studio
RETAIL GROUP

ANNUAL REPORT & ACCOUNTS 2020

Studio is a market-leading digital value retailer offering its UK customers a broad range of products and a flexible repayment proposition.

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Highlights

Group

- Total group revenue* of £514.8m, up 2.2% (FY19 restated**: £503.7m).
- Revenue from continuing operations of £434.9m, up 3.1% (FY19 restated**: £421.7m).
- Adjusted operating profit* for the total group measured on a constant-GAAP basis up by 3.9% to £39.9m.
- Operating profit from continuing operations was down by 52.7% to £14.7m largely as a result of £20m estimated impact of COVID-19 on the bad debt charge and the adoption of IFRS 16.
- Adjusted profit before tax* for the total group measured on a constant-GAAP basis up by 8.6% to £31.2m.
- Profit before tax from continuing operations of £6.8m (FY19 restated**: £26.2m).
- Core net debt* reduced by £5.6m to £51.8m.

Studio

- Studio revenue of £434.9m, up 3.1% (FY19 restated**: £421.7m).
  - Product revenue of £311.7m (FY19 restated:** £304.2m), growth of 2.5%, with a strong performance during its peak trading period offset by a less consistent performance at other times.
  - Competitive market conditions and a disappointing retail trading performance during Q4 resulted in product margins reducing slightly to 33.0% (FY19 restated**: 33.4%), although gross profit from retail increased by 1.0% to £102.8m (FY19 restated**: £101.7m).
  - Financial services revenue increased by 4.9% to £123.2m.
- Adjusted operating profit* for the business of £39.0m (FY19 restated**: £39.4m) after investment in upgraded systems and processes.
- Individually significant items reported in respect of incremental PPI costs in August 2019 of £5.6m.
- Statutory divisional operating profit of £17.1m (FY19 restated**: £36.5m) largely as a result of £20m estimated impact of COVID-19 on the bad debt charge.

Education

- Conditional sale to YPO agreed in December 2019 for headline consideration of £50m. Awaiting clearance from the Competition & Markets Authority.
- Continued improvement in digital activity and improved product sourcing during the year, although the final weeks were materially affected by school closures in the UK and overseas.
- Adjusted operating profit* of £3.3m, marginally ahead of prior year (FY19 restated**: £3.2m).
- Statutory divisional operating profit of £2.5m (FY19 restated**: £3.2m).

* This is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on pages 18 to 21.

** Balances have been restated as set out in note 1 to the financial statements.

Financial Highlights

	2020	2019 (restated)**	Change
Revenue from continuing operations	£434.9m	£421.7m	+3.1%
Revenue from total group*	£514.8m	£503.7m	+2.2%
Adjusted operating profit* from total group	£39.9m	£38.4m	+3.9%
Adjusted operating profit* from continuing operations	£36.6m	£35.2m	+4.1%
Adjusted operating profit margin %* from total group	7.8%	7.6%	+20bps
Operating profit from total group*	£17.2m	£34.3m	-49.8%
Operating profit margin from total group*	3.3%	6.8%	-350bps
Operating profit margin from continuing operations	3.4%	7.4%	-400bps
Adjusted profit before tax* from total group	£31.2m	£28.8m	+8.6%
Adjusted profit before tax* from continuing operations	£27.4m	£25.6m	+7.1%
Profit before tax from continuing operations	£6.8m	£26.2m	-74.0%
Profit for the year	£8.8m	£23.3m	-62.4%
Adjusted free cash flow generation*	£23.7m	£28.9m	-17.8%
Cash generated from operating activities before interest and tax paid	£16.5m	£22.4m	-26.1%
Core net debt*	£51.8m	£57.4m	-9.7%
Overall net debt* (including IFRS 16)	£292.9m	£233.4m	+25.5%

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Our Brands

Chairman's Statement

"Our overall strategy to grow the Studio customer base and increase our customers' spend with us, supported by our flexible credit offer, is essentially unchanged by the pandemic."

Ian Burke
Chairman

Dear Shareholder,
Welcome to our 2020 Annual Report and Accounts.

FY20 was a year of transition and further operational progress for the Group. During the period, we continued to focus on strengthening our online value offer at our core Studio retail business, which continues to resonate with customers, while we also reached an agreement to dispose of our Education business.

Since our March year end, the impact of COVID 19 has continued to have a significant impact on people's everyday lives and on the way that the business operates. With this in mind, I would like to take this opportunity to thank each and every one of our colleagues for their hard work and dedication during this period. We have kept their health and safety as our clear priority throughout, and it is thanks to them that we have been able to continue to serve our customers and handle the disruption during lockdown.

Change of name

The Group changed its name from Findel plc to Studio Retail Group plc at its AGM in July 2019 to strengthen the Group's identity and align it with our primary trading brand. This follows the change in the trading subsidiary name from Express Gifts to Studio Retail at the start of 2019, and a modernisation of the Studio brand designed to make it more appealing in an increasingly digital marketplace for our customers' shopping preferences.

Disposal of Findel Education

Our ambition to focus our resources around the Studio business was the primary reason behind our decision to sell Education in December 2019 to YPO for headline consideration of £50m. We are continuing to work with YPO to obtain clearance from the Competition and Markets Authority for the transaction, which we anticipate will be granted in December 2020. The results for Education are generally presented within our FY20 results as a discontinued operation, although as analysts and management incentive schemes for FY20 were focused upon the results of the Group including Education, we have also presented an adjusted profit before tax on a like-for-like basis* for the year with Education's results included within it.

Financial performance

Total revenue from Studio increased by 3.1% to £434.9m (FY19 restated**: £421.7m), with a strong performance in the period leading up to Christmas but a more inconsistent retail performance during typically quieter periods given the challenging UK retail market and Brexit-related uncertainties. Adjusted profit before tax on a like-for-like basis* from the total group, which was the measure of profit most closely monitored by management during the year, increased by 8.6% from £28.8m to £31.2m. The statutory profit before tax from continuing operations was £6.8m (FY19 restated**: £26.2m).

The accounting standard for bad debt provisioning, IFRS 9, requires the business to use external economic forecasts to estimate the likely level of future credit losses, using only the information that was available at the balance sheet date. The UK lockdown, which was a consequence of Covid-19, came into force shortly before the year-end. The resulting deterioration in the economic outlook, particularly in relation to unemployment, increased the level of provision indicated by our modelling by approximately £20m.

The unprecedented level of uncertainty around the impact of Covid-19 on the UK economy as a whole, and subsequently on our customer base, continues to cause challenges in assessing bad debt on a forward-looking basis. It should therefore be noted that that £20m figure quoted represents our best estimate of the incremental impact of the Covid-19 on the bad debt provision based on the information available at the end of March. At the time of writing, we have not seen a significant increase in the level of customer arrears resulting from the pandemic, nor have we seen a material reduction in customer payment rates.

Impact of Covid-19

The investments in modernising Studio's warehouse facilities and its supporting digital infrastructure enabled the business to react to the challenges of lockdown at the end of March 2020 from a position of strength. A significant number of colleagues were able to work effectively from home and Covid-19-safe processes and working conditions were implemented across our

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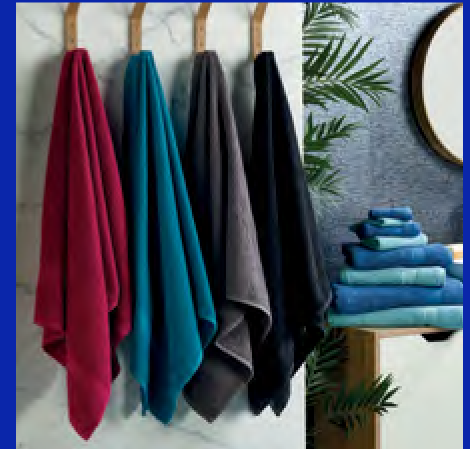

premises. The business has therefore been able to operate effectively throughout the lockdown period.

The Group initially took a very cautious approach to liquidity management, reducing stock intake, deferring discretionary capital projects and marketing expenditure whilst the position became clearer. As people remained at home during lockdown, it quickly emerged that Studio was seeing particularly strong demand for ranges such as toys, games, electricals, fitness and garden as consumers moved the majority of their purchasing online. This improved the Group's liquidity position, and enabled the reversal of the precautionary measures put in place in response to the introduction of lockdown.

We continue to retain a cautious stance in respect of customer repayments as, despite a modest number of requests for forbearance caused by disruption to household incomes, we anticipate that the level of customer arrears may worsen later in the year if unemployment levels increase materially.

Education's business experienced a greater reduction in demand due to the closure of UK and international schools, although the position has started to return towards normal seasonal patterns.

Dividends

The Board continues to prioritise investment in improving digital capabilities and in strengthening its financial position in light of the broader economic environment. In addition, the parent company has accumulated losses of £73.3m and, as such, the Company does not have plans to reinstate dividend payments at this stage.

Management and Board

Paul Kendrick, who has been Managing Director of Studio since April 2017, was appointed to the Board in December 2019. We subsequently announced that Paul would be appointed as Group CEO upon the retirement of Phil Maudsley in March 2021.

By then, Phil will have spent more than 33 years with the Group, overseeing the development of the Studio brand as Managing Director and, since 2017, driving the Group's significant progress as CEO. He will leave the Group with our thanks and best wishes for the future. I look forward to working more closely with Paul in his new role.

Colleagues

This has been an unprecedented period in which our colleagues' hard work and commitment has shone through. As a token of the Board's appreciation and recognition of our front-line colleagues who came into work during the challenging early period of lockdown, we introduced a temporary scheme giving those colleagues shopping vouchers between April 2020 and June 2020. On behalf of the Board, I would like to extend our thanks to them for their outstanding efforts.

Current trading

Studio's trading performance in the first 20 weeks of the year has been exceptional, with product sales up 42% on prior year and financial services revenue, which inherently lags behind product sales growth, up 6.4%. The business passed the milestone of having over 2 million active customers in June, which positions the business ideally as it heads into its traditional peak trading period up to Christmas. We expect that more competitive market conditions will return in the coming months, alongside additional costs associated with new working practices. Our planning assumes that sales growth for the remainder of FY21 will moderate to nearer the levels seen in recent years. Our intention would be to reinvest any benefits from exceptional growth into further growing the customer base and accelerating our digital transformation. We are not yet in a position to provide a detailed assessment of how the rest of FY21 will develop and we will aim to provide greater clarity in due course.

Outlook

Whilst Covid-19 is likely to present material challenges for the UK economy and the broader retail landscape for several years, Studio is well positioned with its digital-first strategy focused upon delivering great value to its customers. Our overall strategy to grow the Studio customer base and increase our customers' spend with us, supported by our flexible credit offer, is essentially unchanged by the pandemic. Whilst it is too early to restore detailed guidance for FY21, we continue to believe that Studio's recent performance provides the basis for sustainable medium-term profit growth.

Ian Burke
Chairman

22 August 2020

Chief Executive's Review

"The competitive landscape has undoubtedly changed in Studio's favour."

Phil Maudsley
Chief Executive Officer

The majority of the financial information within this annual report relates to the financial year ended 27 March 2020 – the end of the first week of the UK's general lockdown caused by Covid-19 and the start of an overnight transformation of what we see as "normality". At the time of writing, without an effective vaccine, it looks like the necessary changes to our day-to-day lives caused by the virus will be with us for some time, and the longer-term impacts on how we shop, how we work and how prosperous we all are will be substantially different from anything we've seen before.

Back at the beginning of March before the start of lockdown, as I was looking back on my 33-year career with the Group, it was almost unbelievable to think that so many aspects of the Studio we know today didn't exist when I first joined back in 1987. The internet hadn't been developed, the flexible credit account had yet to be introduced, our main warehouse in Accrington was still focused on picking Christmas cards and wrapping, and the Group contained a very broad array of operational interests both in the UK and overseas including a range of physical shops for its greetings card operation.

Today's Group is tightly focused upon developing Studio as a substantial digital value retailer, building on the new opportunities in the marketplace. Since becoming CEO in 2017, I have often commented that Studio is in a digital sweet-spot in the retail market. Our medium-term ambition remains to increase Studio's customer base beyond 3 million customers and to see revenue in excess of £1bn. In a post-Covid-19 world, that opportunity is greater than ever, but continued change and agility will be needed too.

Studio has thrived in the period since lockdown. Its digital offering of great value products appeals to families who truly know the value of the pound in their pocket. We have attracted more new customers, bringing our active customer base beyond 2 million. We have also successfully adapted our warehousing and support facilities to ensure our colleagues can work in a Covid-19-secure environment, with many able to work from home.

However there are key parts of the business that will require investment over the next few years to realise the medium to long-term ambition for Studio. The ability to fully utilise the information available to join up our marketing, trading and financial services activities and optimise performance to offer customers an even better shopping experience. We can improve our customer journey with improved stock availability and better integration where we ship products direct from third party suppliers giving even more opportunity for an enhanced range. And by improving the delivery options for our customers by updating our warehouse capabilities.

At the same time, the competitive landscape has undoubtedly changed in Studio's favour. The traditional high-street shopping model was already under sustained pressure well before Covid-19 but, as others have commented, online shopping is now the default option for the majority of people. Families often respond to periods of financial uncertainty by seeking great value and welcome the opportunity to spread the cost of their shopping over a number of months. We have seen these advantages come to the fore during lockdown, with product sales in the first 20 weeks of the year up 42% on last year. That has left us in a strong liquidity position to build on as we move into our peak trading period in the run up to Black Friday and Christmas.

This will be my last report as Group CEO and it has been a privilege to work with so many talented colleagues over the years. Paul Kendrick joined the business in 2016 as my deputy in the Studio division, before taking charge of the division in April 2017. He has shown his strengths over the last three years in delivering Studio's growth, building a largely new and very capable executive team around him. I wish him every success as I hand over to him as CEO in the coming months. I have thoroughly enjoyed my long career at Fine Art Developments, Findel and now Studio Retail Group and look forward to seeing it reach its medium-term ambitions as soon as possible.

Phil Maudsley
Chief Executive Officer

22 August 2020

studio
We Do Wow

STANLEY
CLUB

Studio

Summary income statement

£000	2020	2019 (restated)**	% change
Product revenue	**311,697**	304,176	2.5%
Other financial services revenue	**18,617**	19,332	
Credit account interest	**104,542**	98,119	
Financial services revenue	**123,159**	117,451	4.9%
Sourcing revenue	**38**	26	
Reportable segment revenue	**434,894**	421,653	3.1%
Product cost of sales	**(208,924)**	(202,435)	-3.2%
Financial services cost of sales	**(37,605)**	(36,623)	-2.7%
Sourcing cost of sales	**—**	(18)	
Total cost of sales	**(246,529)**	(239,076)	-3.1%
Gross profit	**188,365**	182,577	3.2%
Marketing costs	**(31,661)**	(31,693)	0.1%
Distribution costs	**(37,372)**	(36,423)	-2.6%
Administrative costs	**(71,361)**	(66,533)	-7.3%
EBITDA	**47,971**	47,928	-0.1%
Depreciation and amortisation	**(8,975)**	(8,480)	-5.8%
Operating profit stated on a like-for-like basis*	**38,996**	39,448	-1.1%
Estimated COVID-19 bad debt impact	**(20,000)**	—	
Change in bad debt accounting estimate	**3,675**	—	
Impact on IFRS 16	**55**	—	
Adjusted operating profit	**22,726**	39,448	-42.4%
Product margin %	***33.0%***	*33.4%*	*-40bp*
Underlying impairment loss as % of revenue	***8.6%***	*8.7%*	*-10bp*
Operating profit stated on a like-for-like basis %	***9.0%***	*9.4%*	*-40bp*
Adjusted operating profit %	***5.2%***	*9.4%*	*-410bp*

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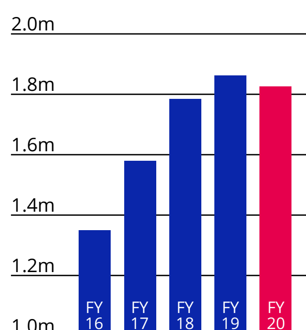
Key Investment Features

1. A strong record of increasing the customer base and improving product sales.
2. Ongoing buying and supply chain efficiency improvements help to deliver better value to our customers whilst sustaining margins.
3. The in-house managed credit facility provides additional revenue and further enables retail sales growth.
4. Advanced in our digital transformation programme with over 90% of sales made online and a fast-growing App (launched in September 2019), now accounting for 18% of total sales.
5. A clear strategy with scaled investment in data science and technology, alongside a strengthened management team lead to medium-term growth opportunities in the online value retail sector.

KPIs – measuring our progress

Customer base

1.83m

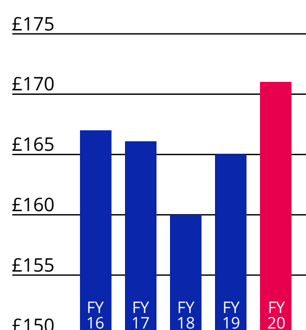


How it is measured?
Active customer accounts at the end of each calendar year.

Why is it used?
To show the base from which future sales can be made.

Spend per customer

£171

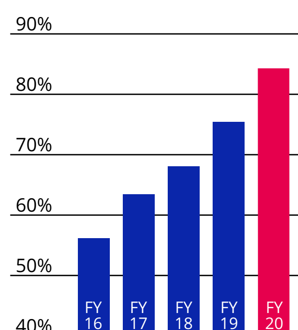


How it is measured?
Total product sales divided by active customers.

Why is it used?
To illustrate the level of future sales that can be made from the customer base.

Online ordering

84.3%



How it is measured?
Proportion of the year's product sales placed using an online route – financial year.

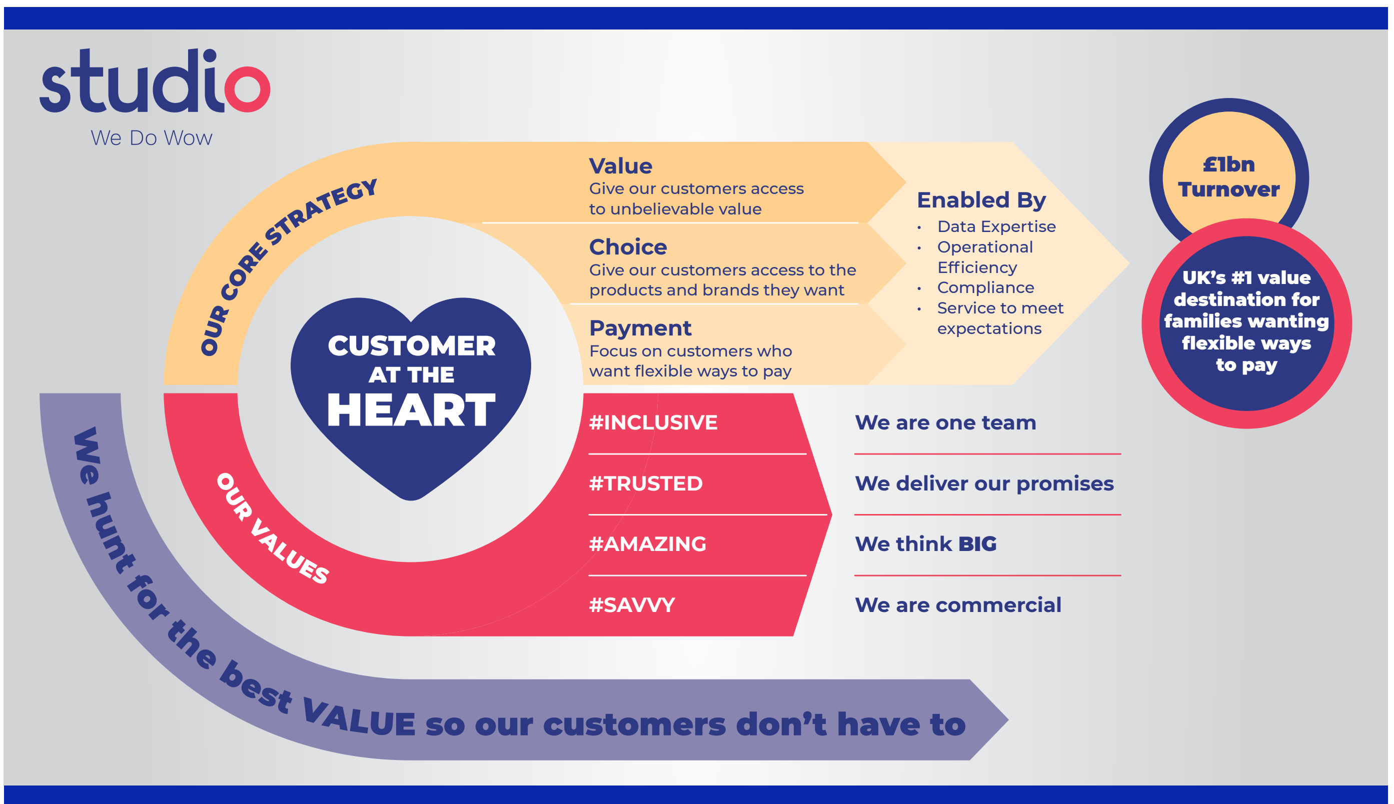
Why is it used?
To show the changing nature of customer ordering patterns.

Credit customers

1.02m

How it is measured?
Number of customers who have incurred an interest charge at least once in the last financial year.

Why is it used?
To show the base from which financial services income can be made.



Studio is becoming a leading digital value retailer with a broad product offer of clothing and footwear alongside home and electrical products plus the more seasonal ranges, many of which can be personalised for free. Over 90% of sales are generated online and, although catalogues are still used, they are just a part of the wider marketing activity which includes growing investment into broadcast and digital media. Underpinning all this, is the drive to hunt for the best value so our customers don't have to, whilst providing them with a range of payment options.

Following the start of the lockdown in March 2020, Studio has seen very rapid sales growth as customers browse online, including using our new app, to find products that help make family life that bit easier. New customers have found the combination of a broad, value driven product range and financial services creates a point of difference to other retailers. With no physical stores to service and virtually all orders now coming online (a small minority still being phone and postal orders), it is now striving to utilise data and technology across all aspects of the business to improve decision making, becoming a truly digital retailer. With the Customer at the Heart of the business, ongoing improvements to customer experience and service means our 2 million customers love the Studio offer and continue to shop with us more frequently.

Our medium-term ambition is to increase the customer base to over 3 million and achieve over £1 billion of revenue. By continuing to increase our market share whilst also increasing the annual spend per customer to peer-equivalent levels, we believe this is an achievable ambition and so continue with a strategy built around three key pillars:

- Improve Retail Profitability.
- Maximise Financial Services Opportunity.
- Build Strong Foundations.

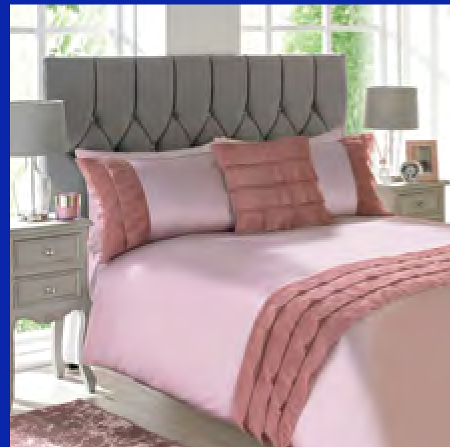
We will be reviewing these pillars in the coming months to ensure that they continue to be focused on our customers' needs. The plans and priorities underpinning them have been sharpened over two years with many initiatives delivered or in flight and serving us well during the pandemic, combined with our clearly defined values to our customers and colleagues to deliver on our brand line *We Do WoW*.

These values came through customer research and by involving 700 colleagues across the business:

- Inclusive (We) – the broad product range has wide customer appeal, and the flexible payment option opens up our retail offer to customers who may prefer to spread the cost of purchases. To deliver this we act as one team, with no departmental silos.
- Trusted (Do) – customers have to be able to trust us to deliver the value and quality they expect, to deliver for those important family moments, like Christmas, and also that we make responsible decisions when we lend money. We do this by being positive and delivering against our promises.
- Amazing (Wow) – we amaze customers with our value and product range, along with targeted offers and service. To do this we are innovative, think big and are creative.
- Savvy (Wow) – for customers, shopping with Studio is clever – with its great range and value, there is no reason to buy elsewhere. For colleagues it means we are commercial, we hunt for great value and use the tools available to be even better at our jobs and deliver for our customers.

The strategic pillars frame the business plans and a transformation programme to invest in new technology, process change and enhancing the capabilities of our people to enable Studio to continue to grow into the future.

Studio continued



Retail Profitability

Increasing retail profitability will be achieved by growing sales through having more customers, who shop more frequently, and by improving how we plan and source our ranges to improve product margins.

The actions we are taking to deliver this are:

- Build the Studio brand as the online destination for value and raise its profile within our target audience of value-conscious families.
- Focus on Customer Experience with a single view of the customer to improve how we target and service them, alongside a programme to continually make Studio easier, faster and more trusted to shop with.
- Product development – changing our buying processes to improve product planning and sourcing to in turn improve margins, with particular focus on attracting customers with great value own-brand clothing and household products, our Wow ranges (larger volume lines, offering exceptional value) and gift offer – especially where we can add value through free personalisation.

During FY20, 1.8 million customers shopped with Studio. That base has since grown beyond 2.0 million during lockdown and builds upon the success in recent years where new customers have been recruited through increased use of TV advertising and digital marketing, with customers then being retained through data-driven CRM programmes utilising catalogue mailings and targeted digital activity. Over the last two years, we have updated the creative look and feel of Studio for customers with a revamped website, new advertising creative and a new Studio App featuring "shop the look" ideas.

Our business model is built around customer lifetime value, with initial acquisition costs taking time to pay back. The credit account acts as a loyalty mechanic, even for customers who pay in full when they get a statement and retention is further enabled by range development, targeted marketing and improving service levels to deliver a better overall experience. Our net promoter score (NPS) reduced at the start of lockdown as processes were adapted to new ways of working. Our customer experience colleagues and partners in the Philippines and in South Africa saw significantly tighter lockdown restrictions than we saw in the UK, which took longer to overcome. Restoring the NPS to pre-Covid-19 levels will be an important objective for the coming months.

Some recruitment channels have become less profitable in recent years, with the use of targeted marketing lists in particular becoming less prominent following the introduction of GDPR in 2018. The decision to move away from unprofitable routes, combined with lower level of credit account applicants discussed below, was the key driver behind product sales during H1 being 2.1% below the first half of FY19. Within that, sales from online channels in the Studio brand increased strongly, up by 12.8%, with average spend per customer – particularly from the app channel – up by 3.1% which reflects the changing customer base and targeting. Orders from legacy channels (phone and written) declined in the period, whilst orders from the secondary Ace brand were also weaker, down 23%, representing around 8% of total sales. Within both groups, there are a high number of non-credit taking customers who have tended to shop for highly-promotional items with lower levels of loyalty.

As we moved into the peak trading season of Black Friday and Christmas, the digital performance of Studio was particularly strong, with an improved performance from the legacy channels. This contributed to record levels of online orders and dispatches during the key Q3 period. However, retail market conditions particularly for high-street stores were very competitive during the second half of December. As a result, the margins achieved at the very end of Q3 were disappointing. Conditions in the final quarter of the year remained challenging and so product sales growth of just 2.5% for the year as a whole was considered to be disappointing.

In sharp contrast, the retail performance of Studio since the start of lockdown has been exceptional and was enabled by much of the strategic investment that has been made to date both in our digital transformation and market positioning as a leading online value retailer. For a period, we operated as a pureplay digital retailer. The challenge to the business remains to harness the positive trends seen during lockdown and to ensure that we use these as a base to drive growth in future years.

Financial Services

The second of our strategic pillars is maximising the financial services opportunity, whilst ensuring the credit offered is relevant, appropriate and affordable for our customers, and meets regulatory guidelines. The majority of Studio customers have a revolving credit account that allows them to either pay for their purchases within a month when their statement arrives, or to roll their balance and spread payments to help with their household budgeting.

The benefit to Studio of the credit proposition is not just an additional revenue stream through financial income when customers choose to roll a balance, but also in that the account facility drives higher

loyalty for the retail part of the business and acts as a regular prompt for the customer to revisit the website and app to service their accounts. As we move forward, we will continue to deliver actions to underpin:

- Payment proposition – provide a range of repayment options to make shopping with Studio easy, and to enhance the benefits of the credit account to be an ideal option for all customers.
- Lending approach – ensure that when we lend money to our customers it is done in a responsible way, with appropriate credit limits and that customers are treated fairly should they subsequently find they have repayment issues.
- Operational efficiency – to utilise new technologies to improve efficiency and how we service customer accounts.

Studio's consumer credit activity is regulated by the Financial Conduct Authority (FCA), and there are a number of guidelines which they have issued to ensure firms treat customers fairly, and that lenders take responsible steps to ensure loans are affordable and avoid any customer harm. Studio constantly reviews its processes to ensure it remains aligned with the FCA guidelines and is utilising new robust systems, datasets and risk management tools to help in this area. Credit limit strategies are regularly reviewed and more detailed information is now captured where relevant on income to assess whether our customer can afford to take on new or additional credit from us.

Some of these processes have led to a higher level of both declined and withdrawn applications over the last couple of years, in part due to some elements of the process being seen as excessive to some applicants. The new application and decision platform that we introduced in November 2019 is more bespoke to customers' circumstances and has led to a good recovery in applications being accepted in recent months. We have also tightened our acceptance criteria to riskier applicants, leading to a reduction in the overall average interest rate applied but a consequential improvement in the overall level of arrears and bad debt, producing a better outcome for customers and improved profitability for the business. Several further phases of system enhancement are due to be implemented later this year, including the introduction of open banking data into our decisioning.

Customer balances typically move in line with the seasonal patterns of product purchases. It is normal for balances to peak at Christmas before gradually reducing from then until the following summer. Customers receive a monthly statement and can then choose whether to repay their balance in full each month, in which case they do not incur any interest charges, or whether to pay an amount they choose between a minimum level and the outstanding balance.

Financial income in the year was up by 4.9%, below the 9.9% growth in live customer balances due to the reduction in average interest rate charged and also the more pronounced peak in product sales during the year compared to FY19. Improvements in the quality of the receivables book and continued strong recoveries from the sale of defaulted receivables led to underlying bad debt charges only increasing by 2.7%, slower than the level of income and balance growth. This underlying position retained a cautious level of judgement on future recovery rates, even before the onset of the pandemic.

IFRS 9 requires the bad debt provision to incorporate future macroeconomic conditions using a variety of possible scenarios, based on information that is available at the balance sheet date. The deterioration in the economic outlook caused by Covid-19, particularly in relation to unemployment, increased the level of provision indicated by our modelling by approximately £20m. The unprecedented level of uncertainty around the impact of Covid-19 on the UK economy as a whole, and subsequently on our customer base, continues to cause challenges in assessing bad debt on a forward-looking basis. It should therefore be noted that that £20m figure quoted represents our best estimate of the incremental impact of the Covid-19 on the bad debt provision based on the information available at the end of March.

Whilst we have not yet seen a significant increase in the level of customer arrears resulting from the pandemic, nor have we seen a material reduction in customer payment rates, we expect that the Coronavirus Job Retention Scheme and other support from government have delayed any deterioration in performance. We anticipate that arrears will increase when these schemes are phased out in the coming months.

During the period, the Group refined its impairment models to make use of more up to date customer data that is more reflective of current credit policies and operational processes. The availability of this more granular and up to date information has enabled management to refine its estimate in respect of the level of impairment provision required and has resulted in reduction in the provision required by £3.8m.

The FCA set a deadline of 29 August 2019 for customers to lodge enquiries and complaints about historic sales of PPI. In common with other institutions, Studio experienced a large and sudden inflow of enquiries in the weeks leading up to that deadline, having

Studio continued

only received a nominal stream of new enquiries in the previous months. We have now substantially completed our evaluation of those enquiries, which required an incremental charge of £5.6m to be recorded during FY20, a reduction of £2.3m vs. the £7.9m estimated cost included in our half-year results. This charge was recorded as an individually significant item.

Strong Foundations

The third strategic pillar is Strong Foundations, where we are investing in the infrastructure to support our future growth, improve processes and how we manage the business and develop our people and culture for the future. Key action areas here are:

- Warehouse development – ensure our current operations are robust and create a clear plan to improve service and scale to manage our sales ambitions.
- Data and technology – data is one of our most valuable assets and we will ensure it is kept safe and secure as well as building new capabilities to drive greater business intelligence. We will also modernise our technology architecture to be agile and scalable.
- Cost efficiency – continually look at ways to be more efficient and keep costs down so we can deliver on our value promise.
- People and culture – we need to have people with the right skills to deliver our plans and a culture that makes Studio a great place to work.

Studio has made progress over the last few years in gradually replacing its legacy mainframe systems and IT architecture through the development of a clear IT strategy around data, application and infrastructure architectures. This is aligned to the projects we are delivering, and new ways of working have been introduced, Our governance structures were enhanced during FY20 as we completed the work to introduce the Senior Manager & Certification Regime from the FCA in December 2019, designed to improve individual accountability in key areas to protect against customer harm.

Since the start of 2020, we have appointed a new Trading Director to improve the consistency of our retail performance, a new Director of HR, and a Transformation Director to drive through our investment plans. We have also expanded our procurement function and appointed specialist advisors to review our overhead base and identify opportunities for future efficiency.

Brexit

The Group has continued to prepare for the end of the Brexit transition period at the end of 2020. The majority of Studio's supplies are sourced, either directly or indirectly, from outside the European Union. All of Studio's customers are based in the UK and therefore, any imposition of customs tariffs or import duties is not anticipated to have a material impact on our operations. There is a broader risk that consumer confidence suffers if there continues to be a lack of clarity over Brexit, but we believe that more customers will seek Studio's value offer if economic conditions weaken further from these grounds. Our foreign exchange hedging policy has locked in the buying price of our US$ imports for the next 12 months, which should allow time for market conditions to stabilise.

Performance and Progress

As noted above, product sales were strong in the weeks leading up to Black Friday and Christmas 2019, but disappointed at other times of the year. In part this was due to tough market conditions for retailers. However, there were also aspects of the pricing and marketing strategies that were less successful than we anticipated and response levels from some of our older customers fell as we migrated activity from paper to digital channels and shifted our target customer younger. We have introduced strategies to better balance these for FY21. Product margins at the end of the Christmas season and then into the final quarter were particularly disappointing. As a result, product revenue for the full year of £311.7m was only 2.5% ahead of the prior year, compared to growth rates of 8-9% in the two previous years. Gross profit from product sales increased by 1.0% to £102.8m (FY19 restated**: £101.7m).

Adjusted financial services gross profit increased by 5.8%, leading to the total adjusted gross profit for the business increasing by 3.2% to £188.4m (FY19 restated**: £182.6m).

Continued marketing efficiencies, as we moved investment from print/paper into TV and Digital advertising meant that marketing costs for the year were unchanged at £31.7m. Distribution costs moved in line with product sales. We have continued to invest resource particularly within our IT functions to modernise the business, resulting in administrative costs increasing at a faster rate than activity.

Adjusted operating profit on like-for-like basis* for the year was £39.0m, down from £39.4m in FY19. Individually significant costs totalling £5.6m related to the increase to the provision for PPI redress as noted above (FY19: £2.9m). Operating profit was £17.1m (FY19: £36.5m).

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Finance Review

"The Group has produced an adjusted profit before tax* of £31.2m in FY20, up by 8.6% from £28.8m in FY19."

Stuart Caldwell
Group CFO

Adjusted profit before tax on a like-for-like basis

The Group has been focused throughout the year upon delivering an adjusted profit before tax for the total group* including Education. This is because the decision to sell Education was only made partway through the year, and then with an expectation that completion would take place after the year-end. In addition, IFRS 16 has been applied for the first time this year using the modified retrospective transition approach that makes comparability with prior year figures challenging.

The decision to sell Education in December 2019 means that its results for the year are presented as a discontinued operation. Having also presented the operation in this way with our interim results, IFRS 5 requires that the fixed assets of the discontinued operation are not subjected to depreciation or amortisation beyond the end of H1. However, for internal purposes and in the interests of consistency, we continued to accrue such charges during H2 in the adjusted profit figures.

The adjusted profit before tax on a like-for-like basis for the total group* was £31.2m, up from £28.8m in FY19 as set out in the table below. Full reconciliations between the adjusted figures presented below and their statutory equivalents are shown on pages 18 to 21.

	2020 £000	2019 (restated)** £000	Change £000
Adjusted operating profit on a like-for-like basis*:			
Studio	38,996	39,448	(452)
Central	(2,370)	(4,248)	1,878
Total continuing operations	36,626	35,200	1,426
Education (discontinued operation)	3,287	3,217	70
Adjusted operating profit* from total group	39,913	38,417	1,496
Net finance costs*	(8,679)	(9,656)	977
Adjusted profit before tax* from total group	31,234	28,761	2,473
Impact of adopting IFRS 16	(1,759)	—	(1,759)
Impact of discontinued operation on depreciation in H2	1,393	—	1,393
Individually significant costs	(8,342)	(4,158)	(4,184)
Exclude estimated COVID-19 bad debt impact	(20,000)	—	(20,000)
Exclude change in bad debt estimate	3,675	—	3,675
Fair value movement on derivative financial instruments	2,608	4,750	(2,142)
Profit before tax	8,809	29,353	(20,544)

* This is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on pages 18 to 21.

** Balances have been restated as set out in note 1 to the financial statements.

The key elements of this improved performance are discussed earlier in the Strategic Report.

Individually significant items totalling £8.3m (FY19: £4.2m) were incurred, as discussed in more detail below and set out in note 4. The fair value movement on derivative financial instruments was a credit of £2.6m (FY19: £4.8m). This is presented below the adjusted profit before tax* on the income statement as it relates to the reversal of prior year fair value movements net of the revaluation of hedging contracts that will unwind during FY21.

Individually significant items

During the year, Studio saw a large and unexpected increase in the level of PPI claims and enquiries in the days leading up to the FCA's deadline for claims of 29 August 2019. This included a large block of previously unseen claims from the Official Receiver acting on behalf of bankrupt customers. A provision of £7.9m was recognised in H1 as an individually significant item in respect of these cases with the majority of the provision relating to Plevin refunds, rather than mis-sold policies, and included the cost of reviewing and administering the claims. Although the exercise was not fully completed at the balance sheet date, it has now been substantially completed and the additional charge required in FY20 has reduced to £5.6m.

Covid-19

The impact of Covid-19 upon the Group's operations was relatively limited until the start of lockdown, as noted in the Strategic Report. The exception to this was the bad debt charge which, under IFRS 9 requires the bad debt provision to incorporate future macroeconomic conditions using a variety of possible scenarios, based on information that is available at the balance sheet date. The deterioration in the economic outlook caused by Covid-19, particularly in relation to unemployment, increased the level of provision indicated by our modelling by approximately £20m. The unprecedented level of uncertainty around the impact of Covid-19 on the UK economy as a whole, and subsequently on our customer base, continues to cause challenges in assessing bad debt on a forward-looking basis.

It should therefore be noted that the £20m figure quoted represents our best estimate of the incremental impact of the Covid-19 on the bad debt provision based on the information available at the end of March and, as noted in the strategic report, the business is yet to see any material indications of this increased provision being converted into cash loss. The £20m estimated impact of Covid-19 has been excluded when arriving at adjusted operating profit for Studio on a like-for-like basis* to enable comparability with the results of prior periods and to allow a fair (although estimated) assessment of the business' underlying trading performance prior to Covid-19.

It is also important to note that the increase to the bad debt provision does not represent the full impact of Covid-19 on the Group as we saw an increase in product sales in Studio in the aftermath of the lockdown announcement, but lost revenue in Education. Incremental costs were also incurred in both businesses as we moved to implement social distancing measures. It is not possible to quantify the net effect of these impacts reliably in accordance with IFRS and so separate presentation has not been made.

Change in accounting estimate

During the period, the Group refined its impairment models to make use of more up to date customer data that is more reflective of current credit policies and operational processes. The availability of this more granular and up to date information has enabled management to refine its estimate in respect of the level of impairment provision required and has resulted in a reduction in the provision required by £3.8m. Since this change is not reflective of the underlying performance of the receivables portfolio, it has been excluded when arriving at adjusted operating profit for Studio on a like-for-like basis* to enable a fair and balanced assessment of the business' underlying trading performance in FY20.

Discontinued operation – Education

Education reported an adjusted operating profit on a like-for-like basis* for the year of £3.3m, up slightly on the equivalent result of £3.2m from FY19. Revenue for the year fell by 2.6% to £79.9m, due primarily to the gradual closure of international schools from the second half of February and the closure of UK schools in mid-March. The business continued to see encouraging progress in delivering on its strategic objectives to increase online sales and improve its sourcing processes.

As noted above, the decision to sell the business during the year means that its segmental profit for the year is increased by the cancellation of depreciation and amortisation totalling £1.4m during the second half of the year. This has been added back in arriving at adjusted operating profit on a like-for-like basis* in order to enable comparability with the results of prior periods and to allow a fair assessment of the business' underlying trading performance. Individually significant costs relating to the planned disposal of £1.5m were incurred and recorded against the discontinued operation. It therefore reported a statutory operating profit of £2.5m for the year.

Finance Review continued

Pensions

The net valuation of the Group's legacy defined benefit scheme at the end of FY20, measured in accordance with IAS 19, increased significantly from a small deficit of £0.1m at March 2019 to a surplus of £31.7m. The use of hedging within the asset portfolio alongside a decision by the trustees to de-risk the investment strategy by reducing the holding of equities in February 2020, before lockdown, was a key cause of the improved position. There were also favourable improvements to the liability profile and the demographic profile of scheme members.

The IAS 19 valuation has no bearing on the contributions made by the Group to the scheme, which is instead derived from the triennial valuation of the scheme. The most recent valuation measured as at April 2019 is currently in progress. In the meantime, as previously agreed with the scheme's trustees, the Group made contributions totalling £5.0m in respect of FY20 (FY19: £2.5m) and will continue at this level for the time being.

