consistent basis and is reflective of wider corporate performance.

The Committee has also considered prior year LTIP outturns for FY22 and FY21 in the context of the impact of the prior period restatements. The Committee has concluded that the outturns of 38.4% and 0% of maximum respectively were reflective of underlying business performance and that it would not be appropriate to make any adjustments that may otherwise increase the level of vesting. In order to ensure that the Adjusted EPS performance measures that apply to in-flight LTIPs can be assessed on a fair and consistent basis (given the impact of prior period restatements), the Committee intends to review those targets during FY24. This review is intended to ensure that the level of stretch in the targets is maintained and the targets are not made materially easier or harder to achieve as a result of the restatement.

Remuneration across the business

The Committee continues to make decisions on remuneration for the Executive Directors in the context of decisions for colleagues across the Group.

For FY24, salaries for colleagues in retail have increased in line with the National Living Wage, with further investment in the management grades to maintain appropriate differentials. This resulted in an average increase of 8.6% for colleagues in retail. Salaries for Distribution Centre and Support Centre roles increased in line with the National Living Wage where relevant with further investment in certain grades to maintain appropriate differentials, and outside of that, an average increase of 5% was applied. Following a benchmarking exercise we also increased our car allowance rates (the first such increase for over six years).

As reported last year, in August 2023, we launched a new communications and engagement platform (MyWorks by Reward Gateway) across the business. This offers colleagues discounts and money saving offers with a number of businesses and services; this has been well received. In response to the cost-of-living crisis we also launched Wagestream, an app that offers all colleagues a range of financial wellbeing tools, including early access to earned wages as well as savings account access and financial wellbeing resources.

Our Operations Board directors continue to be an effective high-performing team. For FY24, the starting point for Operations Board salary increases was 5% (in line with the standard increase for Distribution and Support Centre colleagues outside of National Minimum Wage (NMW) increases), and we adjusted salaries to reflect increased responsibilities for individual roles. Following the departure of the Digital and Marketing Director during the year, the net impact of the Operations Board salary increases is a circa £0.1m saving. As indicated in our FY22 Annual Report, during FY23 we implemented a hybrid incentive arrangement comprising an award of restricted shares (vesting after two years subject to continued employment) plus an award of nil-cost options subject to performance over a three-year period. For area and retail management, we operate a bonus scheme which rewards achievement of objectives aligned with our strategy.

Gavin Peck – incentive remuneration

As I mention above, during the year, we have considered Gavin Peck's remuneration. We want to recognise his exceptional performance and leadership, providing him with a strong incentivisation and retention mechanism, whilst taking into account the interests of shareholders. The Committee concluded that the correct approach to achieve this would be to align any adjustment to reward with the long-term interests of shareholders and propose increasing Gavin's LTIP opportunity to 150% of base salary.

Under the Policy approved at the 2022 AGM, the maximum annual Long-Term Incentive Plan award is 100% of base salary, or 200% of base salary in exceptional circumstances, with these limits reflected in the formal rules of the LTIP. As it is our intention that the 150% of salary level will become Gavin's usual annual grant, we have agreed that in the interests of transparency we will seek shareholder approval to increase the 'normal' limit at the 2023 AGM. No increase will be made to the 'exceptional circumstances' limit, which will remain at 200% of base salary, and the CFO's maximum LTIP opportunity will remain at 100% of base salary (reflecting our view that it is appropriate to recognise Gavin's position in leading the business by differentiating the level of his LTIP award).

In line with our approach to transparent communications with shareholders, I wrote to our largest shareholders following the FY23 year end to set out details of our proposed approach to the LTIP, and offered the opportunity to discuss our approach. I was pleased that a number of shareholders took up the opportunity to speak with me directly, and indicated support for our proposals. Having regard to feedback received during that engagement, we are also proposing an additional minor amendment to the Policy to clarify that a share retention requirement, aligned with the in-service share ownership guideline, applies also to deferred bonus shares in addition to LTIP shares.

Approach to remuneration for FY24

Our approach to Directors' remuneration in respect of FY24 is summarised in the table on page 76, which also reflects the proposed amendment to the Remuneration Policy.

The Committee approved salary increases of 5% for both Gavin and Steve, with such increases being below the average increase applied across the wider workforce, which outside of NMW increases was an average of 7%.

For FY24, we will also apply a minor re-weighting of the EBITDA and strategic measures which apply to the Executive Directors' annual bonus scheme. The maximum bonus opportunity for both Executive Directors will remain at 100% of base salary, but with 80% of the maximum opportunity subject to EBITDA performance, and the remaining 20% subject to strategic measures. This change will strengthen the Committee's ability to reward building the strategic capability of the business, including performance against our sustainability targets.

As noted in the Chair's statement on page 7, during FY24 Rosie Fordham will succeed Steve Alldridge as CFO. I am pleased that we are in a position to make an internal appointment, demonstrating our focus on development and succession planning. Rosie's remuneration from her appointment as CFO will be in line with the Policy, and is summarised in the Policy summary and FY24 intended implementation table on page 76. As Steve will leave the business during FY24, he will not be eligible for a FY24 bonus and will not receive an LTIP award during the year.

As reported last year, Harry Morley and I were awarded a 3% increase in our fees with effect from 1 September 2022. Following the annual review, the Non-Executive Director and Chair fees will be increased by 5% (in line with the increase for the Executive Directors, and below the average increase for the wider workforce) with effect from 1 September 2023.

Stakeholder engagement

Given the challenges of FY23, I would like to thank the Executive Directors, the Operations Board Directors and all our colleagues at The Works for their continued commitment, enthusiasm and hard work.

Our colleagues are a vital part of our customer experience. We continue to be a company in which colleagues can develop their careers, with the majority of colleagues being internally developed and 10% promoted in the last year. We are delighted that we continue to be recognised as one of the 25 Best Big Companies to Work for.

The Board continues to receive regular updates on colleague wellbeing, morale, retention and health and safety and visits stores and engages with colleagues regularly. We review the annual Best Companies engagement survey results, in which colleagues provide feedback on leadership, personal growth and giving something back, as well as pay and benefits, and these inform decisions on remuneration.

On behalf of the Board, I would like to thank shareholders for their support for our Policy at the 2022 AGM. I remain happy to receive any questions or feedback from shareholders at any time, and hope that you will be happy to support the resolutions proposed at our 2023 AGM.

Catherine Glickman
Chair of the Remuneration Committee
30 August 2023

Our Policy – summary and FY24 intended approach

In the interests of transparency, we have included on page 77 the LTIP and "in-service" shareholding guidelines sections of the Policy, incorporating the amendments for which shareholder approval is to be sought at the 2023 AGM. Since we are not seeking approval for a Directors' Remuneration Policy at the 2023 AGM, in line with the applicable regulations, we have not included the Policy in this report. The Policy is set out in our FY22 Annual Report which is available on our website.

The following table summarises the key aspects of our Policy approved at the 2022 AGM, changes proposed in the Policy and, subject to shareholder approval for the amendment to the maximum LTIP opportunity for the CEO as described on page 74, information on how we intend to implement the policy in FY24.

	Policy summary	Implementation in FY24
Base salary	Ordinarily reviewed annually. In line with typical practice, increases are normally within the range of increases awarded to other colleagues. Flexibility is retained to award higher increases in appropriate circumstances.	For FY24, the Executive Directors' salaries have been increased by 5% to: • Gavin Peck: £324,450. • Steve Alldridge: £227,115. • On her appointment to CFO, Rosie Fordham's salary will be £180,000. Subject to her developing in line with expectations, it is intended that her salary will increase to £200,000 for FY25, and to £220,000 for FY26.
Retirement benefits	Defined contribution pension (or cash equivalent). Maximum contribution aligned with the contribution available to other employees.	Executive Director pension contributions continue to be aligned with the wider workforce at 3% of base salary. Rosie Fordham's pension contribution will be reduced to 3% on her appointment as CFO.
Annual bonus	Maximum opportunity of 100% of salary. Full bonus ordinarily paid in cash but with flexibility to defer into shares for up to two years. Up to 20% of maximum will be earned for threshold performance and up to 50% of the maximum will be earned for on-target performance. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. At least 50% of the bonus is based on financial measures. The balance of the bonus opportunity will be based on financial measures and/or the delivery of strategic/individual measures.	For FY24, the maximum bonus opportunity will be 100% of salary for each Executive Director. A minor change to the weightings of the performance measures will be applied. Performance will be based on EBITDA as regards 80% of the award and strategic objectives with clear measurable targets as regards 20% of the award. As targets (both financial and strategic) under the annual bonus are considered commercially sensitive, these will be disclosed retrospectively in the FY24 Annual Report. For Rosie Fordham, any bonus payable under the Policy for FY24 will be pro-rata from the date of her appointment as CFO.
LTIP	Subject to approval by shareholders at the 2023 AGM, maximum award of 150% of salary, or 200% of salary in exceptional circumstances, with up to 25% vesting for threshold performance. For at least 75% of an LTIP award, the performance measures will be based on financial measures.	A minor amendment to the Policy is proposed to increase the maximum LTIP award to 150% of salary (from 100% of salary). For FY24, we propose to grant to our CEO, Gavin Peck, at the level of 150% of salary and to our incoming CFO, Rosie Fordham, will be granted an LTIP at the level of 100% of salary. It is proposed that the awards will be subject to performance conditions based on EPS and share price, with an equal weighting. The awards will not be granted until after the 2023 AGM. Full details of the performance metrics and targets, which will be set with a level of stretch commensurate with the size of the LTIP awards, will be included in the regulatory announcement at the time the awards are granted.
In-service shareholding guidelines	Executive Directors are required to retain half of all shares acquired under the LTIP (after sales to cover tax and any exercise price) until such a time as their holding as a value is equal to 200% of salary.	
Post-employment shareholding guidelines	Following employment, an Executive Director must retain for one year such of their relevant shares (shares acquired pursuant to LTIP or deferred bonus awards granted after 1 May 2022) as have a value equal to 200% of their salary (or, if fewer, all of their relevant shares).	
Non-Executive Directors' remuneration	Fees are set taking into account the responsibilities of the role and expected time commitment.	Chair and Non-Executive Director fees for FY24 (with effect from 1 September 2023) are as follows: Base fee £000 Chair's fee: 105 Harry Morley: 59 Catherine Glickman: 54

In the interests of transparency, we have set out below the LTIP and "in-service" shareholding guideline sections of the Policy approved at the 2022 AGM, in each case updated to reflect the amendments for which shareholder approval is to be sought at the 2023 AGM.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Long-Term Incentive Plan (LTIP)	The LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for the achievement of longer-term objectives aligned with shareholders' interests.	Under the LTIP, the Committee may grant awards as conditional shares or as nil (or nominal) cost options. Awards will usually vest following the assessment of the applicable performance conditions, typically following the end of a three-year performance period, but will not be released (so that the participant is entitled to acquire shares) until the end of a holding period of two years beginning on the vesting date. Alternatively, awards may be granted on the basis that the participant is entitled to acquire shares following the assessment of the applicable performance conditions but that (other than as regards sales to cover tax liabilities and any exercise price) the award is not released (so that the participant is able to dispose of those shares) until the end of the holding period. The Committee has discretion to amend the pay out should any formulaic output not reflect the Committee's assessment of overall business performance. LTIP awards may incorporate the right to receive additional shares calculated by reference to the value of dividends which would have been paid on the vested shares subject to the award up to the time of release; this amount may be calculated assuming that the dividends have been reinvested in the Company's shares on such basis as the Committee determines. The Committee may at its discretion structure awards as qualifying LTIP awards, consisting of a tax qualifying Company Share Option Plan (CSOP) option with a per share exercise price equal to the market value of a share at the date of grant and an ordinary nil (or nominal) cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option. Recovery provisions apply and are set out in the Policy approved at the 2022 AGM and included on page 67 of our FY22 Annual Report which is available on our website.	The maximum award level is 150% of base salary, or 200% of base salary in exceptional circumstances. The market value of shares subject to an LTIP award will be determined on such basis as the Committee considers appropriate, which will be applied consistently where possible. If a qualifying LTIP is granted, the value of shares subject to the CSOP option will not count towards the limit referred to above, reflecting the provisions for the scale back of the ordinary LTIP award.	For at least 75% of an LTIP award, the performance measures will be based on financial measures (which may include, but are not limited to, earnings per share, relative total shareholder return and share price). Any balance of an LTIP award will be subject to performance measures based on non-financial measures aligned with the Company's strategic priorities. Subject to the Committee's discretion to amend the formulaic output, awards will vest up to 25% for threshold performance, rising to 100% for maximum performance.
Shareholding guidelines	To align the interests of the Executive Directors with those of shareholders, the Committee has adopted formal shareholding guidelines. Executive Directors are required to retain half of all shares acquired under the LTIP and any deferred bonus award (after sales to cover tax and exercise price) until such time as their holding as a value is equal to 200% of salary. Shares subject to LTIP awards which have vested but not been released (that is which are in a holding period), or which have been released but have not been exercised, and shares subject to deferred bonus awards, count towards the guidelines on a net of assumed tax basis.			

Annual report on remuneration

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

Composition of the Committee

The members of the Committee are Catherine Glickman (Chair), Carolyn Bradley and Harry Morley.

Duties and responsibilities

The Committee's key responsibilities are detailed in the panel on page 73.

When determining the application of the Directors' Remuneration Policy in FY23, the Committee considered the factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture as referred to in the Code. As with the approach in FY22, these were reflected, in particular, in the Executive Directors' LTIP awards which are subject to simple and transparent performance measures based on our appetite for risk, with specific monetary caps added as a further risk mitigation.

As part of its work, the Committee reviewed the remuneration for the wider workforce and related policies and takes these into account when setting the Policy for Executive Director and senior management remuneration.

Meetings and attendees

The Committee met a total of four times during the year and has met once since the year end. All members attended those meetings as shown in the table on page 63. The Committee receives assistance from the CEO, CFO, People Director and Company Secretary, who attend meetings by invitation, except when issues relating to their own remuneration are being discussed.

Performance evaluation

The evaluation of the performance of the Committee was conducted as part of the broader Board evaluation process set out on page 64. Feedback relating to the Committee indicated that it continues to operate effectively, with all members (and other attendees) contributing appropriately to debate and discussion around remuneration matters.

Advisers

Deloitte LLP (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 that group's Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte's fees for providing remuneration advice to the Committee were £3,000 for FY23. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the 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.

Single figure table – audited information

The table below sets out total remuneration in respect of FY23 for each person who served as a Director in that year, along with the corresponding remuneration for FY22:

		Salary and fees[1] £000	Benefits[2] £000	Pension[3] £000	Annual bonus[4] £000	Long-term incentive[5] £000	Total £000	Total fixed remuneration £000	Total variable remuneration £000
Executive Directors									
Gavin Peck	**2023**	**309**	**13**	**9**	**–**	**–**	**331**	**331**	**–**
	2022	300	13	9	234	29	585	322	263
Steve Alldridge (appointed 14 May 2021)	**2023**	**216**	**12**	**6**	**–**	**–**	**234**	**234**	**–**
	2022	203	12	6	163	–	384	221	163
Non-Executive Directors									
Carolyn Bradley (appointed 30 September 2021)	**2023**	**100**	**–**	**–**	**N/A**	**N/A**	**100**	**100**	**N/A**
	2022	59	–	–	N/A	N/A	59	59	N/A
Harry Morley	**2023**	**57**	**–**	**–**	**N/A**	**N/A**	**57**	**57**	**N/A**
	2022	55	–	–	N/A	N/A	55	55	N/A
Catherine Glickman	**2023**	**52**	**–**	**–**	**N/A**	**N/A**	**52**	**52**	**N/A**
	2022	50	–	–	N/A	N/A	50	50	N/A

1 **Salary and fees:** The amount of salary/fees earned in respect of the year.

2 **Benefits:** The taxable value of benefits received in the year: these are principally private medical insurance and car or car allowance. For Gavin Peck the 2023 (and 2022) benefits figures include his SAYE options granted in November 2022 (and August 2021), valued as the aggregate discount of the exercise price from the share price used to determine the exercise price.

3 **Pension:** The pension figure represents the cash value of pension contributions for the Executive Director to the defined contribution pension arrangement and any cash payments in lieu of pension contributions made in the year.

4 **Annual bonus:** The cash value of the bonus earned in respect of the financial year. Further information in relation to the FY23 bonuses is set out below; no bonuses were earned by the Executive Directors in respect of FY23.

5 **Long-term incentives:** Gavin Peck was granted an LTIP award in February 2021 subject to the performance conditions set out below. The estimated outturn is that the award will lapse in full. The final vesting is being reviewed to ensure that performance is being assessed on a fair and consistent basis taking into account the impact of prior period restatements on the EPS target and to ensure that the final vesting is reflective of wider corporate performance. Any change in outturn will be trued up in the FY24 single figure table.

Truing up of FY22 single figure table numbers – audited information

The 2022 LTIP figure was calculated based on the three-month average share price to the end of FY22. The 2022 LTIP figure in the single figure table above has therefore been adjusted to reflect the actual share price of £0.29 (being the closing share price on 22 September 2022, the day before the vesting date of 23 September 2022). The figure also includes the value of dividend equivalents for the period from grant to the vesting date.

Annual incentive plan – audited information

Each Executive Director was eligible to earn a bonus in respect of FY23 of up to 100% of salary. 90% of the award was based on EBITDA targets (required to be achieved after funding of any bonus payments triggered) which were considered to be suitably stretching, and took account of the fact that we would not benefit from £5.6m business rates relief in FY23 as we had done in FY22. The remaining 10% was based on performance against key strategic objectives as set out below, with any payout in respect of the strategic objectives element being subject to the achievement of a threshold level of EBITDA performance.

As shown in the table below, actual adjusted EBITDA outperformance above the threshold target was not sufficient to support a threshold bonus level and, therefore, no bonus was earned by either Executive Director in respect of this element for the year.

EBITDA element

	Performance (£m)	Vesting (% of maximum for EBITDA element)	Actual performance (£m)	Bonus earned for EBITDA element (% of maximum for EBITDA element)	Bonus earned for EBITDA element (% of salary)
Threshold	9	20%	9[1]	0%	0%
Maximum	13	100%			

1 Adjusted EBITDA before funding of any bonus. Outperformance over the threshold target was not sufficient to fund threshold level bonuses, and therefore no bonus was earned for the EBITDA element.

Strategic objectives element

Each Executive Director made good progress in the year against the strategic objectives set (as summarised below). However, since the adjusted EBITDA performance measure was not met, no bonus was earned by reference to those achievements.

Gavin Peck, CEO

Gavin's objectives were to develop the brand externally and internally, develop a quantified ESG approach including environmental targets, drive the implementation of the strategy and continue to develop both leaders and colleagues. The Board considers that, given the challenges during the year, overall Gavin has achieved his objectives (exceeding them in some areas), including:

- Roll out of first phase of the evolved brand.
- Refreshed product offer and loyalty scheme relaunched.
- Realignment of online operational team and deployment of new analytical tools following completion of website usability studies.
- Store estate improved - 17 new stores opened (including 3 relocations), and 34 refits.
- Improved operational efficiency (new store labour model, implementation of improved supply chain systems, automation in online fulfilment).
- Continued investor (including potential investor) engagement, and raised brand awareness.
- Led development of clear ESG strategy, incorporating strong positions on colleagues, community and environmental commitments (base line targets, including Net Zero by 2045, set and agreed by the Board).
- Delivered MyWorks (colleague engagement platform) and Can Do Academy (learning and development platform). Improved ranking from 13th to 12th in 'Best Big Companies to Work For' category and maintained 2* accreditation.

Steve Alldridge CFO

Steve's objectives were to continue the stakeholder engagement with both investors and banks, improve the financial control environment, improve the quality of data and performance reporting to enhance business support and strengthen the Finance Team. The Board consider that Steve has met his objectives for the year:

- Successfully negotiated an extension of banking facilities at reduced cost and maintained strong relationships with our banking partner.
- Continued to engage with investors and other stakeholders, changing broker at the end of the year.
- Tightened financial controls and disciplines, with better visibility and insight on stock holding.
- Improved performance reporting, supported by a strengthened business partnering capability.
- Finance function strengthened with talented individuals, raising the future capability of the team.

Long-term incentives

LTIP award vesting

Gavin Peck was granted an LTIP award in the form of nil-cost options over 847,457 shares in February 2021. The award was subject to performance conditions set out below, general and windfall-gain underpins, and a two-year post-vesting holding period.

Measure	Weighting	Threshold (20% vesting)	Maximum (100% vesting)	Actual performance
Adjusted EPS	50%	3.1 pence	13.1 pence	N/A
Share price[1]	50%	£0.50	£2	33.85p

1 Average share price over the period of four weeks beginning with the announcement by the Company of its Full Year Trading Update for its 2022/23 financial year.

As described in the Remuneration Committee Chair's letter on page 74, adjusted EPS is impacted by the prior year restatements described in note 14 to the financial statements, as such, the Committee's assessment of the outturn of the EPS target is estimated. This estimate excludes the impact of a £0.6m tax credit received during the year. This exclusion results in adjusted EPS (before the impact of prior period restatements) below the threshold target and accordingly the Committee's estimate is that the LTIP award will lapse in full.

Long-term incentives – awards granted during FY23 – audited information

LTIP awards were granted to Gavin Peck and Steve Alldridge on 17 November 2022 equal to 100% of salary on the following basis:

	Type of award	Maximum opportunity	Number of shares	Face value at grant £[1]	% of award vesting at threshold	Performance period[2]
Gavin Peck	LTIP	100% of salary	936,363	308,999	20%	See footnote 2
Steve Alldridge	LTIP	100% of salary	655,454	216,299	20%	See footnote 2

1 For these purposes, the face value of an award is calculated by multiplying the number of shares over which the award was granted by 33 pence, the average closing share price for each of the three business days prior to the date of grant (rounded up to the nearest whole pence).

2 Each award is subject to performance conditions assessed over the Company's FY23, FY24 and FY25 financial years as regards the EPS element of the performance condition, with the share price element of the performance condition assessed following the announcement by the Company of its Full Year Trading Update for its FY25 financial year (as described further below). To the extent an award vests following the end of the performance period, it is subject to a further two-year holding period before the shares are released.

A summary of the performance conditions for these awards (with half of each award based on EPS, and half on share price) is set out on page 77. The Committee believes that the Executive Directors have direct influence over both measures, and that targets are stretching but achievable.

SAYE Scheme options granted during FY23 – audited information

Gavin Peck was granted a SAYE Scheme option on 4 November 2022 as detailed below as part of the SAYE Scheme offer made to all eligible colleagues.

	Type of award	Number of shares	Exercise price[1]	Face value at grant £[2]
Gavin Peck	SAYE option	31,034	£0.29	10,964

1 In line with the SAYE Scheme, this is set at a 20% discount to 35.33 pence, the average closing share price on 5, 6 and 7 October 2022, the three business days prior to the date of invitation.

2 For these purposes, the face value of the option is calculated by multiplying the number of shares over which the option was granted by 35.33 pence, the average closing share price for each of the three 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 the Directors had a beneficial interest, together with details of the Executive Directors' long-term incentive interests, as at 30 April 2023, are set out in the table below.

	Outstanding scheme interests 30 April 2023				Beneficially owned shares		
	Unvested LTIP interests subject to performance conditions	Scheme interests not subject to performance measures[1]	Vested but unexercised scheme interests[2]	Total shares subject to outstanding scheme interests[3]	1 May 2022	30 April 2023	Total of all scheme interests and shareholdings at 30 April 2023
Executive Directors							
Gavin Peck	2,422,117	47,397	96,151	2,565,665	554,636	554,636	3,120,301
Steve Alldridge	1,102,262	–	–	1,102,262	–	–	1,102,262

1 SAYE awards that have not vested.

2 LTIP awards that have vested but remain unexercised.

3 The tax qualifying CSOP awards granted as part of the 2019 awards are not included in these numbers, reflecting that if they were to be exercised the LTIP element of those awards would be reduced to reflect the gain on the CSOP element, as referred to on page 77.

	Outstanding scheme interests 30 April 2023			Beneficially owned shares		
	Unvested LTIP interests subject to performance conditions	Scheme interests not subject to performance measures	Total shares subject to outstanding scheme interests	1 May 2022	1 April 2023	Total of all scheme interests and shareholdings at 30 April 2023
Non-Executive Directors						
Carolyn Bradley	–	–	–	105,866	179,736	179,736
Harry Morley[1]	–	–	–	200,000	275,000	275,000
Catherine Glickman	–	–	–	77,244	181,033	181,033

1 Includes interest of Kate Morley (a person closely associated with Harry Morley).

Executive Directors' interests under share schemes – audited information

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

The LTIP awards are subject to performance conditions as set out in the table below.

	Award date	Vesting, exercise or release date	As at 1 May 2022	Granted during the year	Exercised during the year	Lapsed during the year	**Number of shares at 30 April 2023**	Exercise price
Gavin Peck								
LTIP	3 September 2019[1,2]	September 2022	250,617	–	–	154,466	**96,151**	N/A
	15 February 2021	June 2023	847,457	–	–	–	**847,457**	N/A
	30 September 2021	June 2024	638,297	–	–	–	**638,297**	N/A
	17 November 2022	June 2025	–	936,363	–	–	**936,363**	N/A
SAYE	31 August 2021	1 October 2024	16,363	–	–	–	**16,363**	55p
	4 November 2022	1 December 2025	–	31,034	–	–	**31,034**	29p
Steve Alldridge								
LTIP	30 September 2021	June 2024	446,808	–	–	–	**446,808**	N/A
	17 November 2022	June 2025	–	655,454	–	–	**655,454**	N/A

1 In addition to his LTIP award, Gavin Peck was also granted a tax qualifying CSOP award over 37,037 shares with an exercise price of £0.81. The CSOP award vested at 38.4% (the same level as the LTIP award – see Note 2 below) and lapsed in respect of the balance of the shares subject to it so that it is not held over 22,815 shares. 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.

2 38.4% of Gavin Peck's LTIP award granted in 2019 vested by reference to EPS performance over the three financial years ending with FY22. The remaining portion of the award (154,666) lapsed on the vesting date as shown in the table above. The vested portion of the award will not be released to Gavin so that he can exercise it until the end of a further two-year holding period.

Executive Directors' interests under share schemes – audited information continued

The performance condition applying to Gavin Peck's LTIP award granted in February 2021 is summarised on page 81. The estimated outturn is that the award will lapse in full.

Vesting of the LTIP awards made in September 2021 and November 2022 is based on EPS and share price targets as set out in the table below.

Award date	Measure	Weighting	Threshold (20% vesting)	Maximum (100% vesting)
30 September 2021	EPS[1]	50%	5.6 pence	15.6 pence
	Share price[2]	50%	£0.57	£2.00
17 November 2022	EPS[3]	50%	5.6 pence	15.6 pence
	Share price[4]	50%	£0.43	£1.40

1 Basic EPS for the Company's FY24, pre-IFRS 16 and subject to such adjustments as the Remuneration Committee determines to ensure that performance is assessed on a fair and consistent basis.

2 Average share price over the period of four weeks following the announcement by the Company of its Full Year Trading Update for its 2023/24 financial year.

3 Basic EPS for the Company's FY25, pre-IFRS 16 and subject to such adjustments as the Remuneration Committee determines to ensure that performance is assessed on a fair and consistent basis.

4 Average share price over the period of four weeks following the announcement by the Company of its Full Year Trading Update for its 2024/25 financial year.

The awards are 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 and an assessment of whether any of the value of the awards on assessment of the performance conditions represents a 'windfall gain'. The awards are also subject to a cap such that the value of the vested shares under an award, determined by reference to the price used to assess the share price element of the performance condition, may not exceed £2,500,000 in the case of Gavin Peck's award and £1,750,000 in the case of Steve Alldridge's award.

As noted in the Remuneration Committee Chair's statement on page 74, the EPS targets for in-flight LTIPs will be reviewed in FY24 to consider the impact of prior period restatements and to ensure that performance can be assessed on a fair and consistent basis. This review is intended to ensure that the level of stretch in the targets is maintained and the targets are not made materially easier or harder to achieve as a result of the restatement.

Directors' share ownership guidelines – audited information

The Committee has adopted a shareholding guideline for the Executive Directors, which requires the Executive Directors to retain half of all shares acquired under the LTIP (after sales to cover tax and any exercise price) until such time as their holding has a value equal to 200% of salary. Shares subject to LTIP awards which have vested but not been released (i.e. which remain in a holding period), or which have been released but have not been exercised, and any shares subject to deferred bonus awards, count towards the guidelines on a net of assumed tax basis.

Executive Director	Number of shares counting towards the guideline at 30 April 2023	Value of shares counting towards the guideline[1]	Value of shares as a percentage of base salary	Shareholding guideline met?
Gavin Peck	605,596	£187,734	45.5%	In progress
Steve Alldridge	–	–	–	In progress[2]

1 Based on a share price of 31 pence as at 28 April 2023 (being the last trading day prior to the year end of 30 April 2023).

2 Steve Alldridge has not yet had any LTIP award which has vested. When he does so, he will be required to retain shares in accordance with the Policy which will count towards the shareholding guideline.

Performance graph and historical CEO remuneration outcomes

The graph below shows the total shareholder return (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 30 April 2023. The TSR performance of the FTSE SmallCap index has been selected as it is considered the most appropriate comparator group. For the purposes of the graph, TSR has been calculated as the percentage change in the market price of the shares during the period, assuming that dividends are reinvested. The graph shows the value, as at 30 April 2023, 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 CEO's total remuneration over the last five financial years, valued using the methodology applied to the single total figure of remuneration. The 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 Committee has chosen to disclose remuneration only for the four 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[1]	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)[2]
2023 (Gavin Peck)	331	0%	0%
2022 (Gavin Peck)	585	78%	38.4%
2021 (Gavin Peck)	303	0%	0%
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 The 2022 figure reflects the CEO's single total figure of remuneration for FY22 as included in this report updated to reflect the 'truing up' of the FY22 LTIP figure as referred to on page 79.

2 There was no LTIP capable of vesting in respect of performance ending 2019 and 2020.

Change in remuneration of Directors compared to Group employees

The table below sets out the annual change in salary and fees, benefits and bonus paid to each of the Directors from FY20 to FY23. The regulations also require a comparison of the change in the remuneration of the employees of TheWorks.co.uk plc. The Company has no employees other than the Executive Directors and, accordingly, strictly no disclosure is required. Given the added complexities of the impact in FY21 of furlough, the Company has not included the average employee salary changes between FY21 and FY22, but, in the interests of transparency, has provided information on the approach to the change in salary of the Group's UK employees.

Notes to the table provide additional information in relation to the changes. Additional information in relation to the changes in previous years is set out in the relevant previous Directors' remuneration reports.

		Executive Directors		Non-Executive Directors			UK employees' average[4]
		Gavin Peck	Steve Alldridge[1]	Carolyn Bradley[1]	Catherine Glickman	Harry Morley	
Salary/fees	FY22–FY23	3%	3%	0%	3%	3%	3.46%[5]
	FY21–FY22	6%	–	–	6%	6%	See note to corresponding table in FY22 DRR
	FY20–FY21	27%	–	–	(2%)	(2%)	See note to corresponding table in FY22 DRR
Taxable benefits	FY22–FY23	0%	0%	N/A	N/A	N/A	5.5%[6]
	FY21–FY22	18%[2]	–	–	N/A	N/A	(17.8%)
	FY20–FY21	0%	–	–	N/A	N/A	23.49%
Annual bonus	FY22–FY23	N/A[3]	N/A[3]	N/A	N/A	N/A	N/A
	FY21–FY22	N/A	–	–	N/A	N/A	See note to corresponding table in FY22 DRR
	FY20–FY21	N/A	–	–	N/A	N/A	(60.4%)

1 Carolyn Bradley and Steve Alldridge were appointed during FY22, and therefore there is no disclosure for the change in their remuneration between FY21 and FY22. In the case of Steve Alldridge, the 3% change between FY22 and FY23 reflects the 3% increase to his salary for FY23.

2 Increase reflects increase due to SAYE discount included in taxable benefits.

3 No annual bonus was earned by Gavin Peck or Steve Alldridge in respect of FY23. Therefore, the percentage change between FY22 and FY23 is not considered to be a meaningful disclosure.

4 The UK employees' average changes are calculated comparing the remuneration for the tax year ended 5 April 2022 with the remuneration for the tax year ended 5 April 2023 as this data is more readily available than data in respect of financial years. The value of SAYE options granted in November 2022 has been excluded for consistency with the CEO pay ratio calculation on page 85.

5 In FY22 rates for store and Distribution Centre colleagues were increased in line with increases in the National Living and Minimum Wages, with colleagues aged 23 plus receiving an increase of 6.6% in April 2022. We applied an average 3% increase to non-minimum wage colleagues and maintained a wage differential in store teams. In FY23 rates for store and Distribution Centre colleagues were increased in line with increases in the National Living and Minimum Wages, with colleagues aged 23 plus receiving an increase of 9.7% in April 2023. Outside of all applicable NMW increases, an average of 7.1% was given across the business (7% average for store management and 5% average for Store Support and Distribution Centre colleagues).

6 The increase in benefits paid in FY23 is due to a rise in the number of managers in our support centre who receive taxable benefits. The percentage change reflects an increase in the average value of benefits provided from c.£119 to c.£126.

Relative importance of spend on pay

The following table sets out the total remuneration for all employees and the total shareholder distributions in FY22 and FY23. All figures provided are taken from the relevant Company accounts.

	FY22 £000	**FY23 £000**	Percentage change
Total remuneration for all employees (including Executive Directors)	60,031	**62,235**	3.7%
Dividends and share buyback	–	**1,492**	N/A

Since there were no dividends or buybacks in FY22, the percentage change between FY22 and FY23 is not considered to be a meaningful disclosure.

CEO pay ratio

The table below shows how the CEO's remuneration (as taken from the single figure remuneration table and, therefore, taking into account the CEO's voluntary reduction in remuneration in relevant years as disclosed in previous Directors' remuneration reports) compares to equivalent remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

	Pay ratio				Remuneration values (£)			
Year	Method	25th percentile	Median	75th percentile		25th percentile	Median	75th percentile
FY23	Option C	17:1	16:1	15:1	Salary only	19,760	20,342	21,674
					Total remuneration	19,773	20,473	21,997
FY22	Option C	31:1	30:1	27:1	Salary only	18,533	19,115	20,389
					Total remuneration	18,637	19,487	21,591
FY21	Option C	17:1	16:1	15:1	Salary only	18,138	18,720	19,448
					Total remuneration	18,138	18,720	19,675
FY20	Option C	21:1	19:1	17:1	Salary only	17,077	18,013	19,925
					Total remuneration	17,077	18,094	20,338

The methodology applied to calculate pay ratios was as follows:

- The regulations set out three methodologies for determining the CEO pay ratio. We have chosen 'Option C' consistent with the previous years' calculations.
- 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.
- The FY22 ratios in this table have been updated to reflect the CEO's single total figure of remuneration for FY22 as included in this report and updated to reflect the 'truing up' of the FY22 LTIP figure (referred to on page 79).
- Employee pay data is based on full-time equivalent (FTE) base pay for UK employees as at 31 March of the relevant year (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 has been excluded (for the purposes of the FY20, FY22 and FY23 calculations) 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 calculated on this basis for those three employees are then compared to the CEO single figure of remuneration to calculate the ratios; the calculations do not, therefore, take into account the impact of the identified employees having been furloughed during any year in which that was relevant.
- For 2020 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 CEO pay ratio has the potential to vary considerably year on year due to a significant proportion of the CEO's remuneration package comprising performance related variable pay. Gavin Peck earned a bonus equal to 78% of salary in respect of FY22 and the vesting at 38.4% of maximum of the LTIP award granted to him in September 2019 was similarly included in his FY22 single total figure of remuneration. As reported elsewhere in this Directors' Remuneration Report, Gavin Peck did not earn a bonus in respect of FY23 and the estimated outturn of the LTIP granted to him in February 2021 is that the award will lapse in full. The variance in incentive outcomes between FY22 and FY23 is the primary reason for the decrease in the CEO pay ratio between FY22 and FY23.

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

No payments for loss of office or to past Directors were made during FY23.

Implementation of the Policy

Information on how the Committee intends to implement the Policy is set out in the Policy summary table on pages 76 and 77.

Shareholder voting at AGM

The following table shows the results of the binding vote on the Policy, and the advisory vote on the Directors' Remuneration Report, at the 2022 AGM.

	Approval of the Remuneration Policy		Approval of the Directors' remuneration report	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	31,925,296	99.91	31,924,870	99.91
Against	27,758	0.09	29,758	0.09
Withheld	11,384	N/A	9,810	N/A

On behalf of the Board.