As part of the agreement to sell Education, the Group has agreed an alternative level of contributions that will apply once the sale has completed. The Group will pay £13m into the scheme shortly after completion, with the rate of annual contributions falling from £5.0m to £3.75m backdated to the start of FY21.

Taxation

The Group posted a credit of £0.2m in the year in respect of taxation for continuing operations, compared to a £5.7m charge (restated**) seen in FY19. The decrease was the result of the revaluation of the group's deferred tax assets (principally relating to capital allowances) from 17% to 19%, and the valuation of the deferred tax liability on the surplus in the group section of the pension scheme at the prevailing corporation tax rate of 19%, rather than the 35% rate used in FY19.

Earnings per share

The adjusted earnings per share* for the year from continuing operations was 12.10p (FY19 restated**: 23.20p). The basic earnings per share from continuing operations was 8.16p per share (FY19 restated**: 23.70p).

Impact of new accounting standards

IFRS 16 "Leases"

The Group adopted IFRS 16 for FY20 and has decided to adopt the modified retrospective transition approach. As such the standard's requirements have been applied only from 30 March 2019, so there has been no adjustment to opening reserves and the comparative figures for FY19 have not been restated.

Following the adoption of IFRS 16, lease agreements now give rise to both a right of use asset and a lease liability for future lease payables. Whilst the new standard has no effect on the cash payable or on the total cost recognised over the course of a lease, under IFRS 16 the lease cost will be higher in the early years of the lease. The lease cost is also now split between depreciation of the right of use asset and interest on the lease liability in the income statement. The new standard does not impact on the Group's cash flows under lease arrangements but there have been some changes to presentation in the cash flow statement.

The impacts of adopting IFRS 16 on the consolidated financial statements are set out in note 1. The adoption of IFRS 16 has reduced profit before tax for the total group* by £1.8m.

Summary balance sheet

	2020 £000	2019 £000	Change £000
Intangible fixed assets	9	24,952	(24,943)
Tangible fixed assets	80,007	45,511	34,496
Net working capital**	215,811	201,010	14,801
Net debt*	(292,924)	(233,440)	(59,484)
Assets held for sale	35,886	—	35,886
Other net assets	36,592	5,487	31,105
Net assets	75,381	43,520	31,861

* This is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on pages 18 to 21.

** Net working capital comprises of inventories, trade receivables and other receivables, trade and other payables and provisions.

Consolidated net assets amounted to £75.4m at the period end (FY19: £43.5m), reflecting the net profit reported and the actuarial remeasurements in respect of the pension surplus. The net assets are equivalent to 87p per ordinary share (FY19: 50p per ordinary share).

Cash flow and borrowings

A part of management's variable incentive plans for FY20 related to the generation of free cashflow, as defined in the table below. Free cashflow generation was £23.7m (FY19: £28.9m). After taking account of interest and the net impact of lease liabilities, including the adoption of IFRS 16, the Group's core net debt reduced by £5.6m to £51.8m (FY19: £57.4m), as summarised below.

	2020 £000	2019 £000	Change £000
Total group EBITDA**	41,097	50,022	(8,925)
Decrease/(increase) in Studio's receivables net of securitisation inflows	13,610	(6,926)	20,536
(Increase)/decrease in other working capital	(6,615)	10,799	(17,414)
Capital expenditure	(14,822)	(11,545)	(3,277)
Cash flows in respect of individually significant items	(5,390)	(11,983)	6,593
Pension scheme contributions	(4,792)	(2,500)	(2,292)
Other	650	1,011	(361)
Adjusted free cashflow*	23,738	28,878	(5,140)
Income tax	(3,717)	(1,931)	(1,786)
Net interest payable	(8,495)	(10,017)	1,522
Repayment of lease liabilities	(5,966)	(571)	(5,395)
Movement in core net debt	5,560	16,359	(10,799)
Opening core net debt*	(57,397)	(73,756)	16,359
Closing core net debt*	(51,837)	(57,397)	5,560

* This is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on pages 18 to 21.

** For further details on the calculation of total group EBITDA please refer to note 3 to the consolidated financial statements.

Total net debt* at the year-end was as follows:

	2020 £000	2019 £000	Change £000
External bank borrowings (excluding securitisation facility)	85,000	95,000	(10,000)
Less total cash	(33,163)	(37,603)	4,440
Core net debt*	51,837	57,397	(5,560)
Securitisation drawings	197,591	175,545	22,046
Lease liabilities	43,496	498	42,998
Net debt*	292,924	233,440	59,484

* This is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on pages 18 to 21.

The Group's revolving credit facility was amended during the year with the available level of facilities now scheduled to be £85m until the end of December 2020, before reducing to £70m until its new maturity date of 31 December 2021. The securitisation facility was restructured during the year with its maximum available amount increasing from £185m to £200m to cater for the continued growth in Studio's trade receivables. Its maturity date was also extended to 31 December 2022.

Dividends and capital structure

The Group restructured its Asian sourcing operations during 2018, moving away from its Hong Kong based subsidiary to a new Shanghai based entity. The affairs of the Hong Kong entity are in the process of being wound up and the Company received a first and final dividend of £15.0m (HKD150.5m) during the period (FY19: £nil).

No other dividends were received by the Company from its subsidiaries during the period and its balance sheet as at 27 March 2020 shows a deficiency of £73.3m on its retained reserves (FY19: deficiency of £99.9m).

Studio Retail Group plc is therefore not yet in a position to declare a dividend and does not have plans to reinstate dividend payments in the near future since it continues to prioritise investment in growing its customer base, improving digital capabilities, and in strengthening its financial position in light of the broader economic environment. The directors have determined that no interim dividend will be paid (FY19: £nil) and are not recommending the payment of a final dividend (FY19: £nil).

Treasury and risk management

The Group's central treasury function seeks to reduce or eliminate exposure to foreign exchange, interest rate and other financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. It does not engage in speculative transactions and transacts only in relation to underlying business requirements in accordance with approved policies.

Interest rate risk management

The Group's interest rate exposure is managed by the use of derivative arrangements as appropriate, details of which are set out in note 19 to the financial statements. The Group has purchased interest rate caps covering the period to July 2021 to protect against the risk of unforeseen increases to LIBOR rates.

Finance costs for the year for the total group were £11.0m*, of which £2.3m related to the introduction of IFRS 16 (split £1.8m within continuing operations and £0.5m in discontinued operations). Net finance costs* of £8.7m are down slightly from the £9.7m seen in FY19 due primarily to a refund of £0.6m in respect of historic overpaid interest from one of the group's bankers, together with a reduction in the borrowing margin and lower pension scheme interest. This underlying charge was covered 4.6 times by adjusted operating profit on a like-for-like basis* (FY19: 4.0 times).

Currency risk management

A significant proportion of the products sold, principally through Studio, are procured through the Group's Far-East buying operations and beyond. The currency of purchase for these goods is principally the US dollar.

The Group's hedging policy aims to cover anticipated future exposures on a rolling 12-month basis. As at the balance sheet date, the Group had forward contracts with an outstanding principal of $91m (FY19: $93m) and an average rate of £1/$1.286 (FY19: $1.326). The market value and unrealised loss on those contracts as at the balance sheet date, less the reversal of the equivalent valuation as at the end of March 2019, was a gain of £2.6m (FY19: £4.8m). This is presented separately on the Income Statement as it represents an element of product costs to be realised in FY21 as the contracts unwind. The Group currently has forward contracts in place with an outstanding principal of $82.5m covering the period to July 2021.

In addition to this direct exposure, the divisions face a significant level of indirect exposure from supplies made by UK suppliers who in turn source goods from overseas. That risk is normally mitigated through a combination of supplier agreements and fixed term pricing, although from time to time there may be a requirement to increase prices to customers to maintain margins.

Borrowing and counterparty risk

The Group's exposure to borrowing and cash investment risk is managed by dealing only with banks and financial institutions with strong credit ratings.

* This is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on pages to 18 to 21.

Alternative Performance Measures

The directors use several Alternative Performance Measures ("APMs") that are considered to provide useful information about the performance and underlying trends facing the Group. As these APMs are not defined by IFRS, they may not be comparable with APMs shown in other companies' accounts. They are not intended to be a replacement for, or be superior to, IFRS measures.

The principal APMs used in this Annual Report are set out below.

Adjusted operating profit and adjusted profit before tax on a like-for-like basis

These measures are used by management to assess the underlying trading performance of the Group from period to period.

In both the current and prior period, the following items have been excluded in arriving at these measures:

- Individually significant items are, due to their nature or scale, not reflective of the underlying performance of the Group. The directors believe that presenting these items separately aids year on year comparability of performance.
- The Group's foreign exchange hedging policy means that there will be unrealised fair value gains or losses at the period end relating to contracts intended for future periods. Those fair value movements are therefore excluded from the underlying performance of the Group until realised.

In the current period, owing to the impact of Covid-19, the ongoing disposal process in respect of Education and the adoption of IFRS 16 Leases ("IFRS 16), further items have been adjusted for to ensure the figures are presented on a consistent basis:

- The £20m estimated impact of Covid-19 on the impairment charge in Studio has been excluded in reaching like-for-like adjusted operating profit and profit before tax to enable comparability with the results of prior periods and to allow a fair (although estimated) assessment of the business' underlying trading performance prior to Covid-19. Further details can be found in the Finance Review.
- During the period, the Group refined its impairment models to make use of more up to date customer data that is more reflective of current credit policies and operational processes. The availability of this more granular and up to date information has enabled management to refine its estimate in respect of the level of impairment provision required and has resulted in reduction in the provision required by £3.8m. Since this change is not reflective of the underlying performance of the receivables portfolio, it has been excluded when arriving at like-for-like adjusted operating profit and profit before tax to enable to allow a fair and balanced assessment of the business' underlying trading performance in FY20.
- IFRS 16 was adopted for the first time in FY20 using the modified retrospective adoption approach. In effect, this means that the FY20 income statement is presented on an IFRS 16 basis, whilst the FY19 comparative is still stated based on the requirements of IAS 17 *Leases* ("IAS 17"). In order to allow for a like-for-like comparison, and to present results on a consistent basis with that used to formulate market consensus, the impact of IFRS 16 has been excluded in reaching like-for-like adjusted operating profit and profit before tax.
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("IFRS 5"). Since the Group was engaged in an active sale process at 27 September 2019, Education met the criteria to classified as held for sale from half-year onwards. As a result, Education's FY20 results are presented separately in a single, post-tax "result from discontinued operation" line in the income statement. In addition, the amortisation of intangible assets relating to Education, which arise upon consolidation, and are normally disclosed within Central costs, are included within the result from discontinued operation. IFRS 5 also requires that no depreciation or amortisation be recorded against Education once it is classified as held for sale. As such, depreciation and amortisation charged in H2 for comparability, has been reversed. In order to make the presentation of results fair, balanced and understandable, and since Education has been run as an active part of the Group throughout FY20, all IFRS 5 adjustments have been reversed when arriving at the like-for-like adjusted operating profit and profit before tax. These figures therefore present the Group's results as they would have been presented had the Group not been engaged in a sale process (i.e. a whole-group measure).

The adjusted and like-for-like figures are derived as follows:

	2020							2019
	As reported £000	Exclude IFRS 16 £000	Exclude IFRS 5 reallocation £000	Reinstate H2 Depn (IFRS 5) £000	Exclude estimated COVID-19 bad debt impact £000	Exclude change in bad debt estimate £000	Like-for-like basis £000	Reported figures £000
Studio	22,726	(55)	—	—	20,000	(3,675)	38,996	39,448
Central	(1,235)	(15)	(1,120)	—	—	—	(2,370)	(4,248)
Adjusted operating profit from continuing operations	21,491	(70)	(1,120)	—	20,000	(3,675)	36,626	35,200
Education	4,050	(490)	1,120	(1,393)	—	—	3,287	3,217
Adjusted operating profit from total group	25,541	(560)	—	(1,393)	20,000	(3,675)	39,913	38,417
Net finance costs from total group†	(10,998)	2,319	—	—	—	—	(8,679)	(9,656)
Adjusted profit before tax	14,543	1,759	—	(1,393)	20,000	(3,675)	31,234	28,761
MTM on derivatives	2,608	—	—	—	—	—	2,608	4,750
Individually significant items	(8,342)	—	—	—	—	—	(8,342)	(4,158)
Profit before tax	8,809	1,759	—	(1,393)	20,000	(3,675)	25,500	29,353
Tax	(54)							(6,064)
Profit after tax	8,755							23,289

† Like-for-like net finance costs for the total group excludes the net impact of IFRS 16.

Adjusted profit before tax on a like-for-like basis from continuing operations

	2020 £000	2019 £000
Continuing operations		
Adjusted profit before tax on a like-for-like basis	27,395	25,582
Individually significant items	(6,807)	(4,158)
MTM on derivatives	2,608	4,750
Impact of IFRS 16 adoption	(70)	—
Estimated impact of COVID-19 on impairment charge	(20,000)	—
Change in accounting estimate	3,675	—
Profit before tax	6,801	26,174

Revenue, EBITDA before individually significant items, adjusted operating profit, finance costs, and adjusted profit before tax from total group

The calculation of revenue, EBITDA before individually significant items, adjusted operating profit, finance costs, and adjusted profit before tax from total group includes continuing and discontinued operations and is set out in note 3 to the consolidated financial statements.

Adjusted operating profit margin %

This is used a measure of the adjusted operating profit made by the Group as a whole. It is derived as follows:

	2020 £000	2019 (Restated)* £000
Total Group revenue including discontinued operation	514,834	503,734
Adjusted operating profit on like-for-like basis	39,913	38,417
Adjusted operating profit margin on a like-for-like basis	7.8%	7.6%

* Balances have been restated as set out in note 1 to the financial statements.

Studio Product Gross Margin %

This is used a measure of the gross profit made by Studio on the sale of products only, which shows progress against one of Studio's strategic pillars. It is derived as follows:

	2020 £000	2019 (Restated)* £000
Product revenue	311,697	304,176
Less product cost of sales	(208,924)	(202,435)
Gross product margin	102,773	101,741
Gross product gross margin %	33.0%	33.4%

* Balances have been restated as set out in note 1 to the financial statements.

Studio underlying impairment loss as a % of revenue

This is an assessment of the underlying impairment loss incurred in respect of Studio's trade receivables, which enables management to assess the quality and performance of its trade receivables from period to period. The estimated impact of COVID-19 and the change in accounting estimate (detailed above) are excluded from the reported impairment loss when calculating this measure, as they are not reflective of the underlying performance of the receivables portfolio.

Alternative Performance Measures continued

	2020 £000	2019 (Restated)* £000
Reported impairment loss	53,930	36,623
Exclude estimated impact of COVID-19	(20,000)	—
Exclude change in accounting estimate	3,675	—
Underlying impairment loss	37,605	36,623
Studio total revenue	434,894	421,653
Studio underlying impairment loss as a % of revenue	8.6%	8.7%

* Balances have been restated as set out in note 1 to the financial statements.

Studio marketing costs to sales ratio

This measure allows management to assess the efficiency of our marketing spend as we pursue our stated strategy of increasing the profile of the Studio brand. It is calculated by dividing marketing costs by product revenue.

	2020 £000	2019 (Restated)* £000
Marketing costs	31,661	31,693
Product revenue	311,697	304,176
Marketing costs to sales ratio	10.2%	10.4%

* Balances have been restated as set out in note 1 to the financial statements.

Overall net debt

This measure takes account of total borrowings less cash held by the Group and represents our total indebtedness. Management use this measure for assessing overall gearing.

It is calculated as follows:

	2020 £000	2019 £000
Total bank loans	282,591	270,545
Lease liabilities*	43,496	498
Less cash and cash equivalents	(33,163)	(37,603)
Overall net debt*	292,924	233,440
Exclude impact of IFRS 16 adoption	(42,902)	—
Overall net debt on a like-for-like basis	250,022	233,440

* 2020 figures reflect the requirements of IFRS 16.

Core net debt

This measure excludes lease liabilities and securitisation borrowings from net debt to show borrowings under the revolving credit facility net of cash held by the Group. This is our preferred measure of the indebtedness of the Group and is relevant for covenant purposes.

It is calculated as follows:

	2020 £000	2019 £000
Net Debt	292,924	233,440
Lease liabilities*	(43,496)	(498)
Less securitisation borrowings**	(197,591)	(175,545)
Core net debt*	51,837	57,397

* 2020 figures reflect the requirements of IFRS 16.

** Disclosed within bank loans.

Debt funding consumer receivables

The majority of the trade receivables of Studio are eligible to be funded in part from the securitisation facility, with the remainder being funded from core net debt. This measure indicates the face value of those trade receivables (before any impairment provision) capable of being funded from the securitisation facility. It is useful to management as it demonstrates the proportion of net debt that is supported by paying customer receivables.

It is calculated as follows:

	2020 £000	2019 £000
Funded from securitisation loans	197,591	175,545
Funded from cash and bank	65,864	64,075
Eligible receivables	263,455	239,620
Securitisation %	75%	73%

Adjusted free cash flow generation

Free cash flow generation is a key operational metric and is of interest to investors. Consequently, it formed part of the remuneration targets for the Executive Directors.

Adjusted free cash flow is reconciled to cash generated by operations as follows:

	2020 £000	2019 £000
Adjusted free cash flow generation	23,738	28,878
Securitisation loans drawn	(22,046)	(18,041)
Purchases of property plant and equipment and software	14,822	11,545
Other	—	(26)
Cash generated from operating activities before interest and tax paid	16,514	22,356

Adjusted earnings per share

This measure shows the earnings per share given when individually significant items and fair value movements on derivative financial instruments are excluded from the profit after tax figure. Details of how the adjusted earnings per share are calculated can be found in note 10 to the consolidated financial statements.

Underlying effective tax rate

This measure shows the Group's effective tax rate when the tax impact of individually significant items and other non-recurring items are adjusted for. This measure allows management to assess underlying trends in the Group's tax rate. It is calculated as follows:

	2020 £000	2019 £000
Tax credit/(charge)	241	(5,715)
Exclude tax impact of individually significant items	(1,293)	(741)
Exclude impact of change in corporation tax rate on deferred tax assets and liabilities	(1,427)	—
Adjusted tax charge	(2,479)	(6,456)
Profit before tax and individually significant items	13,608	30,332
Underlying effective tax rate	18.2%	21.3%

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Principal Risks and Uncertainties

Risk	Root cause	Key mitigating controls
Pressures on the levels of disposable income available to lower socio-economic groups, who form a core part of Studio's customer base.	The economic outlook is uncertain, particularly in relation to the impact of Covid-19, Brexit and more broadly changes in unemployment, interest rates and inflation and wage restraint.	The expansion of our digital activity and a shift in customer acquisition strategy has broadened the overall customer footprint and reduced our dependency on older, lower socio-economic customer segments. Successful implementation of our strategies to recruit and retain customers, thereby increasing our customer base, will dilute this impact. Management information tools, alongside Studio's governance framework, identify trends within the receivables portfolio enabling strategic changes to be proposed and implemented promptly.
Growth in credit income could slow within the financial services business of Studio.	Regulatory changes impacting customer acquisition and credit limit management; and our strategy to put the customer at the heart of the business by balancing financial performance and customer conduct risks.	Studio has reviewed its integrated model of retail and financial services in terms of both customer conduct risk and financial performance and developed a business plan on this basis. The review included stress testing various scenarios. These factors will require an evolutionary change in our business model placing a greater requirement on the profitability arising from the retail side of Studio. The plans set out in this Strategic Report reflect this.
Potential disruption to our business support systems and the storage and protection of our customers' data.	The business remains highly dependent upon legacy systems both in the support of running the business on a daily basis and the storage and protection of customer data. The combination of increasing cyber activity, fraud rings and the level of change being deployed in the business makes this an area of higher potential risk.	Resilience testing and recovery plans are in place. The business has continued to invest to update its technology solutions as it seeks to lower its dependency on legacy systems. Notable examples include the enhancement in website capabilities at Education and the development of the Financier platform at Studio. In addition, an enhanced fraud solution accompanied by improved operational practices within Studio's customer and financial services departments are being deployed.

Risk	Root cause	Key mitigating controls
Execution and liquidity risks from a substantial multi-year plan of transformation and growth at Studio.	Funding growth within our integrated retail and credit business model is dependent on the continued availability of debt facilities. Any weakness in project and change management in the delivery of key priorities. High level of demand on planning and resource management to ensure timely and on budget delivery.	Appropriate facilities are in place for the medium term and regular and rigorous viability exercises are undertaken. Fiscal controls, including business forecasting in support of stock and cash flow management. A Change Board has been established to scrutinise, prioritise and oversee resourcing and delivery of transformation projects. We are adopting an enhanced process of integrated cash management to meet the demands of (i) change and capital deployment within the business; alongside (ii) daily operational requirements.
Attracting and retaining the right talent in the business, particularly in the highly competitive areas of digital marketing, IT development and cyber security, to support the deployment of our high growth digital strategy.	Limited available experienced staff in key business and technical areas and high demand for those people.	Significant progress has been made in attracting new talent to the business resulting in the renewal of the senior management teams throughout the Group. Developing the business as a regional employer of choice is a key objective and as such, enhanced personnel frameworks and reward strategies are being developed.
A material interruption to the product supply chain could reduce the level of retail trading.	Brexit could lead to new barriers to trade with some overseas countries. In particular, Studio imports a relatively high proportion of its retail products from China, either sourced directly or indirectly. A further rise in geopolitical tensions with China could lead to legislative or economic barriers to trade being introduced.	Studio's Shanghai sourcing office is actively seeking to widen the number of countries that it sources products from, whilst retaining appropriate quality standards.
Any inability to operate from one of our key warehouse facilities centres.	While Studio has a number of warehouse facilities, there is a high dependency on its main facility in Accrington. The consolidation of Education's warehousing into its facility at Nottingham has concentrated its fulfilment activities into a single location that could also potentially become a point of failure risk.	Appropriate disaster recovery plans have been developed and are periodically reviewed and upgraded.

Our people, our products, community and the environment

Stakeholder Engagement and Gender Diversity

Directors' section 172 statement

Section 172 of the Companies Act 2006 sets out the directors' duty to promote the success of the Company for the benefit of shareholders as a whole, having regard to a number of broader matters including the likely consequence of decisions for the long term, the need to act fairly between members of the Company, and the Company's wider relationships. The approach required is sometimes referred to as 'enlightened shareholder value'. For periods commencing after 1 January 2019, the strategic report must include a statement explaining how the directors have had regard to the matters in section 172 in performing their duties.

Purpose and Business Model

The purpose of the Company is to search for value products for our customers and help them spread the cost with flexible payment options. A secondary purpose, for so long as the Findel Education business remains part of the Group, is to save schools time and money.

Our business model is based on a central holding company with separate operational subsidiary boards and management structures for each of the Group's businesses.

At Studio Retail Group plc, we operate with a slim plc executive team with a high degree of delegation to our business management teams and corporate bodies. The plc team covers group finance, tax and treasury; internal audit; legal services for the Group; executive oversight; and plc and subsidiary governance matters. The key deliverables of the plc team are capital and resource allocation, leadership and oversight, and shared service provision.

Studio is becoming a leading digital value retailer with a broad product offer of clothing and footwear alongside home and electrical products plus the more seasonal ranges, many of which can be personalised for free. Underpinning all this, is the drive to amaze our customers with value and provide them with a range of payment options, including our flexible credit facility. Our ambition is to increase the customer base to over 3 million and achieve over £1 billion of revenue.

Studio Retail Ltd is a regulated entity for consumer credit purposes. The Studio Retail Ltd board performs a strategic and oversight function and is chaired by the Group CEO with the other members being the Group CFO, the Group Secretary (providing the link up to the plc board), and the Studio MD. An Executive board led by the Studio MD is primarily responsible for the day to day implementation of strategy.

Key elements of the integrated retail and credit business model include:

- An intimate appreciation of and insight into our target customers' needs and aspirations.
- Sourcing of great value goods selected to satisfy those needs and aspirations, including through our Far East Sourcing operations.
- Both general brand awareness activity (e.g.TV ads) and specifically tailored digital marketing to our target demographics.
- But understanding that for the foreseeable future the role of printed catalogues and marketing materials will continue to have a role to play alongside the digital marketing.
- Financial Services operations with an FS Director and subject experts in areas such as the Credit Function to enable customers to spread the cost of their purchases.
- A digital approach to business including but not limited to customer interface and transactions.
- All supported by a mix of internal and external customer service centres.
- A second line function covering compliance, risk management, QA and DPO.

Findel Education Ltd is a leading supplier of resources/equipment to schools in the UK and overseas and its governance structure effectively mirrors that at Studio Retail Ltd. Its business model is predicated on sector leading resourcing of value, own label and branded products aligned to an intimate understanding of the educational resource market – to save schools money; and sector leading web sites and software ordering systems – to save schools time.

Culture and Values

The Board has approved a clear statement of our Studio values which describe our desired culture. These values came through customer research and by involving 700 colleagues across the business. We put the Customer at the Heart of everything we do by demonstrating the following values in everything we do:

#Inclusive – the broad product range has wide customer appeal, and the flexible payment option opens up our retail offer to customers who may prefer to spread the cost of purchases. To deliver this we act as one team, with no departmental silos.

#Trusted – customers have to be able to trust us to deliver the value and quality they expect, to deliver for those important family moments, like Christmas, and also that we make responsible decisions when we lend money. We do this by being positive and delivering against our promises.

#Amazing – we amaze customers with our value and product range, along with targeted offers and service. To do this we are innovative, think big and are creative.

#Savvy – for customers, shopping with Studio is clever – with its great range and value, there is no reason to buy elsewhere. For colleagues it means we are commercial, we hunt for great value and use the tools available to be even better at our jobs and deliver for our customers.

We are also developing a risk culture under which all our colleagues understand and work within acceptable levels of risk in carrying out their roles; know how and when to escalate risk issues; and feel comfortable doing so – and where management are consistently proactive in identifying, assessing and mitigating risk within the business and support the board in setting appropriate risk appetites.

Our Key Relationships

The Board has identified the following stakeholders as having the key relationships in supporting the Board achieve its long-term objectives.

Customers

We have the customer as the core focus of our strategy, understanding what it is that our customers need and want and seeking to satisfy those requirements and delighting our customers with the quality and value of our products and service. This focus was a strong theme throughout the Board's review of strategy during the year, including periodic presentations from the Studio Retail Marketing & E-commerce Director on feedback from customer surveys, focus groups and other market information. As part of this focus, the governance, resourcing and awareness needs of the business to avoid customer detriment were a key feature of the Board's discussions during the year, with regular updates being presented by financial services executives from Studio Retail Ltd. In line with the priorities of our financial services regulator, the FCA, recurring features of those discussions have been to review current and proposed business initiatives against our need to promote affordable lending, avoid persistent debt and deal appropriately with vulnerable customers. And the KPIs reported to and discussed by the Board include measures tracking performance against expected customer service levels.

Colleagues (Employees)

Elaine O'Donnell is the Board's nominated director for colleague engagement and her activities during the year are set out in the Directors Report on page 33. She reports periodically to the Board on these matters. In addition, the Remuneration Committee receives a report from management twice per year regarding remuneration, benefits and terms and conditions of employment across the Group and this is taken into account by that committee when considering executive remuneration matters. The Board also receives regular reports regarding health & safety performance and compliance activities.

Suppliers

The respective MDs of Studio Retail Ltd and Findel Education Ltd include in their monthly reports to the Board, KPIs and commentary regarding buying and merchandising and relationships with key suppliers. During the year, payment practices have been the subject of discussion at the board table when considering cash flow projections and funding requirements. Increasingly, Studio is seeking to pass on our values through our supply chain and to develop clearer approaches to ethical sourcing and this is supported by the Board and in particular in the deliberations of its Risk Committee.

Our people, our products, community and the environment continued

Banks

Relationships with our group of banks is managed on behalf of the Board by the CFO, who holds regular discussions with the key lenders and also reports regularly to the Board on these matters. The Group's revolving credit facility was amended during the year with a new maturity date of 31 December 2021. The securitisation facility was also restructured during the year to cater for the continued growth in Studio's trade receivables and its maturity date was also extended to 31 December 2022. These facility amendments/extensions speak to the good working relationships we have with our banks. Further details of the facilities can be found in the Finance Review on pages 14 to 17.

Pension Trustees

The CFO and the Secretary manage the relationship with the trustees of the closed defined benefit pension fund and report to the Board on these matters, where appropriate with the support of external advisers. FY2019/20 saw a particularly intense period of interaction with the trustees given the interplay of the triennial valuation and the sale of the Findel Education business, The Board considered these issues during our third quarter leading to a commitment to allocate £13m of the net proceeds of sale towards reducing the pension scheme deficit, whilst agreeing to defer the finalisation of the valuation until completion of the sale transaction.

Regulators

The Company and its subsidiaries are overseen by several regulators, including the FCA (both as the UK Listing Authority and as a financial services regulator), HMRC, the ICO and the HSE, amongst others. Appropriate levels of executive management are responsible for these relationships and the Board receives regular updates on interactions with these key regulators via the executive directors and the Secretary. The Board requires management to be transparent and cooperative with all its regulators.

During FY2019/20 the oversight of Studio Retail Ltd's response to the first phase of the introduction of the FCA's Senior Managers & Certification Regime to solo regulated firms such as Studio was an important feature of the Board's work. The Board received and discussed with management regular updates on the progress of the compliance project. That work is continuing through 2020/21 as the certification and conduct rules are introduced in the second stage of implementation.

The Community

This covers our relationships with wider society, whether local, national or international. Our activities on local sponsorships, apprenticeships, charitable work, energy efficiency and waste package initiatives and our carbon footprint and other environmental matters are all reported in our CSR Report on pages 73 to 78.

Shareholders

Shareholders are the ultimate beneficiaries of the output (increased shareholder value) from our success in delivering on our strategy.

In Fraser Group plc the Company has a controlling shareholder for the purposes of the UK Listing Rules (holding more than 30% of the Company's shares) and the Board has entered into a relationship agreement with Fraser Group as required under those Listing Rules, which is intended to protect the interests of other shareholders. The Board has also arranged for Fraser Group to appoint a Board Observer to attend our Board meetings (although he has not attended such meetings since January 2020) alongside a non-disclosure agreement to protect the Company's confidential information.

Further details regarding the Board's relationships with shareholders can be found in the Corporate Governance Report on pages 35 to 38.

As stated in the Finance Review and in the Directors' Report, the Board is not recommending the payment of a dividend at the present time. Studio Retail Group plc is not yet in a position to declare a dividend and does not have plans to reinstate dividend payments at this stage since it continues to prioritise investment in growing its customer base, improving digital capabilities, and in strengthening its financial position in light of the broader economic environment.

Corporate Social Responsibility Report

Our Corporate Social Responsibility Report is set out on pages 73 to 78 and covers the following principal areas:

- examples of initiatives in place within the Group's businesses to support and develop our employees;
- an outline of the structures in place and examples of activities during the period to manage the health and safety risks inherent in the Group's activities:
- the Group's approach to product safety and sourcing;
- the impact of the Group's activities on the environment, measures we take to mitigate those impacts and our environmental performance over the period; and
- examples of the social and community related activities around the Group.

Gender Diversity and Pay Gap Reporting

Each of our operating subsidiaries, Studio Retail Ltd and Findel Education Ltd, has reported the required data on Gender Pay Gaps on the Government website and have also included those details within a longer narrative report on their respective websites (www.studioretail.co.uk and www.findel-education.co.uk). In accordance with the regulations Studio Retail and Findel Education will continue to calculate and publish these numbers annually.

Although not required under the reporting regime we have compiled a consolidated view of all UK employees within the group including the small head office team of less than 20 employees. In reading the results set out below it is important to remember the difference between gender pay and equal pay. Gender pay gap measures the difference in average male and female pay across the whole business on 5 April each year. Equal pay is a longstanding set of regulations which ensures that men and women are paid equally and fairly for doing the same work. As a result, a difference in the gender pay gap does not mean that we are rewarding people unfairly or treating people unequally.

And, by way of explanation, in the table below a positive number means that pay is in favour of men whilst a negative means that pay is in favour of women.

Hourly Pay & Bonus Summary	Consolidated Studio Retail Group 2017	2018	2019
Mean Gender Pay Gap	17.5%	9.8%	13.5%
Median Gender Pay Gap	-0.1%	-0.4%	-0.1%
Mean Bonus Gender Pay Gap	39.7%	55.3%	80.2%
Median Bonus Gender Pay Gap	62.5%	65.1%	24.9%
Proportion of Males with a bonus	3.1%	1.6%	5.1%
Proportion of Females with a bonus	5.1%	4.0%	7.1%

Gender Split	Combined Consolidated Studio Retail Group	
Females	759	(49%)
Males	790	(51%)

Quartile Summary	Combined Consolidated Studio Retail Group Men	Women
Lower	59.4%	40.6%
Lower Middle	42.9%	57.1%
Upper Middle	46.8%	53.2%
Upper	54.9%	45.1%

We are pleased to be able to continue to report no significant median gender pay gap across the group as a whole, but we have work to do around the mean gender pay gap, which has seen an increase this year. Different parts of our organisation face differing challenges resulting from their respective workforce profiles. However, taking the group picture as a whole, our workforce remains well balanced with 51% of our workforce being male and 49% female. A higher proportion of male colleagues are in both the lower and upper quartiles, and whilst we have more women in the lower and upper middle quartiles, it is the upper quartile that drives our mean gender pay gap.

Our management teams continue to develop a range of strategies to seek to address our gender pay gap but the issue is a complex one and reaching parity is a long-term challenge for most businesses, including Studio Retail Group. These strategies will be specifically tailored to the different challenges faced in each area of our business, but some examples which will feature in appropriate areas include:

- Reviews of our organisational design to reinforce our corporate culture and values.
- Recruitment processes: whilst we will always look to employ the best person for the job based on their skills and experience, we will broaden our attraction methods to improve the number of applications received from women at senior levels.
- Continual training, development and progression planning across our workforce to help raise aspirations and challenge gender stereotypes.
- Steps to identify and remove unconscious bias.
- "Returnships" – the targeting of recruitment activities at those who are looking to return to work after career breaks and provision of appropriate workplace support.
- Seeking to become more agile in our working arrangements.

Our aim, across the business, is to ensure that we reward our people based on the role they are asked to perform and their performance in that role. Progression opportunities will be open to all regardless of any personal characteristics or personal working pattern. Furthermore, we will continue to review our reward policies and their application to ensure they are based on personal merit and that the potential for any bias is removed.

Finally, we have maintained our boardroom diversity with 2 female members on the Board throughout the financial year. Following Bill Grimsey's retirement from the Board in July 2019, and Paul Kendrick's appointment to the Board in December 2019, we have 25% female representation on the Board.

This Strategic Report is approved on behalf of the Board.

Ian Burke
Chairman

Phil Maudsley
Chief Executive Officer

22 August 2020

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Directors, Officers, Statutory Information and Board of Directors

Mr M I Burke (a)
Chairman

Ian Burke joined the Board on 12 January 2017. He has spent the majority of his career in the leisure industry most recently as Chairman of The Rank Group, having previously overseen the growth of that business as Chief Executive. He is also Chairman of Pets at Home Group plc. Until recently he was a non-executive director of Intu Properties plc and previously served as Chief Executive of Thistle Hotels and Managing Director at both Holiday Inn Worldwide and Gala Clubs.

Mr P B Maudsley
Chief Executive Officer

Phil Maudsley joined the Group in 1987 as general manager of a manufacturing subsidiary. He became managing director of the Home Shopping Division in 1994 and was appointed to the Board on 6 April 2004. He was appointed Managing Director of Express Gifts in 2010 before being appointed as Group Chief Executive Officer in April 2017.

Mr S M Caldwell
Chief Financial Officer

Stuart Caldwell joined the group finance team in October 2010 and held the post of Acting CFO from April 2017 before his appointment to the Board on 13 July 2017. He is a qualified Chartered Accountant and a fellow of the Association of Corporate Treasurers. After qualifying within the profession, he held a number of roles with Provident Financial plc before moving to Studio Retail Group.

Mr P R Kendrick
Managing Director, Studio Retail Ltd

Paul Kendrick was appointed to the Board on 16 December 2019. He joined the Group in May 2016 initially as Commercial and Deputy Managing Director of Studio Retail Ltd before being promoted to his current role in April 2017. Prior to joining Studio, he was Marketing and Ecommerce Director at Bonmarche, and held various roles at N Brown Group including leading Marketing, Financial Services, International and Group Development functions. Much of Paul's early career was spent within the travel industry, at both Thomson (now Tui) Travel and The Co-operative Group.

Mr G F Ball (a) (b) (c) (d)
Senior Independent Director

Greg Ball was appointed to the Board on 23 February 2016. He has held a number of executive and non-executive roles in retail and regulated financial services, including senior positions at Home Retail Group plc and Littlewoods Organisation plc. He is currently a non-executive director of Ageas UK, chairman of Ingelby (2016) Ltd, trading as Panther Logistics and of Asset Solutions Group. He is also a director of GF Ball Consultancy Ltd.

Ms C V Askem (a) (b) (d)
Non-Executive Director

Clare Askem was appointed to the Board on 21 March 2019. She was until recently Managing Director of Habitat within the Sainsbury's group of companies, having previously held numerous senior management positions at PC World, Dixons Retail plc and Home Retail Group/ Sainsbury's.

Mr F-R M Coumau (a) (c) (d)
Non-Executive Director

Francois Coumau was appointed to the Board on 12 August 2013. He was previously Group Managing Director at Immediate Media Company Limited having also held a series of senior roles at eBay, most recently as General Manager for Continental Europe. Prior to this, his career included senior roles at L'Oreal and Mars. He is also non-executive chairman of Story Terrace as well as a consultant and coach for a number of early stage businesses in the digital consumer space.

Ms E M O'Donnell (a) (b) (c) (d)
Non-Executive Director

Elaine O'Donnell was appointed to the Board on 1st February 2018. She is a former Partner at EY with over 20 years' experience operating in a senior advisory capacity across a range of industry sectors and situations. She is currently a non-executive director at Games Workshop Group plc and On The Beach plc. Elaine was also formerly a non-executive Director at The Manufacturing Institute, a charity focused on promoting and improving manufacturing in the UK and MSIF, a not for profit organisation offering business funding in the North West.

[a] Member of the Nomination Committee
[b] Member of the Audit Committee
[c] Member of the Risk Committee
[d] Member of the Remuneration Committee

Secretary and Registered Office
Mr M Ashcroft
Church Bridge House
Henry Street
Accrington
Lancashire
BB5 4EE

Auditor
KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Company Number
549034

Directors' Report

The directors present their annual report and accounts on the affairs of the Group, together with the financial statements and Auditors' report for the 52-week period ended 27 March 2020. The Corporate Governance Report set out on pages 35 to 38 forms part of this report.

Strategic Report

Pursuant to sections 414A-D Companies Act 2006, the Strategic Report can be found on pages 1 to 27. This includes a review of the Group's activities; the principal risks and uncertainties facing the Group; the main trends and factors likely to affect the future development, performance or position of the Group's business; and the key performance indicators identified by management. The Directors' Report and the Strategic Report also comprises the management report for the purposes of the FCA Disclosure and Transparency Rules (DTR 4.1.8R). All such information as is required to be contained in this report by s.417 of the Companies Act 2006 is incorporated by reference into this report.

Going concern

The directors have adopted the going concern basis in preparing these financial statements after assessing the principal risks and having considered the impact of severe but plausible downside scenarios for COVID-19. The Group is financed by a securitisation facility and a Revolving Credit Facility ("RCF") as disclosed in note 18. The directors considered the impact of the current COVID-19 environment on the business, as disclosed in the strategic report, for the next 12 months, the viability period and the longer term. Whilst there is inherent uncertainty in forecasts caused by COVID-19, the directors have considered a number of impacts on sales, profits and cash flows.

The directors have assumed that the Group's operations remain open and that we will continue to be able to serve our customers, as we have done through the lockdown period, with only temporary disruptions to operations being experienced in the downside scenarios. The downside sensitivities considered include a reduction in the level of future forecast revenue and gross margin growth and the impact of economic factors (particularly unemployment rates) on the ability of the Group's customer base to continue to shop with us and to service their credit accounts. The directors also considered the impact of these sensitivities occurring in combination. In the event that one of or a number of these downside scenario arise at the same time the directors consider they are able to take reasonable mitigating actions, which include but are not limited to, a reduction in discretionary capital expenditure and a reduction in discretionary marketing spend. Implementing these mitigating actions would enable the Group to continue to operate within its existing facilities during the forecast period.

The directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, noting that its revolving credit facility matures on 31 December 2021, and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these consolidated financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Covid-19 Pandemic

The Government's lockdown in response to the Covid-19 pandemic was introduced just a week before the end of the financial year. Since lockdown was introduced the main focus of management has been to secure the continued health and wellbeing of our colleagues and customers.

At Studio, following an urgent and comprehensive risk assessment we enabled as many of our colleagues as possible to work from home and introduced a comprehensive suite of hygiene and safety measures alongside strict social distancing within our offices and warehouses. This has enabled the business to continue to service our customers' needs, throughout the period. Our online retail model has proven to be resilient with sales significantly ahead of prior year throughout the lockdown period.

The Education business faced an abrupt period of disruption with the closure of the majority of educational establishments and tentative steps back to school in the final weeks of the Summer term. The business mothballed its office facilities with approximately half the staff working from home and others being furloughed on full pay. The warehouse continued to operate on reduced volumes, although these have now returned to normal seasonal levels, given the full return to school in September is expected to return the business to more normal levels of activity.