Catherine Glickman
Chair of the Remuneration Committee
30 August 2023

Directors' report

The Directors present their report for the financial year ended 30 April 2023. Additional information which is incorporated by reference into this Directors' report, including information required in accordance with the Companies Act 2006 (the Act) 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 1 to 57.
Environmental policy	ESG review – pages 29 to 35.
Employee engagement	Our stakeholders – pages 26 and 27. ESG review – pages 29 to 35. Corporate governance report – pages 62 to 65.
Diversity policy	Nomination Committee report – pages 70 to 72.
Viability	Viability statement – pages 54 to 56.
Section 172 statement	Page 28.
Stakeholder engagement in key decisions	Our stakeholders – pages 26 and 27. Section 172 statement – page 28. Corporate governance report – pages 62 to 65
Corporate governance compliance statement	Corporate governance report – pages 62 to 65.
Financial risk management objectives and policies (including hedging policy and use of financial instruments)	Note 25 to the financial statements – pages 127 to 131.
Exposure to price risk, credit risk, liquidity risk and cash flow risk	Note 25 to the financial statements – pages 127 to 131.
Details of long-term incentive schemes	Directors' remuneration report – pages 73 to 77.
Statement of Directors' responsibilities	Page 89.

Directors

The Directors of the Company who held office throughout the period are set out below:

Carolyn Bradley (Chair)

Gavin Peck (CEO)

Steve Alldridge (CFO)

Harry Morley (Senior Independent Director)

Catherine Glickman (Non-Executive Director)

Summaries of the current Directors' key skills and experience are included on pages 60 and 61.

Results and dividend

The results for the year are set out in the consolidated income statement on page 98. The Directors propose the payment of a final dividend of 1.6 pence per share on 2 November 2023 (with a record date of 6 October 2023), subject to approval on 4 October 2023.

Articles of Association

The rules governing the appointment and replacement of Directors are set out in the Company's Articles. The Articles may be amended by a special resolution of the Company's shareholders. The Articles also set out in full the powers of the Directors in relation to issuing shares and buying back the Company's own shares.

Share capital

Details of the Company's share capital, including changes during the year, are set out in Note 24 to the financial statements. As at 30 April 2023, 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 AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies.

Other than the general provisions of the Articles (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 AGM held on 27 October 2022, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of Section 693 of the Act) of 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 AGM to be held on 4 October 2023, 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 2023 AGM.

Directors' interests
The number of ordinary shares of the Company in which the Directors were beneficially interested as at 30 April 2023 is set out in the Directors' remuneration report on pages 73 to 75.

Directors' indemnities
The Company's 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 reviews 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's LTIP 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 pages 76 to 77.

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 30 April 2023, and 29 August 2023 (being the latest practicable date prior to publication of this Annual Report).

	As at 30 April 2023		As at 29 August 2023	
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	12,043,141	19.27%	12,043,141	19.27%
Jupiter Fund Management plc	5,317,667	8.50%	2,442,667	3.90%
Hudson Management Limited	3,911,000	6.25%	5,811,000	9.30%
Graeme Coulthard	3,500,000	5.60%	4,050,000	6.48%
Downing Strategic Micro-Cap Investment Trust	2,750,000	4.40%	2,750,000	4.40%

Branches outside the UK
Other than ten 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 on pages 32 to 34

Disabled employees
It is the policy of the Group to provide equal recruitment and other opportunities for all colleagues 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. Once employed by the Group, we ensure that disabled colleagues have full access to training and career development opportunities. Where colleagues 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.

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 10 June 2022 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 auditor is unaware.
- 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 auditor is aware of the information.

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

Auditor
A resolution to reappoint KPMG LLP will be proposed at the forthcoming AGM.

Annual General Meeting
The AGM will be held on 4 October 2023. The Notice of AGM is contained in a separate letter from the Chair accompanying this report.

Post-balance sheet events
Other than as disclosed in the Strategic report, there have been no material post-balance sheet events involving the Company or any of the Company's subsidiaries as at the date of this report.

The Strategic report on pages 1 to 57 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
30 August 2023

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 UK adopted International Accounting Standards and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards and applicable law, 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 the Group's 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 financial statements, state whether they have been prepared in accordance with UK adopted International Accounting Standards;
- for the Parent Company annual statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial 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 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 Statement 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
30 August 2023

Independent auditor's report

To the members of TheWorks.co.uk plc

1. Our opinion is unmodified

We have audited the financial statements of TheWorks.co.uk plc ("the Company") for the 52 week period ended 30 April 2023 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 and Company statements of changes in equity and the related notes, including the accounting policies in note 1.

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 30 April 2023 and of the Group's loss for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance UK-adopted international accounting standards;
- 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.

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 5 financial years ended 30 April 2023. 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.

Overview

Materiality: group financial statements as a whole		£750k (2022: £750k) 0.27% (2022: 0.28%) of revenue
Coverage		100% (2022: 100%) of revenue
Key audit matters		**2023 vs 2022**
Recurring risks	Going concern	▲
	Existence, completeness and accuracy of inventory held in stores	▼
	Carrying amount of Parent Company investment in subsidiaries	▲
New risk	Impairment of property, plant and equipment and right of use assets	▲

2. Material uncertainty related to going concern

	The risk	Our response
Going concern We draw attention to note 1 to the financial statements which indicates that in the severe but plausible downside scenario the Group is forecast to breach its loan covenants during the going concern assessment period. These events and conditions, along with the other matters explained in note 1, 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.	**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's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least 12 months from the date of approval of the financial statements. The risk for our audit is whether or not those risks are such that they amounted 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 procedures included: • **Funding assessment:** Considering the availability and sufficiency of the financing arrangements in place at the Group, including the headroom on financial covenants in place on the Group's renewed revolving credit facility • **Sensitivity analysis:** Challenging the stress testing performed by the Directors considering the severe but plausible scenarios that could arise; • **Historical comparisons:** Assessing historical forecasting accuracy, by comparing previous forecast results to those actually achieved by the Group; • **Assessing 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 by considering historic store performance, recent trading and sector knowledge to set our own expectations; • **Evaluating directors' intent:** Evaluating the achievability of the actions the directors consider they would take to improve the position should the risks materialise, taking into account the extent to which the directors can control the timing and outcome of these; • **Comparing assumptions:** Considering whether the forecasts and assumptions used by the Directors are consistent with other forecasts used by the Group (including those used to assess recoverability of Parent Company investments in subsidiaries and recoverability of store assets); and • **Assessing transparency:** Considering whether the going concern disclosure in the basis of preparation of the accounts gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and corresponding assumptions. **Our results** We found the going concern disclosure in note 1 with a material uncertainty to be acceptable (2022 result without any 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 judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our 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. Other key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Impairment of property, plant and equipment and right-of-use assets Carrying amount £78.5 million, out of the total PPE and ROUA of £79.2 million (2022: carrying amount £85.5 million, out of the total PPE and ROUA of £86.5 million (restated)). Refer to page 67 (Audit Committee Report), page 115 note 14 (financial disclosures – PPE and ROU assets).	**Forecast-based assessment:** The Group has significant property, plant and equipment and right-of-use assets held on the consolidated balance sheet. The Group estimates the recoverable amount of property, plant and equipment and right of use assets based on their value in use, derived from a discounted cash flow model prepared by management. The key assumptions applied by management are short-term sales growth, profit margin and discount rates, which all involve a high degree of estimation uncertainty. The increased economic uncertainty and the cost of living crisis in the UK, has increased the risk in relation to the recoverability of store assets at the cash generating unit ("CGU") level; each store being a CGU. In addition as described in the financial statements Note 14 the Group have reconsidered the allocation of central costs to individual CGUs for the purposes of impairment testing. Subjective estimate Subjective inputs to the value in use calculation, such as the allocation of central overheads, discount rates and remaining asset lives require judgement. Calculation error The model used to calculate the value in use is complex, and so open to the possibility of mathematical error given the complexity of the impairment methodology. Prior year adjustment The estimates used in, and accuracy of calculation of the prior year adjustment could be incorrect. Furthermore, the disclosures presented may not adequately address the requirements of IAS 8 in relation to the description of the adjustment and the impact of the correction. The effect of these matters is that, as part of our risk assessment for audit planning purposes we determined that the degree of estimation uncertainty to be less than that materiality, however in conducting our final audit work, we reassessed the degree of estimation uncertainty in relation to the value in use of store assets and we determined that the risk has increased. It 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 range/sensitivity estimated by the Group.	We performed the detailed tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Model design evaluation and re-performance:** We evaluated the reasonableness of the design of VIU models in line with the requirements of the accounting standard and re-performed the calculations the Directors performed for determining the VIU of each cash generating unit, including assessing whether the allocation of central overhead across each of the CGU is appropriate. • **Benchmarking assumptions:** We compared the Group's assumptions, in particular those relating to forecast short-term sales growth rates and discount rates, to externally derived data and industry forecasts. • **Historical Comparisons:** We assessed the Group's performance against budget in the current and prior periods to evaluate the historical accuracy of the Group's forecasts on a store by store basis and performed a retrospective review on any prior year provisions/impairments. • **Sensitivity Analysis:** We performed sensitivity analysis on the assumptions namely the budgeted growth rates and discount rate. • **Assessing transparency:** We assessed whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks related to the valuation of store assets. We assessed if the disclosures in relation to the prior year adjustment were in accordance with IAS 8. **Our results** We found the Group's property, plant and equipment and right-of-use assets balances and the related impairment charges to be acceptable (2022: acceptable). We found the prior year adjustment and related disclosures to be acceptable.

3. Other key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Existence, completeness and accuracy of Inventory Stores Inventory: £21.0 million; (2022: £20.4 million) Refer to page 67 (Audit Committee Report), and page 123 note 17 (financial disclosures).	**Subjective estimation:** Inventory is a significant balance. It is held in stores, at the Company warehouse and at a third- party logistics provider. The risks described below relate to inventory held at the stores. It is usual in a retail environment for differences to arise between the inventory records and physical quantities for a variety of reasons, including theft and other losses, often referred to as shrinkage. The existence and completeness of inventory and the extent of shrinkage was previously assessed by management through sample inventory counts at every store throughout the year ("tactical counts") and complete inventory counts at a number of stores ("wall-to-wall counts"). The inventory records were adjusted to reflect the results of management's count processes and a shrinkage provision was established to cater for an estimate of the losses incurred between the count dates and the year end. In the prior year, Management's count processes in the stores were disrupted by a cyber incident in March 2022. As a result, management were not able to conduct as many wall-to-wall counts as planned to confirm the existence and completeness of store inventory during the course of the year. Therefore, management conducted wall-to- wall counts at a sample of stores and estimated the level of unrecognised shrinkage across the estate on this basis. Management's count processes in the stores for FY23 was to perform wall-to-wall inventory counts across all stores within the final quarter of the year to establish a new inventory volume baseline. Management expected that the pre-count inventory record contained inaccuracies and therefore variances identified in the count were not highly scrutinised. Additionally, the count process was new for FY23. Based on these factors we considered that there was a high risk that the counts would be executed incorrectly, or the results recorded incorrectly resulting in a material error in the inventory record. Management still developed an estimate for the level of unrecognised shrinkage in the stores inventory balance, but this was based on count results from all stores and the period between the count date and year-end was far shorter for almost all stores. As a result, the provision for shrinkage was considered to have a far lower degree of estimation uncertainty with a potential range of outcomes smaller than our materiality for the financial statements as a whole.	We performed the detailed tests below rather than seeking to rely on any of the Group's controls because the our knowledge of the design of these controls indicated that we would not be able to obtain the required evidence to support reliance on controls. Our procedures included: • **Test of detail:** We counted 640 line items at 25 stores close to the year end. We reconciled these to the year end listings and compared our count results with the company inventory records; • **Assessing methodology:** We assessed the methodology used by the group to calculate the shrinkage provision; • **Independent reperformance:** We performed our own evaluation of the shrinkage based on our count results, which we compared to management's estimate; and • **Assessing transparency:** We assessed the adequacy of the group's disclosures about the degree of estimation uncertainty involved in arriving at the shrinkage provision. **Our results** The results of our testing were satisfactory and we found the existence, completeness and accuracy of Inventory to be acceptable (2022: acceptable).

3. Other key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Carrying amount of Parent Company investment in subsidiaries £38.4 million; (2022: £57.3 million) Refer to page 67 (Audit Committee Report), page 136 note 33 (financial disclosures).	**Forecast-based assessment:** The carrying amount of the Parent Company's investments in subsidiaries represents 100% (2022: 80.1%) 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, being long term growth rate, discount rate and underlying cashflows, and preparing the future discounted cash flow model. 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 performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Test of Detail:** We used our sector knowledge and understanding of the business and considered whether or not they had been appropriately captured in the impairment models; • **Our valuation expertise:** We used experts to assist us in assessing appropriateness of the methodology and assumptions. In addition we performed an independent calculation of the discount rate based on market data to assist us in assessing the discount rate assumptions used by the Group; • **Assessing assumptions:** We assessed 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 by considering historic performance and industry forecasts to set our own expectations; • **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 previous budget to actual results; • **Comparing valuations:** We compared the results of discounted cash flows against the Group's market capitalisation; 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 investments in subsidiaries. **Our results** The results of our testing were satisfactory and we found the impairment of £19.6m recorded and the resulting carrying value of the investment in subsidiaries to be acceptable (2022: acceptable).

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 £750k (2022: £750k), determined with reference to a benchmark of revenue of £280m (2022: £265m) as disclosed in note 3, of which it represents 0.27% (2022: 0.28%).

Materiality for the parent Company financial statements as a whole was set at £412k (2022: £600k), determined with reference to a benchmark of Company net assets, of which it represents 1.40% (2022: 1.17%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2022: 65%) of materiality for the financial statements as a whole, which equates to £487.5k (2022: £487.5k) for the Group and £267k (2022: £390k) for the parent Company. We applied this percentage in our determination of performance materiality based on the level of misstatements and control deficiencies in the control environment during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £37.5k (2022: £37.5k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

The group team performed the audit of the group as if it was a single aggregated set of financial information. The audit was performed using materiality and performance materiality level set out above.

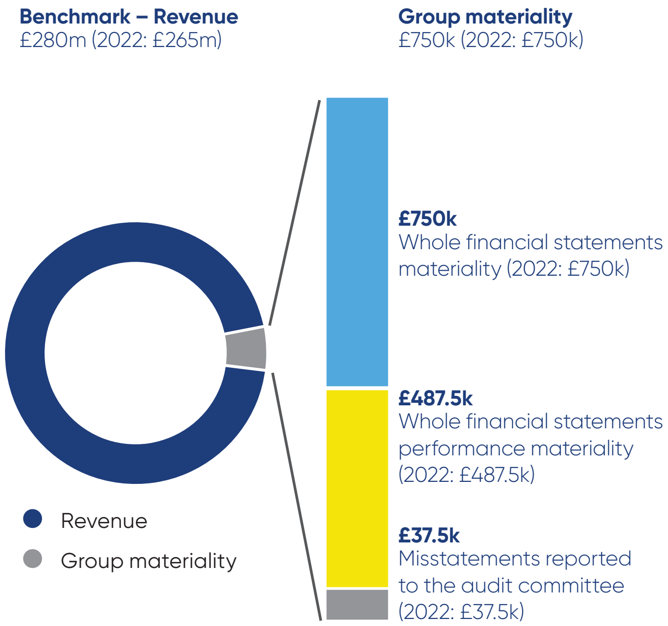
5. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company, or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic for at least 12 months from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out in section 2 of our report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting, and their identification therein of a material uncertainty over the Group and Company's use of that basis for the going concern period; and
- the related statement under the Listing Rules set out on page 86 is materially consistent with the financial statements and our audit knowledge.



6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Group's and the Company's high-level policies and procedures to prevent and detect fraud and the Group's and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management and directors including the EPS target for management remuneration.
- Held fraud risks discussions with Forensic Specialists.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as dilapidations, cashflow and impairment assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because transactions are highly disaggregated, individually immaterial and quick cash settlement.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

6. Fraud and breaches of laws and regulations – ability to detect continued

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and others management (as required by auditing standards) and discussed with the directors (and other management) the policies and procedures regarding compliance with laws and regulations.

As the Group and Company are regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 and Company are 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 and Company are 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, data protection laws, anti-bribery, employment law, regulatory capital and liquidity, recognising the regulated nature of the Group's and Company's activities. 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non- compliance with all laws and regulations.

7. 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 emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, 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 54 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, 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.

We are also required to review the Viability Statement, set out on page 54 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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

7. We have nothing to report on the other information in the Annual Report continued

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Report relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

8. 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.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 89, 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 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 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.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

10. 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.