Brexit

We have completed our work to assess the likely impact of the United Kingdom's exit from the European Union ("EU") and continue to work to mitigate, where possible, its effects. In light of recent political developments, the outcome remains unclear, and it is therefore difficult to enact specific mitigating activities, however our work is focused on the following key risk areas:

- Supply chain – the majority of goods sold by the Group are sourced, either directly or indirectly, from outside the UK, with a high proportion originating from Asia. There is a risk that lead times for the supply of goods may lengthen due to delays at ports caused by a no-deal Brexit scenario. There may also be additional administrative burdens and costs in respect of goods imported from the EU. Since most of our products are sourced from outside the EU, we do not currently expect to see a material change in import tariffs, however to the extent that the UK falls out of any arrangements between the EU and countries from which we import, it is possible that this may lead to additional tariffs becoming payable;
- Foreign exchange – the exit process may prompt a further depreciation in the GBP/USD exchange rate. We continue to hedge our planned USD purchases on a rolling 12-month basis to mitigate the impact of any such depreciation; and
- Colleagues – a significant number of colleagues, particularly within our distribution centres, are non-UK EU nationals. Brexit may result in changes to UK immigration policy which increases the risks around the availability, recruitment and retention of these individuals.

Viability Statement

While the financial statements have been prepared on a going concern basis, the provisions of the UK Corporate Governance Code require the directors to make a statement in the annual report with regard to the viability of the Group, including explaining how they have assessed the prospects of the Group, the period of time for which they have made the assessment and why they consider that period to be appropriate.

The Board has reviewed the viability of the Group for the three-year period up to March 2023. The Board selected this period of review as it aligns with the Group's normal strategic planning process which results in the development and approval by the Board of medium-term business plans each year. These plans consider the Group's future projections of sales growth, profitability, cash flows, capital requirements and resources for each of its divisions, together with covenant compliance and other relevant financial and regulatory ratios over the forecast period.

The plans were then subjected to sensitivity analyses that considered the Group's resilience to the occurrence of severe but plausible downside scenarios taking account of the impact of COVID-19, which amongst other matters, addressed the impact of economic factors (particularly unemployment rates) on the ability of our customer base to continue to shop with us and to service their credit accounts. Consideration was also given to the likely impact of the Group's principal risks over that planning horizon after taking account of the mitigation actions that could be taken to reduce the impact or occurrence of those risks, which are set out in the principal risks and uncertainties section on pages 22 to 23. In particular, it was noted that the Group's committed borrowing facilities fall due for renewal during the three-year period ending March 2023. The Board formed the view that it was reasonable to assume that the Group would be able to access the debt capital markets on broadly similar terms at the appropriate time.

Dividends

The directors have determined that no interim dividend will be paid (FY19: nil) and are not recommending the payment of a final dividend (FY19: nil).

The Board will focus on strengthening the financial position of the Studio Retail Ltd balance sheet and that of the parent company. As such the Company does not have plans to re-instate dividend payments at this stage.

The rights of the holders of convertible shares to restrict dividends are set out below.

Financial Risk Management

Policies on financial risk management are set out in note 26, on page 69 of the Report of the Audit Committee, on pages 71 and 72 of the Report of the Risk Committee and on page 17 of the Strategic Report.

Capital Structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 23 and such information is incorporated into this report.

The Company has two classes of share, neither of which carries rights to fixed income. The rights and obligations attaching to both classes of share are contained in the Articles of Association, a copy of which is available for inspection at the registered office of the Company. The ordinary shares carry the right to attend and speak at general meetings of the Company, to one vote on each resolution at such meetings, to appoint proxies to exercise full voting rights and to participate in any distribution of income or capital. The holders of convertible shares have a right to attend meetings but no voting rights (save in respect of any resolution relating to the rights of the convertible shares). The following rights and restrictions attach to the convertible shares:

- rights attaching to the convertible shares may only be varied by resolution passed by the holders of 85% or more of the nominal value of the convertible shares then in issue;
- consent of 85% of the holders of convertible shares is required before the Company declares any dividend or distribution in excess of 50% of the Group's net income in respect of any accounting reference period, and the convertible shares have the right to participate in any dividend to the extent that it exceeds 50% of the Group's net income in respect of any accounting reference period;
- the right to elect to participate in any return of capital on a voluntary winding-up of the Company as if the convertible shares had been converted into ordinary shares;
- the right to convert the convertible shares into ordinary shares between 28 February 2013 and 28 February 2021 (Conversion Period) if the volume weighted average ordinary share price over a one month period is greater than 479.4p;
- the convertible shares will automatically be converted into ordinary shares in the event of a takeover offer which is declared unconditional;
- on conversion into new ordinary shares the convertible shares will rank *pari passu* with existing ordinary shares;
- until expiry of the Conversion Period, or earlier conversion, the Company is subject to certain restrictions including that it shall not, without the consent of 85% of the holders of convertible shares:
  - vary the rights attached to the ordinary shares;
  - create a new class of shares ranking ahead of the ordinary shares;
  - convert the Company from a public company to a private company (other than pursuant to a takeover offer);
  - issue loan stock or debt instruments or enter into any borrowing save on arm's length terms.

Directors' Report

If the convertible shares have not converted into ordinary shares within the Conversion Period they will automatically convert into non-voting deferred shares with no voting or profit participation rights.

There are no specific restrictions on the size of a holding or on the transfer of ordinary shares or convertible shares and there are no requirements for prior approval of any transfers; all such matters are governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. The Articles of Association may only be changed with agreement of shareholders.

Details of employee share schemes are set out in note 22. Shares held by the Company's Employee Benefit Trust rank *pari passu* with the ordinary shares in issue and have no special rights, but abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. Any such situation would be carefully managed to ensure that any effect on the business was minimised. Furthermore, the directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that occurs as a consequence of a takeover bid, other than as disclosed in the Board Report on Directors' Remuneration.

Acquisition of own shares

The Company did not obtain authority from shareholders at the AGM held in July 2019 to purchase its own shares. The Company made no purchases of its own shares during the financial year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge.

Directors

The directors of the Company at the date of this report are shown on page 29. Information concerning their interests in the share capital of the Company as at 27 March 2020 and as at 24 August 2020 is included in the Board Report on Directors' Remuneration on page 64. All the directors served throughout the year save that Paul Kendrick was appointed to the Board as an executive director on 16 December 2019 and Bill Grimsey retired from the Board at the conclusion of the AGM held on 25 July 2019. We also announced on 3 July 2020 that Phil Maudsley will retire from the Board at the end of March 2021 following more than 30 years with the Group and that Paul Kendrick will take over as CEO of the Company at that time. This is the outcome from a structured development and succession plan implemented by the Board working with both Mr Maudsley and Mr Kendrick over the past two years. Mr Maudsley is fully involved with the transition.

A summary of the rules relating to the appointment and removal of directors by shareholders and details regarding the powers of the directors are set out in the Corporate Governance Report on pages 35 to 38. Notwithstanding those rules, and in line with the UK Corporate Governance Code, the Board has decided that all continuing members of the Board will continue to put themselves up for election or re-election on an annual basis.

Following the annual performance evaluation, the Chairman confirms that the performance of each of the directors has been effective throughout the period, or throughout the period since their appointment, and that they have continued to demonstrate commitment to their roles.

In addition to their general independence of mind and approach, the non-executive directors each bring their own perspectives, experience and strengths to the direction of the Company, together comprising a balanced team. Clare Askem brings significant and relevant retail executive management experience; Mr Ball brings previous home shopping retail and consumer credit experience and current financial services activity; Mr Coumau's consumer product background and web based business activities add to the Board's breadth of views; and Elaine O'Donnell brings her accountancy background and business consulting expertise to the Group. The Nomination Committee endorses their proposed reappointment at the forthcoming 2020 Annual General Meeting.

Mr Maudsley has served the Company for over 30 years, the last 3 of which as CEO, and has successfully led the executive group during those 3 years. He has been a member of the Board since 2004. He will retire from the Company and the Board on 26 March 2021 and in the meantime will manage a planned transition to his successor, Paul Kendrick. Over the same 3-year period, Paul Kendrick has successfully led and managed the transition of Studio Retail Ltd to a digital home retail business whilst maintaining its year on year growth trajectory. He joined the Board in December 2020 as a preparatory stage of his planned succession to the CEO role in March 2021. Since his appointment as CFO in 2017, Mr Caldwell has demonstrated his capability in his first such role with a plc, and continues to perform well supporting the CEO, the Chairman and the Board in developing and financing the business. The Nomination Committee also endorses their respective proposed appointment/reappointment at the forthcoming 2020 Annual General Meeting.

The Board considers that Mr Burke's leadership experience at both executive and non-executive levels is enabling him to chair the Board with a clear focus and purpose whilst providing both support and robust challenge to the executive team. His time at Rank, leading a significant player in a regulated industry is a further important feature of his previous experience and is valued by the Board. The members of the Committee (other than the Chairman) having reviewed the performance and continued commitment of the Chairman also recommend the reappointment of the Chairman at that meeting.

Each of Phil Maudsley, Stuart Caldwell, and Paul Kendrick has a service contract with the Company which provides a six-month notice period. Ian Burke as non-executive chairman does not have a service contract with the Company but has a one-month notice period under his letter of appointment. The other non-executive directors do not have service contracts with the Company and their letters of appointment do not provide for a period of notice.

The appointment of non-executive directors is normally for an initial period of three years, subject to review and re-election in General Meeting. In the normal course non-executive directors will be asked to serve two terms of three years although the Board reserves to itself the discretion to extend terms beyond the two terms of three years, on an annual basis, if the particular circumstances warrant it, up to a maximum of 9 years. Further details of the service contracts and letters of appointment of directors can be found on page 62 of the Board's Report on Directors' Remuneration.

Directors' and Officers' Insurance and Indemnity

The Group maintained insurance for directors and officers of the Group during the financial year, indemnifying them (to the extent permitted by law and the Company's Articles of Association) against certain liabilities incurred by them when acting on behalf of the Group. The Company has executed deeds of indemnity for the benefit of each director in respect of liabilities which may attach to them in their capacity as directors of the Company. Neither the insurance nor the deeds of indemnity provide cover where the relevant director or officer has acted fraudulently or dishonestly.

Colleagues and Colleague Engagement

The Company recognises its social and statutory duty to employ disabled persons and pursues a policy of providing, wherever possible, the same employment opportunities to disabled persons as to others, and training for employees who have become disabled during the period when they were employed by the Group.

Information is provided to colleagues regarding the Company and factors affecting its performance and that of its subsidiaries is provided through normal management channels and regular consultation. Further information regarding our colleagues can be found in the Directors' section 172 statement on pages 24 to 27 and in the Corporate Social Responsibility Report on pages 73 to 78.

Elaine O'Donnell took up the role of director for employee engagement with effect from 1 April 2019 and her engagement programme has been developed during the year. This has included attendance at a number of "coffee and cake" sessions with groups of Studio Retail employees, participation in a Q&A session at group senior leaders event, and reviews with divisional HR Directors of periodic colleague engagement surveys. Elaine has reported back to the Board on these activities and both she and senior management have been encouraged by the level of interaction and open dialogue which these initiatives have produced. The engagement programme will be developed further over the coming year.

Environmental matters

Information on environmental matters, including our greenhouse gas emissions is disclosed in the Corporate Social Responsibility Report on page 73 to 78.

Overseas Branches

The Group does not have any branches outside the United Kingdom.

UK Corporate Governance Code

The Company's statement on corporate governance can be found in the Corporate Governance Report on pages 35 to 38. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by its cross reference.

Political donations, expenditure and contributions

No political donations, expenditure or contributions were made during the financial year (2019: £nil).

Substantial Shareholdings

As at 27 March 2020 the Company had been notified pursuant to the Disclosure and Transparency Rules and/or pursuant to the Takeover Code of the following material interests of 3% or more in its share capital:

	Number of shares	Proportion of share capital	Number of voting rights Direct	Number of voting rights Indirect	Proportion of voting rights
Frasers Group plc (formerly Sports Direct International plc)	31,850,000	36.84%	31,850,000	—	36.84%
Schroders plc.	16,399,128	18.971%	—	16,399,128	18.971%
FIL Ltd and FMR LLC	7,666,057	8.86%	—	7,666,057	8.86%
Lombard Odier Asset Management	3,631,689	4.20%	—	3,631,689	4.20%
Ennismore Fund Management	2,735,867	3.16%	—	2,735,867	3.16%

There have been no further notifications between 27 March 2020 and 24 August 2020.

Directors' Report

Auditor

KPMG having served 10 years as the Company's auditor, the audit committee has carried out an Article 16(3) selection procedure and recommended its first and second choices to the Board. The Board has accepted the audit committee's first choice recommendation, concluding that Mazars LLP be recommended for appointment by shareholders. Mazars LLP has notified its willingness to as auditor to the Company and a resolution concerning their appointment will be proposed at the Annual General Meeting together with a resolution to authorise the directors to set the remuneration of the auditor. In making their recommendation to the Board, the audit committee considered Mazars LLP to offer a highly professional and competitively priced service, as well as a comprehensive and pragmatic approach to transition from the incumbent auditor. An analysis of audit and non-audit fees earned by the auditors during the year is set out in note 8 to the accounts.

Disclosure of information to the auditor

In the case of each of the persons who are directors of the Company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- each of the directors has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Annual General Meeting

A separate circular comprising the notice of annual general meeting to be held on 30 September 2020 is being posted to shareholders with this Annual Report & Accounts and includes details of the business to be transacted at the meeting and an explanation of all resolutions to be considered at the Annual General Meeting. The AGM will include, in addition to the ordinary business of an annual general meeting, resolutions to allow political donations and to enable the Board to convene general meetings on short notice.

In light of the current UK Government measures in response to the Covid-19 pandemic and the Company's desire to protect the health and safety of our shareholders and employees, our annual general meeting this year will be held as a closed meeting and as such shareholders will not be permitted to attend in person. Any shareholder seeking to attend the meeting will not be permitted entry. The Company will make arrangements such that the legal requirements to hold the meeting will be satisfied through the attendance of a minimum number of directors and members (facilitated by the Company) in order to satisfy quorum requirements. The format of the meeting will be purely functional and will comprise of only the formal votes on each resolution as set out in the notice, without any business update or Q&A. Shareholders will have the opportunity to submit questions on the annual general meeting resolutions electronically before the meeting and such questions, limited to matters relating to the business of the annual general meeting itself, should be sent to SRLGroupEnquiries@studio.co.uk and answers to questions on key themes will be made available on our website – www.studioretail.group/investor-centre/shareholder-centre.

The situation surrounding the outbreak of COVID-19 is constantly evolving. The Board may reconsider whether shareholders should be allowed to attend the annual general meeting in the event that updated public health guidance or legislation is issued by the UK Government (taking into account first and foremost the health and safety of attendees). Any changes to the annual general meeting will be communicated to shareholders before the meeting through our website - www.studioretail.group/investor-centre/shareholder-centre and where appropriate, by RNS announcement. We trust that all our shareholders will understand the need for these precautions in light of Government public health guidelines on Covid-19.

Voting

Full details as to how to vote will be contained in the Notice of AGM and associated Form of Proxy to be issued to shareholders with this 2020 Annual Report & Accounts.

Recommendation

The Board considers that all business to be proposed at the 2020 AGM is in the best interests of the Company and its shareholders as a whole and unanimously recommends that shareholders vote in favour of each resolution at the AGM. The full recommendation of the Board will be included in the Notice of AGM to be issued to shareholders with this 2020 Annual Report & Accounts.

By order of the Board

Mark Ashcroft
Company Secretary

22 August 2020

Corporate Governance Report

Compliance

The Board considers that throughout the year under review the Company has complied with the relevant provisions of the 2018 issue of the UK Corporate Governance Code (the "Code"), and with the rules of the UK Listing Authority. A copy of the Code can be located at https://www.frc.org.uk.

Application of the principles of the Code

At the heart of the Code is an updated set of Principles that emphasise the value of good corporate governance to long-term sustainable success. By applying the Principles, following the more detailed Provisions and using the associated guidance, the Company can now demonstrate through this report how the governance of the Company contributes to its long-term sustainable success and achieves wider objectives.

Board Leadership and Company Purpose

At 27 March 2020, the Board was made up of eight members comprising the Chairman, Ian Burke; three executive directors, namely the Chief Executive, Phil Maudsley; the Chief Financial Officer, Stuart Caldwell; and the Managing Director of Studio Retail Ltd, Paul Kendrick; together with four non-executive directors. The non-executive directors are each considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. Biographical details of each of the directors, which illustrate their range of experience, are set out on page 29.

The Chairman, Ian Burke, joined the Board on 12 January 2017. The Board considers Ian Burke to have been independent at the time of his appointment as Non-Executive Chairman. Ian Burke's other commitments are summarised in the biographical details on page 29. Ian took up the non-executive chair role at Pets at Home Group plc in May 2020 and retired from the chairmanship of Rank plc during the year. Since the year end his directorship at Intu Properties plc has also come to an end. The Board considers that Ian's other commitments are not a constraint on his agreed time commitment to the Company.

Bill Grimsey retired from the Board at the conclusion of the 2019 AGM, following 7 years of service and Francois Coumau took over the chair of the Remuneration Committee at that time.

Paul Kendrick, was appointed to the Board on 16 December 2019. Paul joined the Group in May 2016 initially as Commercial Director and Deputy Managing Director of Studio Retail Ltd (SRL). He took over as Managing Director of SRL in April 2017 and has successfully managed the first part of SRL's transition from a catalogue-based business into a truly digital company, whilst maintaining significant profitable growth.

On 3 July 2020 we announced that Phil Maudsley will retire from the Board at the end of March 2021 following more than 30 years with the Group and that Paul Kendrick will take over as CEO of the Company at that time. This is the outcome from a structured development and succession plan implemented by the Board working with both Mr Maudsley and Mr Kendrick over the past two years. Mr Maudsley is fully involved with the transition.

The non-executive directors meet at least annually without the executive directors being present and meet separately to review the Chairman's performance after each financial year end.

The Board assesses annually whether each non-executive director is independent against the criteria set out in the Code and confirms that it has concluded that each of the non-executive directors is independent on that basis.

The Board considers that Mr Burke's leadership experience at both executive and non-executive levels is enabling him to chair the Board with a clear focus and purpose whilst providing both support and robust challenge to the executive team. His time at Rank, leading a significant player in a regulated industry is a further important feature of his previous experience and is valued by the Board.

In addition to their general independence of mind and approach the non-executive directors each bring their own perspectives, experience and strengths to the direction of the Company, together comprising a balanced team. Clare Askem brings significant and relevant retail executive management experience; Mr Ball brings previous home shopping retail and consumer credit experience and current financial services activity; Mr Coumau's consumer product background and web based business activities add to the Board's breadth of views; and Elaine O'Donnell brings her accountancy background and business consulting expertise to the group.

Directors are subject to election at the next annual general meeting following their appointment and are subject to reappointment at least every three years. The Board has determined that in the normal course non-executive directors will be asked to serve two terms of three years. However, the Board reserves to itself the discretion to extend terms beyond the two terms of three years, on an annual basis, if the particular circumstances warrant it, up to a maximum of 9 years.

The appointment and replacement of directors of the Company is governed by the Company's Articles of Association, the Code, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Articles and the Terms of Reference of the main Board committees, copies of which are available on request, and are summarised in this Corporate Governance Report on pages 35 to 38.

Notwithstanding the above, and in line with the UK Corporate Governance Code, the Board has determined that all directors should stand for election or re-election on an annual basis and this approach will continue to be adopted at the 2020 Annual General Meeting.

Corporate Governance Report

Conflicts of Interest

The Company has a procedure for the disclosure, review, authorisation and management of directors' conflicts of interest and potential conflicts of interest, in accordance with the provisions of the Companies Act 2006. The procedure is included in the Articles of Association and has been adhered to by the Board since its introduction. In deciding whether to authorise a conflict or potential conflict of interest, the directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation are reviewed by the Board as appropriate and, as a minimum, on an annual basis.

Mr Ball is non-executive chairman of Ingelby (2016) Ltd, trading as Panther Logistics and Asset Solutions, and has notified the Board of his interest in a contract between that company and Studio Retail Ltd for "two man" deliveries of Studio products to its customers. The contract was negotiated at arm's length between the two companies and without any involvement from Mr Ball, who has no personal financial interest in the contract. During the period ended 27 March 2020, no director had any other material interest in any significant contract to which the Company or any subsidiary was a party.

Board Procedures

The Board and each of its standing committees has an annual programme of scheduled meetings with dates settled well in advance of the start of each year. In addition, meetings can be called at short notice as and when circumstances dictate. The Board receives adequate and timely information to enable the directors to discharge their duties. In addition to matters statutorily reserved for a board, there is an agreed schedule of matters reserved for the Board for collective decision including:

- determining the strategy and control of the Group;
- amendments to the structure and capital of the Group;
- approval of financial reporting and internal controls;
- approval of capital and revenue expenditure of a significant size;
- acquisitions and disposals above a prescribed level; and
- corporate governance matters and approval of Group policies and risk management strategies.

The Board delegates to management the day to day management of the Company's businesses and other matters not specifically reserved to the Board.

Further details relating to the Company's internal control and risk management systems in relation to the financial reporting process can be found in the Report of the Audit Committee on pages 67 to 70 and in the Report of the Risk Committee on pages 71 to 72. The Reports of the Audit Committee and the Risk Committee form part of this Corporate Governance Report and are incorporated into this Corporate Governance Report by reference.

To enable the Board to perform its duties effectively all directors have full access to all relevant information and to the services of the Company Secretary whose responsibility it is to ensure, through the Chairman, that Board procedures are followed. The appointment and removal of the Company Secretary is a matter reserved for the Board. There is an agreed procedure whereby directors wishing to take independent legal advice in the furtherance of their duties may do so at the Company's expense. Appropriate training is available to all directors on appointment and on an ongoing basis as required.

The terms of reference for each of the Board Committees are available on request from the Company Secretary or on the Company's website (www.studioretail.group).

Attendance at Board and Committee Meetings

The Board held nine scheduled meetings during the financial year with full attendance by all Board members in each case. In addition, the Board held a total of six meetings at short notice by telephone conference call during the year. These impromptu meetings took place in the run up to the exchange of conditional contracts for the sale of Findel Education Ltd in December 2019, and towards the end of the financial year in response to the Covid-19 pandemic. Again, there was full board attendance at each of these short notice meetings.

The Audit Committee held 4 scheduled meetings during the year; the Remuneration Committee held 5 scheduled meetings; the Risk Committee 3 scheduled meetings and the Nomination Committee two scheduled meetings. The Audit Committee also held one unscheduled meeting during the period at short notice which could not be arranged at a time when all members were available and consequently Clare Askem could not attend that meeting. On this occasion Elaine O'Donnell, the Chair of the Committee, discussed the issues covered with Clare Askem.

Board Effectiveness

In 2017 the Board completed its first independently facilitated review of its effectiveness, and the effectiveness of its standing committees. The review was facilitated by Mr Tom Bonham Carter of Armstrong Bonham Carter LLP. The Board accepted the conclusions of the review at that time and has implemented further improvements in its processes and performance identified in that evaluation process.

During the current year, the Board continued to build on the outcomes from that external assessment and towards the end of the financial year the Chairman held one to one reviews by telephone with each of the non-executive directors. The Covid-19 pandemic struck at the time when the Board would ordinarily carry out its annual review of effectiveness and the Board restricted its review at this time to these one to one discussions, concerned that the focus of the executive team should be directed solely to the Group's management of the Covid-19 crisis.

The Senior Independent Director, Greg Ball, chairs annual meetings of the independent non-executive directors to discuss the performance of the Chairman. The Senior Independent Director then discusses the results of the assessment with the Chairman.

Relations with Shareholders

The Company recognises the importance of communicating with its shareholders, to ensure that its strategy and performance are understood. This is achieved principally through the Interim Report, periodic trading statements, the Annual Report and the Annual General Meeting. In addition, a range of corporate information is available to investors on the Company's website (www.studioretail.group).

The Chairman, the CEO and the CFO are primarily responsible for investor relations. The Company has a concentrated share register, with Frasers Group (36.8%), Schroders (16.7%) and Fidelity (8.9%) having significant voting rights (figures correct as at 27 March 2020). Feedback from major shareholders is reported to the Board and discussed at its meetings and from time to time the Chairman also discusses the views of the Company's major shareholders with the non-executive directors. Formal presentations are made to institutional shareholders following the announcement of the Company's full year and half year results and the slides used in those presentations are published on the Company's website (www.studioretail.group). The Chairman of the Remuneration Committee also writes to major shareholders and the main proxy voting agencies ahead of the annual non-binding AGM vote on the Remuneration Report when there are any significant changes to the basis of incentive arrangements for executive directors, and ahead of the triennial vote on the Directors' Remuneration Policy.

As noted above, Frasers Group holds 36.8% of the Company's listed shares. Consequently, as required under the Listing Rules of the UK Listing Authority, the Company has entered into a Relationship Agreement with Frasers Group, which seeks to protect the interests of other shareholders.

In addition, Mr Liam Rowley has been nominated as Board Observer of the Company's Board meetings on behalf of Frasers Group. Mr Rowley receives board papers (redacted as appropriate to address conflict issues) and attends but has no right to vote at Board meetings. He does not attend Committee meetings. The terms of this arrangement are set out in an exchange of letters between the Chairmen of the two companies and is also regulated by a Non-Disclosure Agreement between the two companies. Mr Rowley attended 4 Board meetings during the year but has not attended meetings, nor (at his request) has he received board papers, since January 2020.

The Board has sought to maintain its constructive relationship with Frasers Group, despite its vote against the re-appointment of Mr Caldwell at the Company's 2019 AGM. That resolution was nevertheless passed with 58.06% voting in favour of the resolution and with only 2,059 shares voting against in addition to Frasers Group. In January 2020, the Company issued an update on this substantial vote against. It was the Board's understanding at the time of the 2019 AGM that Frasers Group had concerns regarding the Company's accounting policies, and in particular, the treatment of Frasers Group as a related party in the Company's 2019 Statutory Accounts and its inventory and depreciation policies. The Audit Committee had reviewed these areas as part of the 2019 annual audit process and fully agreed with the accounting and reporting positions taken in each case, as did the entire Studio Board. The Board stated that it continued to have full confidence in Mr Caldwell, who continues as our CFO.

The Company continued to engage with representatives from Frasers Group to understand their concerns more fully and exchanged views on the relevant issues. During the review of the Company's Interim Report in December 2019, the Audit Committee again reviewed the Company's accounting policies and the judgements made in applying those policies in recent years as well as the recommendations from Frasers Group. The Board remains fully supportive of the existing policies and judgements in the context of the Company's business model and activities and continues to have full confidence in Mr Caldwell.

The Board recognises that the Annual General Meeting is the principal forum for dialogue with private shareholders. All directors normally attend the Annual General Meeting and are available to answer any questions that shareholders may wish to raise. The Notice of Meeting is sent to shareholders at least 20 working days before the meeting. Shareholders vote on a poll and the results are announced to the market and on the Company's website after the close of the meeting.

In light of the current UK Government measures in response to the Covid-19 pandemic and the Company's desire to protect the health and safety of our shareholders and employees, our annual general meeting this year will be held as a closed meeting and as such shareholders will not be permitted to attend in person. Further detail of the arrangements for this year's annual general meeting is set out in the Directors' Report on page 34.

Corporate Governance Report

Powers of the Board

The directors manage the business of the Company subject to the Companies Act 2006 and the Articles of Association of the Company and subject to such directions as are prescribed by the Company by special resolution.

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital and to issue debentures and other securities whether outright or as collateral security, for any debt, liability or obligation of the Company or of any third party. The Board must restrict the borrowings of the Company and exercise all powers of control exercisable over its subsidiaries (if any) so that the total amount of the Findel Group's borrowings (exclusive of inter-group borrowings) do not exceed £450,000,000. However, the Company may pass an ordinary resolution allowing borrowings to exceed such limit.

The Board may, subject to the provisions of the Companies Act and shareholder approval where required, exercise its authority to allot shares, grant rights to subscribe for shares or to convert any security into shares. Shares may be issued with such rights or restrictions as may be approved by resolution of the shareholders and shares may be issued on terms that they are, or at the option of the Company may be liable to be, redeemed. The Board may, prior to allotment, determine the terms, conditions and manner in which shares can be redeemed by the Company.

Nominated Directors

Greg Ball is the Company's Senior Independent Director.

Elaine O'Donnell is the director with a particular focus on colleague (employee) engagement. A programme of work has been developed by her with the executive team during the current year and is reported on in the Stakeholder Engagement and Gender Diversity section of this report on pages 24 to 27.

Committee Membership

During the year the membership of the Board's standing committees remained as before, save that:

- On 25 July 2019, upon his retirement from the Board, Bill Grimsey also stepped down from membership of the Audit Committee, the Risk Committee, the Remuneration Committee (as Chair) and the Nomination Committee;
- Francois Coumau took over the Chair of the Remuneration Committee on Bill's retirement.
- Clare Askem joined the Audit Committee on 23 September 2019 and the Remuneration Committee on 27 February 2020.

Since the year end Clare Askem has also been appointed to the Nomination Committee.

Details of the membership of the committees as at the end of the period under review are included on page 29.

Audit Committee

The Audit Committee operates under written terms of reference which are available on the Company's website (www.studioretail.group) and is comprised solely of independent non-executive directors. It is chaired by Elaine O'Donnell. The Committee's report is set out on pages 67 to 70. The Audit Committee as a whole has the required competence relevant to the sectors in which the Group operates.

Risk Committee

The Risk Committee operates under written terms of reference and is comprised solely of independent non-executive directors. It is chaired by Greg Ball. The Committee's report is set out on pages 71 to 72.

Remuneration Committee

The Remuneration Committee operates under written terms of reference. It is comprised solely of independent non-executive directors and is chaired by Francois Coumau. The Committee's report is set out on pages 39 to 65.

Nomination Committee

The Nomination Committee operates under written terms of reference and is comprised of the Chairman, and the independent non-executive directors. It is chaired by the Chairman, Ian Burke. The Committee's report is set out on page 66.

Terms of Reference and Role Statements

The terms of reference for each of the above Committees, together with Role Statements for the Chairman, the Chief Executive and the Senior Independent Director are available on the Company's website (www.studioretail.group)

On behalf of the Board

Mark Ashcroft
Company Secretary

22 August 2020

Board Report on Directors’ Remuneration

Dear Shareholder

On behalf of the Board, I am pleased to present the Directors’ Remuneration Report for the year ended 27 March 2020.

This report is divided into three parts: this letter providing a summary of key information, a detailed Director’s Remuneration Policy Report that sets out proposed 2020 policy changes (‘the 2020 Policy’), and an Annual Report on Remuneration which sets out how the remuneration policy will be applied over the year ending 26 March 2021 and how it was implemented over the year ended 27 March 2020.

Our approach to remuneration is governed by our directors’ remuneration policy which received binding shareholder approval at the 2017 AGM and came into formal effect from that date. In line with regulatory requirements the policy is subject to a vote at the 2020 AGM. During the year, the Committee conducted a full policy review in the light of the growth strategy for the business over the lifetime of the new policy, developments in remuneration governance and market best practice.

The 2020 Remuneration Policy and key changes

The Committee believes that the current policy has served the Company and its shareholders well. The current remuneration framework consists of a base salary, modest benefits and pension provision, and annual and long-term incentive arrangements designed to provide a simple, performance-based package that supports sustainable value creation for our shareholders.

To ensure that packages are sufficiently competitive and drive performance to further strengthen the alignment between shareholders and executives, the main change proposed is in relation to a rebalancing of the short- and long-term incentive opportunities. However, recognising current economic climate and volatility, the Committee does not intend to implement increases to incentive opportunities during the 2020/21 financial year.

Summary of key policy changes

- Rebalancing of the short- and long-term incentive opportunities and introduce bonus deferral as follows:
  - Increase the maximum bonus opportunity from 100% of salary to 125% of salary
  - 25% of any bonus will be taken in shares which (after settlement of any tax or withholdings) must be held for three years and will be subject to malus and clawback
  - Decrease the normal PSP policy grant limit from 150% of salary to 125% of salary. The current intention is that normal PSP grants will remain at 100% of salary
- Increase in-post shareholding requirements from 100% of salary to 150% of salary
- Introduce post-cessation shareholding requirements so that leavers will have a requirement to hold 50% of their pre-cessation shareholding requirement (or the actual shareholding if lower) for two years from leaving. This requirement will apply to shares vesting under the PSP programme granted from 2020 onwards. Any shares purchased by an executive will be excluded from the requirement
- For new directors, a pension contribution in line with the workforce (currently 6.5% of salary) may be made. Pension provision for the current CEO (who will retire at the end of the current financial year) and CFO will be capped in-line with their existing entitlements. The Committee is working with the CFO to ensure that his pension contributions transition to the level of the workforce by 2022/23

While not part of the policy, the Committee has also undertaken a review of the metrics attached to PSP awards, currently equally weighted between EPS and absolute TSR growth. Given the volatile share price and the relative lack of free float, the Committee concluded that a greater weighting on EPS would be more appropriate and that therefore the TSR element should be reduced to one third of the award with EPS correspondingly increased to two thirds.

Performance and remuneration for 2019/20

FY2019/20 was an eventful year. We made further progress on our strategic objectives to transition Studio to a digital value retail business and the disposal of Findel Education, and trading performance at Studio was strong in the period leading up to Christmas but more inconsistent at other times. In making its assessment of performance against annual bonus plan objectives, the Committee noted that the Group’s financial performance represented growth in Group revenue of 2.2%, adjusted profit before tax growth of 8.6% but an adjusted free cash flow decline of 17.8%. Overall, this shows the resilience of our business model in a challenging retail environment. The Committee gave careful consideration to the formulaic outturn of the annual bonus in the context of overall business performance and wider economic considerations. It concluded that notwithstanding the performance achieved against a number of the measures, no bonus would be payable for the year under review.

With regards to our longer-term performance, the FY17 Performance Share Plan (“PSP”) awards which were granted on 4 July 2017 to the Chief Executive and on 20 July 2017 to the Chief Financial Officer were subject to absolute share price appreciation and adjusted EPS targets. Adjusted EPS grew by 19.2% p.a. over the performance period, and as a result, vesting was 49% of maximum. In assessing the result of the performance condition, the Committee exercised its discretion to ensure that any adjustments made in the calculation of EPS were appropriate in light of changes in accounting standards and group accounting policies since the targets were set. Full details of the adjustments made can be found on page 60 and 61. The absolute share price targets applicable to these awards were not met and none of the share price element vested. For the Managing Director, Studio, his award was based on Studio operating profit targets, with 44% of the award vesting.

Board Report on Directors' Remuneration

Implementation of remuneration policy for 2020/21

The remuneration package for our executive directors will continue to be made up of base salary, plus pension contributions and benefits, and, subject to stretching performance conditions, an annual bonus that from 2020/21 will be delivered in a mix of cash and awards of shares under the PSP. Within this framework we will be taking the following approach to the implementation of the remuneration policy for the year ending 26 March 2021:

- **Salary** – In line with the position for employees generally, there will be no salary increase for Executive Directors on 1 August 2020. The Company may revisit this position later in the year, which is in line with the position for the wider population
- **Bonus** – Although it is proposed the Policy maximum is increased, the maximum annual bonus will remain at 100% of salary for all executive directors. 25% of any bonus paid will be taken in shares which (after settlement of any tax or withholdings) must be held for three years. 55% of the bonus will be subject to financial performance which will be based on the achievement of targeted levels of Adjusted Profit Before Tax. For the CFO and MD, Studio, a further 30% will be based on growth in active credit customers (with appropriate conditionality to ensure appropriate lending activities), reflecting its importance as a base for potential future growth. These will operate alongside a minority element (15%) based on pre-agreed personal objectives. For the CEO, 10% will be based on growth in active credit customers and 10% based on CMA clearance of the FEL sale, with the remainder based on pre-agreed personal objectives. These will include an element of assessment relating to a successful transition to the new CEO. Any pay-out under the bonus (including for the personal performance element) will be subject to Adjusted PBT being above the threshold target and there being no material incidence of bad behaviour in relation to Treating Customers Fairly during the year.
- **PSP** – It is intended that the executive directors will receive PSP awards of 100% of salary in 2020/21. As noted above, the 2020 PSP awards will be subject to performance conditions measured over a period of three years with two thirds based on EPS targets and one third based on absolute total shareholder return (TSR) targets.
- **Enhancing shareholder alignment** – In addition to ensuring that the short- and long-term performance measures and targets we set are closely linked to the achievement of the Company's key strategic and business objectives, a proportion of bonus will be delivered in shares, pay is subject to recovery and withholding provisions, a two-year post-vesting holding period operates for PSP awards, increased in-post share ownership requirements apply and a post-cessation shareholding requirement has been introduced – all features intended to further enhance the alignment of interest between executive directors and shareholders and to contribute to an appropriate level of risk mitigation.

The Board is satisfied that the proposed policy continues to provide a good balance between potential rewards to executive directors on the one hand, and, on the other, measures and targets which are appropriately stretching and that are aligned with the delivery of the overall long-term success of the Company.

Changes to the Board

On 16 December 2019 we welcomed Paul Kendrick to the Board in the role of Managing Director, Studio. He receives a base salary of £350,000, a car allowance of £15,000, private medical insurance, and a pension contribution aligned to that of the general workforce at 6.5% of salary. His bonus opportunity for FY2019/20 was 100% of salary and, in line with the approach for other Executive Directors, this will remain at 100% of salary in FY 2020/21. He will receive a PSP award with a face value of 100% of salary in FY 2020/21.

As announced on 3 July 2020, Phil Maudsley will retire following more than 30 years of service with the Company, with Paul Kendrick then assuming the role of CEO. Phil will remain CEO until the end of the financial year, 26 March 2021. He will continue to receive base salary, pension and benefits up until that date. He will be eligible for an annual bonus for the financial year which, in line with our policy for departing directors, will be paid in cash subject to performance over the period. He will receive a PSP award with a face value of 100% of salary in FY 2020/21. Reflecting his retirement, tenure and leadership, the Board intends to grant good leaver status, in which event his outstanding PSP awards remain eligible to vest subject to performance conditions, which will be measured over the original performance period, with time pro-rating applied. Paul Kendrick's package for the role as CEO will be finalised closer to the time when he takes up the role and will therefore be disclosed in due course. His package will be set in line with the approved policy in place at the time.

On behalf of the Board, I would like to thank shareholders for their continued backing and look forward to your support for our remuneration report at the 2020 AGM.

Francois Coumau
Chair of the Remuneration Committee

22 August 2020

Remuneration Policy Report

Introduction

This report has been prepared in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 (as amended) (the 'Regulations'). The report also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles of good governance relating to directors' remuneration.

This policy report will be subject to a binding vote at the 2020 AGM and, if it is approved, will be effective from the date of approval. The policy will run until the 2023 AGM, unless a further policy is submitted for shareholder approval prior to that meeting. In 2019/20 we have operated under our previous remuneration policy (approved at the 2017 AGM). The previous policy is included in our 2016/17 Directors' Remuneration Report and can be accessed from our website at www.studioretail.group.

The Annual Report on Remuneration, along with the Annual Statement from the Committee Chairman, will be put to a single advisory vote at the 2020 AGM. The regulations require the auditors to report to the Company's members on the 'auditable parts' of the directors' remuneration report and to state whether, in their opinion, the parts of the report that have been subject to audit have been properly prepared in accordance with the relevant legislation. The parts of this report which have been audited have been highlighted accordingly.

Policy on Remuneration of Executive Directors

The key objectives of the remuneration policy for Executive Directors are:

- To provide a competitive remuneration package which will attract and retain the highest calibre of executive;
- To ensure that individual rewards and incentives drive behaviours that are consistent with the company strategy and values, are properly aligned with personal performance, the performance of the Group, and the interests of shareholders;
- To structure remuneration packages so a significant proportion is performance related, does not reward poor performance or encourage undue risk-taking;
- To operate simple, transparent incentive structures which allows clear understanding by executives and external stakeholders, with a clear aim to reward for long-term shareholder value creation; and
- To set executive pay packages having had due regard to pay and employment conditions in the wider workforce.

In forming this policy, the Committee has taken into account the 2018 UK Corporate Governance Code ('the Code') together with guidance from the FCA, institutional investors and investor bodies (including Glass Lewis, ISS and the Investment Association). The Committee endeavours to structure remuneration for Executive Directors and senior executives so that it should not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour and that it should reward sustainable, long-term, performance and sound risk management.

The remuneration policy is reviewed regularly and the Committee is satisfied that the current policy does not encourage undue risk taking (e.g. due to the range of performance metrics used in incentive plans and the substantial weighting towards long-term performance) and that it is not in conflict with the company's policies on internal controls that are used to manage risk more generally.

The Committee takes due account of remuneration structures elsewhere in the Group when setting pay for the Executive Directors (for example, consideration is given to the overall salary increase budget).

Changes to the remuneration policy approved by shareholders at the 2017 AGM

The Committee has undertaken a review of the existing remuneration policy taking account the Group's strategic objectives and developments in the executive pay environment and the requirements of the Code. The current policy already includes a number of features that are in line with the updated Code. However, in order to maintain flexibility over the next three years and to enable us to retain and attract executive talent, several changes are proposed to both policy and its implementation:

- the pension policy for new executive director appointees has been amended to ensure that the level of Company contributions they may receive will be line with those offered to the wider UK workforce: currently up to a maximum of 6.5% of salary. The Committee is working on a transition plan to align current Executive Director pension contributions to that of the general workforce over time; increase in the annual bonus Policy maximum from 100% of salary to 125% of salary with 25% of any bonus taken in shares which (after settlement of any tax or withholdings) must be held for three years and will be subject to malus and clawback. Note that in light of current economic circumstances the maximum annual bonus will be held at 100% of salary for 2020/21;
- reduction to normal maximum annual grant limit under the PSP from up to 150% of salary to up to 125% of salary (current normal grant levels are at 100% of salary); and
- increase of in-post shareholding requirements from 100% of salary to 150% of salary, to be built up over a 5-year period, and the introduction of a post-cessation shareholding requirement.