Gordon Docherty
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH
30 August 2023

Consolidated income statement

For the period ended 30 April 2023

		52 weeks to 30 April 2023			52 weeks to 1 May 2022 (Restated – Note 14)		
	Note	Result before Adjusting items £000	Adjusting items £000	Total £000	Result before Adjusting items £000	Adjusting items £000	Total £000
Revenue	3	**280,102**	**–**	**280,102**	264,630	-	264,630
Cost of sales	6	**(231,150)**	**(5,052)**	**(236,202)**	(209,598)	(2,262)	(211,860)
Gross profit		**48,952**	**(5,052)**	**43,900**	55,032	(2,262)	52,770
Other operating income/(expense)	4	**8**	**–**	**8**	(111)	–	(111)
Distribution expenses		**(10,284)**	**–**	**(10,284)**	(9,128)	–	(9,128)
Administrative expenses		**(24,197)**	**–**	**(24,197)**	(24,116)	–	(24,116)
Operating profit	7	**14,479**	**(5,052)**	**9,427**	21,677	(2,262)	19,415
Finance income		**227**	**–**	**227**	16		16
Finance expenses		**(4,648)**	**–**	**(4,648)**	(5,192)	–	(5,192)
Net financing expense	9	**(4,421)**	**–**	**(4,421)**	(5,176)	–	(5,176)
Profit before tax		**10,058**	**(5,052)**	**5,006**	16,501	(2,262)	14,239
Taxation	10	**265**	**–**	**265**	(276)	–	(276)
Profit for the period		**10,323**	**(5,052)**	**5,271**	16,225	(2,262)	13,963
Alternative performance measure Profit before tax and IFRS 16	5	**3,025**	**(1,488)**	**1,537**	10,980	(2,191)	8,789
Basic earnings per share (pence)	12	**16.5**		**8.4**	26.0		22.3
Diluted earnings per share (pence)	12	**16.4**		**8.4**	25.6		22.0

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

Consolidated statement of comprehensive income

For the period ended 30 April 2023

	FY23 £000	FY22 (Restated – Note 14) £000
Profit for the year	**5,271**	13,963
Items that may be recycled subsequently into profit and loss		
Cash flow hedges – changes in fair value	**(2,862)**	4,181
Cash flow hedges – reclassified to profit and loss	**(62)**	(321)
Cost of hedging – changes in fair value	**(162)**	(83)
Cost of hedging – reclassified to profit and loss	**91**	94
Tax relating to components of other comprehensive income	**262**	-
Other comprehensive (expense)/income for the period, net of income tax	**(2,733)**	3,871
Total comprehensive income for the period attributable to equity shareholders of the Parent	**2,538**	17,834

Consolidated statement of financial position

As at 30 April 2023

	Note	FY23 £000	FY22 (Restated – Note 14) £000
Non-current assets			
Intangible assets	13	**916**	1,617
Property, plant and equipment	14	**11,733**	9,896
Right-of-use assets	14, 15	**67,463**	76,621
Deferred tax assets	16	**4,854**	4,708
		84,966	92,842
Current assets			
Inventories	17	**33,441**	29,387
Trade and other receivables	18	**7,507**	8,427
Derivative financial asset	25	**–**	2,393
Current tax asset		**1,149**	–
Cash and cash equivalents	19	**10,196**	16,280
		52,293	56,487
Total assets		**137,259**	149,329
Current liabilities			
Lease liabilities	15, 20	**23,449**	25,434
Trade and other payables	21	**34,479**	35,958
Provisions	22	**565**	204
Derivative financial liability	25	**1,048**	–
Current tax liability		**–**	740
		59,541	62,336
Non-current liabilities			
Lease liabilities	15, 20	**74,766**	85,702
Provisions	22	**1,298**	913
		76,064	86,615
Total liabilities		**135,605**	148,951
Net assets		**1,654**	378
Equity attributable to equity holders of the Parent			
Share capital	24	**625**	625
Share premium	24	**28,322**	28,322
Merger reserve		**(54)**	(54)
Share based payment reserve		**2,780**	2,252
Hedging reserve		**(331)**	2,227
Retained earnings		**(29,688)**	(32,994)
Total equity		**1,654**	378

These financial statements were approved by the Board of Directors on 30 August 2023 and were signed on its behalf by:

Steve Alldridge
Chief Financial Officer

Company registered number: 11325534

Consolidated statement of changes in equity

	Share capital £000	Share premium £000	Merger reserve £000	Share-based payment reserve £000	Hedging reserve[1] £000	Retained earnings £000	Total equity £000
	Attributable to equity holders of the Company						
Reported balance at 2 May 2021	625	28,322	(54)	1,601	(1,203)	(20,463)	8,828
Cumulative adjustment to opening balance (Note 14)	–	–	–	–	–	(26,494)	(26,494)
Restated balance at 2 May 2021	625	28,322	(54)	1,601	(1,203)	(46,957)	(17,666)
Total comprehensive income for the period							
Profit for the period (Restated – Note 14)	–	–	–	–	–	13,963	13,963
Other comprehensive income	–	–	–	–	3,871	–	3,871
Total comprehensive income for the period	–	–	–	–	3,871	13,963	17,834
Hedging gains and losses and costs of hedging transferred to the cost of inventory (Note 25)	–	–	–	–	(441)	–	(441)
Transactions with owners of the Company							
Share-based payment charges	–	–	–	651	–	–	651
Total transactions with owners	–	–	–	651	–	–	651
Balance at 1 May 2022 (Restated – Note 14)	625	28,322	(54)	2,252	2,227	(32,994)	378
Total comprehensive income/(expense) for the period							
Profit for the period	**–**	**–**	**–**	**–**	**–**	**5,271**	**5,271**
Other comprehensive expense	**–**	**–**	**–**	**–**	**(2,733)**	**–**	**(2,733)**
Total comprehensive income/(expense) for the period	**–**	**–**	**–**	**–**	**(2,733)**	**5,271**	**2,538**
Hedging gains and losses and costs of hedging transferred to the cost of inventory (Note 25)	**–**	**–**	**–**	**–**	**175**	**–**	**175**
Transactions with owners of the Company							
Share-based payment charges	**–**	**–**	**–**	**528**	**–**	**–**	**528**
Dividend	**–**	**–**	**–**	**–**	**–**	**(1,492)**	**(1,492)**
Own shares purchased by employee benefit trust	**–**	**–**	**–**	**–**	**–**	**(473)**	**(473)**
Total transactions with owners	**–**	**–**	**–**	**528**	**–**	**(1,965)**	**(1,437)**
Balance at 30 April 2023	**625**	**28,322**	**(54)**	**2,780**	**(331)**	**(29,688)**	**1,654**

1 Hedging reserve includes £170k (FY22: £175k) in relation to changes in forward points which are recognised in other comprehensive income and accumulated as a cost of hedging within the hedging reserve.

Consolidated cash flow statement

For the period ended 30 April 2023

	FY23 £000	FY22 (Restated – Note 14) £000
Profit for the year (including Adjusting items)	**5,271**	13,963
Adjustments for:		
Depreciation of property, plant and equipment	**4,458**	4,040
Impairment of property, plant and equipment	**944**	1,389
Reversal of impairment of property, plant and equipment	**(574)**	(573)
Depreciation of right-of-use assets	**14,840**	15,094
Impairment of right-of-use assets	**6,126**	6,165
Reversal of impairment of right-of-use assets	**(2,562)**	(6,094)
Amortisation of intangible assets	**878**	567
Impairment of intangible assets	**1,118**	1,375
Derivative exchange (gain)/loss	**(721)**	289
Financial income	**(227)**	(16)
Financial expense	**518**	692
Interest on lease liabilities	**4,130**	4,500
Loss on disposal of property, plant and equipment	**149**	179
Profit on disposal of right-of-use assets and lease liability	**(1,105)**	(441)
Loss on disposal of intangible assets	**14**	–
Share-based payment charges	**528**	651
Taxation	**(265)**	276
Operating cash flows before changes in working capital	**33,520**	42,056
Decrease/(increase) in trade and other receivables	**1,033**	(1,514)
Increase in inventories	**(3,129)**	(892)
(Decrease)/increase in trade and other payables	**(1,443)**	9,336
Increase in provisions	**746**	399
Cash flows from operating activities	**30,727**	49,385
Corporation tax paid	**(1,508)**	(222)
Net cash inflow from operating activities	**29,219**	49,163
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(7,296)**	(2,818)
Capital contributions received from landlords	**1,928**	882
Acquisition of intangible assets	**(1,309)**	(1,015)
Interest received	**227**	16
Net cash outflow from investing activities	**(6,450)**	(2,935)
Cash flows from financing activities		
Payment of lease liabilities (capital)	**(22,672)**	(25,969)
Payment of lease liabilities (interest)	**(4,130)**	(4,500)
Payment of RCF fees	**(336)**	–
Other interest paid	**(321)**	(157)
RCF drawdown	**4,000**	–
Repayment of bank borrowings	**(4,000)**	(7,500)
Dividend paid	**(1,492)**	–
Purchase of treasury shares	**(473)**	–
Net cash outflow from financing activities	**(29,424)**	(38,126)
Net (decrease)/increase in cash and cash equivalents	**(6,655)**	8,102
Exchange rate movements	**571**	(137)
Cash and cash equivalents at beginning of year	**16,280**	8,315
Cash and cash equivalents at end of year	**10,196**	16,280

1. Accounting policies

Where accounting policies are particular to an individual note, narrative regarding the policy is included with the relevant note; for example, the accounting policy in relation to inventory is detailed in Note 17 (Inventories).

(a) General information

TheWorks.co.uk plc is a leading UK multi-channel value retailer of arts and crafts, stationery, toys, games and books, offering customers a differentiated proposition as a value alternative to full price specialist retailers. The Group operates a network of over 500 stores in the UK & Ireland and online.

TheWorks.co.uk plc (the 'Company') is a UK-based public limited company (11325534) with its registered office at Boldmere House, Faraday Avenue, Hams Hall Distribution Park, Coleshill, Birmingham B46 1AL.

These consolidated financial statements for the 52 weeks ended 30 April 2023 (FY23 or the 'Period') comprise the results of the Company and its subsidiaries (together referred to as the 'Group') and are presented in pounds sterling. All values are rounded to the nearest thousand (£000), except when otherwise indicated.

(b) Basis of preparation

The Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies, and the 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 going concern and fixed asset impairment; these are described in Note 1(f).

(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 its current position and the potential impact of the principal risks documented in the Strategic report on pages 1 to 57. The financial statements have been prepared on a going concern basis, which the Directors consider appropriate having made this assessment.

The Group has prepared cash flow forecasts for a period of at least twelve months from the date of approval of these financial statements (the going concern assessment period), based on the Board's forecast for FY24 and its 3 Year Plan, referred to as the 'Base Case' scenario. In addition, a 'severe but plausible' 'Downside Case' sensitivity has been prepared to support the Board's conclusion regarding going concern, by stress testing the Base Case to indicate the financial headroom resulting from applying more pessimistic assumptions.

In assessing the basis of preparation the Directors have considered:

- the external environment;
- the Group's financial position including the quantum and expectations regarding availability of bank facilities;
- the potential impact on financial performance of the risks described in the Strategic report;
- the output of the Base Case scenario, which mirrors the Group's 3 year plan and therefore represents their estimate of the most likely financial performance over the forecast period;
- measures to maintain or increase liquidity in the event of a significant downturn in trading;
- the resilience of the Group to these risks having a more severe impact, evaluated via the Downside Case which shows the impact on the Group's cash flows, bank facility headroom and covenants.

These factors are described below.

External environment

The risks which are considered the most significant to this evaluation relate to the economy and the market, specifically their effect on the strength of trading conditions, and the Group's ability to successfully execute its strategy. The risk of weaker consumer demand is considered to be the greater of these risks, due to the continued high level of inflation and its potential effect on economic growth and consumer spending.

An emerging risk has been noted in relation to the possible effects of climate change, but this is not expected to have a material financial impact on the Group during the forecast period.

1. Accounting policies continued
(b) Basis of preparation continued
(i) Going concern continued
Financial position and bank facilities
At the end of FY23 the Group held net cash at bank of £10.2m (FY22: net cash at bank of £16.3m).

After the Period end, the Group extended the tenor of its bank facility by one year and it now expires on 30 November 2026. At the same time, following a review of the historic utilisation of the facility, the Group's anticipated future cash requirements, and the costs of maintaining the facility, the Group requested that HSBC reduce the size of the facility from £30m to £20m.

The facility includes two financial covenants which are tested quarterly:

1. the "Leverage Ratio" or level of net debt to LTM (last twelve months') EBITDA must not exceed 2.5 times during the life of the facility.
2. the "Fixed Charge Cover" or ratio of LTM EBITDA prior to deducting rent and interest, to LTM rent and interest. This covenant increases in steps to reflect the expectation of progressively improving financial performance during the life of the facility, as follows: until October 2023, the ratio must be at least 1.20 times; for the following 12 months the ratio must be at least 1.25 times, and thereafter at least 1.30 times.

The Group expects to be able to operate and have sufficient headroom within these covenants during the forecast period.

Potential impact of risks on financial scenarios
It is considered unlikely that all the risks described in the Strategic report would manifest themselves to adversely affect the business at the same time. The Base Case scenario/the Group's 3 year financial plan, implicitly already takes into account the risks described, and assumes that they manifest themselves in a way or to an extent that might be considered "neutral".

The Downside Case scenario assumes that there are more severely negative effects than in the Base Case. In particular, the Downside Case assumptions are that macroeconomic conditions are significantly worse, resulting in reduced consumer spending and lower sales. It should be noted that the Base Case already takes into account the current subdued consumer market conditions. The Downside Case assumes that conditions become worse still from the second half of the FY24 financial year.

Base Case scenario
The Base Case scenario assumptions reflect the following factors:

- Store sales (which represent over 85% of total sales) during the first part of FY24 are above the Base Case requirement but online sales are below it. The Group is implementing plans to improve its online profitability in the medium term; in the short term, costs relating to the online business are being tightly controlled to ensure that they reflect the reduced sales level.
- The Base Case gross margin percentage reflects the expected full year effect in FY24 of targeted price increases applied since the beginning of 2023 and also significantly lower ocean container freight costs. These favourable factors are partially offset by a less favourable hedged FX rate than in FY23.
- Anticipated further inflationary effects, in particular the increase in the National Living Wage. In respect of other costs, notably property occupancy costs, it is not expected that there will be further significant inflationary effects during FY24 and FY25, following the significant increases (for example in electricity costs) already experienced during FY23.
- Capital expenditure levels are in line with the Group's strategic plan. A significant proportion of the Group's capital expenditure is discretionary, particularly over a short-term time period. As a result, if required, it can therefore be reduced substantially, for example, in the event the Group needing to preserve cash.
- The anticipated costs of the Group's net zero climate change commitments have been incorporated within the Base Case model. As set out in the climate related disclosures on pages 36 to 44, the impact on the Group's financial performance and position is not expected to be material in the short term.
- The plan makes provision for dividend payments.

Under the Base Case scenario, the Group expects to make routine operational use of its bank facility each year as stock levels are increased in September-October, prior to peak sales occurring. This is consistent with the normal pattern experienced prior to COVID-19.

The output of the Base Case model scenario indicates that the Group has sufficient financial resources to continue to operate as a going concern and for the financial statements to be prepared on this basis.

Measures to maintain or increase liquidity in circumstances such as are described below
If necessary, mitigating actions can and would be taken in response to a significant downturn in trading such as is described below, which would increase liquidity.

These include, for example, delaying and reducing stock purchases, stock liquidation, reductions in capital expenditure, the review of payment terms and the review of dividend levels. Some of these potential mitigations have been built into the Downside Case model, and some are additional measures that would be available in the event of that scenario, or worse, actually occurring.

1. Accounting policies continued
(b) Basis of preparation continued
(i) Going concern continued

Severe but plausible Downside Case scenario

The Downside Case makes the following assumptions to reflect more adverse macroeconomic conditions compared to the Base Case:

- Store LFL sales are assumed to be 5% lower than in the Base Case from October 2023 until January 2025.
- In this scenario online sales are assumed to be lower than in the Base Case during FY24 despite the Group's attempts to increase them, but show recovery in FY25.
- The product gross margin assumptions are the same as in the Base Case other than in January 2024 when it is lower, to allow for the clearance of stock which is assumed would have accumulated due to the inability to reduce stock purchases immediately in response to the lower sales level. Expected FX requirements are hedged until mid FY25, and freight rates are hedged until the end of 2023. Beyond that time, it is not anticipated that there will be any interruption to global freight systems as was experienced as a result of the COVID pandemic, which were a consequence of unique circumstances. Other gross margin inputs are relatively controllable, including via the setting of selling prices to reflect any systematic changes in the cost price of goods bought for resale.
- Volume related costs in the Downside Case are lowered where they logically alter in a direct relationship with sales levels, for example, forecast online fulfilment and marketing costs. The model also reflects certain steps which could be taken to mitigate the effect of lower sales, depending on management's assessment of the situation at the time. These include adjustments to stock purchases, reducing capital expenditure, reductions in labour usage, a reduction in discounts allowed as part of the Group's loyalty scheme and the suspension of dividend payments.
- The combined financial effect of the modified assumptions in this scenario compared with the Base Case, during FY24 and FY25, including implementing some of the mitigating activities available, would result in:
  - a reduction in store net sales of approximately £34m.
  - a reduction in online net sales of approximately £1m.
  - a reduction to EBITDA of approximately £9m.

Under this scenario the Group will draw on its bank facility prior to Christmas 2023 but, as a result of the mitigating actions that would be taken in H2 FY24 in response to a downturn in sales, particularly in reducing the value of stock bought for resale, it would not make subsequent use of the bank facility.

The bank facility financial covenants are complied with during the pre-Christmas 2023 period when the facility is being used, but the forecast indicates that the Fixed Charge covenant will not be complied with throughout FY25, although at this time, the facility is not expected to be in use under this scenario.

On the basis of this Downside Case scenario with the "severe but plausible" set of assumptions as described, the business would continue to have adequate resources to continue in operation.

However, the cash headroom at the quarterly covenant testing points in FY25 falling within the going concern period is limited, and there are reasonably plausible scenarios in which this headroom could be eroded and create a borrowing requirement. For example, if sales decreased by a further 1% during the going concern period compared with the Downside Case, a small borrowing requirement could arise. The Group has a strong relationship with its bank, HSBC, and has a recent track record of working collaboratively with the bank to resolve potential covenant issues, for example, a waiver was agreed by HSBC in 2021 as noted in the Group's FY21 Annual Report. Despite this strong relationship with the bank and the recent evidence of successfully managing comparable situations, if a borrowing requirement arose when the financial covenants are not complied with, there is a risk that the Group would not be able to utilise its borrowing facilities if required.

The Directors believe that, should such a situation arise in practice, it would have time before a potential breach to mitigate further, and potentially to make arrangements with the bank, as has occurred previously, to adjust the covenant levels to prevent a breach. Furthermore, the Group has successfully managed through challenging conditions during the recent COVID pandemic, and the Directors believe it unlikely that comparably challenging conditions will be experienced during the forecast period, despite the concerns regarding the current macroeconomic conditions. Nevertheless, despite the Directors' confidence in relation to these matters, there is no certainty as to whether the mitigating actions would provide the level of liquidity required in the time available to implement them, nor whether the bank would make adjustments to the financial covenants.

Going concern and basis of preparation conclusion

Based on all of the above considerations the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern and, therefore, that the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1. Accounting policies continued

(b) Basis of preparation continued

(ii) New accounting standards

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 2 May 2022:

- Annual Improvements to IFRS 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)
- References to the Conceptual Framework (Amendments to IFRS 3)
- COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

The adoption of the 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.

As at the date of approval of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue, but not yet effective:

- Insurance Contracts (IFRS 17)
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
- Extension to the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)
- Disclosure of Accounting Policies (Amendments to IAS 1)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)
- Definition of Accounting Estimates (Amendments to IAS 8)

The adoption of the standards and interpretations listed above is not expected to have a material impact on the financial position or performance of the Group.

(c) 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.

(d) 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 control commences and continues until control ceases. The Company reassesses whether or not it controls an investee if circumstances indicate that there are changes to the elements of control detailed above.