Remuneration Policy Report

Policy table

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics	Amendments to previous policy
Base Salary				
To attract and retain high calibre executives.	Normally reviewed on an annual basis with increases effective from 1 August. Takes into account: • pay levels in companies of comparable size and complexity, skills, knowledge and experience of the individual; • individual performance and development within the role; • any change in responsibilities; • rates of inflation and market wide wage increases in comparable companies; and • pay and employment conditions elsewhere in the Group.	Salary levels are normally reviewed annually and are eligible for increases during the three-year policy period. While no maximum applies, the Committee will be guided by the salary increase budget (in percentage of salary terms) set across the workforce generally. Increases beyond those linked to the workforce (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant sustained increase in the scale of the role and/or size, value and/ or complexity of the Group or where salary levels have become out of line with market rates for fulfilling similar roles in companies of comparable size and complexity.	A broad assessment of individual and corporate performance is considered as part of the annual review process.	No changes proposed.

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics	Amendments to previous policy
Pension				
To provide market competitive long-term retirement benefits and reward mechanisms.	Pension benefits are typically provided either through (i) a contribution to a personal pension arrangement or (ii) a cash supplement in lieu of pension provision or a mix of both. Only basic salary is pensionable.	The Company's policy, other than in the case of legacy arrangements, is to limit pension contributions to 15% of salary, reducing to the level of the workforce by 2022/23. Phil Maudsley's company pension contribution is set at £83,020. For Paul Kendrick and new directors, a pension contribution in line with the workforce (currently 6.5% of salary) may be made.	None.	Current Executive Director pension contributions will transition to the level of the workforce by 2022/23.
Benefits				
To provide cost effective employee benefits.	Benefits include a company car or car allowance, fuel, private medical insurance, home telephone costs and participation in any all employee share incentive plan adopted by the Company. The Committee may elect to offer Executive Directors other employee benefits on broadly similar terms as other employees. In the event that an Executive Director is required to relocate, reasonable expenses or an allowance may be payable. Any reasonable business-related expenses can be reimbursed, including tax thereon.	The value of insured benefits may vary year-on-year based on the cost of providing the insured benefit and is included in the single total figure table. Any all-employee share incentive will be operated within the limits set by HMRC from time to time.	None.	Minor amendment to payment of business-related expenses if these are deemed to be taxable benefits.

Remuneration Policy Report

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics	Amendments to previous policy
Performance-related bonus				
To incentivise and reward for the achievement of short-term targets linked to the company's annual KPIs.	A bonus is paid based on the achievement of performance conditions set at the beginning of the financial year. Annual bonuses will normally be paid part in cash and part in shares. At least 25% of any bonus paid will normally be delivered in shares which (other for any sales to pay tax of statutory deductions) must be held for 3 years. Participants may be entitled to dividend equivalents in respect of vested shares. Clawback provisions enable the Committee to reclaim any bonus paid (as cash or shares) as a result of performance that is later the subject of a restatement of the Company's results within a three-year period, an error, serious reputational damage, corporate failure or gross misconduct.	Bonus opportunity of up to 125% of salary.	Annual bonus will be earned based on performance against metrics linked to the Company's strategy, key performance indicators and other operational goals. A majority of annual bonus will be earned against a challenging graduated scale of financial targets (e.g. profit) with the targets set with reference to the Company's planning for the year. A minority of the bonus may be based upon the achievement of a number of key business objectives tailored to the individual executive (e.g. personal targets, strategic objectives or business unit objectives). For achieving the threshold performance targets, typically no more than 20% of the maximum bonus opportunity is payable. Maximum payment can only be earned as a result of performance above the Company's business plan for the year with a graduated scale operating between threshold and maximum performance levels. The Committee will review the bonus outcome to ensure that it reflects underlying Company performance over the year. The Committee may amend the pay-out to better reflect performance or any other circumstances if it feels it is appropriate to do so.	Increase in bonus maximum from 100% of salary to 125% of salary. Delivery of 25% of any bonus in shares which must be held for three years.

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics	Amendments to previous policy
Performance Share Plan ('PSP')				
To incentivise and reward for the achievement of long-term targets which support the business strategy. Aligns Executives' interests with those of shareholders.	Annual grant of share-based awards which are subject to performance conditions and normally vest three years from grant. A holding period applies which requires all vested shares (net of tax) to be held by the executive for a period of two years. Participants may be entitled to dividend equivalents in respect of vested shares. Clawback provisions enable the Committee to reclaim any amount paid as a result of performance that is later the subject of a restatement of the Company's results within a three-year period, an error, serious reputational damage, corporate failure or gross misconduct.	PSP grants of up to 125% of salary (or 200% of salary in exceptional circumstances such as recruitment).	PSP awards vest subject to the achievement of performance conditions linked to Company strategy. The current performance conditions are based on absolute TSR and EPS growth targets. If alternative measures are introduced in conjunction with or in place of EPS and TSR, this would be subject to prior consultation with major investors. Up to 20% of an award may vest for threshold performance with full vesting taking place for equalling, or exceeding, the maximum performance targets. The Committee will review the vesting outcome to ensure that it reflects underlying Company performance over the performance period. The Committee may amend the pay-out to better reflect performance or any other circumstances if it feels it is appropriate to do so.	Reduction of maximum normal policy grant limit from 150% of salary to 125% of salary.

Remuneration Policy Report

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics	Amendments to previous policy
Share ownership Guidelines				
To provide a continued focus on long-term sustainable value creation and to further align executives' and shareholders' interests.	**In-post requirements** Executive Directors are expected to retain no fewer than 50% of any shares delivered under the PSP net of taxes until such time as their target share ownership guideline has been achieved. **Post-cessation requirement** For shares acquired from vested PSPs granted from 2020 onwards, leavers will be expected to retain shares at a level equal to the lesser of half their in-post requirement or the actual shareholding on departure for two years post-cessation of employment. Any shares purchased by an Executive will not count towards the requirement.	**In-post requirements** The share ownership guideline is currently set at 150% of salary, built up over a 5-year period, for directors and this shall be kept under review over the life of the policy. **Post-cessation requirement** 75% of salary (or the actual shareholding if lower) on departure for two years.	None.	Increase of in-post share ownership requirement from 100% of salary to 150% of salary. Introduction of a timeframe under which executives are to build the in-post shareholding requirements. Introduction of post-cessation shareholding requirement.

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics	Amendments to previous policy
Non-Executive Director's Fees				
To attract and retain individuals with relevant experience and knowledge to enhance the Board.	The Committee is responsible for setting the Company Chairman's fee. The Chairman receives a single consolidated fee, paid in cash, encompassing all his responsibilities. The Board as a whole (excluding the Non-Executive Directors) is responsible for setting the level of remuneration for Non-Executive Directors. Non-Executives' fees are paid in cash and comprise a base fee and additional fees for chairing Board committees or holding the senior independent director role or other similar roles. Fee levels are reviewed periodically and take into account: • skills, knowledge and experience of the individual; • the expected time commitments, scope and responsibilities of each role; and • market rates at companies of a comparable size and complexity. Non-Executive Directors are excluded from any discussions relating to their own fees. Any reasonable business-related expenses can be reimbursed, and hospitality/travel or other benefits linked to performance of the role may also be met by the Company including any tax thereon.	The current fee levels may be increased during the three-year period that the remuneration policy operates to ensure they continue to appropriately recognise the time commitment of the role, increases to fee levels for Non-Executive Directors in general and fee levels in companies of a similar size and complexity. Non-Executives are not eligible to participate in any incentive arrangements.	None.	Minor amendment to payment of business-related expenses if these are deemed to be taxable benefits.

Operation of the Annual Bonus Plan & LTIP Policy

The Committee will operate the annual bonus plan and PSP according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. For example, these include the following (albeit with quantum and performance targets restricted to the descriptions detailed in the policy table above):

- Participants of the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment;
- The determination of vesting, including discretion to override formulaic outcomes;
- Discretion required when dealing with a change of control (e.g. the timing of testing performance targets and basis of measurement) or restructuring of the Group;
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- Whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends); and
- The annual review of performance measures weighting, and targets for the annual bonus plan and Performance Share Plan from year to year.

The Committee also retains the ability to adjust the targets (up or down) and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the bonus or PSP if events occur (e.g. material divestment of a Group business or events relating to the Company's issued share capital) which cause it to determine that the conditions are no longer appropriate in the circumstances and the amendment is required so that the conditions achieve their original purpose and are not, in the opinion of the Committee, materially more or less challenging to satisfy in the circumstances.

All historic PSP awards that were granted but remain outstanding (detailed on page 62 of the Annual Report on Remuneration) remain eligible to vest based on their original award terms.

Choice of performance measures and approach to target setting

The performance metrics that are used for annual bonus and long-term incentive plan are a subset of the Group's key performance indicators.

Under the annual bonus plan, reflecting the Company's focus on delivering profitable growth and generating cash in its businesses, whilst operating within defined risk parameters the majority of bonus is normally subject to the achievement of challenging financial targets such as profit and free cash flow. For FY2020/21, Adjusted Profit Before Tax and growth in active credit customers have been selected as these provide a balance between in year delivery of profit for shareholders and laying the foundations for future profit growth as the economy returns to normal in future years. A minority of the bonus will be based on non-financial and personal objectives reflecting individual areas of responsibility with, exceptionally in the case of Phil Maudsley, an increased weighting on personal non-financial goals related to completion of CMA clearance of the FEL sale and the effective transition of his responsibility to the new CEO.

In addition to challenging financial targets, a minority of bonus may be set subject to business objectives tailored to each individual's role and responsibilities (e.g. individual targets are set to provide reward opportunity for delivering specific in-year objectives) the achievement of which will enable the Company to maintain or improve its upward trajectory in delivering against its business plans.

In terms of long-term performance targets, awards currently vest subject to (i) challenging EPS growth targets that are aligned with the long-term levels of earnings growth targeted by the Company and (ii) absolute TSR targets which provide clear alignment of interests between shareholders and executives in terms of delivering successful progress in the Group's businesses. Other measures which are aligned to the Company's medium to long term strategy may be introduced in future and will be subject to prior consultation with leading investors.

Targets are generally set based on graduated scales that take account of internal planning and external market expectations for the Company. Only modest rewards are available for delivering threshold performance levels with maximum rewards requiring substantial out-performance of the challenging plans approved at the start of each year over one and up to three-year time periods.

How Executive Directors' remuneration policy relates to the wider Group

The remuneration policy described in the policy table provides an overview of the structure that operates for Executive Directors.

Outside the Executive Director population, different structures and incentive quantum apply that take due account of the Company's overall remuneration policy, the specific objectives of individual's roles and practice in companies of comparable size.

Base salaries for employees are set by reference to industry specific comparator groups. Consideration is given to the overall salary increase budget and general employment conditions, when setting Executive Director base salaries.

The performance-related bonus scheme operates with targets and quantum that are set by reference to individual role and responsibility. More emphasis on divisional performance and/or personal performance is included at less senior levels.

The PSP is offered on a discretionary annual basis to senior executives. Awards are limited to this grade of employees as they are anticipated as having the most potential to influence performance at a Group level. These awards are generally subject to the same performance conditions as detailed in the remuneration policy table.

How employees' views are taken into account

The Committee does not directly consult with employees on executive remuneration.

However, the Committee is provided with an overview of employee and executive remuneration structures at the Company. The Committee is kept up to date, more generally, with pay and employment conditions elsewhere in the Company and is informed of the salary increase budget for the Group as a whole when setting Executive Directors' pay increases (if any) each year. The relatively new role of the nominated NED for employee engagement (who is a member of the Remuneration Committee) is also a potential conduit for increased access to the views of colleagues on executive pay.

How shareholders views are taken into account

As a matter of course, after the AGM, the Committee will consider feedback from shareholders this, plus any additional feedback received from time to time, is considered as part of the Committee's annual review of remuneration policy. The Committee also closely monitors developments in institutional investors' best practice expectations.

The Committee will also seek feedback from shareholders from time to time as part of a wider shareholder dialogue if considered appropriate. Indeed, the process surrounding the formulation of the new policy included a programme of engagement with the Company's largest institutional investors representing over 80% of the Company's issued shares and major investor bodies and proxy agencies in order to understand their views on the proposed approach.

Illustration of application of policy

The Company's policy results in a significant portion of remuneration received by executive directors being dependent on Company performance. The graph below illustrates how the total pay opportunities for the Chief Executive vary under four different performance scenarios: below threshold, on-target, maximum and maximum including 50% share price growth. When reviewing the charts that follow, it should be noted that these have been prepared based on the policy detailed in the table above.

Remuneration Policy Report

Assumptions

- Below threshold – fixed pay only being 2020/21 base salary, the value of 2019/20 benefits and assumed 2020/21 pension contribution
- Target – fixed pay plus 50% of 2020/21 maximum bonus and 20% vesting of 2020 PSP award
- Maximum – fixed pay plus 100% of 2020/21 maximum bonus and 100% vesting of 2020 PSP award
- Maximum (plus 50% share price growth) – fixed pay plus 100% of 2020/21 maximum bonus and 100% vesting of 2020 PSP award with 50% share price growth

Recruitment and Promotion Policy

For Executive Director recruitment and promotion situations the Committee will use the following guidelines:

Remuneration Element	Policy
Base Salary	Base salary levels will be set by reference to the experience of the individual, taking into account relevant market data and internal relativities. If a new recruit has a below market salary set on appointment, they may experience phased multi-period increases in excess of other Executive Directors (and the wider workforce) to bring them into line with the market as they develop in the role, subject to continued performance in post.
Benefits	Benefits as provided to current Executive Directors. Where necessary the Committee may approve the payment of relocation expenses to facilitate recruitment and flexibility is retained for the Company to pay for legal fees and other costs incurred by the individual in relation to their appointment.
Pension	A defined contribution or cash supplement limited to that of the workforce (currently 6.5% of salary).
Annual Bonus	The maximum ongoing incentive opportunity under the Company's policy is 125% of salary. The annual bonus will operate as outlined for current executives, with the respective maximum opportunity, albeit pro-rated for the period of employment. Dependent on the timing of the appointment and the nature of the role, it may be necessary to set different performance measures and targets for the first year of operation.
Long-Term Incentives	PSP awards will be granted in line with the policy outlined for the current Executive Directors. An award may be made shortly after an appointment (subject to the Company not being in a prohibited period). The maximum ongoing annual award level is 125% of salary under the PSP but an award, in exceptional circumstances (as determined by the Committee), may be granted up to 200% of salary under the rules of the PSP. For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant.
Buy-out Awards	To facilitate an external hire, the Committee may be required to offer additional cash and/or share-based elements which includes the use of awards made under 9.4.2 of the Listing Rules. Any such payments would be made to compensate for remuneration forfeit when leaving a former employer or role and would take into account where possible, the type of remuneration forfeit, the time horizon to vesting and the impact of any performance conditions. The Committee will make an announcement to shareholders, detailing the remuneration arrangements, at the time of appointment.

Service Contracts & External Appointments

Executive Directors

Future Contract Policy

It is the Committee's policy that service agreements for Executive Directors should be terminable on not more than 12 months' notice, which is in line with current market practice and will provide the Company with additional flexibility if it needed to recruit externally. Contractual notice periods for the current Executive Directors are 6 months from either party. Contracts will not include liquidated damages clauses guaranteeing a specified level of remuneration on termination. Contracts will, at the Company's discretion, enable the Company to make a payment in lieu of notice comprising up to 12 monthly instalments of base salary which would reduce to the extent that alternative employment was taken up.

New contracts will not provide enhanced protection in relation to contractual terms on a change of control.

General provisions

In certain circumstances such as gross misconduct, the Company may terminate employment immediately without notice or payment for each of the current or future Executive Directors. In the event of early termination of a service agreement, the Committee would consider appropriate use of mitigation and phased compensation payments where possible. In addition, any statutory entitlements or payments to settle or compromise claims in connection with a termination of any existing or future Executive Director would be made as necessary. The Committee also retains the discretion to meet any reasonable legal fees or outplacement costs if deemed necessary.

Unless the Committee determines otherwise, annual bonuses are not normally payable if an Executive Director has left or is under notice at the payment date. Any annual bonus payments would normally only be made to an Executive Director who has left or is under notice if the Committee determines him a 'good leaver' (e.g. death, injury or disability, redundancy, serious long-term illness, transfer or sale of the employing company, retirement with the Company's agreement or other circumstances at the discretion of the Committee), in which case a bonus entitlement would be calculated based on the period of active employment and performance and normally paid wholly in cash.

The treatment for share-based incentives previously granted to an Executive Director will be determined based on the relevant plan rules. The default treatment will be for outstanding awards to lapse on cessation of employment.

However, In relation to awards granted under the share schemes, in certain prescribed 'good leaver' circumstances (e.g. death, injury or disability, redundancy, serious long-term illness, transfer or sale of the employing company, retirement with the Company's agreement or other circumstances at the discretion of the Committee) awards may remain eligible to vest. For PSP awards, these remain subject to performance conditions, which will be measured over the original performance period or up to the date of cessation, with time pro-rating applied unless the Committee considers it inappropriate to do so.

Outside appointments

The Company currently allows the Executive Directors to undertake outside interests and appointments, subject to the prior approval of the Board, in which instances they are allowed to retain any fees that they receive in respect of such activities.

Non-Executive Directors

The appointment of Non-Executive Directors is for an initial period of three years, subject to review and re-election in General Meeting. They do not have service agreements. In the normal course Non-Executive Directors will be asked to serve two terms of three years. The Board reserves to itself the discretion to extend terms beyond the two terms of three years, on an annual basis, if the particular circumstances warrant it, up to a maximum aggregate term of 9 years

The service contracts for Chief Executive and letters of appointment for the Chairman and the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting).

Board Report on Directors' Remuneration

Annual Report on Remuneration

The regulations require the Auditor to report to the Company's members on the 'auditable parts' of the annual report on remuneration and to state whether, in their opinion, the parts of the report that have been subject to audit have been properly prepared in accordance with the relevant legislation. The parts of this report which have been audited have been highlighted accordingly.

Remuneration Committee

The remuneration of the Executive Directors and the Chairman is determined by the Committee.

The members of the Committee during the year were all independent Non-Executive Directors. Mr Grimsey chaired the Committee until 25 July 2019, when he retired from the Board and was replaced as chair of the Committee by Mr Coumau. Mr Coumau, Mr Ball and Ms O'Donnell were members of the Committee throughout the year. Ms Askem joined the Committee on 27 February 2020. No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided, nor any potential conflict of interest arising from cross-directorships, nor any day-to-day involvement in running the business throughout the period. The Chairman of the Company and the Chief Executive normally attend meetings of the Committee by invitation except when matters concerning their own remuneration are discussed. The Committee is assisted when required by its advisors who are appointed by the Committee. During the year under review, the Committee was advised by Aon plc. Following the year end, after the lead advisor moved from Aon to A&M, the Committee appointed A&M to act as its advisors. Both Aon and A&M are members of the Remuneration Consultants Group and have signed up to its Code of Conduct. Apart from providing advice in respect of the design, establishment and operation of remuneration arrangements, Aon plc provided no other services to the Company and during the year charged fees of £75,287 (excluding VAT) (FY19: £40,435). The Committee has reviewed the operating processes in place at Aon and A&M and is satisfied that the advice it receives is independent and objective.

The Company Secretary acts as the secretary to the Committee.

The Committee meets three or more times per year and met five times in 2019/20. Individual attendance details can be found within the Corporate Governance Report on page 36. The Committee's terms of reference are available on the Company's website (www.studioretail.group). During the year the key matters which were discussed were:

- The salary levels of the Executive Directors;
- The bonus out-turn for the 2018/19 annual bonuses;
- The terms of the 2019/20 annual bonus plan;
- The quantum and performance targets for the 2019/20 Performance Share Plan awards;
- Testing of the 2016 Performance Share Plan award's performance targets;
- Approval of remuneration changes and the remuneration of new appointments of any employee within the remit of the Committee including the MD Studio on his appointment to the Board;
- Detailed review of the 2017-2020 Directors' Remuneration Policy;
- Consideration of the Company's Gender Pay Gap data and its impact on the Company;
- Remuneration structures for the wider workforce;
- Review of the regulatory guidance on remuneration;
- Approval of the 2018/19 Directors' Remuneration Report;
- Initial design of the 2020/21 annual bonus plan
- The annual self-evaluation of the effectiveness of the Committee;
- The terms of reference of the Committee;
- The potential introduction of all-employee share plans; and
- Consideration of developments in market and best practice.

Shareholder Voting at the 2019 AGM

At last year's AGM, the Annual Report on Remuneration received the following votes from shareholders:

Resolution	Annual Report on Remuneration Total number of votes	% of votes cast
For	75,902,133	100%
Against	10,608	0%
Total votes cast (for and against)	75,912,741	100%
Withheld votes	42,214	N/A
Total votes (including withheld votes)	75,954,955	N/A

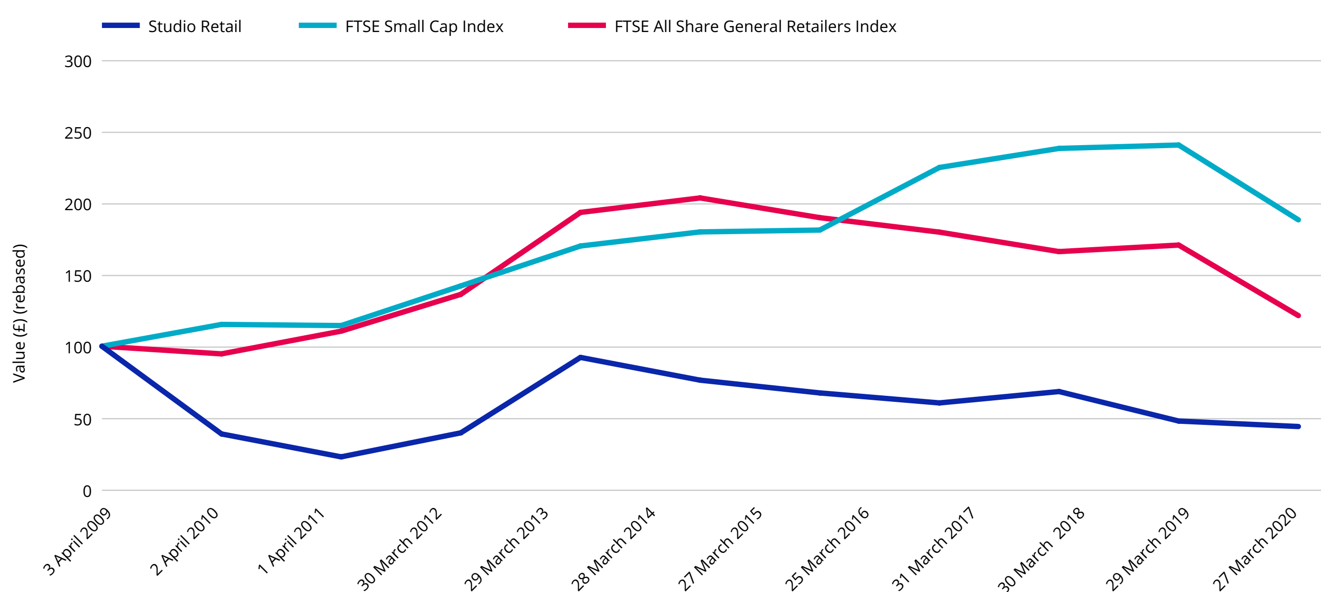
At the 2017 AGM the Directors' Remuneration Policy received the following votes from shareholders:

Resolution	Directors' Remuneration Policy Total number of votes	% of votes cast
For	80,003,710	100.0%
Against	37,903	0.0%
Total votes cast (for and against)	80,041,613	100%
Withheld votes	1,354	N/A
Total votes (including withheld votes)	80,042,967	N/A

Performance Graph

The following graphs contrast the total shareholder return of the Company with the FTSE Small Cap Index and FTSE All Share General Retailers Index. These indices were selected as being, in the opinion of the Committee, the most appropriate for comparison because Studio Retail Group plc is currently a constituent member of each.

The first graph shows the total shareholder return over the ten financial years to 27 March 2020 as required by the reporting requirements. However, the Committee considers that the total shareholder return over the nine financial years to 27 March 2020 to be a relevant additional disclosure since this timeframe relates to the period during which the executive team were executing the Board's recovery and growth strategy for the Group.

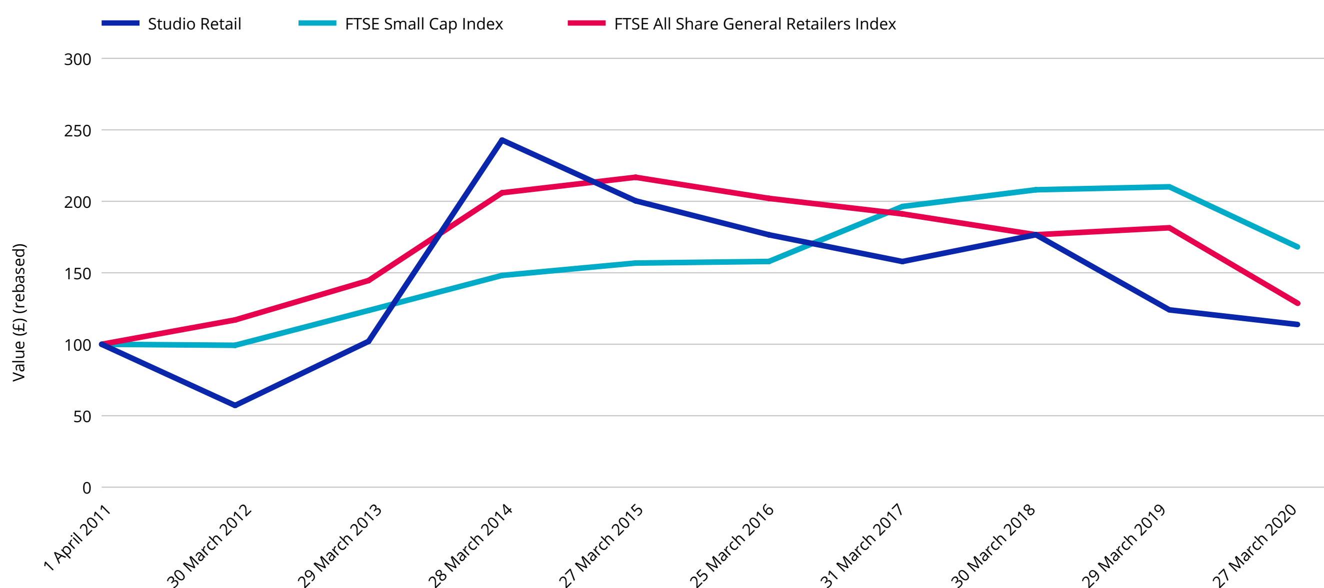


This graph shows the value, by 27 March 2020, of £100 invested in Studio Retail Group plc on 3 April 2009, compared with the value of £100 invested in the FTSE Small Cap and FTSE All Share General Retailers Indices on the same date. The other points plotted are the values at intervening financial year-ends.

Source: FactSet

Board Report on Directors’ Remuneration

Performance Graph



This graph shows the value, by 27 March 2020, of £100 invested in Studio Retail Group plc on 1 April 2011 compared with the value of £100 invested in the FTSE Small Cap and FTSE All Share General Retailers Indices on the same date. The other points plotted are the values at intervening financial year-ends.

Source: FactSet

The table below sets out the total remuneration figure for the Chief Executive role over the last ten years.

	Year ending												
	P B Maudsley[1]				R W J Siddle[2]				D Sugden[3]		M I Burke[4]		P B Maudsley[5]
Executive	2011	2011	2012	2013	2014	2015	2016	2017	2017	2018	2018	2019	2020
Total Remuneration (£000)	£607	£484	£496	£745	£2,650	£509	£428	£332	£55	£3	£864	£926	£781
Annual bonus (as % of maximum)	14.9%	64.9%	0.0%	62.3%	67.9%	0.0%	0.0%	0.0%	n/a	n/a	82.3%	95%	0%
LTIP vesting (as % of maximum)	0.0%	0.0%	0.0%	0.0%	36.3%	0.0%	n/a	n/a	n/a	n/a	0.0%	0.0%	49%

1. Stepped down as Chief Executive in September 2010 (figures are the total annual remuneration received during each full financial year).
2. Appointed Chief Executive in September 2010 and stepped down from the position of Chief Executive at the conclusion of the 2014/15 financial year.
3. With effect from the start of the 2015/16 financial year, David Sugden became Executive Chairman. As detailed in the 2017 Remuneration Report David Sugden did not receive any long-term incentives in light of his appointment to the role being for a short-term period. David Sugden left the Board on 12 January 2017.
4. Joined the Board as Executive Chairman on 12 January 2017 and received base salary only and reverted to non-executive status on 5 April 2017.
5. Appointed CEO on 5 April 2017.

Emoluments of the directors (subject to audit)

The emoluments of the directors in the period ended 27 March 2020 is shown below:

	Salary and fees[(2)]		Taxable benefits[(3)]		Pensions[(4)]		Total fixed pay		Annual bonus[(5)]		Long-term incentives[(6)]		Total variable pay		Total[(7)]	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Chairman																
M I Burke	153	150	—	—	—	—	153	150	—	—	—	—	—	—	153	150
Executive Directors																
S M Caldwell	275	263	17	17	41	40	333	320	—	243	157	—	157	243	490	563
P R Kendrick[(1)]	103	—	4	—	7	—	114	—	—	—	119	—	119	—	233	—
P B Maudsley	438	427	17	17	83	83	538	527	—	399	243	—	243	399	781	926
Non-Executive Directors																
C V Askem	41	1	—	—	—	—	41	1	—	—	—	—	—	—	41	1
G F Ball	61	57	—	—	—	—	61	57	—	—	—	—	—	—	61	57
F R M Coumau	47	40	—	—	—	—	47	40	—	—	—	—	—	—	47	40
E M O'Donnell	51	47	—	—	—	—	51	47	—	—	—	—	—	—	51	47
Previous Directors																
W Grimsey[(1)]	16	50	—	—	—	—	16	50	—	—	—	—	—	—	16	50
E F Tracey[(1)]	—	19	—	—	—	—	—	19	—	—	—	—	—	—	—	19
Totals	1,185	1,054	38	1,054	131	123	1,354	1,218	—	642	519	—	519	642	1,873	1,860

Notes:

1. P R Kendrick was promoted to the Board in the position of MD, Studio on 16 December 2019; E F Tracy retired from the Board on 26 July 2018 and W Grimsey retired from the Board on 25 July 2019.
2. Mr Kendrick's salary was £350,000 on promotion to the Board.
3. Taxable benefits comprise the private use of a motor car (or a cash allowance in its place), fuel, private health insurance and home telephone costs.
4. Pension values include contributions to defined contribution pension plans or cash allowances in lieu of pension contributions.
5. Further details of the annual bonuses payable to the Executive Directors in relation to the year under review are set out below.
6. As detailed on pages 60 and 61, the 2017 PSP awards which were based on a performance period ending at the conclusion of the 2019/20 financial year partially vested. See pages 60 and 61 for further details, including details of the value attributable to share price growth.
7. The figures above represent emoluments paid to directors during their tenure in the relevant financial period, with the exception of annual bonus payments and Long-Term Incentives, which relate to performance in the period under review but paid/expected to vest after the year-end.

Board Report on Directors' Remuneration

2019/20 Annual bonus

The information below provides details of the formulaic outcome of the annual bonus for FY2019/20. As outlined in the Chairman's letter of this report, the Committee have determined that notwithstanding the performance achieved, having considered overall business performance and wider economic considerations no bonuses will be payable. Therefore, this section is presented for information only. However, full details of performance against each of the annual bonus objectives is provided below in the interests of transparency.

The 2019/20 performance-related bonus plan maximum was 100% of salary for the Chief Executive, Chief Financial Officer and MD, Studio.

With regards to the proportion of the total bonus that could be earned against each element, 75% of the maximum opportunity was based on financial performance (37.5% Adjusted Group Profit Before Tax and 37.5% Group Free Cash Flow), with 25% based on a number of individually tailored personal objectives.

The entire bonus was subject to an underpin of threshold profitability. In addition, the bonus was also subject to a further underpin that enables the Committee to scale back the bonus (including to zero) if there were any material instances of inappropriate outcomes for customers.

Performance against targets

The 2019/20 financial targets were:

Profit Performance	Threshold	Max	FY2019/20 Actual	% of salary payable
Group profit before tax*	£29.6m	£35.5m	£31.2m	nil
Group free cash flow**	£16.5m	£23.8m	£23.7m	nil

* Adjusted Group profit before tax is calculated as per the Alternative Performance Measure described on pages 18 to 21 and is stated before individually significant items and fair value movements on foreign currency derivative financial instruments.

** Free Cash Flow ('FCF') is calculated as per the Alternative Performance Measure described on pages 18 to 21 and stated as net cash flow generated from operations, plus securitisation inflows, capital expenditure and exceptional items, but before tax, interest, finance lease repayments and investments.

Whilst the threshold performance level was exceeded, as noted above, no bonuses (maximum of 75% of salary) were paid in respect of 2019/20 financial performance.

The performance metrics for the MD Studio were set prior to his appointment to the Board and related to the performance of Studio as follows:

Profit Performance	Threshold	Max	FY2019/20 Actual	% of salary payable
Studio adjusted operating profit	£40.6m	£46.3m	£39.0m	nil
Studio adjusted free cash flow	£19.3m	£27.0m	£23.7m	nil

Since the underpin of threshold profitability was not met, 0% of salary (out of a maximum of 75% of salary) was payable for 2019/20 financial performance.

Non-financial objectives

The Executive Directors had a number of personal objectives set at the beginning of 2019/20. Achievement against these objectives was assessed by the Committee based on demonstrated progress against agreed milestones.

Whilst the Chief Executive, the Chief Financial Officer and MD, Studio delivered a strong performance against their personal objectives, as noted above, no bonuses were payable in this regard for 2019/20 (maximum 25% of salary).

Details of the non-financial objectives are set out in the tables below:

Chief Executive

Objective	Threshold	Target	Maximum	Achievement	Weighting	% payable
Improve brand awareness and gross dispatch margin	5%	7.5%	10%	Increased brand awareness from 37% to 40.5% and Brand Consideration from 14% to 20% **Partly achieved**	2.5%	nil
Active credit customer increased from 1,441,659	+1.5%	+2.5%	+3.5%	Decline in active credit customers **Not achieved**	2.5%	nil
Findel Education operating profit	£4.5m	£4.75m	£5m	£3.3m **Not achieved**	5%	nil
Credit account transactions from "Good" customer definition	72%	73.5%	75%	Ahead of plan throughout 2019/20 but significant decline in number of Good Credit Customers in March **Partly achieved**	2.5%	nil
Findel Education reduction in Discounts	£0.8m	£1m	£1.2m	£1.0m reduction in discounts **Achieved**	2.5%	nil
Advance the business' risk management maturity	—	Tier 3	Tier 4	Risk project progressed and new frameworks and reporting in place. The evidence-based risk maturity score for the business at year end was 3 **Achieved**	2.5%	nil
Achieve key milestones in our cyber security enhancements.	—	Level 3 score for CIS 1-6	Level 3 score on additional 6 measures	Cyber+ progresses and improves our position but suffering from constant replans and Covid 19 **Partly achieved**	2.5%	nil
Improve employee engagement by set number of points	0 point increase	2 point increase	4 point increase	Increase in Colleague engagement for UK sites was 74.8 (vs 74.4) and cross functional working fell from 58.4 to 57.8 **Partly achieved**	2.5%	nil
Implement an appropriate SMCR regime for Studio senior managers and certified functions	Assessment by Risk Committee			Phase 1 implemented ahead of plan and phase 2 will complete to plan despite Covid19 disruption **Fully achieved**	2.5%	nil

Board Report on Directors' Remuneration

Chief Financial Officer

Objective	Threshold	Target	Maximum	Achievement	Weighting	% payable
Refinancing of facility	0.5% above current	0.25% above current	Current levels	Facilities extended in light of sale of Education **Achieved**	5%	nil
Deliver a significant improvement in risk management	—	Tier 3	Tier 4	Risk project progressed and new frameworks and reporting in place. The evidence-based risk maturity score for the business at year end was 3 **Achieved**	5%	nil
Minimum risk management	—	Tier 3	Tier 4	As above **Achieved**	2.5%	nil
Findel Education operating profit	£4.5m	£4.75m	£5m	£3.3m **Not achieved**	5%	nil
Improve brand awareness and gross dispatch margin	5%	7.5%	10%	Increased brand awareness from 37% to 40.5% and Brand Consideration from 14% to 20% Margin declined slightly from 33.3% to 33.0% **Partly achieved**	2.5%	nil
Active credit customer increased from 1,441,659	+1.5%	+2.5%	+3.5%	Decline in active credit customers **Not achieved**	2.5%	nil
Credit account transactions from "Good" customer definition	72%	73.5%	75%	Ahead of plan throughout 2019/20 but significant decline in number of Good Credit Customers in March 0.75% **Partly achieved**	2.5%	nil
Implement an appropriate SMCR regime for Studio senior managers and certified functions	Assessment by Risk Committee			Implemented **Achieved**	2.5%	nil

MD, Studio

Objective	Threshold	Target	Maximum	Achievement	Weighting	% payable
Brand awareness tracking established and improvement on base case level achieved	5%	7.5%	10%	Increased brand awareness from 37% to 40.5% and Brand Consideration from 14% to 20% Salesforce Marketing Cloud was delivered ahead of plan and showing Service Cloud partly delivered App successfully re-launched **Partly achieved**	1.25%	nil
Increase average spend per customer	2.5%	5%	7.5%	7% increase **Fully achieved**	1.25%	nil
NPS increased	3%	5	7%	NPS decline in year **Not achieved**	2.5%	nil
Increase gross dispatch margin	+1.5	+2	+2.5	Gross margin decreased during FY20 **Not achieved**	2.5%	nil
Increase customer online enquiries	33%	35%	37%	37.8% **Fully achieved**	2.5%	nil
Active credit customer increased from 1,441,659	+1.5%	+2.5%	+3.5%	Decline in active credit customers **Not achieved**	2.5%	nil
Historic remediation programmes fully complete	Fully complete			Plevin and Credit balances complete. Nosia started but completion in July (delay due to Covid19) **Partly achieved**	2.5%	nil
Credit account transactions from “Good” customer definition	72%	73.5%	75%	Ahead of plan throughout 2019/20 but significant decline in number of Good Credit Customers in March 0.75% **Partly achieved**	2.5%	nil
Advance the business’ risk management maturity	—	Tier 3	Tier 4	Risk project progressed and new frameworks and reporting in place. The evidence-based risk maturity score for the business at year end was 3 **Achieved**	2.5%	nil
Achieve key milestones in our cyber security enhancements	—	Level 3 score for CIS 1-6	Level 3 score on additional 6 measures	Cyber+ progresses and improves our position but suffering from constant replans and Covid 19 **Partly achieved**	2.5%	nil
Improve employee engagement by set number of points	0 point increase	2 point increase	4 point increase	Increase in Colleague engagement for UK sites was 74.8 (vs 74.4) and cross functional working fell from 58.4 to 57.8 **Partly achieved**	2.5%	nil

Board Report on Directors’ Remuneration

Directors’ pension entitlements (subject to audit)

No director was a member of a defined benefit scheme during FY2020.

Directors’ Share Options and Long-Term Incentive Plans (subject to audit)

Awards vesting in relation to FY2019/20

The performance conditions for the awards granted in FY2017/18 for the Chief Executive and the Chief Financial Officer were based on compound growth in EPS and TSR targets as set out in the table below:

Annual Compound Growth in TSR (to 31 March 2020 from the 31 March 2017 base year) – 50% of award	Annual Compound Growth in EPS (to 31 March 2019 from the 31 March 2016 base year) – 50% of award	Percentage of Shares subject to the Award that vests
Below 10% p.a.	Below 10% p.a.	0%
10% p.a.	10% p.a.	20%
Between 10% and 18.5% p.a.	Between 10% and 19.4% p.a.	Between 20% and 100% on straight-line basis
Above 18.5% p.a.	Above 19.4% p.a.	100%
Actual achieved 2.1% resulting in no awards vesting	Actual achieved 19.2% resulting in 49% of awards vesting	

When the awards were granted in 2017/18, the targets for adjusted EPS, which excluded the impact of individually significant items and the impact of fair value movements on the Group’s foreign currency forward contracts, were set by reference the accounting standards prevailing at that point. In the intervening period, the group has adopted IFRS 9 Financial Instruments (“IFRS 9”), IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) and IFRS 16 Leases (“IFRS 16”), all of which impact upon the adjusted EPS measure. In addition, the sale of Findel Education to YPO was not envisaged IN 2017/18 so no allowance was made for the impact of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (“IFRS 5”). In measuring the Company’s performance against targets set, the Committee has therefore made the following adjustments to ensure that the 2019/20 adjusted EPS is derived on an equivalent basis to that assumed then awards were granted:

	Profit before tax	Taxation	Profit after tax
For purposes of ordinary EPS	8,809	(54)	8,755
(1) Exclude impact of individually significant items	8,342	(1,585)	6,757
(2) Fair value movements on derivative financial instruments	(2,608)	496	(2,112)
For purposes of adjusted EPS	14,543	(1,143)	13,400
(3) Exclude IFRS 16 adoption	1,759	(334)	1,425
(4) Exclude impact of IFRS 5	(1,393)	—*	(1,393)
(5) Exclude estimated COVID-19 bad debt impact	20,000	(3,800)	16,200
(6) Exclude impact of change in accounting estimate	(3,675)	699	(2,976)
(7) Other GAAP changes (IFRS 9 and 15)	3,519	(690)*	2,829
For purposes of LTIP assessment	34,753	(5,269)	29,485
No of shares in issue (excluding treasury shares)			86,327,726
Adjusted EPS purposes of LTIP assessment			34.15p
Base adjusted EPS			20.19
CAGR			19.2%

Notes

- Adjustments 1) and 2) are the same as those made in arriving at net profit attributable to ordinary shareholders for the purposes of adjusted earnings per share in accordance with IAS 33 *Earnings Per Share* (“IAS 33”). See note 10 to the consolidated financial statements for details.
- Adjustments 3), 4), 5), and 6) are the same as those made in arriving at Adjusted profit before tax on a like-for like basis. Please refer to the calculation of Alternative Performance Measures on pages 18 to 21 for details.
- Adjustment 7) represents the estimate impact of adopting IFRS 9 and IFRS 15 in 2019/20.
- The tax impact of the adjustments has been calculated at the prevailing corporation tax rate of 19%, except where indicated with an asterisk (*). In these instances, a deferred tax impact has been reflected.

As a result of performance against the above targets, 49.0% of the award vested.

The award granted to the MD, Studio award in FY2017/18 was subject to Studio specific operating profit targets as follows:

Studio – adjusted operating profit	Percentage of Shares subject to the Award that Vests
Below £37.7m	0%
£37.7m	30%
Between £37.7m and £44.1m	Between 30% and 100% on a straight-line basis
Above £44.1m	100%
Actual achieved £39.0m resulting in 44% of award vesting	

As a result of performance against the above targets, 44% of the award vested.

As a result of the performance outlined above, the following numbers of shares have vested:

Director	Type of award	Vesting date	Number of shares awarded	Percentage of award vesting	Number of shares vesting	Value at vesting	Value attributable to share price growth
S M Caldwell	PSP	14 August 2020	137,873	49%	67,557	£157,070	£34,589
P R Kendrick		14 August 2020	115,999	44%	51,039	£118,666	£18,017
P B Maudsley*		14 August 2020	212,982	49%	104,361	£242,639	£36,839

These awards have been valued using the closing price on the date of vesting of 232.5p. The share prices on the original date of grant were 197.2p (awards to P Kendrick and PB Maudsley) and 181.3p (award to SM Caldwell), respectively. The earliest date that the awards could have vested was on the third anniversary of grant, i.e. in July 2020, however, vesting did not occur until the Committee finalised the vesting outcome, which occurred on 14 August 2020.

PSP Awards granted in FY2019/20

During FY2019/20 the following awards of nil-cost options were made under the PSP to Executive Directors. They were eligible for PSP awards of 100% of salary, however the number of shares granted was based on a share price of 250p:

Executive	Award (as a % of salary)	Share price[1]	Number of shares subject to award	Face value of award	% of face value which vests at threshold
Chief Executive	100%	250p	172,200	£430,500	20%
Chief Financial Officer	100%	250p	108,000	£270,000	20%
MD, Studio[2]	N/A	250p	96,000	N/A	20%

1. As disclosed in the FY2018/19 report awards were to be based on the higher of the market value of Company's shares at the date of grant and a share price of 250p, as the average share price over the 5 trading days immediately preceding 12 June 2019, being the date of grant was 222.4p grant levels were based on a share price of 250p.
2. The MD, Studio was not an Executive Director at the time his PSP award was made.

As set out in the FY2018/19 report, the award is subject to Absolute TSR growth (50% of the award) and EPS targets (50% of the award). EPS remains the primary measure of our long-term financial success with TSR providing clear alignment with shareholders. Targets for the FY2019/20 grants are:

Annual Compound Growth in TSR (to 31 March 2022 from the 31 March 2019 base year)	Annual Compound Growth in EPS (to 31 March 2022 from the 31 March 2019 base year)	Percentage of Shares subject to the Award that vests
Below 12.5% p.a.	Below 7.5% p.a.	0%
12.5% p.a.	7.5% p.a.	20%
Between 12.5% and 22.5% p.a.	Between 7.5% and 15% p.a.	Between 20% and 100% on straight-line basis
Above 22.5% p.a.	Above 15% p.a.	100%

TSR is measured based on a three-month averaging at the start and the end of the performance period. The above ranges of targets were calibrated after taking into account both internal and external growth expectations such that they were felt to provide a balance between being realistic at the bottom end of the range and very demanding at the top end of the range.

Board Report on Directors’ Remuneration

The award is also subject to an underpin that there are no material breaches of our commitment to “treating customers fairly” during the performance period. When assessing the outcome of the performance conditions the Committee will also have regard to the overall performance of the Group and has the discretion to reduce the award (including to zero) if it is felt that the outcome does not reflect underlying performance.

A two-year holding period will apply to any vested shares (net of tax).

Details of all directors’ outstanding interests in shares under the Performance Share Plan (subject to audit)

The table below details the current outstanding share awards under the PSP:

	31 March 2019	Granted	Exercised	Lapsed	27 March 2020	Award date	Vesting date
S M Caldwell	44,771	—	—	(44,771)	—	5 Aug 16	5 Aug 19
	137,873	—	—	—	137,873	20 Jul 17[(1)]	20 Jul 20
	91,241	—	—	—	91,241	13 Jun 18	13 Jun 21
		108,000	—	—	108,000	12 Jun 19	12 Jun 22
P R Kendrick	131,497			(131,497)	—	5 Aug 16	5 Aug 19
	115,999				115,999	4 Jul 17[(1)]	4 Jul 20
	83,485				83,485	13 Jun-18	13 Jun 21
	96,000				96,000	12 Jun 19	12 Jun 22
P B Maudsley*							
	212,982	—	—	—	212,982	4 Jul 17[(1)]	4 Jul 20
	153,285	—	—	—	153,285	13 Jun 18	13 Jun 21
	—	172,200	—	—	172,200	12 Jun 19	12 Jun 22

1 These awards have vested at 49% for Stuart Caldwell and Phil Maudsley and at 44% for Paul Kendrick following an assessment against the performance conditions carried out since the year end.

Compensation for loss of office (subject to audit)

No payments were made during the period under review. Phil Maudsley will retire following more than 30 years of service with the Company, at the end of the financial year, 26 March 2021. He will continue to receive base salary, pension and benefits up until that date. He will be eligible for an annual bonus for the financial year which will be paid in cash subject to performance over the period. This will include an element of assessment against a successful transition to the new CEO. He will receive a PSP award with a face value of 100% of salary in FY 2020/21. Reflecting his retirement, tenure and leadership, the Board intends to grant good leaver status, in which event his outstanding PSP awards remain eligible to vest subject to performance conditions, which will be measured over the original performance period, with time pro-rating applied. In accordance with the policy, no further payments will be made.

Payments to former directors (subject to audit)

No payments to former directors were made during the period under review.

Service contracts and letters of appointment

The service contract of Mr Maudsley dated 6 October 1997 (amended 18 January 2011) was further amended on 5 April 2017 to reflect his promotion to Chief Executive. Mr Maudsley’s contract contained a 12-month notice period from either party until 31 March 2018, after which time it has reduced to a 6-month notice period from either party. There are no express provisions included in the contract on termination other than the Company may require the employee to remain away from work during his notice period during which time he would continue to be remunerated.

Mr Caldwell has a service agreement dated 13 July 2017 and Mr Kendrick has a service agreement dated 15 December 2019. Each of these agreements contain a 6-month notice period from either party and there are no express provisions included in the contract on termination other than the Company may require the employee to remain away from work during his notice period during which time he would continue to be remunerated.

Mr Burke joined as Executive Chairman on 12 January 2017 under a service agreement dated 16 December 2016. The employment was subject to a 6-month notice period from either party. Mr Burke subsequently became Non-Executive Chairman on 5 April 2017 and his service agreement was terminated by mutual consent and without compensation. This was replaced by a letter of appointment, dated 5 April 2017 which includes an initial term of 3 years, unless terminated by either party giving one months’ notice.

The letter of appointment for Mr Coumau, 2 August 2013; for Mr Greg Ball, 16 February 2016; for Ms O’Donnell, 24 January 2018; and for Ms Askem 27 February 2019.

The letters of appointment of the Non-Executive Directors are terminable at will. There is no entitlement to compensation for loss of office in connection with the termination of the services of the Non-Executive Directors.

Percentage increase in the remuneration of the Chief Executive

	2019/20	2018/19	% Change
Chief Executive (£000)			
Salary	438	427	3%
Benefits	100	100	—
Bonus	—	399	-100%
Long-term incentives	243	—	n/a
Total	781	926	-16%
Average of comparator group*			
Salary	172	174	-1%
Benefits	26	29	-10%
Bonus	—	90	-100%
Long-term incentives	36	—	n/a
Total	234	293	-20%

* The comparator group chosen comprises the most senior managers in the Company who participate in a similar annual incentive structure and so this population has been chosen to best provide a consistent like-for-like comparison. The decrease in the average values for the comparator group 2019/20 reflects staff changes during the period, including a member of the group working a reduced working week.

The table above shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to total employee cost for the same elements for the senior management level.

Relative importance of the spend on pay

	2019/20	2018/19	% Change
Staff Costs (£m)	67.0	61.0	9.8%
Distributions to shareholders (£m)	—	—	n/a
Adjusted profit before tax* (£m)	31.2	28.8	8.6%

* Please refer to the calculation of Alternative Performance Measures on pages 18 to 21 for detail of how Adjusted profit before tax is derived.

Chief Executive Officer pay ratio

The table below shows the relevant data for Studio Retail Group UK employees for 2019, calculated using Option A as set out in the legislation.

Year	Method of calculation adopted	25th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75th percentile pay ratio (Chief Executive: UK employees)
2019/20	Option A	48 : 1	39 : 1	24 : 1

Pay details for the individuals whose 2019 remuneration is at the median, 25th percentile and 75th percentile amongst UK based employees are as follows:

	Chief Executive	25th percentile	Median	75th percentile
Salary	£438,000	£16,002	£19,413	£30,991
Total pay and benefits	£781,000	£16,306	£19,810	£32,125

The median, 25th percentile and 75th percentile figures used to determine the above ratios were calculated by reference to the full-time equivalent annualised remuneration (comprising [salary, benefits, pension, annual bonus and long-term incentives]) of all UK based employees of the Group as at 27 March 2020 (i.e. "Option A" under the Regulations). The Committee selected this calculation methodology as it was felt to produce the most statistically accurate result.

The Remuneration Committee is steadfastly committed to ensuring that the reward of the CEO and other senior executives is commensurate with performance. Accordingly, as laid out graphically in the Remuneration Policy, a significant element of the Chief Executive's total pay is variable and is determined based on the performance of the Company and is dependent on share price performance. This is reflected in our CEO pay ratio, which the Committee is satisfied is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

Board Report on Directors' Remuneration

Directors' interests (subject to audit)

The beneficial interests of the directors, together with non-beneficial interests, in the ordinary shares of the Company are shown below (the interests in shares have been stated based on the equivalent post consolidation number at each reporting date).

	Beneficially 27.03.20	Legally Owned 29.03.19	PSP Awards Unvested	PSP Awards Vested but not exercised	Total 27.03.20
Executive directors					
P B Maudsley	292,436	292,436	538,467	—	830,903
S M Caldwell	52,359	52,359	337,114	—	389,473
P R Kendrick	15,175	n/a	295,484	—	310,659

* Based on current beneficially owned shares and the year-end share price of 145.0p, Mr Maudsley did not satisfy the Company's 100% of salary share ownership guideline. Using an average share price for the year (207p), Mr Maudsley satisfies the requirement. Neither Mr Caldwell, nor Mr Kendrick yet satisfy this same guideline.

There have been no changes in the interests of executive directors during their service with the Company since the end of the financial year.

	Beneficially 27.03.20	Legally Owned 29.03.19	PSP Awards Unvested	PSP Awards Vested	Total 27.03.20*
Non-Executive Directors					
M I Burke	60,000	60,000	—	—	60,000
F R Coumau	40,558	40,558	—	—	40,558
G F Ball	18,570	—	—	—	18,570
E M O'Donnell	9,722	—	—	—	9,722
C V Askem	—	—	—	—	—
W Grimsey	47,064	25,000	—	—	—

* There have been no changes in the above interests since the end of the financial year.

Company Share Price

The market price of the ordinary shares at 27 March 2020, being the last day of stock market trading before the period end, was 145.0p and the range during the period was 143.5p up to 260.0p.

Implementation of Policy for FY2020/21

Executive Directors

Salary

The Committee has recently carried out their annual review of the salaries of the Executive Directors taking into account the role, responsibilities, performance and experience of the individual, the overall employee salary increase budget and wider inflationary indicators. In line with the position for employees generally, there will be no salary increase for Executive Directors on 1 August 2020. The Company may revisit this position later in the year, in line with the approach for the wider population.

The base salaries effective 1 August 2019 and 1 August 2020 are as follows:

Director	1 August 2020	1 August 2019	% change
Chief Executive	£441,263	£441,263	0%
Chief Financial Officer	£276,750	£276,750	0%
MD, Studio	£350,000	£350,000*	0%

* Salary as at date of appointment.

For comparison, the average salary increase awarded across the Company for 2020/21 is 0%.

Performance-related bonus

In 2020/21, the Executive Directors will be eligible for annual bonus awards up to 100% of salary. For the CFO and MD, Studio performance will be assessed against the following measures:

- 55% Group adjusted profit before tax
- 30% based on growth in active credit customers (with appropriate conditionality to ensure appropriate lending activities)
- 15% non-financial/strategic measures

For the CEO, performance will be assessed against the following measures and weightings reflecting the year of transition:

- 55% Group adjusted profit before tax
- 10% based on growth in active credit customers (with appropriate conditionality to ensure appropriate lending activities)
- 10% for CMA phase 2 clearance of the FEL sale
- 25% non-financial/strategic measures, which will relate to the CEO transition

Any pay-out under the bonus will be subject to Group adjusted profit before tax being above the threshold target and there being no material incidence of breaches of our commitment to Treating Customers Fairly during the year. Disclosure of the exact targets is commercially sensitive but it is expected that there will be full disclosure of the targets and performance against them in the FY2020 Annual Report on Remuneration. 25% of any bonus paid will be taken in shares which (after settlement of any tax or withholdings) must be held for three years.

Long-term incentive awards

In 2020/21, the Executive Directors will be eligible for PSP awards of 100% of salary. Awards will continue to be based on Absolute TSR and EPS performance conditions.

As outlined in the Chairman's letter, given the volatile share price and the relative lack of free float, the Committee concluded that a greater weighting on EPS would be more appropriate and that therefore the TSR element should be reduced to one third of the award with EPS correspondingly increased to two thirds.

The EPS compound annual growth rates (CAGR) used are the same as those which applied to the previous year's awards and continue to be considered stretching for the Company relative to internal and external forecasts. The TSR targets have been set at the same level as the EPS targets, which is consistent with previous years. Last year this element of the plan had threshold targets of 12.5% CAGR and a maximum bonus target of 22.5% CAGR, reflecting the exceptional circumstances surrounding the share price at that time. The Committee considers that the targets are at least as stretching as the targets set for the previous year's awards and are as follows:

	Weighting	Threshold (20% vesting)	Maximum (100% vesting)
EPS targets	2/3rds	7.5% p.a. CAGR	15% p.a. CAGR or higher
Absolute TSR targets	1/3rd	7.5%p.a. CAGR	15% p.a. CAGR or higher

Any vested shares (net of tax) will be subject to a two-year holding period and any incentive payments will be subject to recovery and withholding provisions as set out in the Directors' Remuneration Policy.

Non-executive directors

In line with the workforce, no increase will apply to the fees for the Chairman and Non-Executive Directors. Therefore the fees remain as follows:

- Chairman fee: £153,750 (no change);
- Base fee for other Non-Executive Directors: £41,000 (no change);
- Senior Independent Director fee: £10,000 (no change);
- Chairman of the Audit Committee fee: £10,000 (no change);
- Chairman of the Risk Committee fee: £10,000;(no change) and
- Chairman of the Remuneration Committee fee: £10,000 (no change).

On behalf of the Board

Francois Coumau
Chairman of the Remuneration Committee

22 August 2020

Nomination Committee Report

The Nomination Committee operates under written terms of reference which are available on the Company's website (www.studioretail.group). The Committee's principal duties are to review periodically the composition of the Board and to recommend suitable candidates for approval by the Board to fill executive and non-executive vacancies and to oversee succession plans and the development of talent pools across all levels of management within the Group.

During the year the Committee comprised the Chairman and the following independent non-executive directors, namely Greg Ball, Francois Coumau and Elaine O'Donnell. Bill Grimsey was also a member of the Committee until his retirement from the Board on 25 July 2019.

The general approach of the Committee in relation to Board appointments is to engage external recruitment specialists to carry out a search for appropriate candidates. Committee members meet a short list of candidates before discussing and agreeing a recommended candidate to the Board. Where there are appropriate internal candidates they are included in the external assessment process.

The Board has adopted a policy on Board diversity and inclusivity which recognises that diversity (including but not restricted to gender) and inclusivity are important factors in ensuring that the profile of Board members provides the necessary range of perspectives and skill-sets to ensure effective stewardship.

The Committee has worked through another year of planned Board change and refreshment in FY2020. Clare Askem joined the Board immediately prior to the start of the year and underwent a structured and comprehensive induction process during the first two months of the year under review. Following this initial period, the Committee recommended that she join the Audit Committee and the Board confirmed that appointment with effect from 25 July 2019. Also on that date, and as previously reported, Bill Grimsey retired from the Board, and the Board accepted the Committee's recommendation that Francois Coumau be appointed chair of the Remuneration Committee in his place.

During the year the Committee also reviewed the progress made by Paul Kendrick over the 3 years since joining the Group, the last 2 years as Managing Director of the Group's largest business, Studio Retail Ltd. This review also extended to the development over this period of specific skills and attributes appropriate for a plc board director. In November 2019 the Committee recommended to the Board that he be appointed as an additional executive director of the Company, and the Board confirmed that appointment in December 2019.

In January 2020, as Clare Askem approached the anniversary of her appointment to the Board, the Committee recommended that she join the Remuneration Committee and the Board confirmed that appointment. Clare Askem was also appointed to the Nomination Committee on 14th August 2020.

Since the end of the year the Committee has concluded its leadership succession planning with the announcement on 3 July 2020 of Mr Maudsley's retirement from the Company with effect from the end of FY20/21 and the appointment of Paul Kendrick as his replacement as CEO. This was the outcome from a structured development and succession plan implemented by the Board working with both Mr Maudsley and Mr Kendrick over the past two years. Mr Maudsley will be fully involved with the transition during the remainder of this financial year.

In the month immediately following the end of FY2020 , the Committee reviewed the size and balance of skills on the Board and each of its Committees, concluding that, the Board and its Committees were appropriately constituted for the time being, although noting that Mr Coumau's second term of 3 years would expire at the end of the 2020 Annual General Meeting and recommending that his tenure be extended a further year to the conclusion of the 2021 Annual General Meeting.

The Committee has also continued its review of development and succession planning for directors and senior executives and expects that progress will be made during the coming year, particularly for senior executives immediately below Board level and in the development of wider talent pools at all levels of management within the group.

The Committee has reviewed and re-confirmed its policy that in normal circumstances non-executive directors would serve two terms of three years, with the potential to extend annually thereafter if circumstances warranted it, up to a maximum aggregate term of office of 9 years. The Committee has a schedule of succession measures to put this policy into effect.

The planned annual review of effectiveness of the Board and its Committees in the final quarter of FY2020 was affected by the early weeks of the Covid-19 pandemic crisis. Given the level of stress which the entire Studio organisation was put under during this time, this process was confined to a series of one to one discussions between the Chairman and Board members, the outcomes from which have been shared and discussed by the Committee and the Board. The Committee considers this to be the most appropriate way to build on previous more formal review processes, given these exceptional circumstances.

That process has enabled the Committee to review the performance and commitment of each of the directors, all of whom are to be proposed for election/re-election at the 2020 AGM and on the recommendation of the Committee the Board is recommending those elections/re-elections to shareholders. Further details can be found in the personal biographies on pages 29 and in the Directors Report on pages 32 to 33.

The Committee met on four occasions during FY2020. All members have a 100% attendance record for the year. The Committee plans to hold at least two scheduled meetings during FY20/21.

Ian Burke
Chairman of the Nomination Committee

22 August 2020

Audit Committee Report

On behalf of the Committee, I am pleased to present this year's Audit Committee Report, which provides an overview of how we, as a Committee, have discharged our responsibilities, setting out the significant issues we have reviewed and concluded on in the year.

This report focuses mainly on:

- Committee governance;
- The key risks facing the business;
- Our focus since the last annual report, including the impact of changes in the UK corporate governance regime;
- Internal controls; and
- The operation of the internal and external audit functions.

Committee Governance

The Audit Committee operates under written terms of reference, which were reviewed during the year and are available on the Company's website (www.studioretail.group).

From the start of the year until 25 July 2019, the Committee was comprised of three independent Non-Executive Directors, reducing to two after the retirement of Bill Grimsey from the Board after the 2019 AGM. Clare Askem was appointed to the Committee on 23 September 2019. Brief biographical details of the Committee members, including their expertise and experience, are set out on page 29 and the number of meetings and attendance are set out on page 36. The Executive Directors, the Chairman of the Board and the Head of Internal Audit attended each meeting by invitation. Divisional executives were also invited to meetings during the year in relation to some of the specific matters under review listed below. The external auditor also attended all meetings.

The Committee has not used its powers to engage external advisers other than those appointed in conjunction with management in the year under review. Private meetings are held at least twice a year with the external auditor and with the Head of Internal Audit. In these meetings the Committee probed the efficiency and effectiveness of the internal and external audit, including the co-operation received by the auditor, recommendations for improvements to processes and timeliness of addressing control and process recommendations.

The Committee's agenda is linked to events in the Company's financial calendar and its assessment of key business risk as well as other matters for review recommended by the Board, the Risk Committee and the Remuneration Committee in their meetings. The effectiveness of the Committee is assessed as part of the annual Board and Committee effectiveness review, further detail on which is contained in the report on corporate governance on pages 35 to 38.

Our focus since the last annual report – accounting and audit

The most significant matters relating to the annual accounts considered were:

(a) Recoverability of trade receivables in Studio, particularly in light of Covid-19;

(b) Financial services redress provisions;

(c) Appropriate disclosure of discontinued operations (and carrying value of the disposal group);

(d) Going Concern and the Viability Statement, particularly in light of Covid-19

(e) Brexit and its potential effects on other key judgements;

(f) Carrying amount of inventories, particularly in light of Covid-19;

(g) The incorporation of new accounting standards for FY20; and

(h) Appropriate disclosure of Alternative Performance Measures.

The Committee received a paper from the Group CFO supporting his judgements in each of these areas and another report from the external auditor setting out their opinions and subjective assessments of the key judgements made by management. The Committee challenged the robustness of these reports. In all cases, the Committee was guided by the overriding mantras of "fair, balanced and understandable" and "true and fair view".

The particular challenges by the Committee in relation to the matters listed above were:

(a) Receivables provisioning – The bad debt provisioning model was refined during the year to incorporate more recent customer data to improve the quality of its prediction of future customer defaults. We needed to challenge whether the model's new output was producing reasonable outcomes and whether any management overlays needed to be applied.

Following the lock-down in March 2020 resulting from Covid-19, the economic forecasts used to determine the future expected level of customer defaults deteriorated materially. The outlook for recovery rates on future sales of non-performing receivables to third parties also deteriorated due to Covid-19. As the output from the provisioning model required greater judgement than normal, given the unusually high level of economic strain being assumed, we needed to challenge whether the model's output was reasonable, and whether the separate disclosure of the impact of Covid-19 on the level of provision required was adequate and appropriate. Were appropriate sensitivities and disclosures around these key judgements made?

The Committee received satisfactory responses to all these challenges.

(b) Financial Services redress provisioning – Following the incremental provision for PPI and associated redress booked during the year, the Committee challenged whether the residual provision outstanding at the period end was sufficient in light of the level of outstanding claims and the interactions of the Company with the FCA. Had the business's internal control framework identified any other areas of potential exposure to legacy refunds? Did it remain appropriate to record the incremental provision as an individually significant item? The Committee received satisfactory responses to these challenges.

(c) Discontinued operations – Following the exchange of contracts for the conditional sale of Findel Education in December 2019, and noting that the sale had not completed at the period end, we challenged whether the classification of Education's assets and liabilities as held for sale, and the separate presentation of its income statement results as discontinued operations was appropriate. Were the IFRS 5 disclosures relating to Education appropriate? Was the carrying value of disposal group appropriately tested for impairment with appropriate disclosures? The Committee received satisfactory responses to its challenges.

(d) Going Concern and Viability Statement – in light of the uncertainties caused by Covid-19, the Committee challenged whether the Group could withstand various severe but plausible downside sensitivities to its central estimates and remain a going concern. We also challenged the choice of three years as the period over which to assess viability and examined the extent of contingency built into the second and third years of the forward projections, the key risks or threats to the Group's viability and the amount of disclosure proposed around the key risks. The Committee was satisfied with the responses received.

(e) Brexit – had the Company undertaken an assessment of the potential risks associated with Brexit and the impact that those risks could have on other key areas of judgement, such as going concern, impairment of receivables and recoverability of intangible assets? Were adequate disclosures made in the Strategic Report about these risks and judgements? The Committee was satisfied with the responses to its challenges.

(f) Stock provisioning – were the stock provisions adequate given the Company's continued reduction in the volume of slow-moving items and the continued increase in the proportion of clothing sold by Studio? Was the incremental level of provision required following the lock-down relating to Covid-19 in both divisions sufficient and appropriately disclosed? The Committee was satisfied with the responses to its challenges.

(g) New accounting standards for FY20 – The new accounting standard for lease accounting, IFRS 16, was adopted by the Group in FY20. The Committee reviewed the implementation of this standard and the disclosures and challenged whether they were appropriate. The Committee also reviewed whether any other new accounting standards that became effective would have a material impact on the Group's financial statements. The Committee received satisfactory responses to these challenges.

(h) Alternative performance measures ("APMs") – The combination of discontinued operations, new accounting standards affecting the presentation of leases, and individually significant items meant that additional APMs were used by management in the Annual Report and Accounts. The Committee challenged whether these APMs were appropriate to ensure a fair, balanced and understandable presentation to the reader of the accounts. Were adequate reconciliations to GAAP measures provided with suitable explanations? The Committee received satisfactory responses to those challenges.

The Committee also considered:

(a) at the planning stage of the audit, how the auditor defined and applied materiality in their audit. The Committee was satisfied with the responses.

(b) towards the conclusion of the audit, the materiality of adjusted and unadjusted errors as reported by the external auditor to the Committee; and.

(c) the appropriateness of management's key judgements and estimates – how consistent were the judgements and estimates with the equivalent judgements and estimates the previous year? Were the key judgements and assessments consistent with the Board discussions of the businesses' performance throughout the year and with the conclusions of the Board's annual strategic review? The Committee was satisfied on each of these points.

In reviewing the annual report on behalf of the Board and making recommendations that were adopted by the Board in relation to the overall "fair, balanced and understandable" test, the Committee considered the report in the light of the tone and content of papers presented to the Board over the year by the Chairman, Head of Internal Audit, business heads and the Group CFO, and assessed the balance of positive and negative comments on each business in the light of the business's performance for the year.

The Committee also considered and accepted management's review of group accounting policies.

Our focus since the last annual report - internal control

The Committee has responsibility for the regular review of the Group's system of internal control and its effectiveness and reports its findings to the Board. It is the role of management to implement the Board's policies on risk and control through the design and operation of appropriate internal control systems. Operating management is charged with the ongoing responsibility for identifying risks facing each of the operating units and for putting in place procedures to mitigate, manage and monitor risks. The system of internal control is designed to manage rather than eliminate the risk of failing to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Management uses a 'three lines of defence' approach, where the first line of defence is in the management of the business units, who are responsible for ensuring that a robust risk and control environment is established as part of their daily operations. The second line of defence is provided by the oversight functions within the business and at group level, setting policies, procedures, and compliance and governance frameworks. The third line of defence is the internal and external auditors who offer independent challenge to the levels of assurance provided by the business operations and oversight functions.

In the year since the last annual report, the committee has also monitored and challenged:

(a) The effectiveness of the Internal Audit Function as measured through a robust peer review based on the Institute of Internal Audit Standards. The review concluded that the function is effective with all 5 areas (Environment, Right Quality, Right Coverage, Right Outcomes and Right Resource) scoring a rating of Established or higher. The Audit Committee will continue to monitor the continuous improvement plan which aims to earn a rating of "matured" within the next 12-24 months;

(b) the pace of progress on the Risk Management Improvement program and the alignment across all three lines of defence. The RMFI project is nearing completion and the focus for the committee in the year ahead will be ensuing that the Risk Framework becomes embedded setting the foundation's to build a risk centric culture;

(c) the ability of business to leverage the knowledge gained in transitioning over to the Senior Managers regime to facilitate the successful implementation of the Certified Regime; and

(d) the ability of the Business to balance the competing demands of Internal Control Actions, Risk Mitigation and Transformation activity, and the appropriateness of agreed timescales in respect of this.

The Committee used the experience and expertise of its members to meet with management outside of Committee meetings to ensure that their experience was available to management. In relation to all of these matters the Committee also had presentations from the Studio management team, at which plans were reviewed and challenged. The Committee noted that significant progress has been achieved and that the culture and behavioural changes are becoming embedded.

The Committee oversees the adequacy of the Group's whistleblowing arrangements, ensuring that they are proportionate for the Group and enable staff and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee considered the effectiveness of the relaunch communications approach and the enhancements made to ensure that the Whistleblowing arrangements met best practise as recommended by the Financial Conduct Authority.

The Chairman of the Committee also received her annual report on the whistleblowing service by the independent external service provider and no issues were raised.

The Committee has conducted its annual review of the effectiveness of the Group's system of internal control.

Audit Committee Report

External auditor

The Committee reviewed the independence of the external auditor and the safeguards that they have in place, including partner and staff rotation and extent of non-audit services, to avoid such independence and objectivity being compromised.

The Company's policy is that the Company should tender the audit at least once every ten years and could not retain the same audit firm for a period of longer than twenty years, in line with The Mandatory Firm Rotation (MFR) rules in the UK for EU Public Interest Entities (PIEs). With KPMG having been first appointed in 2011, a compulsory tender in auditor was required ahead of the 2020 Annual General Meeting to appoint the auditor for FY21. Notwithstanding that the FCA has used its powers under the Companies Act 2006 to permit an extension of up to two years for compulsory tenders due to Covid-19, the Committee felt that the process could still be conducted effectively and so a tender process was instigated.

The tender process was led by a selection panel comprising of the members of Audit Committee, the Chief Financial Officer, The Company Secretary, and the Group Financial Controller. Following the completion of a robust selection process, the Audit Committee recommended its first and second choices to the Board. The Board has accepted the Audit Committee's first choice recommendation, concluding that Mazars LLP be recommended for appointment by shareholders. Mazars LLP has notified its willingness to act as auditor to the Company and a resolution concerning their appointment will be proposed at the Annual General Meeting together with a resolution to authorise the directors to set the remuneration of the auditor. In making their recommendation to the Board, the Audit Committee considered Mazars LLP to offer a highly professional and competitively priced service, as well as the most comprehensive and pragmatic approach to transition from the incumbent auditor.

The Group's policy on the provision by the external auditor of audit and non-audit services is based on the principle that the external auditor should not also provide non-audit services unless exceptional circumstances convince the Committee to make an exception to the policy. The policy is reviewed annually by the Audit Committee and approved by the Board.

The detailed disclosure of the fees payable to KPMG LLP for both audit and non-audit services performed during the year is set out in note 8 to the consolidated financial statements and reflects the Committee's recommendation that greater explanation be provided than is required by law.

During the year, the Group was required to issue a shareholder circular to seek approval for the sale of Findel Education, which needed to include a report from Reporting Accountants on both historic financial information disclosed within the circular and the sufficiency of working capital. The Committee noted that it was customary for the Group's auditor to perform the role of Reporting Accountant for these purposes and that it was expedient for KPMG LLP to undertake that assignment. The Committee approved the fees for that assignment noting that, when combined with the review of the Group's interim accounts, non-audit fees paid to KPMG LLP in the year did not exceed the cap of 70% of the average audit fee from the preceding three years. The assignment was also undertaken by a different team from within KPMG LLP. The Committee was therefore satisfied with the level of fees, independence, objectivity and effectiveness of KPMG LLP.

The Committee reviewed the effectiveness of the external audit of the FY19 financial statements by discussing the audit separately with the executive directors and senior finance officers, the Company Secretary and the external auditors. A review of the effectiveness of the FY20 audit will be carried out following the issue of this annual report.

Internal audit

The role of internal audit combines an in-house internal audit department together with an appropriate level of co-sourcing of specialised internal audit services in the areas of financial services and IT. The head of internal audit holds discussions with the Chairman of the Committee at least four times each year and has direct access to her at any time.

The Committee approved the internal audit programme for the FY21 financial year, including the limited use of independent third parties.

Elaine O'Donnell
Chair of the Audit Committee

22 August 2020

Risk Committee Report

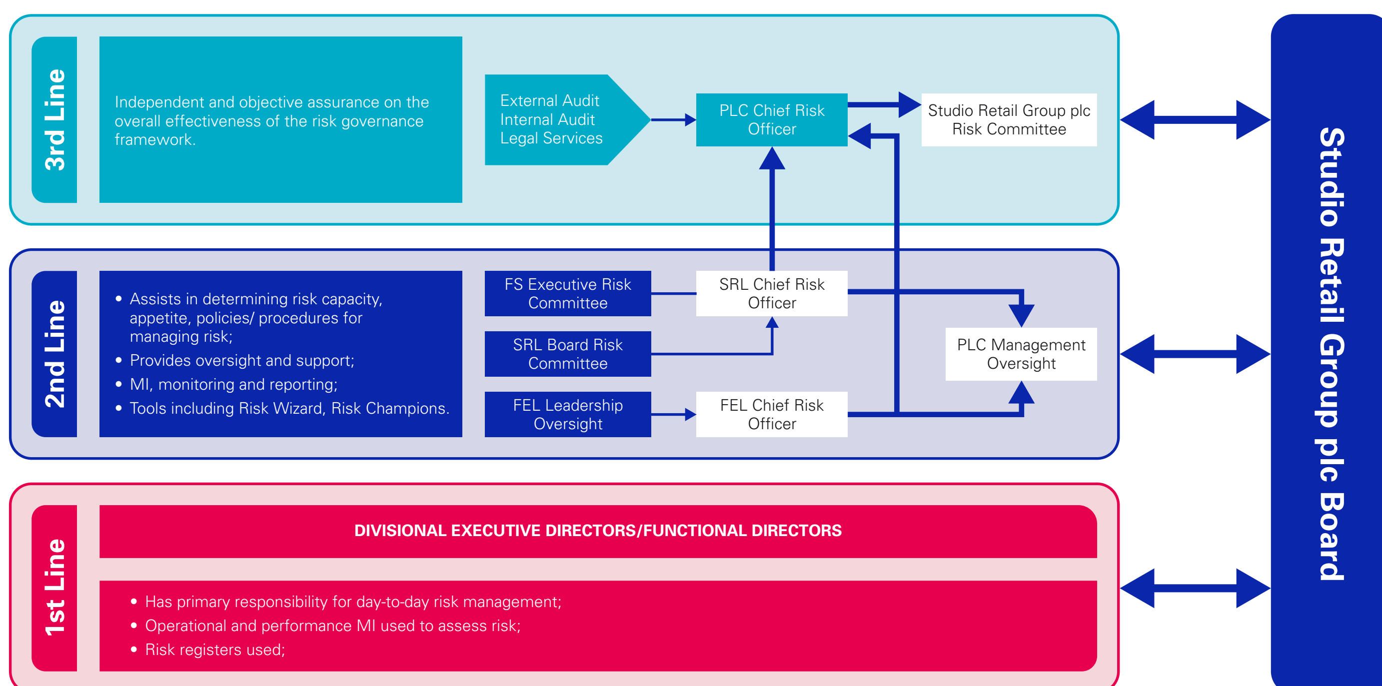
On behalf of the Committee I am pleased to present the Studio Risk Committee report for the financial year ended 27 March 2020 (FY20).

The Board operates a separate Risk Committee to provide assurance and advice on the adequacy, effectiveness and execution of risk management. It does so through the monitoring and assessment of strategic risks in the context of approved appetite levels, with a focus on those risk outside of appetite. The Committee's written terms of reference are available on the Company's website.

Governance

At the start of the year the Committee was comprised of five independent non-executive directors, myself as Committee Chairman together with Bill Grimsey, Francois Coumau and Elaine O'Donnell. Mr Grimsey retired from the Board and the Committee at the end of the AGM in July 2019. Brief biographical details of the Committee members are set out on page 29 and the number of meetings and attendance records are set out on page 36. The executive directors, the Chairman of the Board, the Company Secretary, the Studio Retail Ltd Director of Risk & Compliance and the Head of Internal Audit attended each meeting by invitation, together with other senior managers as appropriate.

In terms of the broader approach to risk management within the business, a combination of structured governance including oversight committees, capture and reporting tools, alongside a programme of education are being utilised. In particular over the last two years, the business has engaged a project team to embed and up skill the first and second-line risk management teams within Studio, introducing an enhanced level of reporting of risk appetites, Key Risk Indicators (KRI), measures and tolerances.



Key Risks Facing the Business.

The business continuously reviews its key risks and these are summarised below:

- The economic outlook is uncertain, particularly in relation to the ongoing impact of Covid-19 and the upcoming impact of Brexit. In particular, the business is sensitive to changes in unemployment, interest rates and inflation, impacting the levels of disposable income available to lower socio-economic groups and their subsequent capacity to make repayments on their credit account. These customers form an important part of the overall Studio customer base.
- The FCA continues to apply principles-based regulation towards consumer lending, with interpretation of those principles requiring regular monitoring. Recent changes to rules on affordability and avoiding persistent debt have affected customer acquisition and credit limit management, which will impact on credit income in the coming periods. This places a greater requirement on the profitability arising from the retail side of Studio. The plans set out in the Strategic Report reflect this.
- Notwithstanding recent investments in new systems, the business remains highly dependent upon some legacy systems both in the support of running the business on a daily basis and the storage and protection of customer data. Whilst resilience testing and recovery plans are in place, the combination of increasing cyber activity and the level of change being deployed in the business makes this an area of higher potential risk.

Risk Committee Report

- Studio imports a relatively high proportion of its retail products from China, either sourced directly or indirectly. A further rise in geopolitical tensions with China could lead to legislative or economic barriers to trade being introduced. Studio's Shanghai sourcing office is actively seeking to widen the number of countries that it sources products from, whilst retaining appropriate quality standards.
- Studio will continue to invest in modernising its systems and processes over the coming years. These plans require robust project and change management in the delivery of priorities, placing a high level of demand on planning and resource management to ensure delivery. As part of this, we are adopting an enhanced process of integrated cash management to meet the demands of change and capital deployment within the business alongside daily operational requirements.
- Studio's main warehouse facility in Accrington is potentially a single point of failure, although has proven to be a versatile and Covid-secure facility. Whilst the risks of the facility failing are low, appropriate disaster recovery plans have been developed.

Progress During the Year

During the course of the year significant progress has been made in our assessment of key risks. Examples of the key mitigating actions taken during the year include:

- Regular reporting from the project team tasked with enhancing the business's cybersecurity defences given recent system updates and the deployment of an app.
- Overseeing the implementation of changes to the financial services processes needed to adapt to new regulations, including the Senior Managers and Certification Regime.
- Receiving regular updates from the risk framework management project team deploying enhanced KRI reporting into the business, alongside structured reviews of documented policies and procedures. In addition new business incident management reporting has been deployed to aid root cause analysis.
- Ensuring that the Group's data architecture is designed in a way that optimises its use within the business whilst also meeting the high standards of data security set by the new GDPR legislation; and
- Overseeing the business's response to the challenges posed by Covid-19, including assessment of new risks arising from the pandemic and new mitigating controls required to respond to the challenges effectively.

Effectiveness

The executive team have fully engaged in the development of the risk plan, which is supported by senior management, such that:

- Financial and operational authorisation levels, alongside the application of risk appetite, can continue to be enhanced in line with core risks, and
- Escalation and de-escalation is clearly communicated as necessary to decision makers.

This work enabled the Committee to report to the Board on the key business risks facing the Company. The Board then used this reporting as a basis to carry out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency, liquidity, regulatory breach and adverse impacts on customer outcomes. The principal risks and uncertainties that could impact the performance of the Group are set out on pages 22 and 23.

Future Developments of the Risk Management Capability

As with all operational functions, the business is keeping its risk management framework and approach to risk modelling under constant review to ensure it is not only operating effectively but is as reliable as possible. To this end, over the next 12 months the Committee will:

- Strengthen the 1st line risk team to support the reporting of KRIs and general oversight of risks.
- Use that team to provide focus on an appropriate rolling programme of in depth presentations and discussions of selected core business risks.
- Enhance its understanding of longer-term risks and their potential impacts on the company and its businesses, particularly in light of the challenging economic environment.

Greg Ball
Chairman of the Risk Committee

22 August 2020

Corporate Social Responsibility Report 2020

The Board recognises the important role that Corporate Social Responsibility has in the ongoing success of the Studio Group. We remain committed to improvement in all our interactions with customers, colleagues, suppliers, the environment and the wider community.

Our customers

Studio

Studio is a leading UK digital value retailer with a broad offer covering home and leisure, clothing and footwear, and gift products along with flexible payment options, focused on fantastic value for money. We hunt for the best value, so our customers don't have to! We continue to develop our product categories by listening to our customers and using improved Merchandise Financial Planning for value and on-trend products. Studio also provides options on how to shop; customers can either pay cash at point of sale or open a flexible credit account that allows customers to either pay for their purchases within a month or spread the cost. This makes it easier for our customers to manage their budgets. This business model has proven very attractive to our customer base and during the year ended March 2020 over 1.8m customers shopped with Studio.