An Employee Benefit Trust operated on the Group's behalf (EBT) is acting as an agent of the Company, therefore the assets and liabilities of the EBT are aggregated into the Company balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

(e) 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.

1. Accounting policies continued

(f) 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's accounting policies. Where a significant risk of materially different outcomes exists, this will represent a key source of estimation uncertainty.

Estimates and judgements 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.

Key sources of estimation uncertainty which are material to the financial statements are described in the context of the matters to which they relate, in the following notes:

Description	Note	Page
Going concern	1(b)(i)	103 to 105
Impairment of intangible assets, property, plant and equipment and right-of-use assets	13, 14	113 to 118

2. Segmental reporting

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

The Group has one operating segment with two revenue streams, bricks and mortar stores and online. 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

Accounting policy

Revenue comprises receipts from the sale of goods, less deductions for actual and expected returns, discounts and vouchers redeemable by members of the Group's loyalty scheme and is stated net of value added tax and other sales taxes. Revenue is recognised at the point of completing the physical sale in stores, and when the goods have been delivered to the customer in the case of online sales. These are the points when IFRS 15 'performance obligations' are deemed to have been satisfied.

Transactions that result in customers earning points subsequently exchangeable for discounts under the Group's loyalty scheme are accounted for as multiple element revenue transactions. The fair value of the consideration received is allocated between the goods supplied and the points granted. The consideration allocated to the points is measured by reference to their fair value – the amount for which the points could theoretically be sold separately. The consideration allocated to the points is not recognised as revenue at the time of the initial sale transaction, but is deferred, and recognised as revenue when the points are redeemed and the Group's obligations have been fulfilled.

	FY23 £000	FY22 £000
Sale of goods		
UK	**275,305**	260,087
EU	**4,797**	4,543
Total revenues	**280,102**	264,630

Seasonality of operations

The Group's revenue is subject to seasonal fluctuations as a result of peaking during the approach to Christmas, from October to December. Therefore, the first half of the financial year, from April to October, typically produces lower revenue and profit than the second half.

4. Other operating income/(expense)

Accounting policy

The business was classified as a 'non-essential retailer' during the COVID-19 pandemic and was therefore required to close its shops during periods of lockdown in the FY20 and FY21 financial years. Accordingly, the Group made full use of the support schemes available from the Government to partially mitigate the loss of profit caused by the various periods of closure of the retail stores.

The £119k charge noted in the prior period is to correct an immaterial overstatement of the Coronavirus Job Retention Scheme (CJRS) income reported in respect of FY21.

The COVID-19 business rates relief received during the year was £227k (FY22: £5,828k), which is included within cost of sales.

	FY23 £000	FY22 £000
COVID-19 furlough scheme grants receivable	**–**	(119)
Rent receivable	**8**	8
	8	(111)

5. Alternative performance measures (APMs)

Accounting policy

The Group tracks a number of APMs 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 APMs, 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. They are consistent with how the business performance is planned and reported internally and are also consistent with how these measures have been reported historically. Some of the APMs are also used for the purpose of setting remuneration targets.

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

Like-for-like (LFL) sales

The FY23 like-for-like (LFL) sales increase has been calculated with reference to the FY22 comparative sales figures. In FY22's Annual Report, two-year comparatives were used because the use of a normal one-year LFL comparative was prevented by the various disruptions to store trading brought about by COVID-19 restrictions in the FY21 comparative period. Furthermore, for the last five weeks of FY22, it was necessary to calculate the LFL percentages with reference to the corresponding weeks in FY19, because the equivalent weeks during FY20 were also affected by enforced store closures. Similar comparison periods were also used for the total sales growth figures.

LFL sales are defined by the Group as the year-on-year growth in gross sales from stores which have been trading for a full financial year prior to the current year and have been trading throughout the current financial period being reported on, and from the Company's online store, calculated on a calendar week basis. The measure is used widely in the retail industry as an indicator of sales performance. LFL sales are calculated on a gross basis to ensure that fluctuations in the VAT rates of products sold are excluded from the like-for-like sales growth percentage figure.

A reconciliation of IFRS revenue to sales on an LFL basis is set out below:

	FY23 £000	FY22 £000
Total LFL sales	**297,009**	285,012
Non-LFL store sales	**19,621**	13,359
Total gross sales	**316,630**	298,371
VAT	**(35,144)**	(33,467)
Loyalty points	**(1,384)**	(274)
Revenue per consolidated income statement	**280,102**	264,630

Pre-IFRS 16 Adjusted EBITDA (EBITDA) and Adjusted profit after tax

EBITDA is defined by the Group as pre-IFRS 16 earnings before interest, tax, depreciation, amortisation and profit/loss on the disposal of fixed assets, after adding back or deducting Adjusting items. See Note 6 for a description of Adjusting items. Pre-IFRS 16 EBITDA is used for the bank facility LTM EBITDA covenant calculations.

The table provides a reconciliation of pre-IFRS 16 EBITDA to profit/(loss) after tax and the impact of IFRS 16:

	FY23 £000	FY22 (Restated – Note 14) £000
Pre-IFRS 16 Adjusted EBITDA[1]	**9,000**	16,562
Income statement rental charges not recognised under IFRS 16	**24,865**	24,434
Foreign exchange difference on euro leases	**(152)**	120
Post-IFRS 16 Adjusted EBITDA[1]	**33,713**	41,116
Profit on disposal of right-of-use assets and lease liability recognised under IFRS 16	**1,105**	441
Loss on disposal of property, plant and equipment	**(149)**	(179)
Loss on disposal of intangible assets	**(14)**	–
Depreciation of property, plant and equipment	**(4,458)**	(4,040)
Depreciation of right-of-use assets	**(14,840)**	(15,094)
Amortisation	**(878)**	(567)
Finance expenses	**(4,648)**	(5,192)
Finance income	**227**	16
Tax credit/(charge)	**265**	(276)
Adjusted profit after tax	**10,323**	16,225
Adjusting items (including impairment charges and reversals)	**(5,052)**	(2,262)
Tax charge	**–**	–
Profit after tax	**5,271**	13,963

1 Also adjusted for profit and loss on disposal of right-of-use assets and liabilities, property, plant and equipment and intangible assets.

5. Alternative performance measures (APMs) continued

Profit before tax and IFRS 16

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

	FY23			FY22 (Restated – Note 14)		
	Adjusted £000	Adjusting items £000	Total £000	Adjusted £000	Adjusting items £000	Total £000
Profit/(loss) before tax and IFRS 16 adjustments	**3,025**	**(1,488)**	**1,537**	10,980	(2,191)	8,789
Remove rental charges not recognised under IFRS 16	**24,737**	**–**	**24,737**	24,308	–	24,308
Remove hire costs from hire of equipment	**128**	**–**	**128**	126	–	126
Remove depreciation charged on the existing assets	**151**	**–**	**151**	89	–	89
Remove interest charged on the existing liability	**34**	**–**	**34**	31	–	31
Depreciation charge on right-of-use assets	**(14,840)**	**–**	**(14,840)**	(15,094)	–	(15,094)
Interest cost on lease liability	**(4,130)**	**–**	**(4,130)**	(4,500)	–	(4,500)
Loss on disposal of right-of-use assets	**(297)**	**–**	**(297)**	(1,899)	–	(1,899)
Profit on disposal of lease liability	**1,402**	**–**	**1,402**	2,340	–	2,340
Foreign exchange difference on euro leases	**(152)**	**–**	**(152)**	120	–	120
Additional impairment charge under IAS 36	**–**	**(3,564)**	**(3,564)**	–	(71)	(71)
Net impact on profit/(loss)	**7,033**	**(3,564)**	**3,469**	5,521	(71)	5,450
Profit/(loss) before tax	**10,058**	**(5,052)**	**5,006**	16,501	(2,262)	14,239

Adjusted profit metrics

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. These adjusted metrics are included within the consolidated income statement and consolidated statement of other comprehensive income, with further details of Adjusting items included in Note 6.

6. Adjusting items

Adjusting items are unusual in nature or incidence and sufficiently material in size that in the judgement of the Directors merit disclosure separately on the face of the financial statements to ensure that the reader has a proper understanding of the Group's financial performance and that there is comparability of financial performance between periods.

The Directors believe that the Adjusted profit and earnings per share measures included in this report provide additional useful information to users of the accounts. These measures are consistent with how business performance is measured internally. 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.

If a transaction or related series of transactions has been treated as an Adjusting item in one accounting period, the same treatment will be applied consistently year on year.

In relation to FY23, the items classified as 'Adjusting', as shown below, were related to transactions that had been treated as Adjusting in prior periods.

	FY23 £000	FY22 (Restated – Note 14) £000
Cost of sales		
Impairment charges[1]	**8,188**	8,929
Impairment reversals[1]	**(3,136)**	(6,667)
Total cost of sales	**5,052**	2,262
Total Adjusting items	**5,052**	2,262

1 These relate to fixed asset impairment charges and reversals of prior year impairment charges.

7. Operating profit

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

	FY23 £000	FY22 (Restated – Note 14) £000
Loss on disposal of property, plant and equipment	**149**	179
Loss on disposal of intangible assets	**14**	–
Profit on disposal of right-of-use assets and lease liability	**(1,105)**	(441)
Depreciation	**19,298**	19,134
Amortisation	**878**	567
Operating lease payments:		
– Hire of plant and machinery[1]	**371**	389
– Other operating leases[1]	**2,136**	1,549
Net foreign exchange loss/(gain)	**392**	(128)
Cost of inventories recognised as an expense	**119,085**	106,954
Staff costs	**62,235**	60,031

1 These balances relate to non-IFRS 16 operating lease rentals during the year; please refer to Note 15 for further details of these balances.

Auditor's remuneration:

	FY23 £000	FY22 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**500**	450
Amounts payable in respect of other services to the Company and its subsidiaries		
Audit of the accounts of subsidiaries	**40**	40
Audit related assurance services (provision of turnover certificates required under certain leases)	**1**	1
Total services	**541**	491

Please refer to the Audit Committee report for details regarding the safeguarding of auditor objectivity and independence.

8. Staff numbers and costs

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

	Number of employees	
	FY23	FY22
Store support centre colleagues	**243**	216
Store colleagues	**3,564**	3,468
Warehouse and distribution colleagues	**147**	140
	3,954	3,824

The corresponding aggregate payroll costs were as follows:

	FY23 £000	FY22 £000
Wages and salaries	**57,189**	55,600
Social security costs	**4,156**	3,654
Contributions to defined contribution pension schemes	**890**	777
Total employee costs	**62,235**	60,031
Agency labour costs	**2,035**	1,505
Total staff costs	**64,270**	61,536

The Directors' remuneration for the year was as follows:

	FY23 £000	FY22 £000
Directors' remuneration	**759**	1,118
Contributions to defined contribution plans	**15**	15
	774	1,133

8. Staff numbers and costs continued

The following number of Directors were members of:

	FY23	FY22
Company defined contribution scheme	6	6
	6	6

The highest paid Director's remuneration during the year was as follows:

	FY23 £000	FY22 £000
Directors' remuneration	331	585
	331	585

9. Finance income and expense

Accounting policy

Finance expense comprises interest charges and amortised facility fee costs. 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.

Recognised in consolidated statement of comprehensive income

	FY23 £000	FY22 £000
Finance income		
Bank interest receivable	227	16
Total finance income	227	16
Finance expense		
Bank interest payable	(295)	(401)
Other interest payable	(223)	(291)
Interest on lease liabilities	(4,130)	(4,500)
Total finance expense	(4,648)	(5,192)
Net financing expense	(4,421)	(5,176)

10. Taxation

Accounting policy

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.

10. Taxation continued

Accounting policy continued

Deferred tax continued

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.

Recognised in consolidated income statement

	FY23 £000	FY22 (Restated[1]) £000
Current tax expense		
Current year	**230**	1,288
Adjustments for prior years	**(611)**	3
Current tax (credit)/expense	**(381)**	1,291
Deferred tax credit		
Origination and reversal of temporary differences	**(212)**	(111)
Increase in tax rate	**(172)**	(1,120)
Adjustments for prior years	**500**	216
Deferred tax credit	**116**	(1,015)
Total tax expense	**(265)**	276

1 The FY22 corporation tax charge has been restated to reflect the tax impact of the restatements documented in Note 14.

The UK corporation tax rate for FY23 was 19.5% on average with the UK corporation tax rate changing from 19.0% to 25.0% 11 months into the financial year (FY22: 19.0%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

An increase in the UK corporation rate from 19.0% to 25.0% (effective 1 April 2023) was substantively enacted on 24 May 2021. As the deferred tax assets and liabilities should be recognised based on the corporation tax rate applicable when they are anticipated to unwind, the assets and liabilities on UK operations have been recognised at a rate of 25.0% (FY22: 25.0%). Assets and liabilities arising on foreign operations have been recognised at the applicable overseas tax rates.

Reconciliation of effective tax rate

	FY23 £000	FY22 (Restated – see above) £000
Profit for the year	**5,006**	14,239
Tax using the UK corporation tax rate of 19.5% (FY22: 19.0%)	**976**	2,705
Non-deductible expenses	**147**	182
Effect of tax rates in foreign jurisdictions	**(13)**	(40)
Tax (over)/under provided in prior periods	**(111)**	219
Utilisation of unrecognised tax losses brought forward	**(1,211)**	(1,756)
Deferred tax not recognised	**(18)**	86
Losses carried forwards	**137**	–
Change in tax rate	**(172)**	(1,120)
Total tax (credit)/expense	**(265)**	276

The Group's total income tax credit in respect of the period was £265k (FY22: expense of £276k). The effective tax rate on the total profit before tax was (5.3)% (FY22: 1.9% on the profit before tax) whilst the effective tax rate on the total profit before Adjusted items was (2.6)% (FY22: 1.7% on the profit before Adjusted items). The difference between the total effective tax rate and the Adjusted tax rate relates to fixed asset impairment charges and reversals within Adjusting items being non-deductible for tax purposes.

The current year tax credit recognised above relates to an adjustment to the prior year corporation tax creditor recognised; this was higher than the corporation tax payable when the FY22 corporation tax computations were finalised due to the inclusion of the super deduction in the final year-end tax computations.

11. Dividends

Accounting policy

At the balance sheet date, dividends are only recognised as a liability if 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.

	Pence per share	FY23 £000	FY22 £000
Final dividend for the year ended 1 May 2022	2.4p	**1,492**	–
Total dividend paid to shareholders during the year		**1,492**	–

Dividend equivalents totalling £603k (FY22: £375k) were accrued in the year in relation to share-based long-term incentive schemes.

The Board has recommended the payment of a 1.6 pence per share final dividend in respect of FY23 (FY22: 2.4 pence).

12. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss 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 shares that may be issued in connection with 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.

	FY23 Number	FY22 Number
Number of shares in issue	**62,500,000**	62,500,000
Number of dilutive share options	**621,130**	940,673
Number of shares for diluted earnings per share	**63,121,130**	63,440,673

	£000	£000 (Restated – Note 14)
Total profit for the financial period	**5,271**	13,963
Adjusting items	**5,052**	2,262
Adjusted profit for Adjusted earnings per share	**10,323**	16,225

	Pence	Pence (Restated – Note 14)
Basic earnings per share	**8.4**	22.3
Diluted earnings per share	**8.4**	22.0
Adjusted basic earnings per share	**16.5**	26.0
Adjusted diluted earnings per share	**16.4**	25.6

13. Intangible assets

Accounting policy

Goodwill

Goodwill arising on consolidation represents any 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. Goodwill was fully impaired in FY20.

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 (such as consultancy), as well as internal payroll related costs for employees who are directly working on the project. Internal payroll related costs are capitalised if the recognition criteria of IAS 38 Intangible Assets are met or are expensed as incurred otherwise.

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 and treated as an Adjusting item.

13. Intangible assets continued
Accounting policy continued
Software continued

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 1 May 2022	**16,180**	**9,058**	**25,238**
Additions	**–**	**1,309**	**1,309**
Disposals	**–**	**(1,057)**	**(1,057)**
Balance at 30 April 2023	**16,180**	**9,310**	**25,490**
Amortisation and impairment			
Balance at 1 May 2022	**16,180**	**7,441**	**23,621**
Amortisation charge for the year	**–**	**878**	**878**
Impairment charges	**–**	**1,118**	**1,118**
Disposals[1]	**–**	**(1,043)**	**(1,043)**
Balance at 30 April 2023	**16,180**	**8,394**	**24,574**
Net book value			
At 1 May 2022	–	1,617	1,617
At 30 April 2023	**–**	**916**	**916**

1 During FY23 the Group reviewed assets on the fixed asset register with a nil net book value. Following this review intangible assets with a cost and accumulated depreciation of £1,043k were deemed to no longer be in use by the Group and have therefore been disposed of.

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 3 May 2021	16,180	8,043	24,223
Additions	–	1,015	1,015
Balance at 1 May 2022	16,180	9,058	25,238
Amortisation and impairment			
Balance at 3 May 2021 (Restated[2])	16,180	5,499	21,679
Amortisation charge for the year (Restated[2])	–	567	567
Impairment charge (Restated[2])	–	1,375	1,375
Balance at 1 May 2022 (Restated[2])	16,180	7,441	23,621
Net book value			
At 3 May 2021 (Restated[2])	–	2,544	2,544
At 1 May 2022 (Restated[2])	–	1,617	1,617

2 These balances have been restated to reflect the impact of the prior period restatements in Note 14.

Goodwill impairment testing
Goodwill of £16.2m was impaired to £Nil in FY20; therefore, no further impairment testing is necessary in relation to this.

Impairment of other intangible assets
Please refer to Note 14 for details of impairment of tangible and intangible assets.

14. Property, plant and equipment

Accounting policy

Items of property, plant and equipment are stated at their 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% per annum straight line or depreciated on a straight-line basis over the remaining life of the lease, whichever is shorter.
- Computer equipment: 25 to 50% per annum straight-line.

The 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 sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

IFRS 16

IFRS 16 creates the concept of right-of-use assets. The accounting policy and description of the accounting treatment in respect of IFRS 16 is included within Note 15.

Impairment of tangible and intangible assets

The carrying amounts of the Group's tangible and intangible assets with a measurable useful life are reviewed at each balance sheet date to determine whether there is any indication of impairment to their value. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The Directors consider an individual retail store to be a cash generating unit (CGU), as well as the Company's website.

The recoverable amount of an asset is the greater of its fair value less disposal cost and its value in use (the present value of the future cash flows that the asset is expected to generate). In determining value in use, the present value of future cash flows is discounted using a discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset concerned.

The carrying value represents each CGU's specific assets, as well as the IFRS 16 right-of-use asset, plus an allocation of corporate assets where these assets can be allocated on a reasonable and consistent basis.

Where the carrying value exceeds the recoverable amount an impairment loss is established with a charge being made to the income statement. When the reasons for a write down no longer exist, the write down is reversed in the income statement up to the net book value that the relevant asset would have had if it had not been written down and if it had been depreciated.

Measuring recoverable amounts

The Group estimates the recoverable amount of each CGU based on the greater of its fair value less disposal cost and its value in use (VIU), derived from a discounted cash flow model which excludes IFRS 16 lease payments. In assessing the fair value less disposal cost the ability to sublease each store has been considered and it is concluded that this is not applicable for the majority of the store estate. Where it is deemed reasonable to assume the ability to sublet the potential cash inflows generated are insignificant, therefore the VIU calculation is used for all stores. A proportion of 'click and collect' sales are included in store cash flows to reflect the contribution stores make to fulfilling such orders. The key assumptions applied by management in the VIU calculations are those regarding the growth rates of sales and gross margins, medium-term growth rates, central overhead allocation and the discount rate used to discount the assumed cash flows to present value.

Projected cash flows for each store are limited to the useful life of each store as determined by its current lease term unless a lease has already expired or is due to expire within 12 months of 30 April 2023 where the intention is to remain in the store and renew the lease. For these leases, an average lease term is used for cash flow projections.

Projected cash flows for the website are limited to 60 months as this is in line with the average useful economic life of the assets assigned to the web CGU.

Impairment triggers

Due to the challenging macroeconomic environment and the existence of a material brought forwards impairment charge, all CGUs other than stores which have been open for less than 12 months have been assessed for impairment.

14. Property, plant and equipment continued

Key assumptions

The key financial assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of current market conditions and future trends and have been based on historic data from external and internal sources. Management determined the values assigned to these financial assumptions as follows:

The pre-tax discount rate is derived from the Group's weighted average cost of capital, which has been estimated using the capital asset pricing model, the inputs of which include a company risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The discount rate is compared to the published discount rates of comparable businesses and relevant industry data prior to being adopted. The FY23 pre-tax discount rate has been calculated on a post-IFRS 16 basis. FY22's originally reported impairment was calculated on a pre-IFRS 16 basis discounted using a pre-IFRS 16 WACC of 17.9%; however, when the prior year restatements documented below were calculated, the cash flows were produced on a post-IFRS 16 basis and discounted using a post IFRS 16 WACC to ensure consistency of approach.

	FY23	FY22 (Restated)
Pre-tax discount rate	**12.78%**	11.48%
Medium-term growth rate	**1.0%**	2.0%

While the online CGU is in a different stage of establishment to that of the store CGUs, the same pre-tax discount rate has been used in the impairment assessment. Given that the website is not performing in line with expectations, all assets relating to the web CGU are fully impaired, as such an increase in the pre-tax discount rate used for the web assessment would not increase the impairment charge recognised.

Cash flow forecasts are derived from the most recent Board-approved corporate plans that form the Base Case on which the VIU calculations are based. These are described in Note 1(b)(i) (Going concern).

The assumptions used in the estimation of future cash flows are:

- rates of growth in sales and gross margins, which have been determined on the basis of the factors described in Note 1(b)(i) (Going concern);
- central costs are reviewed to identify amounts which are necessarily incurred to generate the CGU cash flows. As a result of the analysis performed at the end of FY23, 87% (FY22: 91%) of central costs have been allocated by category using appropriate volumetrics.

Cash flows beyond the corporate plan period (2027 and beyond) have been determined using the medium-term growth rate; this is based on management's future expectations, reflecting, amongst other things, current market conditions and expected future trends and has been based on historical data from both external and internal sources. Immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the cash flows. The useful economic lives of store assets are short in the context of climate change scenario models therefore no medium to long-term effects have been considered.

Impairment charge

During FY23, an impairment charge of £7,572k was recognised against 209 stores with a recoverable amount of £24,055k, and an impairment charge of £616k was recognised against the website (FY22 restated: an impairment charge of £7,540k was recognised against 200 stores with a recoverable amount of £26,528k, and an impairment charge of £1,389k was recognised against the website). An impairment reversal of £3,136k has been recognised in FY23 relating to 100 stores with a recoverable amount of £18,090k as at 30 April 2023 (FY22 restated: an impairment reversal of £6,667k was recognised relating to 108 stores with a recoverable amount of £24,950k).

A net impairment charge of £5,052k (FY22 restated: £2,262k) has therefore been shown on the face of the consolidated income statement. In line with the previously adopted treatment, impairment charges and reversals have been shown as Adjusting items.

Sensitivity analysis

Whilst the Directors believe the assumptions adopted are realistic, reasonably possible changes in key assumptions could still occur, which could cause the recoverable amount of certain stores to be lower or higher than the carrying amount. The impact on the net impairment charge recognised from reasonably possible changes in assumption are detailed below:

- a reduction in sales of 5% from the Base Case plan to reflect a potential Downside Scenario would result in an increase in the net impairment charge of £8,981k. An increase in sales of 5% from the Base Case plan would decrease the net impairment charge by £5,827k;
- a reduction in gross margin of 2% would result in an increase in the net impairment charge of £2,320k. An increase in gross margin of 2% would decrease the net impairment charge by £2,063k;
- a 200 basis point increase in the pre-tax discount rate would result in an increase in the net impairment charge of £1,412k, while a 200 basis point decrease in the pre-tax discount rate would result in a decrease in the net impairment charge of £1,387k;
- a 100 basis point decrease in the medium-term growth rate would result in an increase in the net impairment charge of £493k, while a 100 basis point increase in the medium-term growth rate would result in an increase in the net impairment charge of £481k;
- increasing the percentage of central costs allocated across CGUs from 87% to 97% would result in an increase in the net impairment charge of £2,234k. Decreasing the percentage of central costs allocated across CGUs from 87% to 77% would result in a decrease in the net impairment charge of £2,000k.

14. Property, plant and equipment continued

Sensitivity analysis continued

Whilst the Directors consider their assumptions to be realistic, should actual results be different from expectations, then it is possible that the value of property, plant and equipment included in the balance sheet could become materially different to the estimates used.

	RoUA – property £000	RoUA – plant and equipment £000	Leasehold improvements £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost						
Balance at 1 May 2022 (Restated[2])	**151,091**	**2,421**	**10,729**	**3,818**	**27,259**	**195,318**
Additions	**9,530**	**13**	**933**	**1,109**	**4,772**	**16,357**
Disposals[1]	**(6,570)**	**–**	**(4,254)**	**(1,271)**	**(12,836)**	**(24,931)**
Balance at 30 April 2023	**154,051**	**2,434**	**7,408**	**3,656**	**19,195**	**186,744**
Depreciation and impairment						
Balance at 1 May 2022 (Restated[2])	**75,483**	**1,408**	**8,686**	**3,507**	**19,717**	**108,801**
Depreciation charge for the year	**14,483**	**357**	**1,315**	**307**	**2,836**	**19,298**
Impairment charge	**6,126**	**–**	**9**	**388**	**547**	**7,070**
Impairment reversals	**(2,562)**	**–**	**(172)**	**–**	**(402)**	**(3,136)**
Disposals	**(6,273)**	**–**	**(4,190)**	**(1,230)**	**(12,792)**	**(24,485)**
At 30 April 2023	**87,257**	**1,765**	**5,648**	**2,972**	**9,906**	**107,548**
Net book value						
At 1 May 2022 (Restated[2])	75,608	1,013	2,043	311	7,542	86,517
At 30 April 2023	**66,794**	**669**	**1,760**	**684**	**9,289**	**79,196**

1 During FY23 the Group reviewed assets on the fixed asset register with a nil net book value. Following this review, fixed assets with a cost and accumulated depreciation of £17,502k were deemed to no longer be in use by the Group and have therefore been disposed of. The totals disposed of by category were as follows: £3,995k leasehold improvements, £1,172k plant and equipment, £12,375k fixtures and fittings.

2 These balances have been restated to reflect the impact of the prior period restatements discussed below.

	RoUA – property £000	RoUA – plant and equipment £000	Leasehold improvements £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost						
Balance at 3 May 2021 (Restated[2])	154,319	1,913	10,410	3,376	26,167	196,185
Additions (Restated[2])	2,540	508	548	476	1,499	5,571
Disposals	(5,768)	–	(229)	(34)	(407)	(6,438)
Balance at 1 May 2022 (Restated[2])	151,091	2,421	10,729	3,818	27,259	195,318
Depreciation and impairment						
Balance at 3 May 2021 (Restated[2])	64,619	976	7,712	2,784	17,049	93,140
Depreciation charge for the year (Restated[2])	14,662	432	1,268	341	2,431	19,134
Impairment charge (Restated[2])	6,165	–	134	411	844	7,554
Impairment reversals (Restated[2])	(6,094)	–	(252)	(8)	(313)	(6,667)
Disposals	(3,869)	–	(176)	(21)	(294)	(4,360)
Balance at 1 May 2022	75,483	1,408	8,686	3,507	19,717	108,801
Net book value						
At 3 May 2021 (Restated[2])	89,700	937	2,698	592	9,118	103,045
At 1 May 2022 (Restated[2])	75,608	1,013	2,043	311	7,542	86,517

2 These balances have been restated to reflect the impact of the prior period restatements discussed below.

Prior period restatements

Leasehold assets useful economic lives

In prior years, leasehold assets were being depreciated over a life longer than the life of the lease they relate to. To correct this, leasehold improvements depreciation has been restated. The FY21 closing accumulated depreciation has been increased by £1,768k with a corresponding decrease in closing FY21 reserves.

The FY22 in year depreciation charge has increased by £537k, reducing adjusted profit before tax and closing property, plant and equipment net book value. In the consolidated cash flow statement, the FY22 adjustment has increased the 'depreciation of property, plant and equipment' by £537k, however there is no overall impact on net cash flows from operating, financing and investing activities or on 'net increase in cash and cash equivalents'.

14. Property, plant and equipment continued

Prior period restatements continued

Lease incentives received and initial direct costs incurred at the inception of a lease

In prior years, landlord capital contributions, and capitalised legal fees incurred upon negotiation of lease agreements were recorded within leasehold improvements rather than included within the initial measurement of the IFRS 16 right-of-use asset. Therefore, the costs and accumulated depreciation amounts relating to these assets have been reclassified from 'leasehold improvements' into 'RoUA property', resulting in a £344k reduction in the right-of-use asset NBV at 3 May 2021, and a £743k reduction at 1 May 2022, with a corresponding increase in the NBV of leasehold assets. This adjustment has no impact on the consolidated income statement or consolidated cash flow statement.

Central cost allocation within fixed asset impairment assessment

In prior years, when assessing the impairment of right-of-use assets, property, plant and equipment and intangible assets, central costs were not allocated to each cash generating unit (CGU). During the current year, the directors have reconsidered the allocation of central costs and based on the existence of a consistent store estate and cost base, concluded that certain costs can be allocated to individual CGUs on a reasonable and consistent basis. The directors additionally considered whether a consistent allocation was appropriate in earlier periods and concluded that an allocation became appropriate following the change in strategy to "Better not just Bigger", the implementation of which occurred following the appointment of Gavin Peck as CEO in January 2020 over a protracted period as a result of COVID-19, that ultimately resulted in a more consistent store estate and cost base. The directors have applied judgement to conclude that the effect of the revised allocation of central costs in 2023 should be reflected by restating the impairment opening balances at 2 May 2021 and 1 May 2022.

The FY21 closing impairment balance relating to right-of-use assets has increased by £26,681k, the closing impairment balance relating to property, plant and equipment has increased by £5,638k, and the closing impairment balance relating to intangible assets has increased by £281k. The adjustment to closing FY21 reserves is therefore £32,600k.

The FY22 reassessment resulted in a £173k higher net impairment charge relating to right-of-use assets, a £479k higher net impairment charge relating to property, plant and equipment, and a £1,375k higher net impairment charge relating to intangible assets. Therefore, the reduction in total profit before tax relating to FY22 impairment charges is £2,027k. These adjustments have resulted in the restatement of a number of reconciling items in the consolidated cash flow statement relating to impairment charges, reversal of impairment charges, and profit / loss on disposal of fixed assets, however they have no overall impact on net cash flows from operating, financing and investing activities or on 'net increase in cash and cash equivalents'.

Depreciation reduction due to impairment restatement

As a result of the impairment adjustment detailed above the net book value of fixed assets was lower at the start of the FY21 and FY22, resulting in the depreciation charge in FY21 and FY22 being overstated. The FY21 closing accumulated depreciation has been reduced by £5,120k relating to right-of-use assets, £1,946k relating to property, plant and equipment and £362k relating to intangible assets, with a corresponding increase in closing FY21 reserves.

The FY22 in year depreciation charge has decreased by £4,748k relating to right-of-use assets, £1,658k relating to property, plant and equipment, and £239k relating to intangible assets, increasing adjusted profit before tax by £6,645k. These adjustments decrease the 'depreciation of property, plant and equipment', 'depreciation of right-of-use assets' and 'amortisation of intangible assets' balances in the consolidated cash flow statement, however there is no overall impact on 'net increase in cash and cash equivalents'.

Corporation tax restatement

The above adjustments have resulted in restatements to the corporation tax charges, current tax assets / liabilities and the deferred tax asset. Please refer to notes 10 and 16 for restated taxation disclosures.

The following tables summarise the impact of the above restatements on the Group's consolidated financial statements including the impact of current and deferred corporation tax.

Summarised consolidated income statement

		Adjustments					
	Per FY22 financial statements	Leasehold asset useful economic life reduction	Landlord contributions and legal fees incorporation within RoUA	Impairment charge increase	Depreciation charge reduction	Taxation impact of restatements	**FY22 restated balance**
Income statement							
Revenue	**264,630**	–	–	–	–	–	**264,630**
Profit before tax	**(216,053)**	(425)	–	(2,027)	6,645	–	**(211,860)**
Gross profit	**48,577**	(425)	–	(2,027)	6,645	–	**52,770**
Other operating income	**(111)**	–	–	–	–	–	**(111)**
Distribution expenses	**(9,128)**	–	–	–	–	–	**(9,128)**
Administrative expenses	**(24,004)**	(112)	–	–	–	–	**(24,116)**
Operating profit	**15,334**	(537)	–	(2,027)	6,645	–	**19,415**
Net financing expense	**(5,176)**	–	–	–	–	–	**(5,176)**
Profit before tax	**10,158**	(537)	–	(2,027)	6,645	–	**14,239**
Taxation	**(1,436)**	–	–	–	–	1,160	**(276)**
Profit after tax	**8,722**	(537)	–	(2,027)	6,645	1,160	**13,963**

14. Property, plant and equipment continued

Summarised consolidated statement of financial position

	Per FY22 financial statements	Adjustments: Leasehold asset useful economic life reduction	Landlord contributions and legal fees incorporation within RoUA	Impairment charge increase	Depreciation charge reduction	Taxation impact of restatements	FY22 restated balance
Non-current assets							
Intangible assets	**2,672**	–	–	(1,657)	602	–	**1,617**
Property, plant and equipment	**13,970**	(2,304)	743	(6,117)	3,604	–	**9,896**
Right-of-use assets	**94,351**	–	(743)	(26,853)	9,866	–	**76,621**
Deferred tax assets	**3,477**	–	–	–	–	1,231	**4,708**
	114,470	(2,304)	–	(34,627)	14,072	1,231	**92,842**
Current assets	**56,487**	-	–	-	–	–	**56,487**
Total assets	**170,957**	(2,304)	–	(34,627)	14,072	1,231	**149,329**
Liabilities							
Tax liability	**(1,115)**	–	–	–	–	375	**(740)**
Other liabilities	**(148,211)**	–	–	–	–	–	**(148,211)**
Total liabilities	**(149,326)**	–	–	–	–	375	**(148,951)**
Net assets	**21,631**	(2,304)	–	(34,627)	14,072	1,606	**378**
Equity attributable to equity holders of the Parent							
Retained earnings	**(11,741)**	(2,304)	–	(34,627)	14,072	1,606	**(32,994)**
Other reserves	**33,372**	–	–	–	–	–	**33,372**
Total equity	**21,631**	(2,304)	–	(34,627)	14,072	1,606	**378**

	Per FY21 financial statements	Adjustments: Leasehold asset useful economic life reduction	Landlord contributions and legal fees incorporation within RoUA	Impairment charge increase	Depreciation charge reduction	Taxation impact of restatements	FY21 restated balance
Non-current assets							
Intangible assets	**2,463**	–	–	(281)	362	–	**2,544**
Property, plant and equipment	**17,524**	(1,768)	344	(5,638)	1,946	–	**12,408**
Right-of-use assets	**112,542**	–	(344)	(26,681)	5,120	–	**90,637**
Deferred tax assets	**2,852**	–	–	–	–	842	**3,694**
	135,381	(1,768)	–	(32,600)	7,428	842	**109,283**
Current assets							
Tax asset	**704**	–	–	–	–	(396)	**308**
Other current assets	**44,360**	–	–	–	–	–	**44,360**
	45,064	–	–	–	–	(396)	**44,668**
Total assets	**180,445**	(1,768)	–	(32,600)	7,428	446	**153,951**
Total liabilities	**(171,617)**	–	–	–	–	–	**(171,617)**
Net assets	**8,828**	(1,768)	–	(32,600)	7,428	446	**(17,666)**
Equity attributable to equity holders of the Parent							
Retained earnings	**(20,463)**	(1,768)	–	(32,600)	7,428	446	**(46,957)**
Other reserves	**29,291**	–	–	–	–	–	**29,291**
Total equity	**8,828**	(1,768)	–	(32,600)	7,428	446	**(17,666)**

14. Property, plant and equipment continued

Summarised 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
Reported balance at 1 May 2022	625	28,322	(54)	2,252	2,227	(11,741)	21,631
Cumulative adjustment	–	–	–	–	–	(21,253)	(21,253)
Restated balance at 1 May 2022	**625**	**28,322**	**(54)**	**2,252**	**2,227**	**(32,994)**	**378**

	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
Reported balance at 2 May 2021	625	28,322	(54)	1,601	(1,203)	(20,463)	8,828
Cumulative adjustment	–	–	–	–	–	(26,494)	(26,494)
Restated balance at 2 May 2021	**625**	**28,322**	**(54)**	**1,601**	**(1,203)**	**(46,957)**	**(17,666)**

15. IFRS 16

Accounting policy

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 requires the use of a single definition of leases, which recognises a right-of-use asset (RoUA) and a lease liability for all leases, with exceptions only permitted for short-term and low-value leases. Accordingly, the impact of IFRS 16 is to require recognition of a lease liability and a corresponding RoUA in relation to leases previously classified as operating leases, which were hitherto accounted for via a single charge to the profit and loss account.