Studio is driving the business values, #Inclusive, #Trusted, #Savvy and #Amazing and seeks to keep its customers at the heart of all business decisions and activities as its core value. Examples of initiatives driven by these values include:

- Further improved website functionality, plus the introduction of the Studio App in September, allows our customers to shop at ease in whichever ways suit them best.
- The use of information gained via our customer survey to inform policy and process changes to enhance the customer experience.
- The creation of an Agent Performance Score as part of our customer survey to help drive customer service agent performance improvement.
- Enhanced online returns journey that was originally delivered in 2018 with 30K customers self-serving through our website to date. December 2019 saw an increase of users by 290% compared to December 2018.
- Extension of our contact centre estate to include South Africa, with a high performing, engaged group of advisors at CCI Global.
- Complaints per order at an all-time low with improved training around first time resolution.
- A customer experience forum that brings a cross functional team together to understand the root cause of complaints and customer pain points and then develop plans to address these issues.
- At point of sale, cash purchasing options via debit and credit cards introduced in October 2019, which has addressed a key source of customer dissatisfaction.
- A new risk decisioning system was introduced that will enable customers to get credit in a quicker and more compliant way with Studio.
- Improvements in credit risk strategies and lending policies in line with new regulatory requirements to further enhance our ability to ensure our customers' credit is affordable and sustainable for them.

It has been a challenging year across the retail industry in respect of customer experience satisfaction and this was reflected in our recent benchmark survey with the Institute of Customer Service which had seen a drop of 1.3 to the average retail (non-food) score, from 82.1 in July 18 to 80.9 in July 19. Our own satisfaction score of 81.8 was down on last year's score of 83.5, however we are still 4.7 points ahead of the UK all sector average and 0.9 points ahead of the 'Retail non-food' sector average. Our net promoter score (NPS) of 48.0 as at September 2019 was 6.0 points ahead of the UK 'Retail non-food' sector average score that includes our industry peers such as Next, M&S and Argos. We use the independent data/benchmarking from the Institute of Customer Services to track trends whilst continuing with our customer experience improvement plan.

We also proactively contact customers who could be in financial difficulties even when we are not seeing direct signs of this through non-payment with us, to seek to ensure that their overall financial situation remains sustainable for them.

We have recruited a dedicated team of procurement professionals to support the Studio buying team in the procurement of goods and services to enhance our ability to achieve value for money, and undertake our due diligence in respect of modern slavery and anti-bribery.

The procurement team also supports the business on corporate social responsibility by seeking to ensure that our third-party suppliers actively share Studio values. This is achieved by sharing ethical policies and completing supplier due diligence as part of the sourcing process.

Corporate Social Responsibility Report 2020

Studio is in the process of undertaking a refurbishment of its offices in Clayton le Moors to enhance the workplace environment. This will include elements such as multi faith facilities, exercise room, showers and a large social space that includes a café operated by an external supplier. We have selected a contractor Overbury, who is passionate about minimising the environmental impacts associated with fit out and refurbishment and take a proactive hands-on approach. They are proud to have achieved a series of 'firsts' on environmentally assessed projects, including the largest BREEAM 'Outstanding' fit out to date, the first SKA Gold rated project and the first LEED Gold office fit out in the UK.

Looking forward into FY20/21 Studio will continue to progress its IT strategy roadmap of further digital developments. We will continue to develop our ability to tailor our engagement with customers to their particular requirements, continually improving our Financier system and wider FS systems to enhance our customer experience and product offerings and be better suited to some of our customers' needs and circumstances. Furthermore, we continue to improve our other customer facing applications and IT infrastructure (e.g. website, App, Customer services) to improve customer experience and overall online and self-serve technology.

Findel Education

Through our commitment to 'saving schools time and money', we have invested in providing time saving digital solutions for customers, creating innovative new ranges and offering bestselling products at the lowest possible prices. As a result of this strategy and by continuing to provide unbeatable service, our customers have continued to provide positive feedback through an expanded 'Customer Voice' programme. Customer Voice is our company-wide initiative, which measures our customer experience. This programme of activity is used to communicate findings from our regular customer research to our colleagues. We have also introduced new metrics so that we can benchmark our performance, simply by asking our customers:

- Were you happy with your recent shopping experience with us?
- Would you shop with us again?
- Would you recommend us to a friend or colleague? (Net Promoter Score)

Our net promoter score consistently exceeds 80 and there are plans to expand the 'Customer Voice' programme further over the coming months, to capture feedback at every stage of the customer journey. In addition to this there is planned further investment into our growth strategy by ensuring we are providing the best possible experience across the customer lifecycle; this will include the introduction of an improved CRM system and reorganisation of our customer-facing teams.

Our Colleagues

Studio

2019 saw the introduction of the Senior Manager and Certification Regime (SM&CR) for Senior Managers, with the Certification part of the regime going 'live' during 2020. The aim of SM&CR is to raise the standards of conduct for everyone who works in financial services, and by making senior people in firms more responsible and accountable for their conduct, actions and competence. The regime shifts the responsibility of activities within a firm onto senior managers. Whilst we have been testing the process for the Certified population, we continue to look for ways to improve colleague engagement and understand what our colleagues need, to help their development within Studio. We launched our externally led mid-year 'pulse' survey in September and the end of year 'full' survey ran in March which had a participation of 84.6%, an increase of 2.4% compared to September 2019 and 0.6% more than February 2019. We put action planning sessions in place within each functional area of the business to make sure that we are focusing on and addressing key areas of dis-engagement. Regular question and answer sessions with colleagues and senior executives throughout the year encourage a good exchange of ideas and the raising of issues to help improve the workplace and ways of working. The colleague retention rate within Studio has remained at a steady level of around 85% throughout the reporting period.

Learning and development is central to our colleague plans. Studio have introduced a centralised Learning & Development function which is supported by dedicated functional training teams, ensuring we deliver high standards of learning experiences consistently across the business. A key outcome will be to improve our ability to identify and address development and succession planning requirements, guaranteeing business continuity in line with the aspirations of our high performing colleagues.

Studio offers role-specific training programmes and apprenticeship programmes to both strengthen and continuously upskill our existing workforce and is also part of a Career Pathways development initiative. This year we are committing to supporting approximately 30 managers across our Operations Warehouse team with Institute of Leadership and Management Levels 3 and 5. Our aim is to fulfil the potential of our colleagues to set the business up for success and attract, recruit and retain the best talent.

We offer flexible working solutions where we can, which helps to maintain a balance between work and life outside of the workplace. Our response to the Covid-19 pandemic has highlighted a number of potential areas where greater flexibility for colleagues may be possible on a more permanent basis and these will be investigated during the coming year. Studio operates a standard annualised flexi-year contract for many of its warehouse colleagues. Our part-time workers (working 30 hours or less) represent just over 11% of our permanent headcount.

We continue to offer a number of benefit schemes for our colleagues, including retail discounts and vouchers, an Employee Assistance Programme and reduced cost gym membership. During the Covid-19 pandemic we recognised the efforts of all colleagues in adapting to the extraordinary circumstances and in maintaining the supply of products and the servicing of our customers. This included the issue of weekly £25 vouchers to help with family budgets.

Health and wellbeing has been a key focus for Studio this year which has seen support from the NHS with health checks for the over 40's and a smoking cessation promotion, with great feedback received about both services. Studio also partnered with Salary Finance whose aim is to support colleagues from a financial wellbeing perspective, helping them transition from borrowers to savers. Through Advisor plus, Studio trained over 200 of their first line Managers and Senior Leaders on mental health wellbeing and trained 24 colleagues to become Mental Health First Aiders. Studio aims to continue the focus on health and wellbeing into 2020.

Our colleagues actively support Mind, a national charity supporting mental wellbeing, and local charities with a host of fundraising and social activities throughout the year.

We have published our 2019 gender pay gap and diversity reviews for both Studio and Findel Education on the government website and on the respective company websites. A group wide gender pay gap report can be found on pages 24 and 27.

Within Studio, 45% of colleagues are female, compared to 46% last year and 44% of colleagues in the upper quartile are female, compared to 45% last year. We recognise the difference between gender pay and equal pay. The gender pay gap measures the difference in average male and female pay across the whole business on 5th April each year. Equal pay is a longstanding set of regulations which ensures that men and women are paid equally and fairly for doing the same work. As a result, the gender pay gap within the group does not mean that we are rewarding people unfairly or treating people unequally.

Within the group, we have a well-balanced male to female ratio split with 49% of our headcount being female, which has remained static vs last year. Our female split across the lower middle and upper middle groups remains slightly above 50%, in line with what we reported last year. Although our mean gender pay gap has increased slightly by just over three percentage points vs last year, we're confident that we're moving in the right direction with the work we've been doing across all group companies.

We have obligations to protect our customers and other stakeholders when making appointments to sensitive roles and our selection processes for those roles include using the Disclosure Barring Service (DBS). For example, within Studio, this extends to all roles in the Financial Services and Customer Services functions, our photography studio and roles which have access to customer, colleague or business sensitive data. And the entire Findel Education sales force is covered by DBS checks, given their direct access to schools and nurseries.

The Group is predominantly a UK-based employer, although a small proportion of colleagues are located in Asia. Many of our sites are in multi-cultural areas of the UK and we operate a fair, equal opportunities employment culture which embraces multi-culturalism, equality and diversity. The needs of specific groups are identified and addressed, for example, by offering prayer facilities, which will be enhanced following the Clayton office refurbishment, and by providing colleague information in foreign languages where appropriate.

Findel Education

Our colleagues are key to driving our strategy to 'Provide Amazing Products and Solutions for Education' and to 'Save Schools Time and Money', providing customers with the best service, best digital solutions and best products at everyday low prices. They are proud to be part of one of the largest educational supplies business in the sector helping schools make a difference and helping children reach their full potential.

Our colleagues are essential to the success of our business. We pride ourselves on having strong skills, a diverse workforce and people focussed behaviours (#BePassionate, #BeAmbitious, #TakeOwnership, #WeCare) that encourage and support our business to be a great place to work. We are continuing to progress our people initiatives and have secured solid commitment with Leaders at all levels within Findel Education to progress both our people and change agendas throughout 2020 and beyond.

Colleague turnover at 13.5% during FY2019/20 continues to be in-line with our expectations and market norms and averaged approximately 1% across each month within the reporting year.

Our induction process is designed to support new colleagues joining us and sets high standard expectations, whilst making the process as easy and as fun as possible. Retention planning in terms of remuneration, benefits and incentives in addition to employee development, engagement and succession all contribute to the Findel Education HR strategy, helping us to sustain employment as far as practicable. Feedback on the reasons for employee turnover is collected and reviewed with a view to improve and retain the best talent within our business and to improve our working environment and arrangements.

Health and Safety

The Group has a comprehensive system to assess, monitor and mitigate Health and Safety risk within the business which is subject to continuous improvement and review. Our regularly updated Group Health & Safety Policy and business specific Health and Safety Handbooks are available to all colleagues and are covered in our induction processes.

Corporate Social Responsibility Report 2020

We operate a twelve-month rolling risk assessment programme across the group run by qualified Health and Safety professionals. This approach allows for greater focus on individual areas of Health and Safety. Each site receives several inspections during the year. These assessments and inspections have also been developed to include both environmental and site security aspects.

Findel Education has certifications in ISO9001 and OHSAS18001, the internationally recognised standard for Occupational Health and Safety Management Systems. Studio Retail Group plc is a member of the British Safety Council and a member of the Royal Society for the Prevention of Accidents (RoSPA).

We are proud of our longstanding safety record especially given the operation of a number of very busy warehouses. However, we are never complacent and constantly look to improve performance in this area. During the year a total of 82 accidents were recorded across the Group's sites, the vast majority of which were minor, and of which 7 were reportable to the Environmental Agency under the RIDDOR regulations. During the year one Improvement Notice was issued by the Environmental Agency as a result of a RIDDOR incident which had resulted in an impact injury to a colleague's elbow. Remedial action was taken immediately, and the notice was withdrawn as fully and promptly fulfilled. A Behavioural Safety Programme is planned to be rolled out across Studio starting in FY2020/21, which will concentrate heavily on individual behavioural actions which is intended to reduce further the current accident statistics within SRL.

We have also continued to work closely with our employers' liability insurers Aviva in reviewing and improving risk mitigation across the business. Aviva and our independent insurance brokers have advised that our claim rates for health and safety related incidents is comparatively low for the type and size of our operations.

Business Continuity

Studio continues to review and challenge its Business Continuity and Operational Resilience Framework, investing time and resource to protect its business from unplanned events. Last year's test to recover critical IT systems and communications will be repeated in 2020 along with the inclusion of key 3rd party service providers such as Rackspace and Welcom. The arrangements to enable up to 250 colleagues to work remotely from a 3rd party office facility in Manchester remains in place. Since the outbreak of the Covid-19 pandemic the group has enabled over 500 members of staff to work from home and this further enhances our flexibility and ability to react to unforeseen circumstances.

The business continues to invest heavily in its Risk Management Framework initiative, taking its already established model to higher levels of maturity and reporting. The business recognises the criticality of this key business tool and its ability to help the business succeed in the delivery of its overall strategy. The permanent Risk team has been supplemented during the year with experienced industry-experts who have focussed on education, reporting, management information, and governance. For further details please see pages 71 to 72 for the Risk Committee Report.

Findel Education has continued to review all aspects of its Business Continuity planning, with a particular focus on evaluating and improving both protection and recovery from an IT perspective. Site power backup recovery times have also been improved, alongside implementing further measures for influenza pandemic planning.

Our Products and Supply Base

The Group sells a range of c.100,000 stock lines across an extensive range of categories. Our suppliers are diverse and range from individual factories to large multinational companies. Product safety and quality is at the forefront when selecting any product for our range. Appropriate safety certification is obtained (backed by independent third-party testing where necessary) and each business has a team dedicated to maintaining these standards.

Studio and Findel Education each operates its own comprehensive Trading Manual with which all suppliers are required to comply. This includes our ethical trading expectations, including compliance with the Modern Slavery Act. They are supported by standard terms and conditions of purchase, which are regularly reviewed and updated, and also include appropriate provisions to require compliance with the Modern Slavery Act and General Data Protection Regulation. We strongly support the Modern Slavery Act and have published appropriate statements on our websites.

Studio and Findel Education require new suppliers to produce an ethical trading statement of compliance as part of the account set-up process with independent third-party ethical sourcing certificates also required depending on the risk profile and product type. Studio has updated its Ethical Sourcing Policy which clearly defines what is expected of our supply chain in respect of ethical practices and includes a minimum 'Standard' to be worked to and controls to ensure compliance. The recently formed Studio Procurement Team will further enhance Studio's compliance processes in these areas.

Findel Asia Sourcing, our office in Shanghai, was rebranded to Studio Asia earlier this year, and has been sourcing products for group companies and third parties for over 30 years and requires that each of the c.240 factories they deal with has a valid audit certificate in place covering the time of manufacture of our products. The Supplier must be able to demonstrate compliance with our policy by submitting an Ethical Audit Report, which is less than 2 years old if no expiry date, or within the expiry date and is based on SMETA, BSCI, SA8000 or ICTI audit methodology, undertaken by a reputable 3rd party audit company, such as BV, Intertek, SGS or Verisio.

There is a programme for ensuring continued compliance by evidencing renewal and remediation of any non-conformances reported. A further level of scrutiny applied, is for factories with improvement works required through the audit process to provide photographic evidence of the remediation and resulting compliance. This is in line with the Studio Ethical Sourcing Policy.

It is of paramount importance that all products offered for sale to our customers are safe and fit for purpose. Both Studio and Findel Education have Quality Assurance teams in place to ensure that all own brand products are consistently good quality, safe, fit for purpose, adhere to all applicable legislation and company standards and will therefore meet our customer's expectations. The improved focus on the product approval process is evident in a returns rate that is trending down year on year and improved star ratings within our Power Reviews.

Studio places the utmost importance on the safety and quality of its products and the returns rate remains similar to the previous year and is significantly lower than our peers. Findel Education saw a 7.6% reduction in overall returns for the current period compared to last year. Within Findel Education, the Nottingham Logistics Centre (NLC) continues to align itself with education supply chain partners who take their responsibility for corporate social matters seriously. From an inbound perspective we work closely with Agility Logistics who are award winners in both sustainability and corporate social responsibility, and from an outbound point of view our main parcel carrier DPD who has set new levels in carbon neutral delivery by offsetting 100% of parcel delivery emissions, voluntarily. The Education team are also actively working on new solutions to reduce the count of outbound parcels, resulting in less repeated journeys to customers whilst also reducing overall packaging usage. A large part of this is achieved by maintaining service levels to a very high standard, resulting in fewer backorders and therefore parcels, whilst also delivering customer service excellence.

The Environment

As a digital value retailer and education supplies business, the Group's environmental impact is predominantly through utility consumption and our use and disposal of paper and packaging, although as a non-manufacturing company, our emissions remain relatively low.

The Group's Scope 1 emissions from its vehicle fleet in 2019/20 were 66 tonnes of CO_2 compared to 85 tonnes in 2018/19 which will be further reduced in the coming years as the contraction of our fleet continues. The Scope 2 emissions from our energy usage were 5,944 tonnes of CO_2 which is an increase of 3.36% from 5,744, tonnes in 2018/19, broadly in line with the Group's turnover trend.

The high number of relatively low-value individual despatches in our businesses continues to make it economically and environmentally efficient to use third party carriers to transport products to our customers. Prior to appointment and on a regular basis thereafter, we ask our third-party carriers to demonstrate their environmental credentials.

Findel Education continues to increase its range of eco-friendly products, including Classmates stationery brand re-introduced last year, which includes products made from recycled paper, Fairtrade, energy efficiency A-rated appliances, environmentally friendly products and lower carbon footprint UK-sourced products. All sites within Findel Education have ISO14001 accreditation, an internationally recognised standard for environmental management which ensures each location has a fully compliant Environmental Management System. As part of Findel Education's certification to ISO14001:2015, product life cycle is continuously reviewed. This, combined with customer demand to deliver products which are sustainable, eco-friendly and where possible biodegradable, has seen further developments in the selection process.

In addition, some suppliers are working with the Woodland Trust or finding other ways to plant forestry to either replace trees used for production or to offset their carbon footprint.

Studio are working with Restore PLC in respect of the disposal of business confidential information. Restore meet internationally recognised business standards and are ISO 9001:2015, 14001 and 27001 certified, and are members of and contributors to many industry associations and groups. Restore is committed to minimising the impact of its activities on the environment, prevention of pollution and the protection of the environment as part of our business resources.

Energy

The Group's major use of energy continues to be the heating and lighting of buildings, powered conveyor equipment and in our vehicle fleet. An Energy Saving Opportunities Scheme (ESOS) survey was carried out across our UK locations during the year various energy saving initiatives were suggested. One quick win was the installation of LED lighting across some sites which will reduce costs on electricity.

Energy efficiency is a material consideration when procuring vehicles, equipment or services. Our major sites all benefit from centralised control of heating and ventilation systems and are subject to regular monitoring to ensure they are operating as efficiently as possible.

The Group Company Car Policy focuses on lower carbon emission vehicles and has continued to apply a CO_2 limit of 130g/km for new vehicles. The average fleet emissions remain low at 113g/km in 2019/20. We plan to further reduce the size of our company car fleet during the next year which should see our emissions fall again.

Corporate Social Responsibility Report 2020

Paper

The tonnage of paper used in Studio's catalogues and brochures has shown a reduction from 8,688 tonnes in 2018/19 to 4,325 tonnes in 2019/20; a significant reduction of nearly 50% as our digital offerings become the dominant customer preference. All paper used for printing by our divisions is manufactured at mills which have a Programme for the Endorsement of Forest Certification (PEFC) chain of custody certification.

Packaging

The Group is constantly seeking innovative ways to minimise the level of packaging used, whilst ensuring that products are received by our customers undamaged. Studio plans are in place to review all despatch packaging during 2020/21 to move to more environmentally friendly solutions. Findel Education continue to operate an on-demand packaging solution, minimising the use of card by making custom cartons for every delivery. All card used by the Group for making our boxes is FSC certified and the small amount of packaging infill we do use is not only FSC, but all natural, 100% renewable, recyclable and reusable.

In the current year, Studio increased the recycled content of the customer despatch bags from 20% to 50%. There is currently no minimum level but the target for 2022, is for single-use plastics in the UK to have a minimum of 30% recycled content

Waste

All Studio sites continue to be zero to landfill sites and have been since May 2012. In the last 12 months, 2,224 tonnes of waste was collected compared to 2,285 tonnes in the year 2018/19, marginally down year on year. 63% was recycled and 37% was recovered via an Energy from Waste (EFW) plant. By partnering with contractors who utilise refuse-derived fuel, Findel Education have also now achieved zero to landfill across all sites.

Community Support

Our local communities are important to us and the Group and its colleagues continue to support a number of local and national charities nominated by our colleagues, together with local communities and organisations close to our various bases of operation. Studio sees Accrington and the surrounding towns and villages as vital to maintain our success as a digital retailer and major employer. We support the local community by donating furniture, clothes, toys and other gifts to charities and helping those in need. Throughout the Covid 19 crisis we have supported local communities and have donated:

- thousands of towels and pillowcases to local hospital trusts to help frontline NHS staff across Lancashire with their increased hygiene routines;
- over 20,000 stationery and home learning items to 24 local schools;
- £1,000 towards roof repairs to Derian House Children's Hospice charity shop following a burglary;
- essential clothing items, such as socks, t-shirts and underwear, to CityCo in support of The Manchester Homelessness Partnership;
- duvets donated to a local sewing group to make PPE for local hospital trusts;
- 10% of sales of all Rainbow and Heart products will be donated to the NHS Charities Together; and
- personalised pencils to a local school – with more support planned when all children fully return.

Both Studio and Findel Education are partnering local schools providing support and guidance to staff and students. Findel Education also support the Greggs Breakfast Club at Moston Lane Primary School in Manchester which helps the children get a great start to their day and promotes health, well-being and development.

Findel Education is, for a fifth year, supporting the Go4SET scheme. Go4Set is a 10-Week STEM (Science, Technology, Engineering & Maths) project for 12 to 14-year olds administered by the Engineering Development Trust (a registered charity). Its mission is to inspire students towards STEM related careers by linking with industry in real life situations using hands on learning and skills development. A small team of employees will work with a team of students to develop a project that will help enhance their technical, personal and employability skills.

Both Studio and Findel Education also support various colleague-managed social events that act as charity events to support several much-needed local charities. In addition to charitable donations, including a Maundy Pop Up Christmas Shop in Accrington (providing low cost toys for budget stretched local families). Studio has also been visible in the local community through partnership with #Amazingaccrington and sponsorship of the Accrington Stanley Football Club's family stand.

Signed on behalf of the Board

Phil Maudsley
Chief Executive

22 August 2020

Statement of Directors’ Responsibilities in respect of the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework.*

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial 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 relating to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or 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 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 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.

The directors of Studio Retail Group plc are detailed on page 29.

By order of the Board

Ian Burke
Chairman

Phil Maudsley
Chief Executive

22 August 2020

Independent auditor's report

to the members of Studio Retail Group plc (formerly Findel plc)

1. Our opinion is unmodified

We have audited the financial statements of Studio Retail Group plc (formerly Findel plc) ("the Company") for the year ended 27 March 2020 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the Company balance sheet and the Company statement 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 27 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework;* and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the directors in September 2010. The period of total uninterrupted engagement is for the ten financial years ended 27 March 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole		£1.5m (2019: £1.5m) 0.3% of Group revenue (2019: 4.5% of normalised Group profit before tax)
Coverage		100% of Group revenue (2019: 99% of normalised Group profit before tax)
Key audit matters		**vs 2019**
Recurring risks	Impairment allowances on trade receivables in Studio Retail Limited	▲
	New: Valuation of defined benefit pension obligations – parent Company	
Event driven	Going concern	▲
	Brexit	◄►

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

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to pages 22 and 23 (Principal Risks and Uncertainties), page 30 (Directors' Report) and page 68 (Audit Committee Report)*	**Extreme levels of uncertainty:** The UK left the European Union (EU) on 31 January 2020 and entered an implementation period which is due to operate until 31 December 2020. At that point current trade agreements with the European Union terminate. The UK is entering negotiations over future trading relationships with the EU and a number of other countries. Where new trade agreements are not in place World Trade Organisation (WTO) arrangements will be in force, meaning among other things import and export tariffs, quotas and border inspections, which may cause delivery delays. Different potential outcomes of these trade negotiations could have wide ranging impacts on the Group's operations and the future economic environment in the UK and EU. All audits assess and challenge the reasonableness of estimates, in particular as described in impairment allowances on trade receivables in Studio Retail Limited below, and related disclosures; and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The uncertainty over the UK's future trading relationships with the rest of the world and related economic effects give rise to extreme levels of uncertainty, with the full range of possible effects currently unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from the UK's departure from the EU in planning and performing our audits. Our procedures included: — **Our knowledge of the business:** We considered the directors' assessment of risks arising from different outcomes to the trade negotiations for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Sensitivity analysis:** When addressing going concern and impairment allowances on trade receivables in Studio Retail Limited and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from these uncertainties and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on addressing going concern and impairment allowances on trade receivables in Studio Retail Limited we considered all of the disclosures concerning uncertainties related to the UK's future trading relationships together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported under impairment allowances on trade receivables in Studio Retail Limited, we found the resulting estimates and related disclosures of impairment allowances on trade receivables in Studio Retail Limited and disclosures in relation to going concern to be acceptable. However no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to the impact of the UK's departure from the EU.

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	The risk	Our response
Impairment allowances on trade receivables in Studio Retail Limited (£317.9m, allowance for expected credit loss £101.8m; 2019: £304.3m, allowance for expected credit loss £88.0m) *Refer to page 68 (Audit Committee Report), page 106 (accounting policy) and pages 123 to 125 (financial disclosures).*	**Subjective estimate:** The Group has a significant level of trade receivables which are due to be recovered by instalments as a result of credit terms offered to customers by the Studio Retail Limited business. The provision held against trade receivables is calculated by a series of models which have been re-designed in the current year. This impacted the determination of a significant increase in credit risk and the resulting impact on staging, the probability of accounts falling into arrears and subsequently defaulting, and the exposure at default. Small changes in the assumptions and estimates within the provisioning model can have a significant effect on the results of the Group. Given the emergence of COVID19, the provision is most sensitive to assumptions around the macro-economic variables within the economic scenarios, the weightings applied to the range of economic scenarios and the level of cash recoveries. As a consequence, adequate disclosure of the assumptions and the areas of estimation uncertainty are also important. The effect of these matters is that, as part of our risk assessment, we determined that the impairment allowances on trade receivables had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 15) disclose the sensitivity estimated by the Company. **Disclosure quality** The disclosures regarding the Group's application of IFRS 9 are key to understanding the key judgements involved.	Our procedures included: — **Control re-performance:** Testing key controls over the monitoring of the provisioning model and the key assumptions. — **Operating effectiveness of controls:** Where data controls were found to be ineffective, we performed direct testing over the relevant data elements within the provisioning models to gain comfort over the completeness and accuracy of the data. This involved testing attributes back to source documentation. This allowed us to gain comfort that the data flowing into the models was appropriate. Where management review controls were found to be ineffective, substantive procedures challenging assumptions with the provisioning models were performed. — **Our financial risk modelling expertise:** Using our financial risk modelling specialists to evaluate the application of management's methodology within the revised models. Documentation review, independent recoding and model code reviews have been performed where relevant across the various models with replication testing performed across all models to assess the output of the models. — **Historical comparison:** Using our historical experience to critically challenge the Group's forecast of prices obtained in respect of debt sales. — **Sector knowledge:** Using our knowledge of the sector and the current prices obtained in respect of debt sales, to challenge management's forecasts of expected future prices, and ultimately the recoveries Studio will make. — **Benchmarking assumptions:** Benchmarking the Group's key assumptions, including probability of default and criteria used to determine whether there has been a significant increase in credit risk, to comparable lenders. We also used our economic specialists to challenge the economic scenarios in the model and the weighting the model uses to build the provision through comparison's with market peers, market publications and analysis from the Bank of England in respect of the impact of COVID-19. Further, consideration of the sector's approach to accounting for COVID-19 allowed us to benchmark Studio's approach to that of the wider market. — **Assessing transparency:** Considering the adequacy of the Group's disclosures of the key assumptions and the areas of estimation uncertainty in relation to the impairment provision. This includes disclosure of the sensitivity of the impairment provision to movements in the economic scenarios and debt sale prices. **Our results** — Our testing identified some weaknesses in the design and implementation of controls. As a result we expanded the extent of our detailed testing over and above that originally planned. The results of this testing were satisfactory and we found the impairment allowances recognised and the associated disclosures made to be acceptable (2019 result: acceptable).

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	The risk	Our response
Going concern *Refer to page 68 (Audit Committee Report) and page 101 (financial disclosures).*	**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 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 for a period of at least twelve months from the date of approval of these financial statements. The risks most likely to affect the Group's and Company's available financial resources over this period were: — The level of financing available and the ability of the Group to comply with financial covenants at certain points within the year; and — The risk, increased due to the impact of COVID-19 uncertainty, that the Group will recover less cash than expected from the Studio trade receivables. There are also less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer confidence, which could result in a rapid reduction of available financial resources. The risk for our audit was whether those risks were such that they amounted to a material uncertainty that may have cast significant doubt over the Group's ability to continue to operate as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: — **Funding assessment:** Assessed the committed level of financing available to the Group for at least the next twelve months through considering the facility agreements and assessing the Group's ability to comply with covenant requirements. — **Historical comparisons:** Considered the Group's historical budgeting accuracy, by assessing actual performance against budget and analysing the Group's explanations for variances between actual and budgeted results. — **Our sector experience:** Used our experience of the sector to challenge management's assumptions over forecast customer default ratios and cash flow forecasts. — **Key dependency assessment:** Assessing the Group's cash flow forecasts to identify key inputs for further enquiry. The key inputs included forecast revenue growth and forecast customer default ratios. — **Sensitivity analysis:** Considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe but plausible downside sensitivities that could arise, including a reduction in forecast revenue growth, a reduction in forecast gross profit margin, a potential COVID-19 related second lockdown and its effects on the Group's cash flows, and an increase in forecast customer default ratios. — **Assessing transparency:** Assessed the completeness and accuracy of the matters covered in the going concern disclosure by assessing the reasonableness of the risks and uncertainties specified by the disclosure against our findings from our evaluation of management's assessment of going concern. **Our results** — We found the going concern disclosure without any material uncertainty to be acceptable (2019 result: acceptable).

	The risk	Our response
Valuation of gross defined benefit pension obligations – parent Company risk £98.8m (2019: £107.9m) *Refer to page 109, (accounting policy) and pages 157 to 160 (financial disclosures).*	**Subjective valuation:** The valuation of defined benefit pension obligations depends on a number of estimates, including the discount rates used to calculate the current value of the future payments the Company expects to pay pensioners, the rate of inflation that must be incorporated in the estimate of future pension payments, and the life expectancy of pension scheme members. There is a considerable amount of estimation uncertainty involved in setting the above assumptions and a small change in the assumptions may have a significant impact on the defined benefit pension obligations. The effect of these matters is that, as part of our risk assessment, we determined that the gross defined benefit pension obligation of £98.8m has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 14 to the Parent company financial statements) disclose the sensitivity estimated by the Company. This risk is included as a key audit matter for the first time this year as it is now considered to be the area of most significance in our audit of the parent company.	Our procedures included: — **Our actuarial expertise:** We used our own actuarial specialists to challenge key assumptions and estimates used in the calculation of the retirement benefit obligations; — **Methodology assessment:** We used our own actuarial specialists to assess the appropriateness and consistency of the methodology applied by management in setting the key assumptions; — **Benchmarking assumptions:** We performed a comparison of key assumptions against our own benchmark ranges derived from externally available data; — **Assessing external actuary's credentials:** We assessed the competence and independence of the external actuary engaged by the Company; and — **Assessing transparency:** We considered the adequacy of the Company's disclosure in respect of retirement benefits, in particular the gross defined benefit pension obligation and the assumptions used and the sensitivity of the liabilities to these assumptions, which are set out in note 14 to the parent company financial statements. **Our results:** — We found the resulting estimate of the defined benefit pension obligations to be acceptable (2019: acceptable).

We continue to perform procedures over recoverability of non-amortising intangible assets and recoverable amount of investment in subsidiary. However, following the agreement to sell the Findel Education CGU at a price exceeding the carrying amount of the cash generating unit and above the carrying amount of the parent's investment in subsidiary, we have not assessed these as areas of the most significant risks in our current year audit and, therefore, they are not separately identified in our report this year.

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

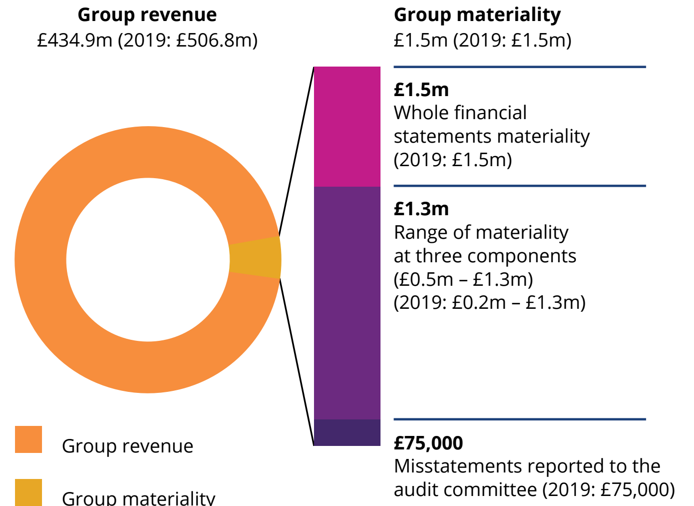
Materiality for the Group financial statements as a whole was set at £1.5m (2019: £1.5m), determined by reference to a benchmark of Group revenue of which it represents 0.3% (2019: 4.5% of normalised Group profit before tax). We consider Group revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax. The change in the benchmark from the prior period is because Group revenue provides a more stable measure year on year than group profit before tax for the period for which business performance has been affected by the COVID-19 pandemic.

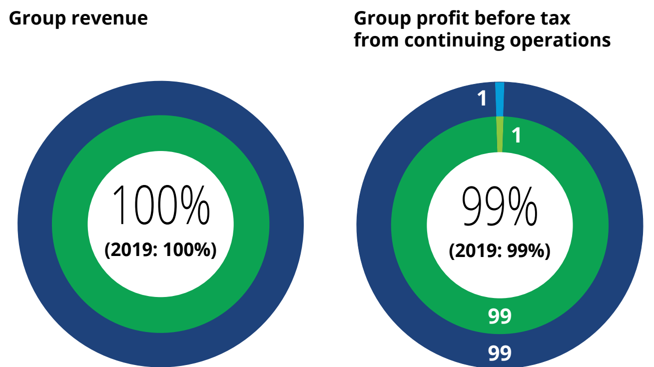
Materiality for the parent Company financial statements as a whole was set at £0.7m (2019: £1m), determined with reference to a benchmark of Company total assets, of which it represents 0.5% (2019: 1%).

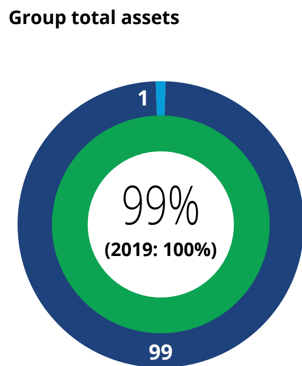
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £75,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's four (2019: four) reporting components, we subjected three (2019: three) to full scope audits for Group purposes. The components within the scope of our work accounted for the percentages illustrated opposite.

The work on the three (2019: three) components, including the audit of the parent Company, was performed by the Group team. Component materialities ranged from £0.5m – £1.3m, having regard to the mix of size and risk profile of the Group across the components.







Full scope for Group audit purposes 2020

Residual components 2020

Full scope for Group audit purposes 2019

Residual components 2019

4. We have nothing to report on going concern

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

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

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

— we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

— the related statement under the Listing Rules set out on page 30 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

— the directors' confirmation within the viability statement on page 31 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 Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and

— the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

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

Corporate governance disclosures

We are required to report to you if:

— we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

— the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

We have nothing to report in these respects.

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

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

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 79, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group’s licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and certain aspects of Company legislation recognising the financial and regulated nature of the Group’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. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter however we performed procedures to assess the completeness and accuracy of the Group’s regulatory provisions. This work included reviewing correspondence with the Financial Conduct Authority, assessing provision methodology against regulator guidelines and our market experience, re-performing the provision model calculations and performing sensitivity analysis on key assumptions.

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

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

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

Mick Davies (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter’s Square
Manchester
M2 3AE

23 August 2020

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Consolidated Income Statement

52-week period ended 27 March 2020

	Notes	Before individually significant items £000	Individually significant items £000	Total £000
Continuing operations				
Revenue		330,352	—	330,352
Credit account interest		104,542	—	104,542
Total revenue (including credit interest)		434,894	—	434,894
Cost of sales		(208,924)	—	(208,924)
Impairment losses on customer receivables		(53,930)	—	(53,930)
Gross profit		172,040	—	172,040
Trading costs	3	(150,549)	(6,807)	(157,356)
Analysis of operating profit:				
– **EBITDA***		35,037	(5,648)	29,389
– Depreciation, amortisation and impairment		(13,546)	(1,159)	(14,705)
Operating profit	3	21,491	(6,807)	14,684
Finance costs	6	(10,491)	—	(10,491)
Profit before tax and fair value movements on derivative financial instruments		11,000	(6,807)	4,193
Fair value movements on derivative financial instruments		2,608	—	2,608
Profit before tax		13,608	(6,807)	6,801
Tax (expense)/income	7	(1,052)	1,293	241
Profit from continuing operations	8	12,556	(5,514)	7,042
Discontinued operation				
Profit from discontinued operation, net of tax		2,956	(1,243)	1,713
Profit for the period		15,512	(6,757)	8,755
Earnings per ordinary share				
from continuing operations				
Basic	10			8.16p
Diluted				8.12p
from discontinued operation				
Basic	10			1.98p
Diluted				1.97p
total attributable to ordinary shareholders				
Basic	10			10.14p
Diluted				10.09p

The accompanying notes are an integral part of this consolidated income statement.

* Earnings before interest, tax, depreciation, amortisation and fair value movements on derivative financial instruments.

Consolidated Income Statement

52-week period ended 29 March 2019 (restated – refer to note 1)

	Notes	Before individually significant items £000	Individually significant items £000	Total £000
Continuing operations				
Revenue		323,534	—	323,534
Credit account interest		98,119	—	98,119
Total revenue (including credit interest)		421,653	—	421,653
Cost of sales		(202,453)	—	(202,453)
Impairment losses on customer receivables		(36,623)	—	(36,623)
Gross profit		182,577	—	182,577
Trading costs	3	(147,377)	(4,158)	(151,535)
Analysis of operating profit:				
– **EBITDA***		45,147	(4,158)	40,989
– Depreciation, amortisation and impairment		(9,947)	—	(9,947)
Operating profit	3	35,200	(4,158)	31,042
Finance costs	6	(9,618)	—	(9,618)
Profit before tax and fair value movements on derivative financial instruments		25,582	(4,158)	21,424
Fair value movements on derivative financial instruments		4,750	—	4,750
Profit before tax		30,332	(4,158)	26,174
Tax (expense)/income	7	(6,456)	741	(5,715)
Profit from continuing operations	8	23,876	(3,417)	20,459
Discontinued operation				
Profit from discontinued operation, net of tax		2,830	—	2,830
Profit for the period		26,706	(3,417)	23,289
Earnings per ordinary share				
from continuing operations				
Basic	10			23.70p
Diluted				23.70p
from discontinued operation				
Basic	10			3.28p
Diluted				3.28p
total attributable to ordinary shareholders				
Basic	10			26.98p
Diluted				26.98p

The accompanying notes are an integral part of this consolidated income statement.

* Earnings before interest, tax, depreciation, amortisation and fair value movements on derivative financial instruments.

Consolidated Statement of Comprehensive Income

52-week period ended 27 March 2020

	2020 £000	2019 £000
Profit for the period	8,755	23,289
Other Comprehensive Income		
Items that may be reclassified to profit or loss		
Cash flow hedges	28	(19)
Currency translation loss arising on consolidation	(443)	(353)
	(415)	(372)
Items that will not subsequently be reclassified to profit or loss		
Remeasurements of defined benefit pension scheme (note 25)	26,915	(2,374)
Tax relating to components of other comprehensive income (note 7)	(4,043)	643
	22,872	(1,731)
Total comprehensive income for period	31,212	21,186

The total comprehensive income for the period is attributable to the equity shareholders of the parent company Studio Retail Group plc.

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated Balance Sheet

Company Number: 549034

at 27 March 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Other intangible assets	11	9	24,952
Property, plant and equipment	12	80,007	45,511
Derivative financial instruments	19	2	6
Retirement benefit surplus	25	31,695	—
Deferred tax assets	21	—	10,556
		111,713	81,025
Current assets			
Inventories	14	42,827	48,757
Trade and other receivables	15	235,227	235,923
Derivative financial instruments	19	3,250	604
Cash and cash equivalents	16	33,163	37,603
Current tax assets	7	1,718	—
Current assets excluding assets held for sale		316,185	322,887
Assets held for sale	5	60,570	—
Total current assets		376,755	322,887
Total assets		488,468	403,912
Current liabilities			
Trade and other payables	17	(57,908)	(72,592)
Lease liabilities	13	(6,035)	(498)
Derivative financial instruments	19	(36)	—
Provisions	20	(4,335)	(3,325)
Current tax liabilities		—	(1,762)
Current liabilities excluding liabilities held for sale		(68,314)	(78,177)
Liabilities held for sale	5	(24,684)	—
Total current liabilities		(92,998)	(78,177)
Non-current liabilities			
Bank loans	18	(282,591)	(270,545)
Lease liabilities	13	(37,461)	—
Provisions	20	—	(7,753)
Retirement benefit obligation	25	—	(68)
Deferred tax liabilities	21	(37)	(3,849)
		(320,089)	(282,215)
Total liabilities		(413,087)	(360,392)
Net assets		75,381	43,520
Equity			
Share capital	23	48,644	48,644
Translation reserve		321	764
Hedging reserve		(26)	(54)
Retained earnings/(accumulated losses)		26,442	(5,834)
Total equity		75,381	43,520

Approved by the Board and authorised for issue on 22 August 2020.

P B Maudsley
Group CEO

S M Caldwell
Group CFO

The accompanying notes are an integral part of this consolidated balance sheet.

Consolidated Cash Flow Statement

52-week period ended 27 March 2020

	2020 £000	2019 £000
Profit for the period	8,755	23,289
Adjustments for:		
Income tax credit	54	6,064
Finance costs	10,998	9,656
Depreciation of property, plant and equipment	14,393	9,438
Impairment of property, plant and equipment	1,300	—
Amortisation of intangible assets	1,163	2,167
Share-based payment expense	649	926
Fair value movements on financial instruments net of premiums paid	(2,621)	(4,784)
Pension contributions less income statement charge	(4,792)	(40)
Operating cash flows before movements in working capital	29,899	46,716
(Increase)/decrease in inventories	(10,068)	5,618
Increase in receivables	(9,317)	(26,549)
Increase in payables	4,442	5,522
Increase/(decrease) in provisions	1,558	(8,951)
Cash generated from operations before interest and tax paid	16,514	22,356
Income taxes paid	(3,717)	(1,931)
Interest paid	(8,495)	(10,017)
Net cash from operating activities	4,302	10,408
Investing activities		
Purchases of property, plant and equipment, software and IT development costs and intangible assets	(14,822)	(11,545)
Net cash used in investing activities	(14,822)	(11,545)
Financing activities		
Payments of lease liabilities (2019: Repayments of obligations under finance leases)	(5,966)	(571)
Bank loans repaid	(10,000)	(5,000)
Securitisation loan drawn	22,046	18,041
Net cash from financing activities	6,080	12,470
Net (decrease)/increase in cash and cash equivalents	(4,440)	11,333
Cash and cash equivalents at the beginning of the period	37,603	26,244
Effect of foreign exchange rate changes on cash held	—	26
Cash and cash equivalents at the end of the period	33,163	37,603

The accompanying notes are an integral part of this consolidated cash flow statement.

Consolidated Statement of Changes in Equity

52-week period ended 27 March 2020

	Share capital £000	Translation reserve £000	Hedging reserve £000	(Accumulated losses)/ retained earnings £000	Total equity £000
At 30 March 2018	48,644	1,117	(35)	(28,318)	21,408
Total comprehensive income for the period	—	(353)	(19)	21,558	21,186
Transactions with owners					
Share-based payments	—	—	—	926	926
At 29 March 2019	48,644	764	(54)	(5,834)	43,520
Total comprehensive income for the period	—	(443)	28	31,627	31,212
Transactions with owners					
Share-based payments	—	—	—	649	649
At 27 March 2020	48,644	321	(26)	26,442	75,381

The total equity is attributable to the equity shareholders of the parent company Studio Retail Group plc.

The accompanying notes are an integral part of this consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements

1 General information and accounting policies

Studio Retail Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 29. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 27.

These financial statements are presented in sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the accounting policies set out below.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The parent company financial statements present information about the Company as a separate entity and not about its group.

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared on the going concern basis as set out below. The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements. In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations,* the comparative income statement has been re-presented so that the disclosures in relation to discontinued operations relate to all operations that have been discontinued by the balance sheet date (see note 5).

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Impact of accounting standards that have become effective during the current period

The accounting standards that have come into effect this year are as follows:

- *IFRS 16 Leases*
- *IFRIC 23 Uncertainty over Income Tax treatments*
- *Amendments to IFRS 9 Financial Instruments*
- *Amendments to IAS 28 Long-term interests in associates and Joint Ventures (not applicable to Studio)*
- *Annual improvements to IFRSs – 2015-2017 Cycle*
- *Amendments to IAS 19 employee benefits*

There has been no impact from the above accounting standards except for IFRS 16 which has been disclosed below.

1 General information and accounting policies – continued

IFRS 16 Leases

IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. For Studio Retail Group plc this is the first reported accounting period under IFRS 16. The Group adopted this standard using the modified retrospective approach with a date of initial application of 30 March 2019.

Under IFRS 16, lease agreements give rise to both a right of use asset and a lease liability for future lease rentals. The right of use asset is depreciated on a straight-line basis over the life of the lease. On transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 30 March 2019. The right of use assets are measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments. The interest is recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised over the life of the lease will be unaffected by the new standard, however, IFRS 16 results in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

The Group has applied the practical expedient to "grandfather" the definition of a lease on transition and applied the recognition exemption for both short-term and low-value assets. Consequently, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 30 March 2019. The Group has also applied a single discount rate to a portfolio of leases with reasonably similar characteristics. Previous assessments of whether leases are onerous in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application have been relied upon as an alternative to performing an impairment review.

The modified retrospective approach does not require a restatement of the prior period comparatives and consequently, there will be no adjustment to opening retained earnings. Additionally, the disclosure requirements of IFRS 16 have not generally been applied to comparative information. The Group recognised an opening right of use asset of £43.2m and a lease liability of £52.3m at 30 March 2019. The most significant lease liabilities relate to property.

The £9.0m difference between the opening right use asset and lease liability is due to the portion of the onerous lease provision held at 29 March 2019 relating to lease rentals of £8.3m being reclassified against the opening right of use asset. In addition, £0.7m has been reclassified from other creditors in respect of a rent free period on one of the Group's properties, which was being amortised to the income statement over the life of the lease under IAS 17 but under IFRS 16, is netted off the right of use asset.

Operating profit from continuing operations in the current period has increased by £0.1m as operating lease rental costs of £4.3m have been replaced by £4.2m of depreciation of right of use assets under IFRS 16. Finance costs have increased by £1.8m reflecting interest charged on lease liabilities under IFRS 16. The net impact on profit before tax was therefore £1.7m.

There is no impact on total cash flows, although from a presentation perspective, whilst operating lease rentals formed part of net cash from operating activities, lease payments under IFRS 16 now form part of net cash used in financing activities.

We do not expect the adoption of IFRS 16 to have a material impact on the Group's effective tax rate.

A reconciliation from the operating lease commitments as at 29 March 2019 to the opening lease liabilities as at 30 March 2020 is as follows:

	£000
Operating lease commitments disclosed as at 29 March 2019	(57,841)
Discounted using the incremental borrowing rate at the date of application	7,993
Less: low value and short-term leases not recognised as a liability	(2,931)
Lease liability recognised as at 30 March 2019	(52,779)

Full details of the impact of adopting IFRS 16 on the consolidated income statement and balance sheet are given in the tables below:

Notes to the Consolidated Financial Statements

1 General information and accounting policies – continued

Impact on the Consolidated Income Statement and Comprehensive Income
52-week period ended 27 March 2020

	Amounts prior to adoption of IFRS 16 £000	Impact of IFRS 16 adoption £000	As reported £000
Continuing operations			
Revenue	330,352	—	330,352
Credit account interest	104,542	—	104,542
Total revenue (including credit interest)	434,894	—	434,894
Cost of sales	(208,924)	—	(208,924)
Impairment losses on customer receivables	(53,930)	—	(53,930)
Gross profit	172,040	—	172,040
Trading costs	(157,426)	70	(157,356)
Analysis of operating profit:			
– **EBITDA***	25,088	4,301	29,389
– Depreciation, amortisation and impairment	(10,474)	(4,231)	(14,705)
Operating profit	14,614	70	14,684
Finance costs	(8,668)	(1,823)	(10,491)
Profit before tax and fair value movements on derivative financial instruments	5,946	(1,753)	4,193
Fair value movements on derivative financial instruments	2,608	—	2,608
Profit before tax	8,554	(1,753)	6,801
Tax income	241	—	241
Profit from continuing operations	8,795	(1,753)	7,042
Discontinued operation			
Profit from discontinued operation, net of tax	1,719	(6)	1,713
Profit for the period	10,514	(1,759)	8,755
Total comprehensive income for period	32,971	(1,759)	31,212
Earnings per ordinary share			
from continuing operations			
Basic	10.19p	(2.03)p	8.16p
Diluted	10.14p	(2.02)p	8.12p
from discontinued operation			
Basic	1.99p	(0.01)p	1.98p
Diluted	1.98p	(0.01)p	1.97p
total attributable to ordinary shareholders			
Basic	12.18p	(2.04)p	10.14p
Diluted	12.12p	(2.03)p	10.09p

* Earnings before interest, taxation, depreciation, amortisation and fair value movements on derivative financial instruments.

1 General information and accounting policies – continued

Impact on the Consolidated Balance Sheet
at 27 March 2020

	Amounts prior to adoption of IFRS 16 £000	Impact of IFRS 16 adoption £000	As reported £000
Non-current assets			
Other intangible assets	9	—	9
Property, plant and equipment	45,840	34,167	80,007
Derivative financial instruments	2	—	2
Retirement benefit surplus	31,695	—	31,695
Deferred tax assets	—	—	—
	77,546	34,167	111,713
Current assets			
Inventories	42,827	—	42,827
Trade and other receivables	235,227	—	235,227
Derivative financial instruments	3,250	—	3,250
Cash and cash equivalents	33,163	—	33,163
Current tax assets	1,718	—	1,718
Current assets excluding assets held for sale	316,185	—	316,185
Assets held for sale	55,459	5,111	60,570
Total current assets	371,644	5,111	376,755
Total assets	449,190	39,278	488,468
Current liabilities			
Trade and other payables	(57,908)	—	(57,908)
Lease liabilities	(175)	(5,860)	(6,035)
Derivative financial instruments	(36)	—	(36)
Current tax liabilities	(4,335)	—	(4,335)
Provisions	—	—	—
Current liabilities excluding liabilities held for sale	(62,454)	(5,860)	(68,314)
Liabilities held for sale	(19,704)	(4,980)	(24,684)
Total current liabilities	(82,158)	(10,840)	(92,998)
Non-current liabilities			
Bank loans	(282,591)	—	(282,591)
Lease liabilities	(419)	(37,042)	(37,461)
Provisions	(6,845)	6,845	—
Retirement benefit obligation	—	—	—
Deferred tax liabilities	(37)	—	(37)
	(289,892)	(30,197)	(320,089)
Total liabilities	(372,050)	(41,037)	(413,087)
Net assets	77,140	(1,759)	75,381
Equity			
Share capital	48,644	—	48,644
Translation reserve	321	—	321
Hedging reserve	(26)	—	(26)
Retained earnings	28,201	(1,759)	26,442
Total equity	77,140	(1,759)	75,381

Notes to the Consolidated Financial Statements

1 General information and accounting policies – continued

Impact on the Consolidated Balance Sheet
at 30 March 2019*

	Amounts prior to adoption of IFRS 16 £000	Impact of IFRS 16 adoption £000	Opening balance sheet 30.3.2019 £000
Non-current assets			
Other intangible assets	24,952	—	24,952
Property, plant and equipment	45,511	43,239	88,750
Derivative financial instruments	6	—	6
Retirement benefit surplus	—	—	—
Deferred tax assets	10,556	—	10,556
	81,025	43,239	124,264
Current assets			
Inventories	48,757	—	48,757
Trade and other receivables	235,923	—	235,923
Derivative financial instruments	604	—	604
Cash and cash equivalents	37,603	—	37,603
Current tax assets	—	—	—
Current assets excluding assets held for sale	322,887	—	322,887
Assets held for sale	—	—	—
Total current assets	322,887	—	322,887
Total assets	403,912	43,239	447,151
Current liabilities			
Trade and other payables	(72,592)	741	(71,851)
Lease liabilities	(498)	(6,771)	(7,269)
Derivative financial instruments	—	—	—
Current tax liabilities	(3,325)	—	(3,325)
Provisions	(1,762)	978	(784)
Current liabilities excluding liabilities held for sale	(78,177)	(5,052)	(83,229)
Liabilities held for sale	—	—	—
Total current liabilities	(78,177)	(5,052)	(83,229)
Non-current liabilities			
Bank loans	(270,545)	—	(270,545)
Lease liabilities	—	(45,510)	(45,510)
Provisions	(7,753)	7,323	(430)
Retirement benefit obligation	(68)	—	(68)
Deferred tax liabilities	(3,849)	—	(3,849)
	(282,215)	(38,187)	(320,402)
Total liabilities	(360,392)	(43,239)	(403,631)
Net assets	43,520	—	43,520
Equity			
Share capital	48,644	—	48,644
Translation reserve	764	—	764
Hedging reserve	(54)	—	(54)
Retained earnings	(5,834)	—	(5,834)
Total equity	43,520	—	43,520

* This balance sheet discloses the initial impact of adopting IFRS 16 as at 30 March 2019, this is not a restatement of the comparative balance sheet as at 29 March 2019.

1 General information and accounting policies – continued

Impact of accounting standards not yet effective

At the date of authorisation of these financial statements, the following Standard and Interpretations which have not been applied in these financial statements were in issue but not yet effective. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated. The Group does not intend to early adopt these standards:

- *Amendments to references to the conceptual framework in IFRS standards – EU effective date 1 January 2020*
- *Amendment to IFRS 3 business combinations – not yet endorsed*
- *Amendments to IAS 1 and IAS 8 – EU effective date 1 January 2020*
- *Amendments to IFRS 7, IFRS 9 and IAS 39 – EU effective date 1 January 2020*
- *IFRS 17 insurance contracts – Not yet endorsed*

Going concern

The directors have adopted the going concern basis in preparing these financial statements after assessing the principal risks and having considered the impact of severe but plausible downside scenarios for COVID-19. The Group is financed by a securitisation facility and a Revolving Credit Facility ("RCF") as disclosed in note 18. The directors considered the impact of the current COVID-19 environment on the business, as disclosed in the strategic report, for the next 12 months, the viability period and the longer term. Whilst there is inherent uncertainty in forecasts caused by COVID-19, the directors have considered a number of impacts on sales, profits and cash flows.

The directors have assumed that the Group's operations remain open and that we will continue to be able to serve our customers, as we have done through the lockdown period, with only temporary disruptions to operations being experienced in the downside scenarios. The downside sensitivities considered include a reduction in the level of future forecast revenue and gross margin growth and the impact of economic factors (particularly unemployment rates) on the ability of the Group's customer base to continue to shop with us and to service their credit accounts. The directors also considered the impact of these sensitivities occurring in combination. In the event that one of or a number of these downside scenario arise at the same time the directors consider they are able to take reasonable mitigating actions, which include but are not limited to, a reduction in discretionary capital expenditure and a reduction in discretionary marketing spend. Implementing these mitigating actions would enable the Group to continue to operate within its existing facilities during the forecast period.

The directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, noting that its revolving credit facility matures on 31 December 2021, and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these consolidated financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

Subsidiaries

Subsidiaries are consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of all subsidiaries are prepared to the same reporting date as the parent company.

Changes in classification of costs

During the current period management has changed presentation of Studio's trade discounts received on purchases to show them within cost of sales rather than within trading costs. Extended warranty credits have been deducted from revenue rather than shown within cost of sales. In addition, management has removed grossed up revenue and trading costs recognised in respect of free delivery services to its customers. The comparative figures have been restated to reduce revenue by £3,073,000, cost of sales by £5,909,000 and increase trading costs by £2,836,000. These adjustments have no effect on the profit for the year.

Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the CODM who is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The CODM is the Board of Studio Retail Group plc.

The Group's operations are organised into a central cost centre and two operating segments as follows:

- Studio (formerly Express Gifts); and
- Education.

The CODM assess the operating performance of each segment by reference to revenue and gross margin by revenue stream, and operating profit after distribution, marketing and administration costs, depreciation and amortisation.

Notes to the Consolidated Financial Statements

1 General information and accounting policies – continued

Income statement presentation

Individually significant items

As permitted by IAS 1 'Presentation of financial statements', an item is disclosed separately if it is considered unusual by its nature or scale and is of such significance that separate disclosure is required in the financial statements in order to fairly present the financial performance of the Group. Such items are referred to as individually significant items and are described in note 4.

Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

Findel Education
At 27 March 2020 the Group's Education business met the criteria to be accounted for as held for sale and as a discontinued operation as defined by IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations.* Results from this discontinued operation have therefore been separated out in the consolidated income statement for the 52-week period ended 27 March 2020, and its assets and liabilities have been classified as held for sale in the consolidated balance sheet at 27 March 2020. In addition, the comparative figures given in the consolidated income statement for the 52-week period ended 29 March 2019 has been restated to show the results from this discontinued operation separately, in order to enhance the comparability of the results of the Group's ongoing businesses. Further details are given in note 5.

Fair value movements on derivative financial instruments

Fair value movements in respect of foreign currency derivative financial instruments are presented separately in the Consolidated Income Statement on the basis that they represent gains or losses that may be recognised in future periods as the instruments in place unwind.

Alternative performance measures ("APM's")

The directors use several Alternative Performance Measures that are considered to provide useful information about the performance and underlying trends facing the Group. As these APMs are not defined by IFRS, they may not be comparable with APMs shown in other companies' accounts. They are not intended to be a replacement for, or be superior to, IFRS measures.

Revenue recognition

Revenue comprises the fair value of the sale of products and services to external customers, net of value added tax, rebates, discounts and returns. Revenue is recognised according to the five-step model set out in IFRS 15 as follows:

(1) Identify the contract(s) with a customer;

(2) Identify the performance obligations in the contract;

(3) Determine the transaction price;

(4) Allocate the transaction price to the performance obligations in the contract; and

(5) Recognise revenue when (or as) the entity satisfied a performance obligation.

1 General information and accounting policies – continued

Product revenue

Revenue is recognised when the Group has completed its performance obligations which are the supply and delivery of products and that these obligations are deemed to be completed when the customer obtains control of the products (i.e. on delivery). The supply and delivery of products are not deemed to be separable performance obligations as the customer is obliged to make use of the Group's delivery arrangements in most cases.

A provision for estimated returns is made based upon past experience and trends and is included within trade and other payables, representing the profit on products sold during the period which will be returned and refunded after the period end.

Financial services revenue

Financial services revenue, which includes interest charged on trade receivables in Studio Retail and non-interest related financial income is recognised on a time-proportion basis, using the effective interest method in the case of interest charged and when the relevant service has been provided to the customer in the case of non-interest related financial income.

Volume based discounts and other arrangements with suppliers

Studio Retail entered into volume-based discount agreements with suppliers in both the current and prior period. Discounts are calculated annually based upon an agreed percentage of purchases made from suppliers with which an agreement is in place. Discounts are agreed with suppliers prior to being recorded in the Consolidated Income Statement. In most cases, the discount is set off against outstanding invoices.

Studio Retail also receive contributions from suppliers in exchange for their products being listed in publications. These contributions are agreed with suppliers on a case by case basis.

The value of volume-based discounts and contributions received in the period ended 27 March 2020 was approximately £3.2m (2019 restated: £2.7m) which represents approximately 1.5% (2019 restated: 1.3%) of product cost of sales.

Foreign currency translation

Functional and presentational currency

Both the consolidated and Company's financial statements are presented in sterling, which is the Company's and most of its subsidiaries' functional and presentational currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are recorded in the income statement.

Translation differences on non-monetary items are reported as part of the fair value gain or loss and are included in either equity or the income statement as appropriate.

Overseas operations

The results and financial position of the Group's overseas operations are translated into sterling as follows:

- assets and liabilities are translated at the closing rate at the date of that balance sheet;
- income and expenses are translated at the average exchange rate for the period, being an approximation for the prevailing exchange rate at the date of those transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in overseas operations are recorded in other comprehensive income. Tax charges and credits attributable to those exchange differences are recorded in other comprehensive income.

Notes to the Consolidated Financial Statements

1 General information and accounting policies – continued

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans.

The Group has applied the requirements of IFRS 2 Share-based payments.

The Group principally issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is usually measured by use of the Stochastic Valuation (aka "Monte-Carlo") model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Where the parent company grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group or the Company as the case may be account for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding debit to equity.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and any impairment in value.

Depreciation is charged on a straight-line basis as follows:

- Freehold properties are depreciated over 50 years;
- Leasehold premises with lease terms of 50 years or less are depreciated over the remaining period of the lease;
- Plant and equipment is depreciated over 3 to 20 years according to the estimated life of the asset;
- Equipment on hire or lease is depreciated over the period of the lease; and
- Land is not depreciated.

Assets held in the course of construction are not depreciated until they are brought into use.

Software and IT development costs

Expenditure on IT software development is recognised as an internally-generated intangible asset up to the point where the main projects cease to involve external contractors, and only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives of 3 to 7 years. Where no internally-generated intangible asset can be recognised, expenditure is recognised as an expense in the period in which it is incurred.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of purchase, of consideration given in exchange for control of the acquiree. The acquiree's identifiable assets and liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date.

Acquisition costs are expensed as incurred.

Intangible assets

Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill, if those assets are separable and their fair value can be measured reliably.

The cost of intangible assets with finite useful economic lives is amortised on a straight-line basis over that period. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

1 General information and accounting policies – continued

Brand names

Legally protected or otherwise separable trade names acquired as part of a business combination are capitalised at fair value on acquisition. The fair value of brand names with finite useful economic lives is amortised on a straight-line basis over that period. Brand names that are assumed to have an indefinite life and are not amortised, but are subject to annual impairment tests.

Customer relationships

Contractual and non-contractual customer relationships acquired as part of a business combination are capitalised at fair value on acquisition and amortised on a straight-line basis over a period of between 2 and 20 years, representing the directors' best estimate of their useful economic lives.

Financial instruments

(i) Recognition and initial measurement

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

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial Assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL").

A financial asset will be measured at amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Financial assets – business model assessment – policy applicable from 31 March 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income or realising cash flows from the sale of assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows; and
- terms that may adjust the contractual coupon rate.

Notes to the Consolidated Financial Statements

1 General information and accounting policies – continued

Impairment of financial assets
Assets that are not individually significant are assessed for impairment on a collective basis in accordance with the expected credit loss ("ECL") prescribed by IFRS 9.

As the Group has determined there is a significant financing component, the ECL model requires that assets are assessed for impairment using the following staging criteria:

- Stage 1: Where there is no evidence of significant increase in credit risk since the origination of the financial asset. Stage 1 applies from the initial recognition of the financial asset unless it was credit impaired when purchased or originated;
- Stage 2: Where there is evidence of significant increase in credit risk since origination of the financial asset; and
- Stage 3: Where the financial asset becomes credit impaired.

Impairment loss allowances are measured on the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are used for Stage 1 performing assets and a lifetime ECL is used for stages 2 and 3. An asset will move from Stage 1 to Stage 2 when there is evidence of significant increase in credit risk since the asset originated and into Stage 3 when it is credit impaired. Should the credit risk improve so that the assessment of credit risk at the reporting date is considered not to be significant any longer, assets return to an earlier stage in the ECL model.

Significant increase in credit risk
A financial asset is considered to have experienced a significant increase in credit risk since initial recognition where there has been a significant increase in the remaining lifetime probability of default of the asset.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, has been placed on an arrangement to pay less than the standard required minimum payment or has had interest suspended.

In line with IFRS 9, a financial asset is considered to be in default when it is more than 90 days past due and/or when the borrower is unlikely to pay its obligations in full.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which the minimum payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment including forward looking information.

Estimation uncertainty
The key assumptions in the ECL calculations are:

Probability of Default ("PD") – an estimate of the likelihood of default over 12 months and the expected lifetime of the debt;

Exposure at Default ("EAD") – an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by the contract or otherwise and accrued interest from missed payments; and

Loss Given Default ("LGD") – an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, discounted at the original effective interest rate. The key areas of estimation are around the value that the Group will recover in respect of the defaulted debt and the timing of such recoveries.

Incorporation of forward-looking information
The Group incorporates forward-looking information into its measurement of ECLs. This is achieved by developing four potential economic scenarios and modelling ECLs for each scenario. The outputs from each scenario are combined; using the estimated likelihood of each scenario occurring to derive a probability weighted ECL.

Management judgement is required in setting assumptions around probabilities of default and the weighting of economic scenarios in particular which have a material impact on the results indicated by the ECL model.

1 General information and accounting policies – continued

Presentation
Loss allowances for financial assets are deducted from the gross carrying amount of the asset. Impairment losses related to Studio Retail's trade receivables are separately disclosed in the consolidated income statement.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Where financial liabilities are extinguished by equity instruments issued the difference between the carrying value of the debt extinguished and the fair value of the equity instrument issued is recorded in the income statement.

Financial liabilities
The Group's financial liabilities are classified as either "fair value through profit and loss" or "other financial liabilities".

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Finance costs
Finance costs principally include interest payable on bank loans and interest on lease liabilities (prior to 30 March 2019 finance charges on finance leases under IAS 17). Finance costs are recognised in profit or loss as they accrue using the effective interest method.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(iii) Derecognition
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Derivative financial instruments
The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Notes to the Consolidated Financial Statements

1 General information and accounting policies – continued

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 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.

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, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate caps and swaps and foreign currency options. Further details of derivative financial instruments are disclosed in note 19 to the financial statements.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Inventories
Inventories are stated at the lower of cost and net realisable value.

Cost is calculated on a weighted average cost basis, and where applicable includes those costs that have been incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Taxation
The tax currently payable or receivable is based on taxable profit or loss for the period. 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 taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. No deferred tax liability is recognised in respect of the initial recognition of goodwill. Deferred taxation is calculated using tax rates that are expected to apply when the related deferred taxation asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

1 General information and accounting policies – continued

Leases (policy applicable from 30 March 2019)

At inception of a contract, the Group assesses whether or not a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When a lease is recognised in a contract the Group recognises a right of use asset and a lease liability at the lease commencement date.

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease prepayments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of 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 periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of fixed lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The weighted average incremental borrowing rate used to measure the lease liability at initial application was 4.9%. Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. Lease interest is presented as Payments of lease liabilities (2019: Repayments of obligations under finance leases) within the consolidated cash flow statement.

The Group presents right of use assets in property, plant and equipment and leased liabilities in lease liabilities in the balance sheet.

The Group has applied the recognition exemption of low value leases. For these leases, the lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Finance leases (policy applicable prior to 30 March 2019)

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the anticipated useful life of the asset and its lease term.

Operating leases (policy applicable prior to 30 March 2019)

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Incentives from lessors are recognised as a systematic reduction of the charge over the lease term.

Retirement benefit costs

The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independently administered fund. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The cost of providing these benefits, recognised in the income statement, comprises the amount of contributions payable to the schemes in respect of the year.

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit method, with actuarial valuations being carried out at each balance sheet date.

Notes to the Consolidated Financial Statements

2 Critical accounting judgements and key sources of estimation uncertainty

In the course of preparing the consolidated financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Studio's trade receivables (note 15)

Studio's trade receivables are recognised on the balance sheet at amortised cost (i.e. net of provision for expected credit loss). At 27 March 2020 trade receivables with a gross value of £317.8m (2019: £295.5m) were recorded on the balance sheet, less a provision for impairment of £101.8m (2019: £87.9m).

An appropriate allowance for expected credit loss in respect of trade receivables is derived from estimates and underlying assumptions such as the Probability of Default and the Loss Given Default, taking into consideration forward looking macro-economic assumptions. Changes in the assumptions applied such as the value and frequency of future debt sales in calculating the Loss Given Default, and the estimation of customer repayments and Probability of Default rates, as well as the weighting of the macro-economic scenarios applied to the impairment model could have a significant impact on the carrying value of trade receivables.

The impairment model was not designed to take into account changes to customer payment and default performance arising as a result of the Covid-19 pandemic. The deterioration in the economic outlook caused by Covid-19, particularly in relation to unemployment, has led management to increase the level of provision for expected credit loss by approximately £20m, based on information available at the end of March 2020. Whilst we have not yet seen a significant increase in the level of customer arrears resulting from the pandemic, nor have we seen a material reduction in customer payment rates, we expect that the Coronavirus Job Retention Scheme and other support from government have delayed any deterioration in performance. We anticipate that arrears will increase when these schemes are phased out in the coming months. We note that the unprecedented level of uncertainty around the impact of Covid-19 on the UK economy as a whole, and subsequently on our customer base, continues to cause challenges in assessing bad debt on a forward-looking basis.

These assumptions are continually assessed for relevance and adjusted appropriately. Revisions to estimates are recognised prospectively. Sensitivity analysis is given in note 15.

The macro-economic drivers that impact the bad debt charge are as follows:

- Annual changes in unemployment rate;
- Actual unemployment rate; and
- Changes in average weekly earnings.

The latest economic scenarios are heavily influenced by the impact of COVID19 on the UK economy, in particular the impact on unemployment.

We consider four economic scenarios, and apply a weighting based on probability. These are:

- Upside
  Assumes the UK economy will make a rapid recovery following COVID19 lockdown restrictions and will therefore have the least detrimental impact on unemployment.
- Baseline
  A short, sharp shock is expected to the economy with ongoing consumer caution and a 'V' shaped recovery to GDP. Assumes a consensus view on unemployment.
- Downside
  A prolonged downturn in the economy, as ongoing consumer caution means that they do not return to pre-lockdown levels of activity for an extended period. Very high unemployment levels.
- Stress
  Prolonged, deep downturn, with continued COVID19 outbreaks. Large numbers of corporate failures cause unemployment not seen since the 1930's.

The table below summarises the peak employment levels assumed within each scenario, with the weightings we have applied to each.

	2020		2019	
Scenario	Unemployment Peak	Weighting Applied	Unemployment Peak	Weighting Applied
Upside	*c.*8%	25%	*c.*4%	5%
Baseline	*c.*10%	60%	*c.*4.4%	30%
Downside	*c.*14%	10%	*c.*6.6%	50%
Stress	*c.*20%	5%	*c.*9.5%	15%

2 Critical accounting judgements and key sources of estimation uncertainty – continued

Discount rate for pension scheme liabilities (note 25)

At 27 March 2020 the Group's defined benefit pension scheme showed a surplus of £31.7m (2019: deficit of £0.1m). Management makes use of the PwC Single Agency corporate bond yield curve to derive the discount rate applied to the scheme's projected cash flows, in the calculation of its liabilities under IAS 19. Changes to the discount rate applied could lead to significant changes in the level of liabilities recognised. Sensitivity analysis in this regard can be found in note 25.

The carrying amounts of the assets and liabilities detailed above are sensitive to the underlying assumptions used by management in their calculation. It is reasonably possible that the outcomes within the next financial year could differ from the assumptions made, which would impact upon the carrying values assumed.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any of the future periods affected.

Other key accounting estimates which, although important estimates, are not considered to be a significant risk of resulting in a material adjustment within the next financial year are as follows:

Inventory provisioning (note 14)

The Group carries significant amounts of inventory against which there are provisions for slow moving and delisted products. At 27 March 2020 a provision of £1.3m (2019: £2.5m) was held against a gross inventory value of £44.1m (2019: £51.2m).

Provisions are made against inventory based upon its location, the planned method of sale and the level of holding compared to forecast sales levels. The provisioning calculations require a high degree of judgement in assessing which lines require provisioning against and the use of estimates around historical recovery rates for slow moving and delisted products.

If a further 10% of lines were assessed as being slow moving, then the provision required would increase by approximately £150,000. If the recovery rate assumed decreased by 10% then the provision would increase by approximately £450,000. These sensitivities reflect management's assessment of reasonably possible changes to key assumptions which could result in adjustments to the level of provision within the next financial year.

Provisions for Financial Services redress (note 20)

At 27 March 2020 an amount of £4.1m (2019: £2.2m) remains provided in the balance sheet in respect of redress and refunds for flawed financial services products. Studio saw a large increase in the level of PPI claims and enquiries in the days leading up to the FCA's deadline for claims of 29 August. This included a large block of previously unseen claims from the Official Receiver acting on behalf of bankrupt customers.

An increase in provision of £7.9m was recorded as at September 2019, which was based on management's assessment of estimated uphold rates from the population of claims received and average claim values expected to be paid in respect of claims upheld. All claims, other than those due to the Official Receiver have now been processed and refunded. The uphold rates were lower than we anticipated in September, resulting in a £2.3m release of provision (net, £5.6m increase in the year). A method of calculation has been agreed with the Official Receiver for those claims, and they are expected to be processed by the end of September 2020.

The Product Protection/Parcel Insurance refund programme is now complete, and decommissioning work at our outsourcer, Capita, was completed in June 2020. We continue to receive very low volumes of response to the mailings which were completed in 2018, and these will now be handled internally.

The Notice of Sums in Arrears (NOSIA) refund programme has begun, with contact mailings expected to be issued in the early part of FY21. This programme addresses a technical breach of the Consumer Credit Act (CCA), whereby a number of customers did not receive a NOSIA following two consecutive missed payments. This breach rendered the credit agreement unenforceable, and therefore interest and fees from this point must be refunded. An incremental £1.3m was provided in this regard in FY20.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any of the future periods affected.

Carrying value of right of use assets (note 13)

The Group has rights of use assets of £31.3m as at 27 March 2020 which is primarily made up of property leases. These assets are held at cost less accumulated depreciation and are tested annually for impairment. Tests for impairment are primarily based on the calculation of a value in use for each cash generating unit. This involves the preparation of discounted cash flow projections, which require an estimate of both future operating cash flows and an appropriate discount rate.

Judgements

Judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

Held for sale classification (note 5)

At 27 September 2019 the Group's Education business, met the criteria to be accounted for as held for sale and as a discontinued operation as defined by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The disposal is now subject to CMA phase 2 clearance and is likely to be completed more than twelve months after initial classification as at 27 September 2019. Therefore, as at 27 March 2020, judgement was required over whether the disposal continued to meet the criteria to be recognised as held for sale and as a discontinued operation. The Group remains committed to the disposal of Findel Education and the events that have delayed the disposal were outside of the Group's control. Whilst the disposal is delayed, it is expected to be completed within twelve months of the year end date of 27 March 2020.

3 Segmental analysis

Operating segments

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the CODM who is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The CODM is the Board of Studio Retail Group plc.

The Group's continuing operations are organised into a central cost centre and Studio.

The CODM assess the operating performance of each segment by reference to revenue and gross margin by revenue stream, EBITDA and operating profit after distribution, marketing and administration costs, depreciation and amortisation. Information about these operating segments is presented below.

52 weeks ended 27 March 2020

	Continuing operations			Discontinued operations	
	Studio £000	Central £000	Total £000	Education £000	Group Total £000
Product revenue	311,697	—	311,697	79,940	391,637
Other financial services revenue	18,617	—	18,617	—	18,617
Credit account interest	104,542	—	104,542	—	104,542
Financial services revenue	123,159	—	123,159	—	123,159
Sourcing revenue	38	—	38	—	38
Reportable segment revenue	434,894	—	434,894	79,940	514,834
Product cost of sales	(208,924)	—	(208,924)	(51,573)	(260,497)
Financial services cost of sales	(53,930)	—	(53,930)	—	(53,930)
Sourcing costs of sales	—	—	—	—	—
Total cost of sales	(262,854)	—	(262,854)	(51,573)	(314,427)
Gross profit	172,040	—	172,040	28,367	200,407
Marketing costs	(31,661)	—	(31,661)	(3,161)	(34,822)
Distribution costs	(37,372)	—	(37,372)	(5,121)	(42,493)
Administrative costs	(70,508)	2,538	(67,970)	(14,025)	(81,995)
EBITDA* before individually significant items	32,499	2,538	35,037	6,060	41,097
Depreciation and amortisation	(9,773)	(3,773)	(13,546)	(2,010)	(15,556)
Operating profit before individually significant items	22,726	(1,235)	21,491	4,050	25,541
Individually significant items	(5,648)	(1,159)	(6,807)	(1,535)	(8,342)
Operating profit	17,078	(2,394)	14,684	2,515	17,199
Finance costs			(10,491)	(507)	(10,998)
Profit before tax and fair value movements on derivative financial instruments			4,193	2,008	6,201
Fair value movements on derivative financial instruments			2,608	—	2,608
Profit before tax			6,801	2,008	8,809

* Earnings before interest, tax, depreciation, amortisation, fair value movements on derivative financial instruments and individually significant items.

3 Segmental analysis – continued

52 weeks ended 29 March 2019 (restated)

	Studio £000	Continuing operations Central £000	Total £000	Discontinued operations Education £000	Group Total £000
Product revenue	304,176	—	304,176	82,081	386,257
Other financial services revenue	19,332	—	19,332	—	19,332
Credit account interest	98,119	—	98,119	—	98,119
Financial services revenue	117,451	—	117,451	—	117,451
Sourcing revenue	26	—	26	—	26
Reportable segment revenue	421,653	—	421,653	82,081	503,734
Product cost of sales	(202,435)	—	(202,435)	(53,015)	(255,450)
Financial services cost of sales	(36,623)	—	(36,623)	—	(36,623)
Sourcing costs of sales	(18)	—	(18)	—	(18)
Total cost of sales	(239,076)	—	(239,076)	(53,015)	(292,091)
Gross profit	182,577	—	182,577	29,066	211,643
Marketing costs	(31,693)	—	(31,693)	(2,803)	(34,496)
Distribution costs	(36,423)	—	(36,423)	(8,836)	(45,259)
Administrative costs	(66,533)	(2,781)	(69,314)	(12,552)	(81,866)
EBITDA* before individually significant items	47,928	(2,781)	45,147	4,875	50,022
Depreciation and amortisation	(8,480)	(1,467)	(9,947)	(1,658)	(11,605)
Operating profit before individually significant items	39,448	(4,248)	35,200	3,217	38,417
Individually significant items	(2,918)	(1,240)	(4,158)	—	(4,158)
Operating profit	36,530	(5,488)	31,042	3,217	33,259
Finance costs			(9,618)	(38)	(9,656)
Profit before tax and fair value movements on derivative financial instruments			21,424	3,179	24,603
Fair value movements on derivative financial instruments			4,750	—	4,750
Profit before tax			26,174	3,179	29,353

* Earnings before interest, tax, depreciation, amortisation and fair value movements on derivative financial instruments.

2020

Other information

	Studio £000	Continuing operations Central £000	Total £000	Discontinued operations Education £000	Group Total £000
Additions to property plant and equipment and software and IT development costs	13,688	1	13,689	1,133	14,822
Balance Sheet					
Assets					
Segment assets	373,887	—	373,887	60,570	434,457
Central adjustments	—	54,011	54,011	—	54,011
Consolidated total assets	373,887	54,011	427,898	60,570	488,468
Liabilities					
Segment liabilities	(262,837)	—	(262,837)	(24,684)	(287,521)
Central adjustments	—	(125,566)	(125,566)	—	(125,566)
Consolidated total liabilities	(262,837)	(125,566)	(388,403)	(24,684)	(413,087)

3 Segmental analysis – continued

2019

Other information

	Studio £000	Continuing operations Central £000	Total £000	Discontinued operations Education £000	Group Total £000
Additions to property plant and equipment and software and IT development costs	10,585	2	10,587	958	11,545
Balance Sheet					
Assets					
Segment assets	368,696	—	368,696	66,976	435,672
Central adjustments	—	(31,760)	(31,760)	—	(31,760)
Consolidated total assets	368,696	(31,760)	336,936	66,976	403,912
Liabilities					
Segment liabilities	(250,014)	—	(250,014)	(56,048)	(306,062)
Central adjustments	—	(54,330)	(54,330)	—	(54,330)
Consolidated total liabilities	(250,014)	(54,330)	(304,344)	(56,048)	(360,392)

The segment assets and liabilities above include intercompany balances which eliminate on consolidation but appear in the information presented to the CODM. Central adjustments primarily relate to the elimination of intercompany balances on consolidation, intangible assets arising on consolidation, defined benefit pension surplus as well as current tax balances and deferred tax. These are shown against the central cost centre in the information presented to the CODM.

Geographical segments

The Group's operations are located in the United Kingdom and Asia.

The following table provides an analysis of the Group's revenue (including credit account interest) by geographical market, irrespective of the origin of the goods/services.

	2020			2019		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
United Kingdom	434,856	71,870	506,726	421,596	74,713	496,309
Europe	—	2,184	2,184	30	1,812	1,842
Asia	38	4,806	4,844	27	4,209	4,236
Other	—	1,080	1,080	—	1,347	1,347
	434,894	79,940	514,834	421,653	82,081	503,734

The following is an analysis of the carrying amount of non-current assets analysed by geographical area in which the assets are located.

	2020 £000	2019 £000
United Kingdom	111,366	80,656
Asia	347	369
	111,713	81,025

Major customers

The Group has no transactions with any single customer that amounts to more than 10% of the Group's total revenue in either the period ended 27 March 2020, or the period ended 29 March 2019.

4 Individually significant items

An analysis of individually significant items arising during the current and prior periods is as follows:

Continuing operations

	2020 £000	2019 £000
Impairment of right of use asset	(1,159)	—
Studio financial services redress and refund costs	(5,648)	(2,918)
Reduction in onerous lease provisions	—	1,220
GMP equalisation adjustment	—	(2,460)
	(6,807)	(4,158)
Tax credit in respect of individually significant items	1,293	741
Total	(5,514)	(3,417)

Discontinued operation

	2020 £000	2019 £000
Disposal costs	(1,535)	—
	(1,535)	—
Tax credit in respect of individually significant items	292	—
Total	(1,243)	—

AA charge of £1,159,000 has been recorded in respect of the impairment of the right of use asset for the group's property at Hyde following a re-assessment of the assumptions made subsequent to transition to IFRS 16 as a result of Education being classified as held for sale from September 2019 onwards. The right of use asset in respect of the Hyde property was assessed for impairment individually rather than part of a cash generating unit.