The most significant impact is that the Group's retail store operating leases are recognised on the 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.

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 it is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an asset for a period of time, in exchange for consideration. Control is conveyed where the Group has both the right to direct the 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, unless the permitted recognition exceptions can be used.

Recognition exceptions

The Group leases many assets, including properties, IT equipment and warehouse equipment.

The Group has elected to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following types of leases:

(i) Leases with a term of 12 months or less.

(ii) Leases where the underlying asset has a low value.

(iii) Concession leases where the landlord has substantial substitution rights.

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 at the end of the lease, 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 incremental borrowing rate as the rate implicit in the lease cannot be readily determined.

15. IFRS 16 continued

Lessee accounting under IFRS 16 continued

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 Group 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.

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 value of lease liabilities and right-of-use assets recognised.

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

Subsequent measurement

After lease commencement, the Group values 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 increased by the interest cost on the lease liability and decreased by lease payments made. It is 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 either the end of the useful life of the right-of-use asset or the end of the 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.

Determining the lease term

Termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility. At the commencement date of property leases, the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. Leases will be revalued if it becomes likely that a break clause is to be exercised. In determining the likelihood of the exercise of a break option, management considers all facts and circumstances that create an economic incentive to exercise the termination option. For property leases, the following factors are the most relevant:

- The profitability of the leased store and future plans for the business.
- If there are any significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend.

COVID-19 concessions

The Group elected to account for qualifying COVID-19 related rent concessions as variable lease payments, recognising the concession in the period in which the event or condition that triggers the payments occurs. Rent concessions are qualifying if the following conditions are met:

(i) The concession is a direct consequence of the COVID-19 pandemic.

(ii) The change in lease payments resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.

(iii) The reduction in lease payments only affects payments due on or before 30 June 2022.

(iv) There is no substantive change to other terms and conditions of the lease.

The Group has applied this practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances.

Amounts recognised in the statement of financial position

Right-of-use assets

	FY23 £000	FY22 (Restated – Note 14) £000
Land and buildings	**66,794**	75,608
Plant and equipment	**669**	1,013
Total right-of-use assets	**67,463**	76,621

Additions to the right-of-use assets during FY23 were £9,543k (FY22: £3,048k).

15. IFRS 16 continued

Amounts recognised in the statement of financial position continued

Lease liabilities

Lease liabilities included in the statement of financial position as at the financial year end:

	FY23 £000	FY22 £000
Current	**23,449**	25,434
Non-current	**74,766**	85,702
	98,215	111,136

Maturity analysis – contractual undiscounted cash flows:

	FY23 £000	FY22 £000
Less than one year	**27,163**	31,592
One to two years	**22,926**	27,283
Two to three years	**18,039**	23,655
Three to four years	**12,944**	18,977
Four to five years	**9,185**	13,102
More than five years	**21,718**	21,862
Total undiscounted lease liabilities	**111,975**	136,471

Amounts recognised in the statement of profit and loss

	FY23 £000	FY22 (Restated – Note 14) £000
Depreciation charge on right-of-use assets (RoUA)	**14,840**	15,094
Interest cost on lease liability	**4,130**	4,500
Profit on disposal of RoUA / lease liability	**(1,105)**	(441)
Foreign exchange difference on euro leases	**(152)**	120
Additional impairment charge under IAS 36	**3,564**	71
Operating lease rentals – hire of plant, equipment and motor vehicles		
– Low-value leases	**371**	389
Total plant, equipment and motor vehicle operating lease rentals	**371**	389
Operating lease rentals – store leases		
– Stores with variable lease rentals	**877**	454
– Concession leases (the landlord has substantial substitution rights)	**977**	943
– Low-value leases	**13**	(11)
– Lease is expiring within 12 months or has rolling break clauses	**53**	87
– Lease has expired	**397**	484
– Variable lease payments as a result of COVID-19 concessions	**(181)**	(408)
Total store operating lease rentals	**2,136**	1,549

Depreciation of right-of-use asset by class:

	FY23 £000	FY22 (Restated – Note 14) £000
Land and buildings	**14,483**	14,662
Plant and equipment	**357**	432
Total right-of-use asset depreciation	**14,840**	15,094

16. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets		Liabilities	
	FY23 £000	FY22 (Restated[1]) £000	**FY23 £000**	FY22 (Restated[1]) £000
Property, plant and equipment	**2,876**	2,868	**–**	–
Leases	**1,362**	1,645	**–**	–
Temporary timing differences	**354**	195	**–**	–
Financial assets/liabilities	**262**	–	**–**	–
Tax assets	**4,854**	4,708	**–**	–

Movement in deferred tax during the year

	Fixed assets £000	Leases £000	Temporary timing differences £000	Financial assets/ liabilities £000	Total £000
At 1 May 2022 (Restated[1])	2,868	1,645	195	–	4,708
Adjustment in respect of prior years	(499)	–	–	(598)	(1,097)
Deferred tax (charge)/credit to profit and loss	507	(283)	159	–	383
Deferred tax credit in equity profit and loss	–		–	860	860
At 30 April 2023	**2,876**	**1,362**	**354**	**262**	**4,854**

1 The FY22 deferred tax asset has been restated to reflect the tax impact of the restatements documented in Note 14.

Movement in deferred tax during the year

	Fixed assets £000	Leases £000	Temporary timing differences £000	Financial assets/ liabilities £000	Total £000
At 1 May 2022 (Restated[1])	1,574	1,420	372	328	3,694
Adjustment in respect of prior years	–	–	(216)	–	(216)
Deferred tax (charge)/credit to profit and loss (Restated[1])	1,294	225	39	(328)	1,230
Deferred tax credit in equity profit and loss	–	–	–	–	–
At 1 May 2022 (Restated[1])	**2,868**	**1,645**	**195**	**–**	**4,708**

1 The FY22 deferred tax asset has been restated to reflect the tax impact of the restatements documented in Note 14.

Tax losses carried forward for which no deferred tax asset has been recognised total £9,273k (FY22: £14,288k) with an expiry date of April 2024.

17. Inventories

Accounting policy

Inventories comprise stocks of finished goods for resale and 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.

The process of purchasing inventories may include the use of cash flow hedges to manage foreign exchange risk. Where hedge accounting applies, an adjustment is applied such that the cost of stock reflects the hedged exchange rate.

Inventory summary

	FY23 £000	FY22 £000
Gross stock value	**31,278**	29,817
Less: stock provisions for shrinkage and obsolescence	**(1,037)**	(3,252)
Goods for resale net of provisions	**30,241**	26,565
Stock in transit	**3,200**	2,822
Inventory	**33,441**	29,387

The cost of inventories recognised as an expense during the period was £119.1m (FY22: £107.7m).

Stock provisions

The Group makes provisions in relation to stock quantities, due to potential stock losses not yet reflected in the accounting records, commonly referred to as unrecognised shrinkage and, in relation to stock value, where the net realisable value of an item is expected to be lower than its cost, due to obsolescence.

17. Inventories continued

Stock provisions continued

Shrinkage provision

During the prior financial year, the Group carried out 'tactical' (perpetual inventory basis) stock counts in its retail stores on a regular basis, such that at the end of the financial year a significant proportion of stock in stores had been counted and stock file adjustments made to correct errors indicated by the counts. In addition, full four wall counts (i.e. a controlled count of all stock in a store) had been performed in 71 stores during the last 6 weeks of the financial year, with an additional 53 four wall counts performed in the month following the financial year end.

During FY23, full four wall counts were performed in 524 stores during the last 13 weeks of the financial year. Through these counts, the Group established that its accounting records reflected the actual quantities of stock in stores. This process also provides the Group with an indication of the typical percentage of stock loss, which is used to calculate, by extrapolation, unrecognised shrinkage at the balance sheet date. The stock records were updated to reflect the results of the stock counts, which occurred nearer to the end of the financial year than the counts undertaken in FY22, as a result of which, the provision required for unrecognised shrinkage materially decreased compared with the value at the end of FY22, by £1.4m to £0.4m.

The unrecognised shrinkage provision was £0.4m at the Period end (FY22: £1.9m), representing 1.9% of gross store stock (FY22: 8.6%). The provision relates to store stock with a value of £20.9m (FY22: £22.2m). This represents management's best estimate of the likely level of stock losses experienced.

Obsolescence provision

Generally, the Group's inventory does not comprise a large proportion of stock with a 'shelf life'. Stock lines which are slow selling because they have been less successful than planned or which have sold successfully and become fragmented as they reach the natural end of their planned selling period, are usually discounted and sold during 'sale' events, for example the January sale. This stock is referred to as terminal stock.

During FY23, a high degree of focus has been placed on clearing terminal stock and at the period end the Group held significantly less terminal stock than the prior year. Consequently, the obsolescence provision has reduced by £0.7m to £0.6m.

The Group has considered the impact of customer preferences and ESG considerations on potential stock obsolescence, and these factors are not deemed to have a material impact on the level of provision required.

18. Trade and other receivables

	FY23 £000	FY22 £000
Current		
Trade receivables	**2,864**	2,606
Other receivables	**359**	1,793
Prepayments	**4,284**	4,028
Trade and other receivables	**7,507**	8,427

Trade receivables are attributable to sales which are paid for by credit card and are classified as finance assets at amortised cost; they are all current. No credit is provided to customers. The value and nature of trade receivables is such that no material credit losses occur; therefore, no loss allowance has been recorded at the period end (FY22: £Nil).

Other receivables relate to stock on water deposits paid, and other accounts payable debit balances. Prepayments relate to prepaid property costs and other expenses.

19. Cash and cash equivalents

	FY23 £000	FY22 £000
Cash and cash equivalents per balance sheet	**10,196**	16,280
Net cash and cash equivalents	**10,196**	16,280

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

	FY23 £000	FY22 £000
Sterling	**8,208**	12,198
Euro	**1,949**	3,102
US dollar	**39**	980
Net cash and cash equivalents	**10,196**	16,280

At 30 April 2023, the Group held net cash (excluding lease liabilities) of £10.2m (FY22: net cash (excluding lease liabilities) of £16.3m). This comprised cash of £10.2m (FY22: cash of £16.3m).

For the year ended 30 April 2023, the Group's bank facilities comprise an RCF of £30.0m expiring 30 November 2025. Since the Period end, the facility was extended by a year and reduced in size by £10.0m.

The facility includes financial covenants in relation to the level of net debt to LTM EBITDA and 'Fixed Charge Cover' or ratio of LTM EBITDA prior to deducting rent and interest, to LTM rent and interest.

None of the Group's cash and cash equivalents (FY22: £Nil) is held by the trustee of the Group's employee benefit trust in relation to the share schemes for employees.

20. Borrowings

Accounting policy

Interest-bearing bank loans and overdrafts, loan notes and other loans are recognised in the balance sheet at amortised cost. Finance charges associated with arranging non-equity funding are recognised in the income statement over the life of the facility. All other borrowing costs are recognised in the income statement in accordance with the effective interest rate method. A summary of the Group's objectives, policies, procedures and strategies with regard to financial instruments and capital management can be found in Note 25. At 30 April 2023, all borrowings were denominated in sterling (FY22: sterling).

	FY23 £000	FY22 £000
Non-current liabilities		
Lease liabilities	**74,766**	85,702
Non-current liabilities	**74,766**	85,702
Current liabilities		
Lease liabilities	**23,449**	25,434
Current liabilities	**23,449**	25,434

Reconciliation of borrowings to cash flows arising from financing activities

	FY23 £000	FY22 £000
Borrowings at start of year (excluding overdrafts)	**111,136**	143,009
Changes from financing cash flows		
Payment of lease liabilities (capital)	**(22,672)**	(25,969)
Payment of lease liabilities (interest)	**(4,130)**	(4,500)
Proceeds from loans and borrowings[1]	**4,000**	–
Repayment of bank borrowings[1]	**(4,000)**	(7,500)
Total changes from financing cash flows	**(26,802)**	(37,969)
Other changes		
Lease liability additions	**10,991**	3,634
Disposal of lease liabilities	**(1,402)**	(2,340)
The effect of changes in foreign exchange rates	**152**	(120)
Interest expense	**4,140**	4,922
Total other changes	**13,881**	6,096
Borrowings at end of year (excluding overdrafts)	**98,215**	111,136

1 £4.0m was drawn under the Group's RCF from 29 September 2022 until 31 October 2022.

Net debt reconciliation

	FY23 £000	FY22 £000
Net debt (excluding unamortised debt costs)		
Cash and cash equivalents	**(10,196)**	(16,280)
Net bank cash	**(10,196)**	(16,280)
Non-IFRS 16 lease liabilities	**268**	485
Non-IFRS 16 net cash	**(9,928)**	(15,795)
IFRS 16 lease liabilities	**97,946**	110,651
Net debt including IFRS 16 lease liabilities	**88,018**	94,856

21. Trade and other payables

	FY23 £000	FY22 £000
Current		
Trade payables	**22,960**	20,091
Other tax and social security	**2,610**	2,792
Accrued expenses	**8,909**	13,075
Trade and other payables	**34,479**	35,958

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

21. Trade and other payables continued

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, including £484k (FY22: £453k) of deferred income in relation to the customer loyalty scheme. The decrease in the balance from FY22 is due to a decrease in the bonus accrual held at year end.

The Group has net US dollar denominated trade and other payables of £6.6m (FY22: £4.9m).

22. Provisions and contingent liabilities

Accounting policy

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 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.

	HMRC VAT £000	Property £000	Total £000
Balance as at 3 May 2021	–	718	718
Provisions made during the year	–	399	399
Balance as at 1 May 2022	–	1,117	1,117
Provisions made during the year	514	450	964
Provisions used during the year	–	(218)	(218)
Balance as at 30 April 2023	**514**	**1,349**	**1,863**

Maturity analysis of cash flows:

	HMRC VAT £000	Property £000	Total £000
Due in less than one year	514	51	565
Due between one and five years	–	760	760
Due in more than five years	–	538	538
	514	1,349	1,863

Property provision

In accordance with IAS 37 Provisions, the Group recognises provisions for the cost of reinstating certain Group properties at the end of their lease term, based on the conditions set out in the terms of the individual leases. The timing of the outflows will match the ends of the relevant leases, which range from 1 to 10 years for stores and 13.2 years for the head office. The average remaining term of the store estate is 4.8 years.

HMRC VAT provision

HMRC initiated a VAT review in August 2022 in respect of FY19 to FY22 and have reviewed 4 years of sales data. In the initial output of their review, HMRC have identified a number of areas where they disagree with the VAT treatment applied by the business.

Management accepts that there is a possibility that the VAT rate charged is incorrect for some SKUs under review, predominantly activity sets that include books and activity resources, and that the rate may be concluded to be mixed or standard rate. HMRCs view is that these rates are not zero, and therefore we believe it appropriate to recognise a provision for a potential liability for £514k on the basis that 50% of the SKUs under review are concluded to be standard rated, and the 50% mixed rated.

23. Defined contribution pension plans

Accounting policy

A defined contribution pension plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no 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.

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 £890k (FY22: £777k).

At the end of the year contributions of £243k (FY22: £155k) were outstanding.

24. Share capital and share premium

Accounting policy

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:** 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.

Ordinary shares are classified as equity.

24. Share capital and share premium continued

Accounting policy continued

	FY23 Number 000	FY22 Number 000
Share capital		
Allotted, called up and fully paid ordinary shares of 1p:		
At the start of the period	**62,500**	62,500
Issued in the period	**–**	–
At the end of the period	**62,500**	62,500

	FY23 £000	FY22 £000
Share capital		
At the start of the period	**625**	625
Issued in the period	**–**	–
At the end of the period	**625**	625
Share premium		
At the start of the period	**28,322**	28,322
Issued in the period	**–**	–
At the end of the period	**28,322**	28,322

During the year, the Employee Benefit Trust purchased £473k (FY22: £Nil) of the Company's shares for the purpose of satisfying future employee share-based payment awards.

Investment in own shares
At 30 April 2023, the Employee Benefit Trust held 1,240,577 (FY22: Nil) of the Company's shares.

The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 30 April 2023 was £390,161 (FY22: £Nil). In the current period, 1,408,086 (FY22: Nil) were repurchased and transferred into the Trust, with 167,491 (FY22: Nil) reissued on exercise of share options.

25. Financial instruments

Accounting policy

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 future US dollar denominated purchases.

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.

25. Financial instruments continued

Accounting policy continued

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 and applies a hedge ratio of 1:1. 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.

Hedging gains and losses and costs of hedging transferred to the cost of inventory in the year were £175k (FY22: (£441k).

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 below.

Foreign currency

The consolidated financial statements are presented in pounds sterling, which is the functional currency of the Group.

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.

The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing certain products 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'.

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.

Financial risk management

The Board has overall responsibility for managing risks and uncertainties 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 and in the Corporate governance report.

(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 in transactions denominated in US dollars.

The Group uses foreign currency derivative contracts and US dollar denominated cash balances to manage the foreign exchange risk on US dollar denominated inventory purchases.

As described above, the Group takes a prudent, but flexible, approach to hedging the risk of exchange rate fluctuations. At 30 April 2023, the Group held forward contracts with a nominal value of $40.0m (FY22: $30.0m), all with maturity dates of less than one year. These contracts have an average forward rate of $1.2183 (FY22: $1.3964).

25. Financial instruments continued

Financial risk management continued

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	
	FY23 £000	FY22 £000	**FY23 £000**	FY22 £000
US dollar	**6,552**	4,905	**39**	980
Euro	**352**	454	**1,958**	3,092

Currency sensitivity analysis

The Group is exposed to the US dollar and, to a significantly 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 an increase 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	
	FY23 £000	FY22 £000	**FY23 £000**	FY22 £000
Profit/(loss) for the period	**592**	357	**(146)**	(240)

This is mainly attributable to the exposure outstanding on US dollar and euro cash balances held, trade payables and other accruals 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.

(ii) Interest rate risk

The Group is also exposed to the effects of fluctuations 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.

	FY23 £000	FY22 £000
Variable rate instruments (100 bp increase)	**132**	123
Variable rate instruments (100 bp decrease)	**(132)**	(123)

(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; therefore, 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 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.

25. Financial instruments continued

Contractual maturity of financial liabilities

	Within 1 year £000	1-5 years £000	5+ years £000	Total £000
30 April 2023				
Interest bearing	–	–	–	–
Non-interest bearing	**31,950**	**760**	**538**	**33,248**
Finance lease liability (undiscounted cash flows)	**27,163**	**63,094**	**21,718**	**111,975**
Derivative				
Forward currency contracts	**1,048**	–	–	**1,048**
	60,161	**63,854**	**22,256**	**146,271**
1 May 2022				
Interest bearing	–	–	–	–
Non-interest bearing	32,917	913	–	33,830
Finance lease liability (undiscounted cash flows)	31,592	83,017	21,862	136,471
Derivative				
Forward currency contracts	–	–	–	–
	64,509	83,930	21,862	170,301

Hedge accounting

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 cash flows 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.
- 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).
- 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:

	FY23 £000	FY22 £000
Net derivative financial instruments		
Foreign exchange contracts	**(1,048)**	2,393

Classification of financial instruments

The table below shows the classification of financial assets and liabilities as at 30 April 2023.

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

25. 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 30 April 2023				
Financial assets measured at fair value				
Derivative financial instruments	–	–	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	7,507	–
Cash and cash equivalents	–	–	10,196	–
Financial liabilities measured at fair value				
Derivative financial instruments	–	(1,048)	–	–
Financial liabilities not measured at fair value				
Unsecured bank loans	–	–	–	–
Lease liabilities	–	–	–	(98,215)
Trade and other payables	–	–	–	(34,479)
As at 30 April 2023	–	(1,048)	17,703	(132,694)

	Mandatorily at FVTPL £000	Cash flow hedging instruments £000	Financial assets at amortised cost £000	Other financial liabilities £000
As at 1 May 2022				
Financial assets measured at fair value				
Derivative financial instruments	–	2,393	–	–
Financial assets not measured at fair value				
Trade and other receivables	–	–	8,427	–
Cash and cash equivalents	–	–	16,280	–
Financial liabilities measured at fair value				
Derivative financial instruments	–	–	–	–
Financial liabilities not measured at fair value				
Unsecured bank loans	–	–	–	–
Lease liabilities	–	–	–	(111,136)
Trade and other payables	–	–	–	(35,958)
As at 1 May 2022	–	2,393	24,707	(147,094)

26. Equity-settled share-based payment arrangements

Accounting policy

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

The cost of the awards to employees 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 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 granted during FY23 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.

During FY23, the Group had three (FY22: three) share-based payment schemes, which are described below.

TheWorks.co.uk Long-Term Incentive Plan (LTIP)

Further details of the Group's LTIP arrangements are included in the Directors' remuneration report. The LTIP rules provide for the grant of performance related and restricted awards.

The LTIP awards are subject to a three-year vesting period and will usually only vest following the satisfaction of performance conditions. Vested shares will not be released until the end of an additional holding period of two years beginning on the vesting date. Performance measures under the LTIP are based on financial measures. For FY23, the vesting conditions require three years' service from the grant date and the achievement of an EPS target, and a share price target (FY22 awards: three years' service from the grant date and the achievement of an EPS target, and a share price target).

Restricted stock awards (RSA)

Restricted stock awards have previously been granted to certain employees, with a three-year vesting period. Restricted share awards are not subject to performance conditions.

26. Equity-settled share-based payment arrangements continued

Save As You Earn Scheme (SAYE)

A Save As You Earn Scheme is established which is a UK tax-qualified scheme under which eligible employees (including Directors) may save up to a maximum monthly limit of £250 (as determined by the Remuneration Committee) over a period of three years. 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	RSA	SAYE
Number of share options			
Outstanding at 1 May 2022	2,720,807	1,525,242	2,064,003
Granted	2,682,726	1,097,879	2,349,307
Forfeited	(181,818)	(192,598)	(1,641,100)
Lapsed	(485,828)	–	(1,009,860)
Exercised	(206,266)	(66,773)	–
Outstanding at 30 April 2023	**4,529,621**	**2,363,750**	**1,762,350**

	LTIP	RSA	SAYE
Weighted average exercise price (£)			
Outstanding at 1 May 2022	–	–	0.56
Granted	–	–	0.36
Forfeited	–	–	0.41
Lapsed	–	–	0.58
Exercised	–	–	–
Outstanding at 30 April 2023	**–**	**–**	**0.43**
Weighted average remaining contractual life (years)	3.85	2.48	2.13

The exercise prices of outstanding share options as at 30 April 2023 range from £0.21 to £0.81.

Expense recognised in the income statement

	FY23 £000	FY22 £000
LTIP – share-based payment expense	**275**	486
RSA – share based payment expense	**199**	98
SAYE – share-based payment expense	**54**	67
Total IFRS 2 charges	**528**	651

27. Capital commitments

At 30 April 2023 the Group had capital commitments of £368k (FY22: £139k).

28. 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.

Transactions with key management personnel

The compensation of key management personnel (including the Directors) is as follows:

	FY23 £000	FY22 £000
Key management remuneration - including social security costs	**3,132**	2,077
Pension contributions	**184**	134
Long-Term Incentive Plan - including social security costs	**313**	621
Total transactions with key management personnel	**3,629**	2,832

Further details on the compensation of key management personnel who are Directors are provided in the Group's Directors' remuneration report.

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 for the Company.

Company	Active/ dormant	Direct/ indirect control	Registered number	Class of shares held	Ownership
The Works Investments Limited	Active	Direct	09073458	Ordinary	100%
The Works Stores Limited	Active	Indirect	06557400	Ordinary	100%
The Works Online Limited	Dormant	Indirect	08040244	Ordinary	100%

Company statement of financial position

As at 30 April 2023

	Note	FY23 £000	FY22 (Restated – Note 35) £000
Fixed assets			
Investment	33	**38,377**	57,537
		38,377	57,537
Current assets			
Trade and other receivables	34	**7**	20
		7	20
Total assets		**38,384**	57,557
Current liabilities			
Trade and other payables	35	**8,986**	6,465
Total liabilities		**8,986**	6,465
Net assets		**29,398**	51,092
Share capital	36	**625**	625
Share premium	36	**28,322**	28,322
Share-based payment reserve		**2,780**	2,252
Retained earnings		**(2,329)**	19,893
Total equity		**29,398**	51,092

These financial statements were approved by the Board of Directors on 30 August 2023 and were signed on its behalf by:

Steve Alldridge
Chief Financial Officer

Company registered number: 11325534

Company statement of changes in equity

	Share capital £000	Share premium £000	Share based payment reserve £000	Retained Earnings £000	Total equity £000
Reported balance at 2 May 2021	625	28,322	1,546	40,529	71,022
Cumulative adjustment to opening balance (Note 35)	–	–	–	(5,549)	(5,549)
Restated balance at 2 May 2021	625	28,322	1,546	34,980	65,473
Total comprehensive expense for the period					
Loss for the period	–	–	–	(15,087)	(15,087)
Total comprehensive expense for the period	–	–	–	(15,087)	(15,087)
Transactions with owners of the Company					
Share-based payment charge	–	–	706	–	706
Transactions with owners of the Company	–	–	706	–	706
Balance at 1 May 2022 (Restated - Note 35)	**625**	**28,322**	**2,252**	**19,893**	**51,092**
Total comprehensive expense for the period					
Loss for the period	**–**	**–**	**–**	**(20,257)**	**(20,257)**
Total comprehensive expense for the period	**–**	**–**	**–**	**(20,257)**	**(20,257)**
Transactions with owners of the Company					
Share-based payment charge	**–**	**–**	**528**	**–**	**528**
Dividend	**–**	**–**	**–**	**(1,492)**	**(1,492)**
Own shares purchased by employee benefit trust	**–**	**–**	**–**	**(473)**	**(473)**
Transactions with owners of the Company	**–**	**–**	**528**	**(1,965)**	**(1,437)**
Balance at 30 April 2023	**625**	**28,322**	**2,780**	**(2,329)**	**29,398**

Notes to the Company financial statements

30. Accounting policies

(a) Basis of preparation

The Company financial statements have been prepared 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 UK-adopted International Accounting Standards (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.

An Employee Benefit Trust operated on the Company's behalf ('EBT') is acting as an agent of the Company, therefore the assets and liabilities of the EBT are aggregated into the Company balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

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(b)(i) for further information regarding the basis of preparation.

Principal accounting policies

The principal accounting policies set out below have been applied consistently to all periods presented in these financial statements.

New accounting standards

The Company has applied the following new standards and interpretations for the first time for the annual reporting period commencing 2 May 2022:

- Annual Improvements to IFRS 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)
- References to the Conceptual Framework (Amendments to IFRS 3)
- COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

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

(b) Income statement

The Company made a loss after tax of £20.1m for the period relating to the impairment of the investment balance (FY22: loss of £15.1m). 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.
- Capital management.
- The effects of new but not yet effective IFRS.
- The compensation of key management personnel.

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) Key sources of estimation uncertainty

The preparation of 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 the requirement to make assumptions in arriving at a figure, 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.

Key sources of estimation uncertainty which are material to the financial statements are described in the context of the matters to which they relate, in the following note:

Description	Note	Page
Impairment of investments in subsidiaries	33	136

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.

32. Dividends

Accounting policy

At the balance sheet date, dividends are only recognised as a liability if 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.

	Pence per share	FY23 £000	FY22 £000
Final dividend for the year ended 1 May 2022	2.4p	**1,492**	–
Total dividend paid to shareholders during the year	2.4p	**1,492**	–

Dividend equivalents totalling £603k (FY22: £375k) were accrued in the year in relation to share-based long-term incentive schemes.

The Board has recommended the payment of a 1.6 pence per share final dividend in respect of FY23 (FY22: 2.4 pence).

33. Investments in subsidiaries

Key source of estimation uncertainty

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 gross margins, operating costs, future capital maintenance expenditure, long-term growth rates and the pre-tax discount rate used to discount the assumed cash flows to present value. Estimation uncertainty arises due to changing economic and market factors.

	FY23 £000
At 2 May 2021	**57,279**
Additions	**14,105**
Impairment charge	**(13,847)**
At 1 May 2022	**57,537**
Additions	**386**
Impairment charge	**(19,546)**
At 30 April 2023	**38,377**

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 described above, key assumptions for the value in use calculation include those regarding the pre-tax discount rate, long-term growth rates, and expected trading performance (sales, gross margin and operating costs).

The recoverable amount of the investment in The Works Investments Limited has been re-evaluated based on the Group's latest forecast post-tax cash flows included in its Base Case plan (see Note 1(b)(i)) 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. The immediately quantifiable costs of short term climate change risks and our net zero commitments have been included in the cashflows. Increased capital expenditure has been included in the medium term cashflows to reflect anticipated technological investment that is likely to be required either due to climate risk or in meeting our net zero commitments.

Management estimates pre-tax discount rates that reflect the current market assessment of the time value of money and the risks specific to the Group. The pre-tax discount rate is derived from the Group's weighted average cost of capital, which has been estimated using the capital asset pricing model, the inputs of which include a company risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The FY23 pre-tax discount rate has been calculated on a pre-IFRS 16 basis, therefore the cashflows used in the value in use calculation include IFRS-16 lease payments.

	FY23	FY22
Pre-tax discount rate	**17.19%**	17.88%
Long-term growth rate	**1.0%**	2.0%

As a result of this analysis, an impairment charge of £19.5m has been recognised during FY23.

Sensitivity analysis

As disclosed in the accounting policies note, the cash flows used within the impairment model, the long-term growth rate and the pre-tax discount rate are sources of estimation uncertainty and changes in these assumptions could lead to further impairment.

Management has performed sensitivity analysis on the assumptions in the impairment model using reasonably possible changes in these key assumptions:

- a 10 basis point reduction in the long-term growth rate would result in an increase in impairment of £1.3m;
- a 10% reduction in cash flows from the Base Case plan would result in an increase in the impairment of £2.8m; and
- a 20 basis point increase in the pre-tax discount rate would result in an increase in impairment of £3.3m.

In the event that all three were to occur simultaneously, there would be an increase in impairment of £6.7m.

34. Trade receivables

	FY23 £000	FY22 £000
Prepayments and accrued income	**7**	20
Trade and other receivables	**7**	20

35. Trade payables

	FY23 £000	FY22 (Restated[1]) £000
Non-trade payables and accrued expenses	**208**	208
Accruals	**86**	92
Amounts owed to Group undertakings	**8,692**	6,165
Trade and other payables	**8,986**	6,465

1 These balances have been restated to reflect the impact of the prior period restatements discussed below.

Amounts owed to Group undertakings are non-interest bearing and repayable on demand. The increase in the balance relates to the FY22 final dividend and Plc related payroll costs being paid by The Works Stores Limited during the year as the Company does not have a bank account.

Prior Period Restatements

The FY21 fixed asset impairment restatement detailed in Note 14 retrospectively reduces the distributable reserves in The Works Stores Limited at the end of FY21. This prior year restatement affects an intercompany loan waiver which occurred in FY21, of a £5.5m payable which had been due to The Works Stores Limited from TheWorks.co.uk plc. As this is a waiver from a subsidiary to the parent company, the waiver is a deemed distribution of profits. Following the prior year restatement, The Works Stores Limited had negative distributable reserves as at the time of the waiver, as such the distribution was unlawful. Therefore, as at the date of the waiver the Company is liable to repay an amount equal to the original amount subject to the waiver, and an intercompany payable of £5.5m was created at this date. This results in a £5.5m increase to amounts owed to group undertakings as at the end of FY21, with a corresponding reduction in profit after tax. In the FY22 financial statements, the amounts owed to group undertakings is increased by £5.5m compared with the amount previously stated, and the brought forward retained earnings balance has been reduced by £5.5m.

The following tables summarise the impact of the above restatements on the Group's consolidated financial statements.

Summarised consolidated statement of financial position

	Per FY22 financial statements	Adjustment	FY22 restated balance
Total assets	**57,557**	–	**57,557**
Liabilities			
Trade and other payables	**(916)**	(5,549)	**(6,465)**
Total liabilities	**(916)**	(5,549)	**(6,465)**
Net assets	**56,641**	(5,549)	**51,092**
Equity attributable to equity holders of the Parent			
Retained earnings	**25,442**	(5,549)	**19,893**
Other reserves	**31,199**	–	**31,199**
Total equity	**56,641**	(5,549)	**51,092**

	Per FY21 financial statements	Adjustment	FY21 restated balance
Total assets	**71,477**	–	**71,477**
Liabilities			
Trade and other payables	**(455)**	(5,549)	**(6,004)**
Total liabilities	**(455)**	(5,549)	**(6,004)**
Net assets	**71,022**	(5,549)	**65,473**
Equity attributable to equity holders of the Parent			
Retained earnings	**40,529**	(5,549)	**34,980**
Other reserves	**30,493**	–	**30,493**
Total equity	**71,022**	(5,549)	**65,473**

35. Trade payables continued

Prior Period Restatements continued

Summarised consolidated statement of changes in equity

	Attributable to equity holders of the Company				
	Share capital £000	Share premium £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Reported balance at 1 May 2022	625	28,322	2,252	25,442	56,641
Cumulative adjustment	–	–	–	(5,549)	(5,549)
Restated balance at 1 May 2022	**625**	**28,322**	**2,252**	**19,893**	**51,092**

	Attributable to equity holders of the Company				
	Share capital £000	Share premium £000	Share-based payment reserve £000	Retained earnings £000	Total equity £000
Reported balance at 2 May 2021	625	28,322	1,546	40,529	71,022
Cumulative adjustment	–	–	–	(5,549)	(5,549)
Restated balance at 2 May 2021	**625**	**28,322**	**1,546**	**34,980**	**65,473**

36. Share capital and share premium

Accounting policy

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.

	FY23 Number 000	FY22 Number 000
Share capital		
Allotted, called up and fully paid ordinary shares of 1p:		
At the start of the period	**62,500**	62,500
Issued in the period	**–**	–
At the end of the period	**62,500**	62,500

	FY23 £000	FY22 £000
Share capital		
At the start of the period	**625**	625
Issued in the period	**–**	–
At the end of the period	**625**	625
Share premium		
At the start of the period	**28,322**	28,322
Issued in the period	**–**	–
At the end of the period	**28,322**	28,322

During the year, the Employee Benefit Trust purchased £473k (FY22: £Nil) of the Company's shares for the purpose of satisfying future employee share-based payment awards.

Investment in own shares

At 30 April 2023, the Employee Benefit Trust held 1,240,577 (FY22: Nil) of the Company's shares.

The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 30 April 2023 was £390,161 (FY22: £Nil). In the current period, 1,408,086 (FY22: Nil) were repurchased and transferred into the Trust, with 167,491 (FY22: Nil) reissued on exercise of share options.

37. Equity-settled share-based payment arrangements

Accounting policy

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

The cost of the awards to employees 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 granted during FY23 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.

During FY23, the Group had three (FY22: three) share-based payment schemes, which are described below.

TheWorks.co.uk Long-Term Incentive Plan (LTIP)

Further details of the Group's LTIP arrangements are included in the Directors' remuneration report. The LTIP rules provide for the grant of performance related and restricted awards.

The LTIP awards are subject to a three-year vesting period and will usually only vest following the satisfaction of performance conditions. Vested shares will not be released until the end of an additional holding period of two years beginning on the vesting date. Performance measures under the LTIP are based on financial measures. For FY23, the vesting conditions require three years' service from the grant date and the achievement of an EPS target, and a share price target (FY22 awards: three years' service from the grant date and the achievement of an EPS target, and a share price target).

Restricted stock awards (RSA)

Restricted stock awards have previously been granted to certain employees, with a three-year vesting period. Restricted share awards are not subject to performance conditions.

Save As You Earn Scheme (SAYE)

A Save As You Earn Scheme is established which is a UK tax-qualified scheme under which eligible employees (including Directors) may save up to a maximum monthly limit of £250 (as determined by the Remuneration Committee) over a period of three years. 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 26.

Expense recognised in the Company income statement

	FY23 £000	FY22 (Restated – Note 35) £000
Share-based payment expenses		
Expense recognised in the Company income statement	**143**	396
Expense recognised in the subsidiary income statement	**385**	310
Total IFRS 2 charges recognised in the Group income statement	**528**	706

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