A charge of £5,648,000 has been recorded in the current period (2019: £2,918,000) in respect of an increase in provisions for redress and refunds for flawed financial services products. For further details, please refer to the Estimates section in note 2.

Disposal costs of £1,535,000 were incurred during current period in relation to the sale of Education. These costs have been disclosed within the result from discontinued operation in accordance with IFRS 5.

During the prior period, an agreement was reached to sublease the vacant property at Enfield. Since the level of sublet income was higher than anticipated, and the reduced risk around the sublease inflows has led to a reduced 4% discount rate being applied, a reduction in provision of £1.2m was indicated. Consequently, a credit was recorded in the Consolidated Income Statement in this regard.

In October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension ("GMP") benefits. The issues determined by the judgement arose in relation to many other defined benefit pension schemes, including the Findel Group Pension Fund. After discussion with the trustees, actuaries and legal advisors of our fund, a past service cost of £2,460,000 was recognised in the prior period to address this historical issue.

Notes to the Consolidated Financial Statements

5 Discontinued operation

On 15 December 2019 the Group entered into an agreement for the sale of Findel Education Limited and its subsidiaries to the Council of the City of Wakefield acting in its capacity as the lead authority of the joint committee known as Yorkshire Purchasing Organisation ("YPO") for a gross consideration of £50m on a debt free, cash free basis. The transaction is subject to clearance from the Competition and Markets Authority. Management consider that the disposal transaction will reduce the Group's indebtedness and allow a greater level of investment and focus on growing the core Studio business.

Education's results for the 52-week period to 27 March 2020 and the 52-week period to 29 March 2019 have been presented to show the discontinued operation separately from continuing operations and are summarised below:

	52 weeks ended 27.3.20 £000	52 weeks ended 29.3.19 £000
Revenue	79,940	82,081
Expenses	(77,932)	(78,902)
Profit before tax	2,008	3,179
Tax charge	(295)	(349)
Profit for the period	1,713	2,830

No gain or loss on remeasurement has been recorded on the assets and liabilities of Education. The major classes of assets and liabilities as at 27 March 2020 were as follows:

	27.3.20 £000
Assets	
Intangible assets	24,310
Tangible assets	7,365
Deferred tax assets	2,884
Inventories	15,998
Trade and other receivables	10,013
	60,570
Liabilities	
Trade and other payables	(19,035)
Lease liabilities	(5,649)
	(24,684)
Net assets of disposal group	35,886

The net cash flow used in Education during the period was as follows:

	52 weeks ended 27.3.20 £000
Operating cash flows	(492)
Investing cash flows	(1,131)
Financing cash flows	730
Net cash flow	(893)

6 Finance costs

	2020 £000	2019 £000
Interest on bank loans	(8,677)	(9,623)
Net interest income on defined benefit pension obligations (note 25)	56	61
Fair value movements on interest rate caps	(45)	(56)
Interest expenses on leases	(1,825)	—
	(10,491)	(9,618)

7 Current taxation

(a) Tax (credited)/charged in the income statement

	2020 £000	2019 (restated) £000
Current tax expense:		
Current period (UK tax)	1,104	3,879
Current period (overseas tax)	166	123
Adjustments in respect of prior periods (UK tax)[1]	(986)	185
	284	4,187
Deferred tax expense:		
Origination and reversal of temporary differences	(96)	1,382
Adjustments in respect of prior periods[1]	998	146
Impact of change in rate of corporation tax	(1,427)	—
	(525)	1,528
Tax (credit)/expense from continuing operations	(241)	5,715

1. The prior period adjustment in FY20 relates to the tax treatment of a post balance sheet event recorded in the statutory accounts of Studio Retail Limited, which resulted in the Group's current tax liability for 2018/19 being lower than the level assumed in the FY19 accounts. This led to a reduction in the level of brought short-term timing differences, which resulted in a corresponding adjustment to deferred tax.

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. As at 27 March 2020 the Group held current tax assets of £1,718,000 (2019: current tax liabilities £1,762,000).

(b) Tax recognised directly in other comprehensive income

	2020 £000	2019 £000
Deferred tax:		
Tax on defined benefit pension plans	4,043	(643)

(c) Reconciliation of the total tax (income)/charge

The tax expense in the income statement for the period differs from the standard rate of corporation tax in the UK of 19% (2019: 19%).

The differences are reconciled below:

	2020 £000	2019 (restated) £000
Profit before tax	6,801	26,174
Tax calculated at standard corporation tax rate of 19% (2019: 19%)	1,292	4,973
Effects of:		
Expenses not deductible for tax purposes	21	347
Higher tax rates on overseas earnings	144	178
Deferred tax asset not previously recognised	(283)	(114)
Impact of change in rate of corporation tax on deferred tax balances	(1,427)	—
Adjustments in respect of prior periods	12	331
Total tax (credit)/expense for the period	(241)	5,715

8 Profit for the period

	2020			2019		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
Stated after (charging)/crediting:						
Cost of inventories recognised as expense	(206,608)	(48,864)	(255,472)	(198,635)	(51,343)	(249,978)
Impairment charge for inventories (note 14)	(1,169)	(83)	(1,252)	(985)	(295)	(1,280)
Fair value movements on derivate financial instruments:						
– forward foreign currency contracts	2,608	—	2,608	4,750	—	4,750
– Interest rate caps	(45)	—	(45)	(56)	—	(56)
Depreciation of property, plant and equipment						
– owned	(9,069)	(373)	(9,442)	(7,788)	(1,502)	(9,290)
– held under finance lease	—	—	—	—	(148)	(148)
– right of use assets	(4,473)	(478)	(4,951)	—	—	—
Expenses relating to short or low value asset leases (2019: Operating lease rentals)	(6,043)	(337)	(6,380)	(10,856)	(1,010)	(11,866)
Impairment of property, plant and equipment	(1,300)	—	(1,300)	—	—	—
Amortisation of intangible assets	(4)	(1,159)	(1,163)	(2,159)	(8)	(2,167)
Impairment charge for receivables (note 15)	(53,929)	—	(53,929)	(36,623)	(55)	(36,678)
Staff costs (note 9)	(53,350)	(13,631)	(66,981)	(47,501)	(13,463)	(60,964)

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2020 £000	2019 £000
Audit of these financial statements	155	115
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	347	260
Total audit fees	502	375
Half year review	45	43
Services relating to corporate finance transactions	210	—
Total audit and non-audit fees	757	418

9 Staff costs and directors' emoluments

(a) Staff costs

The average monthly number of employees (including executive directors) was as follows:

	2020			2019		
	Continuing operations No.	Discontinued operations No.	Total No.	Continuing operations No.	Discontinued operations No.	Total No.
Administration	996	199	1,195	844	197	1,041
Selling and distribution	614	94	708	586	102	688
	1,610	293	1,903	1,430	299	1,729

	2020			2019		
	Continuing operations £000	Discontinued operations £000	Total £000	Continuing operations £000	Discontinued operations £000	Total £000
Wages and salaries	46,992	12,244	59,236	42,128	12,071	54,199
Social security costs	4,164	992	5,156	3,483	977	4,460
Other pension costs	1,627	313	1,940	1,066	313	1,379
Share-based payments expense	567	82	649	824	102	926
	53,350	13,631	66,981	47,501	13,463	60,964

9 Staff costs and directors' emoluments – continued

(b) Directors' emoluments

Directors' emoluments, which are included in the above and are detailed further in the Directors' Remuneration Report on pages 39 to 65, are as follows:

	2020 £000	2019 £000
Short-term employee benefits	1,223	1,730
Company pension contributions	131	123
Long-term incentives	519	—
Termination payments	—	7
	1,873	1,860

One (2019: One) of the directors is accruing pension benefits under the Group's defined contribution pension scheme. No directors (2019: none) are accruing benefits under the Group's defined benefit pension scheme.

In the current period 376,200 (2019: 244,526) £nil cost options over ordinary shares were granted to directors in respect of the Performance Share Plan.

10 Earnings per share

Earnings per share figures for the 52-week period ended 29 March 2019 have been restated to reflect the presentation of the results of Education as a discontinued operation as defined by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Weighted average number of shares

	2020 No. of shares	2019 No. of shares
Ordinary shares in issue (note 23)	86,442,534	86,442,534
Effect of own shares held	(114,808)	(114,808)
Weighted average number of shares – basic	86,327,726	86,327,726
Impact of potentially dilutive share options	412,383	—
Weighted average number of shares – diluted	86,740,109	86,327,726

From continuing operations

Earnings attributable to ordinary shareholders

	2020 £000	2019 £000
Net profit attributable to equity holders for the purposes of basic earnings per share	7,042	20,459
Individually significant items (net of tax)	5,514	3,417
Fair value movements on derivative financial instruments (net of tax)	(2,112)	(3,847)
Net profit attributable to equity holders for the purposes of adjusted earnings per share	10,444	20,029

Earnings per share		
Earnings per share – basic	8.16p	23.70p
Earnings per share – adjusted* basic	12.10p	23.20p
Earnings per share – diluted	8.12p	23.70p
Earnings per share – adjusted* diluted	12.04p	23.20p

* Adjusted to remove the impact of individually significant items and fair value movements on derivative financial instruments.

Notes to the Consolidated Financial Statements

10 Earnings per share – continued

From discontinued operation
Earnings attributable to ordinary shareholders

	2020 £000	2019 £000
Net profit attributable to equity holders for the purposes of basic earnings per share	1,713	2,830
Individually significant items (net of tax)	1,243	—
Fair value movements on derivative financial instruments (net of tax)	—	—
Net profit attributable to equity holders for the purposes of adjusted earnings per share	2,956	2,830
Earnings per share		
Earnings per share – basic	1.98p	3.28p
Earnings per share – adjusted* basic	3.42p	3.28p
Earnings per share – diluted	1.97p	3.28p
Earnings per share – adjusted* diluted	3.41p	3.28p

* Adjusted to remove the impact of individually significant items and fair value movements on derivative financial instruments.

Total attributable to ordinary shareholders
Earnings attributable to ordinary shareholders

	2020 £000	2019 £000
Net profit attributable to equity holders for the purposes of basic earnings per share	8,755	23,289
Individually significant items (net of tax)	6,757	3,417
Fair value movements on derivative financial instruments (net of tax)	(2,112)	(3,847)
Net profit attributable to equity holders for the purposes of adjusted earnings per share	13,400	22,859
Earnings per share		
Earnings per share – basic	10.14p	26.98p
Earnings per share – adjusted* basic	15.52p	26.48p
Earnings per share – diluted	10.09p	26.98p
Earnings per share – adjusted* diluted	15.45p	26.48p

* Adjusted to remove the impact of individually significant items and fair value movements on derivative financial instruments.

The earnings per share attributable to convertible ordinary shareholders is £nil. The convertible shares have not converted at 27 March 2020 or subsequently and are therefore not dilute from an earnings per share perspective.

11 Intangible assets

(a) Other intangible assets

	Software and IT development costs £000	Brand names £000	Customer relationships £000	Total £000
Cost				
At 30 March 2018	18,574	21,704	20,940	61,218
Additions	684	—	—	684
Transfer from tangible assets	1,260	—	—	1,260
At 29 March 2019	20,518	21,704	20,940	63,162
Additions	349	181	—	530
Disposal	(925)	—	—	(925)
Transfer to assets held for sale	(19,905)	(21,885)	(20,940)	(62,730)
At 27 March 2020	37	—	—	37
Accumulated amortisation and impairment				
At 30 March 2018	15,911	4,022	16,110	36,043
Amortisation for the period	1,039	108	1,020	2,167
At 29 March 2019	16,950	4,130	17,130	38,210
Amortisation for the period	594	59	510	1,163
Disposal	(925)	—	—	(925)
Transfer to assets held for sale	(16,591)	(4,189)	(17,640)	(38,420)
At 27 March 2020	28	—	—	28

11 Intangible assets – continued

Carrying amount				
Net book value at 27 March 2020	9	—	—	9
Net book value at 29 March 2019	3,568	17,574	3,810	24,952

Brand names, which arise from the acquisition of businesses, and are deemed to have an indefinite life, are subject to annual impairment tests, on the basis that they are expected to be maintained indefinitely and are expected to continue to drive value for the Group. The Spa 4 Schools brand is being amortised over a useful economic life of 5 years.

The amortisation period for customer relationships, which arose from the acquisition of businesses, is between 2 and 20 years. Management do not consider that any customer relationships are individually material.

Brand names acquired in a business combination are allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of brand names has been allocated as follows:

	2020 £000	2019 £000
Education	—	17,574
	—	17,574

During the current period Education's assets and liabilities including indefinite lived brands with carrying value of £17.3m have been transferred to assets and liabilities held for sale. See note 5.

(b) Impairment testing
The Group tests indefinite-lived brand names for impairment annually, or more frequently if there are indicators of impairment.

The recoverable amount of the Education CGU was determined from the fair value less cost to sell (FVLCS) calculation. FVLCS has been based on the agreed sale price less disposal costs incurred. The estimated recoverable amount exceeds its carrying value by £11.7m and as such no impairment of intangible assets, customer relationships or relevant tangible assets was necessary.

12 Property, plant and equipment

	Land and buildings		Plant and equipment	Assets under construction	Total
	Freehold £000	Leasehold £000	£000	£000	£000
Cost					
At 30 March 2018	17,219	3,158	95,502	—	115,879
Additions	—	—	10,861	—	10,861
Exchange differences	1	8	13	—	22
Transfer to intangible assets	—	—	(1,260)	—	(1,260)
At 29 March 2019	17,220	3,166	105,116	—	125,502
Adoption of IFRS 16	—	41,628	1,611	—	43,239
At 30 March 2019	17,220	44,794	106,727	—	168,741
Additions	—	—	8,000	6,292	14,292
Exchange differences	—	8	19	—	27
Transfer to assets held for sale	436	(8,057)	(29,454)	(451)	(37,526)
At 27 March 2020	17,656	36,745	85,292	5,841	145,534
Accumulated depreciation and impairment					
At 30 March 2018	8,235	2,704	59,590	—	70,529
Provision for the period	329	53	9,056	—	9,438
Exchange differences	—	1	23	—	24
At 29 March 2019	8,564	2,758	68,669	—	79,991
Provision for the period	328	4,343	9,722	—	14,393
Exchange differences	—	—	4	—	4
Impairment	4	1,276	20	—	1,300
Transfer to assets held for sale	36	(2,944)	(27,253)	—	(30,161)
At 27 March 2020	8,932	5,433	51,162	—	65,527
Carrying amount					
Net book value at 27 March 2020	8,724	31,312	34,130	5,841	80,007
Net book value at 29 March 2019	8,656	408	36,447	—	45,511

Details of the right of use assets are set out in note 13.

Notes to the Consolidated Financial Statements

13 Leases

The Group lease assets including buildings and plant and equipment that are held within property, plant and equipment. The Group also has certain leases of plant and equipment with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Information about leases for which the Group is a lessee is presented below.

	2020 £000	2019 £000
Net book value of property, plant and equipment owned	45,397	43,761
Net book value of right of use assets/assets held under finance leases	34,610	1,750
	80,007	45,511

Net book value right of use assets

	Land and buildings – Leasehold £'000	Plant and equipment £'000	Total £'000
At 29 March 2019	—	—	—
Transfer from assets held under finance leases	—	1,750	1,750
IFRS 16 transition	41,628	1,611	43,239
At 30 March 2019	41,628	3,361	44,989
Additions	—	842	842
Impairment	(1,159)	—	(1,159)
Depreciation	(4,322)	(629)	(4,951)
Transfer to discontinued operation	(4,876)	(235)	(5,111)
At 27 March 2020	31,271	3,339	34,610

Lease liabilities in the balance sheet
A maturity analysis of contractual undiscounted cash flows relating to lease liabilities is as follows:

	At 27 March 2020 £000	At 30 March 2019 £000
Within one year	6,926	6,890
In the second to fifth years	23,341	25,639
After five years	33,170	37,798
	63,437	70,327

	At 27 March 2020 £000	At 30 March 2019 £000
Current	(6,035)	(7,269)
Non-current	(37,461)	(45,510)
	(43,496)	(52,779)

14 Inventories

	2020 £000	2019 £000
Inventories at cost	44,120	51,233
Provision for impairment	(1,293)	(2,476)
	42,827	48,757

	2020 £000	2019 £000
Movement in the provision for impairment:		
Balance at beginning of period	2,476	1,891
Provision made in the period	1,169	1,280
Provision utilised in the period	(1,747)	(695)
Amount reclassified to assets held for sale	(605)	—
Balance at end of period	1,293	2,476

Inventories recognised as cost of sales from continuing operations in the year amounted to £206,608,000 (2019 restated: £198,635,000).

The methodology for calculating the provision for impairment is detailed in note 2.

15 Trade and other receivables

	2020 £000	2019 £000
Gross trade receivables	317,891	304,279
Allowance for expected credit loss	(101,782)	(88,030)
Trade receivables	216,109	216,249
Other debtors	4,623	5,347
Prepayments	14,495	14,327
	235,227	235,923

Trade receivables are measured at amortised cost. The directors consider that the Group's maximum exposure to credit risk is the carrying value of the trade and other receivables and that their carrying amount approximates their fair value.

Certain of the Group's trade receivables are funded through a securitisation facility with HSBC Bank plc and is secured against those receivables. The finance provider will seek repayment of the finance, as to both principal and interest, only to the extent that collections from the trade receivables financed allows and the benefit of additional collections remains with the Group. At the period end, receivables of £263,455,000 (2019: £239,620,000) were funded through the securitisation facility, and the facilities utilised were £197,591,000 (2019: £175,545,000).

Studio

The average credit period taken on sales of goods is 222 days (2019 restated: 213 days). On average, interest is charged at 3.5% (2019: 3.4%) per month on the outstanding balance.

Before accepting any new customer, Studio uses an external credit scoring system to assess the potential customer's credit quality and affordability of the credit and defines credit limits by customer. Limits and scoring attributed to customers are continually reviewed. There are no customers who represent more than 1% of the total balance of the Group's trade receivables.

The Group uses a number of forbearance measures to assist those customers approaching, or at the point of experiencing, financial difficulties. Such measures include arrangement to pay less than the minimum payment and the suspension of interest charges to help the customer pay off their debt. We expect customers to resume normal payments where they are able. At the balance sheet date forbearance measures were in place on 11,685 accounts (2019: 16,922) with total gross balances of £7,656,000 (2019: £10,429,000). Provisions are assessed as detailed above.

During the current period, overdue receivables with a gross value of £56,586,000 (2019: £35,492,000) were sold to third party debt collection agencies. As a result of the sales, the contractual rights to receive the cash flows from these assets were transferred to the purchasers. Any gain or loss between actual recovery and expected recovery is reflected within the bad debt charge.

Notes to the Consolidated Financial Statements

15 Trade and other receivables – continued

The following tables provide information about the exposure to credit risk and ECLs for trade receivables from individual customers as at 27 March 2020:

	2020			2019		
	Trade receivables £000	Trade receivables on forbearance arrangements £000	Total £000	Trade receivables £000	Trade receivables on forbearance arrangements £000	Total £000
Ageing of trade receivables						
Not past due	236,980	6,524	243,504	214,837	8,454	223,291
Past due:						
0 – 60 days	30,972	928	31,900	27,060	1,541	28,601
60 – 120 days	12,572	204	12,776	12,640	434	13,074
120+ days	29,605	—	29,605	30,507	—	30,507
Gross trade receivables	310,129	7,656	317,785	285,044	10,429	295,473
Allowance for expected credit loss	(96,135)	(5,647)	(101,782)	(81,358)	(6,548)	(87,906)
Carrying value	213,994	2,009	216,003	203,686	3,881	207,567

	2020				2019
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Total £000
Gross trade receivables	151,252	122,481	44,052	317,785	295,473
Allowance for expected credit loss					
Opening balance	(9,260)	(30,267)	(48,379)	(87,906)	(76,512)
Impairment charge	(12,834)	(8,907)	(32,188)	(53,929)	(36,623)
Utilised in the period	—	—	40,053	40,053	25,229
Closing balance	(22,094)	(39,174)	(40,514)	(101,782)	(87,906)
Carrying value	129,158	83,307	3,538	216,003	207,567

Allowance for expected credit loss

An appropriate allowance for expected credit loss in respect of trade receivables is derived from estimates and underlying assumptions such as the Probability of Default and the Loss Given Default, taking into consideration forward looking macro-economic assumptions. Changes in the assumptions applied such as the value and frequency of future debt sales in calculating the Loss Given Default, and the estimation of customer repayments and Probability of Default rates, as well as the weighting of the macro-economic scenarios applied to the impairment model could have a significant impact on the carrying value of trade receivables.

Sensitivity analysis

Management judgement is required in setting assumptions around probabilities of default, cash recoveries and the weighting of macro-economic scenarios applied to the impairment model, which have a material impact on the results indicated by the model.

A 1% increase/decrease in the probability of default would increase/decrease the provision amount by approximately £2.9m.

A 1p increase in the assumed recoveries rate would result in the impairment provision decreasing by approximately £1.2m.

Changing the weighting of macro-economic scenarios applied to the impairment model so that the baseline scenario weighting is reduced to 50%, upside scenario to 25%, downside to 20%, and the stress scenario to 5% would result in the impairment provision decreasing by approximately £1.2m.

These sensitivities reflect management's assessment of reasonably possible changes to key assumptions which could result in a material adjustment to the level of provision within the next financial year.

15 Trade and other receivables – continued

Rest of the Group

Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Given the nature of the customer base within the rest of the Group, it is not considered necessary to utilise formal credit scoring. However, credit references are sought for all new customers prior to extending credit. There are no customers who represent more than 1% of the total balance of the Group's trade receivables.

Included in the rest of the Group's trade receivables balance in the prior period were debtors with a carrying amount £123,000 which were past due at the reporting date and were partially provided against. There had not been a significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral over these balances. The average age of these receivables was 152 days.

The carrying value of not past due trade receivables which are unimpaired is £nil (2019: £5,593,000).

The aged analysis of the carrying values of past due trade receivables which are unimpaired is as follows:

	2020 £000	2019 £000
0 – 60 days	33	1,909
60 – 120 days	40	849
120+ days	33	208
Total	106	2,966

The aged analysis of the carrying values of past due trade receivables which are impaired is as follows:

	2020 £000	2019 £000
0 – 60 days	—	—
60 – 120 days	—	—
120+ days	—	123
Total	—	123

Movement in allowance for expected credit losses

	Studio Retail £000	Rest of Group £000	Total £000
Balance at 30 March 2018	55,084	125	55,209
Adjustment to opening balance on adoption of IFRS 9	21,428	—	21,428
Impairment losses recognised	36,623	55	36,678
Amounts written off as uncollectible	(25,229)	(56)	(25,285)
Balance at 29 March 2019	87,906	124	88,030
Impairment losses recognised	53,929	—	53,929
Amounts written off as uncollectible	(40,053)	—	(40,053)
Impact of classification as held for sale	—	(124)	(124)
Balance at 27 March 2020	101,782	—	101,782

16 Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank and in hand	33,163	37,603

Cash and cash equivalents comprises cash held by the Group, and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Notes to the Consolidated Financial Statements

17 Trade and other payables

	2020 £000	2019 £000
Trade payables	35,275	46,195
Other payables	2,117	2,374
Accruals	20,516	24,023
	57,908	72,592

The average credit period taken for trade purchases is 51 days (2019 restated: 69 days). No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

18 Loans and borrowings

(a) Secured bank loans (at amortised cost)

	2020 £000	2019 £000
Bank loans	282,591	270,545
Amount due for settlement within one year	—	—
Amount due for settlement after one year	282,591	270,545
	282,591	270,545

The average interest rates paid on the loans were as follows:

	2020	2019
Bank loans	3.18%*	3.62%*

* The average interest rates quoted in the current and prior period includes fees relating to the extension of the Group's lending facilities (described below). The average interest rate excluding these fees was 3.33% (2019: 3.50%).

Bank loans comprise of securitisation of £197,591,000 (2019: £175,545,000) and the Revolving Credit Facility of £85,000,000 (2019: £95,000,000).

All bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. The Group manages this risk by undertaking interest rate hedging as described in note 26.

All the bank loans are denominated in sterling.

The directors consider that the carrying value of bank loans approximates their fair value.

The maturity of the Group's revolving credit facility was extended to 31 March 2021 during the year and to 31 December 2021 since the year end. The facility currently stands at £85m and will reduce to £70m from 31 December 2020. The securitisation facility restructured during the year with its maximum available amount increasing from £185m to £200m to cater for the continued growth in Studio's trade receivables. Its maturity date was also extended to 31 December 2022.

	2020 £000	2019 £000
Borrowing facilities		
The Group had undrawn committed borrowing facilities as follows:		
Expiring in one year or less	—	—
Expiring in more than two years but not more than five years	—	—
	—*	—*

* This figure represents drawn headroom against the available facilities. Total headroom (i.e., including cash and cash equivalents) at 27 March 2020 was £33,163,000 (2019: £37,603,000).

18 Loans and borrowings – continued

(b) Reconciliation of movements in assets/(liabilities) arising from financing activities

	At 29 March 2019 £000	Adoption of IFRS 16 £000	Cash outflow/(inflow) £000	Fair value movements recorded in finance costs £000	Fair value movements recorded through other comprehensive income £000	Impact of classification as held for sale £000	At 27 March 2020 £000
Interest rate caps	6	—	13	(45)	28	—	2
Loans and borrowings	(270,545)	—	(12,046)	—	—	—	(282,591)
Lease liabilities	(498)	(52,281)	5,966	(1,825)	—	5,142	(43,496)
	(271,037)	(52,281)	(6,067)	(1,870)	28	5,142	(326,085)

	At 30 March 2018 £000	Cash outflow/(inflow) £000	Fair value movements recorded in finance costs £000	Fair value movements recorded through other comprehensive income £000	At 29 March 2019 £000
Interest rate caps	47	34	(56)	(19)	6
Loans and borrowings	(257,504)	(13,041)	—	—	(270,545)
Lease liabilities	(1,069)	571	—	—	(498)
	(258,526)	(12,436)	(56)	(19)	(271,037)

19 Derivative financial instruments

At 27 March 2020 the Group had outstanding derivative financial instruments as follows:

Non-current assets

	2020 £000	2019 £000
Interest rate cap	2	6

Current assets

	2020 £000	2019 £000
Forward foreign exchange contracts	3,250	604

Current liabilities

	2020 £000	2019 £000
Forward foreign exchange contracts	(36)	—

Information about the Group's exposure to credit and market risks, and fair value measurement, is included in note 26.

20 Provisions

	Onerous leases £000	Studio financial services redress and refunds £000	Total £000
At 30 March 2018	11,407	8,622	20,029
Released during the period	(1,220)	—	(1,220)
Provided during the period	—	4,157	4,157
Utilised in the period	(1,344)	(10,544)	(11,888)
At 29 March 2019	8,843	2,235	11,078
Adoption of IFRS 16	(8,301)	—	(8,301)
Provided during the period	—	6,948	6,948
Utilised in the period	(350)	(5,040)	(5,390)
At 27 March 2020	192	4,143	4,335
2020			
Analysed as:			
Current	192	4,143	4,335
Non-current	—	—	—
	192	4,143	4,335
2019			
Analysed as:			
Current	1,090	2,235	3,325
Non-current	7,753	—	7,753
	8,843	2,235	11,078

Onerous leases
A provision was made in prior periods for onerous leases regarding vacated leasehold properties.

Studio financial services redress and refunds
Provisions in excess of £30m were built up in previous years in relation to the anticipated refund of premiums and interest to customers in respect of historic flawed credit and insurance products. The amount provided was increased by £6,948,000 in the current period. Refer to note 2 for details. The provision is expected to be utilised within 12 months.

21 Deferred tax

Recognised deferred tax

	Short-term timing differences £000	Fixed asset timing differences £000	Retirement benefit obligations £000	Tax losses £000	Other intangible assets £000	Total £000
Net balance at 30 March 2018	(3,531)	(5,420)	2,723	(5,345)	3,590	(7,983)
Adjustments in respect of prior periods	—	(12)	—	156	—	144
Recognised in other comprehensive income	—	—	(643)	—	—	(643)
Charge/(credit) for the period	484	797	(109)	772	(169)	1,775
Net balance at 29 March 2019	(3,047)	(4,635)	1,971	(4,417)	3,421	(6,707)
Adjustments in respect of prior years	992	7	—	253	(1)	1,251
Impact of change in rate of corporation tax	(242)	(545)	(914)	(490)	402	(1,789)
Recognised in other comprehensive income	—	—	4,043	—	—	4,043
Charge/(credit) for the period	(1,325)	841	921	—	(82)	355
Impact of classification as held for sale (note 5)	(42)	2,012	—	4,654	(3,740)	2,884
Net balance at 27 March 2020	(3,664)	(2,320)	6,021	—	—	37
At 27 March 2020						
Deferred tax liabilities	—	—	6,021	—	—	6,021
Deferred tax assets	(3,664)	(2,320)	—	—	—	(5,984)
At 29 March 2019						
Deferred tax liabilities	—	—	3,849	—	3,421	7,270
Deferred tax assets	(3,047)	(4,635)	(1,878)	(4,417)	—	(13,977)

The movements in deferred tax recorded in the income statement in respect of the year ended 27 March 2020 represent a £525,000 decrease in deferred tax liabilities relating to continuing operations and a £342,000 increase in deferred tax assets relating to discontinued operation.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policies.

The following is the analysis of the deferred tax balances as they are presented in the consolidated balance sheet following the offset:

	Short-term timing differences £000	Fixed asset timing differences £000	Retirement benefit obligations £000	Tax losses £000	Other intangible assets £000	Total £000
At 27 March 2020						
Deferred tax liabilities	—	—	—	—	—	—
Deferred tax assets	(3,664)	(2,320)	6,021	—	—	37
At 29 March 2019 (restated)						
Deferred tax liabilities	—	—	3,849	—	—	3,849
Deferred tax assets	(3,047)	(4,635)	(1,878)	(4,417)	3,421	(10,556)

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Company's future current tax charge accordingly. The deferred tax assets and liabilities at 27 March 2020 have been calculated at 19% (2019: 17%).

Unrecognised deferred tax

The aggregate value of deferred tax assets which have not been recognised is £7,142,000 (2019: £6,391,000). These amounts primarily relate to carried forward tax losses in the parent company, Studio Retail Group plc. No asset has been recognised in respect of these differences because there is insufficient evidence that Studio Retail Group plc will make sufficient future taxable profits against which these assets may be utilised.

	Short-term timing differences £000	Fixed asset timing differences £000	Tax losses £000	Total £000
At 30 March 2018	(42)	(7)	(6,467)	(6,516)
Adjustments in respect of prior periods	(91)	(1)	76	(16)
Movements during the period	133	8	—	141
At 29 March 2019	—	—	(6,391)	(6,391)
Adjustments in respect of prior periods	—	—	(751)	(751)
At 27 March 2020	—	—	(7,142)	(7,142)

Notes to the Consolidated Financial Statements

22 Share-based payments

Performance Share Plan (equity settled)

(i) Description of scheme

The Group has issued to certain senior employees nil cost options under the Performance Share Plan (PSP) that require the Group to award shares to the employee on the vesting of the award subject to the achievement of certain predetermined performance conditions. The performance period in respect of all outstanding awards is three years after the awards were granted.

The performance conditions that apply to the awards granted since 2016 have been based upon the following bases:

- Awards made during FY17 were subject to a number of vesting criteria, including division-specific criteria for divisional management. The criteria applicable to the Executive Directors was that half the awards were linked to total shareholder return over the three-year period to March 2019 and half were linked to the adjusted earnings per share for the year to March 2019.
- Awards made during FY18 were subject to a number of vesting criteria, including division-specific criteria for divisional management. The criteria applicable to the Executive Directors was that half the awards were linked to total shareholder return over the three-year period to March 2020 and half were linked to the adjusted earnings per share for the year to March 2020.
- Awards made during FY19 were subject to the same vesting criteria as those for the Executive Directors, which were that half the awards were linked to total shareholder return over the three-year period to March 2021 and half were linked to the adjusted earnings per share for the year to March 2021.
- Awards made during FY20 were subject to the same vesting criteria as those for the Executive Directors, which were that half the awards were linked to total shareholder return over the three-year period to March 2022 and half were linked to the adjusted earnings per share for the year to March 2022.

(ii) Measurement of fair values

The estimated fair value of the awards granted during the period is £1,792,000 (2019: £1,761,000). In each case these costs are expensed over the three years from the date of the relevant grant.

The fair values of the awards in the current period and prior year were calculated using a Stochastic valuation (aka "Monte-Carlo") or Black-Scholes valuation model. The inputs into the models were as follows:

	2020	2019
Weighted average fair value (pence)	176.0	217.5
Share price at issue (pence)	247.0	274.0
Weighted average exercise price (pence)	—	—
Expected volatility (%)	40.6	44.5
Expected life (years)	3.0	3.0
Risk free rate (%)	0.6	0.6
Expected dividend yield (%)	—	—

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years.

(iii) Reconciliation of outstanding options

	2020 No. of shares	2019 No. of shares
Outstanding at the beginning of the period	2,547,159	2,757,732
Granted during the period	1,020,462	823,882
Lapsed during the period	(1,180,148)	(1,034,455)
Exercised during the period	—	—
Outstanding at the end of the period	2,387,473	2,547,159

The weighted average exercise price of all options is £nil.

(iv) Charge recognised in the income statement

The Group recognised a charge of £649,000 (2019: £926,000) related to equity-settled share-based payment transactions in the year reflecting the charge arising in the period being offset by the reversal of charges on non-market related performance criteria share options which are no longer expected to vest.

23 Share capital

The Company has two classes of ordinary shares, neither of which carry any right to fixed income.

Ordinary shares of 10p each

	2020 Number of shares	2019 Number of shares	2020 £000	2019 £000
At the beginning of the period	86,442,534	86,442,534	8,644	8,644
At the end of the period	86,442,534	86,442,534	8,644	8,644

Convertible ordinary shares of 23.97p each

	2020 Number of shares	2019 Number of shares	2020 £000	2019 £000
At the beginning of the period	166,878,704	166,878,704	40,000	40,000
At the end of the period	166,878,704	166,878,704	40,000	40,000

The following rights are attached to convertible shares:

- The shares may be converted into 8,343,935 ordinary shares at the option of the holders of the convertible share in the event that: (i) the Company's volume weighted average ordinary share price rises above 479.4p for a period of one month during the period commencing on 22 March 2013 and ending on 22 March 2021; (ii) an offer is made for the Company that is declared unconditional (regardless of the share performance of the Company).
- The holders of the shares are entitled to attend but not vote at the general meetings (save in respect of any resolution relating to the convertible shares).
- The shares may participate in dividends or other distributions declared in excess of 50% of the net income in a particular accounting reference period.
- The shares are freely transferable and the terms may be varied only with the approval of 85% of the convertible shareholders.

If the shares have not been converted by 22 March 2021 they will automatically convert into non-voting deferred shares. The Company will have the right to buy back such deferred shares for a nominal value at that time.

24 Capital commitments

At 27 March 2020, amounts contracted for but not provided in the financial statements for continuing operations in respect of property, plant and equipment amounted to £1,348,000 (2019 restated: £962,000).

Notes to the Consolidated Financial Statements

25 Pensions

Defined contribution schemes

The Group operates a defined contribution retirement benefit plan for all qualifying employees. The assets of the plan are held separately from those of the Group in funds under the control of trustees. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The total expense recognised in the income statement of £1,940,000 (2019: £1,379,000) represents contributions payable at rates specified by the rules of the plan.

Defined benefit schemes

The Group sponsors the Findel Group Pension Fund which is a defined benefit pension scheme with four sections. The four sections were merged into a single scheme on 30 June 2012 with the aim of reducing administrative costs. Studio Retail Group plc (the parent company) is currently the principal sponsor of two of the sections, the Galt and Group sections, and will become the principal sponsor for the Findel Education and Philip and Tacey sections once the disposal of Findel Education Limited, the previous principal sponsor, has been completed. The scheme is closed to future accrual. The latest triennial valuation of the scheme was completed at 5 April 2016 by Barnett Waddingham LLP using a "market related basis" method. The principal actuarial assumptions adopted in that valuation were a pre-retirement discount rate of 4.05% per annum and a post retirement discount rate of 2.55% per annum. The actuarial value of the assets was sufficient to cover 85% of the benefits that had accrued to members, after allowing for expected future increases in pensionable remuneration. The market value of the scheme's assets at the date of valuation was £129.2m. The next formal valuation has an effective date of 5 April 2019 and is underway, it is expected to be completed later in 2020.

The most recent valuation of the plan for IAS 19 purposes was carried out at 27 March 2020 by PricewaterhouseCoopers LLP. The present value of the defined benefit obligation was measured using the projected unit credit method. The results of the IAS 19 valuation are summarised as follows:

	2020 £000	2019 £000
Fair value of scheme assets	164,942	148,346
Present value of funded obligations	(133,247)	(148,414)
Surplus/(deficit) in the scheme	31,695	(68)

The weighted average duration of the Scheme's IAS 19 liabilities is 16 years.

Plan assets

	2020 £000	2019 £000
Plan assets comprise:		
Equities	46,548	58,143
Bonds	97,717	88,996
Other	20,677	1,207
	164,942	148,346

Movement in the present value of defined benefit obligations

	2020 £000	2019 £000
At beginning of the period	(148,414)	(143,124)
Past service cost[1]	—	(2,460)
Interest cost	(3,558)	(3,739)
Effect of changes in demographic assumptions	2,395	(5,924)
Effect of changes in financial assumptions	5,271	1,346
Effect of experience adjustments	5,197	(367)
Benefits paid	5,862	5,854
At end of the period	(133,247)	(148,414)

Movement in the fair value of plan assets

	2020 £000	2019 £000
At beginning of the period	148,346	145,329
Interest on assets	3,614	3,800
Remeasurements – return on scheme assets	14,052	2,571
Employer contributions	4,792	2,500
Benefits paid	(5,862)	(5,854)
At end of the period	164,942	148,346

25 Pensions – continued

Movement in the pension deficit

	2020 £000	2019 £000
(Deficit)/surplus at the beginning of the period	(68)	2,205
Past service cost[1]	—	(2,460)
Net interest income	56	61
Remeasurements	26,915	(2,374)
Employer contributions	4,792	2,500
Surplus/(deficit) at the end of the period	31,695	(68)

Expense recognised in the Consolidated Income Statement

	2020 £000	2019 £000
(i) Included within individually significant items – trading costs		
Past service cost[1]	—	(2,460)
(ii) Included within finance costs		
Net interest income	56	61

Amounts recognised in other comprehensive income

	2020 £000	2019 £000
Total remeasurements	26,915	(2,374)

1. In October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension ("GMP") benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes, including the Findel Group Pension Fund. After discussion with the trustees, actuaries and legal advisors of our fund, a past service cost of £2,460,000 was recognised in the prior period, increasing the total scheme liabilities by approximately 1.7%, to address this historical issue.

Actuarial Assumptions

The following are the principal actuarial assumptions at the reporting date:

	2020	2019
Financial Assumptions		
Discount rate for scheme liabilities	2.50%	2.45%
RPI Price Inflation	2.75%	3.30%
CPI Price Inflation	1.85%	2.30%
Rate of increase to pensions in payment in line with RPI inflation (up to 5% per annum)	2.75%	3.20%
Rate of increase to pensions in payment in line with CPI inflation (up to 5% per annum)	1.90%	2.30%
Rate of increase to deferred pensions	1.85%	2.30%
Post retirement mortality (in years)		
Current pensioners at 65 – male	86.5 yrs	87.0 yrs
Current pensioners at 65 – female	88.3 yrs	89.0 yrs
Future pensioners at 45 – male	87.8 yrs	88.3 yrs
Future pensioners at 45 – female	89.7 yrs	90.5 yrs
Demographic Assumptions		
Cash Commutation (members taking cash lump sum)	60%	80%
Proportion of members that are married at retirement	70%	75%
Proportion of members taking TPIE option*	15%	15%
Age at which members are assumed to take TPIE option*	61.0 yrs	61.0 yrs

Assumptions regarding post retirement mortality are based on published statistics and mortality tables – 113% S3NMA/124% S3NFA – CMI 2019 1.25% p.a. (2019: 100% S2NXA – CMI 2018 1.25% p.a.)

* The Scheme has an embedded option at retirement for members to take TPIE (Total Pension Increase Exchange), following bulk exercises carried out in late 2014 and early 2015. Since this option is a formalised ongoing process, allowance has been made for this in calculating the IAS 19 liability. A 15% take up at an average age of 61.0 years has been assumed, based upon take up rates seen to date.

25 Pensions – continued

Sensitivities

The sensitivities regarding the principal assumptions used to measure the Scheme's liabilities are set out below:

		Impact on scheme liabilities	
Assumption	Change in assumption	If assumption increases	If assumption decreases
Discount rate	0.5%	Decrease by 7.2%	Increase by 8.1%
RPI Inflation	0.5%	Increase by 3.2%	Decrease by 3.0%
CPI Inflation	0.5%	Increase by 2.8%	Decrease by 2.6%
Salary increase	0.5%	No change	No change
Longevity	1 year	Increase by 4.5%	Decrease by 4.3%
TPIE take up %	5%	Decrease by £575,000	Increase by £575,000
TPIE age	1 year	Increase by £500,000	Decrease by £500,000

The above sensitivities are approximate and show the likely increase to the Scheme's liabilities under IAS 19 if an assumption is adjusted whilst all other assumptions remain the same. The sensitivities are for illustration purposes only and do not necessarily represent the directors' view of the expected changes to the assumptions in the future.

There have been no changes to the methods and assumptions used to calculate the sensitivity analyses between the current period and prior period.

Risks

Investment risk

Allowance is made in the assumptions for the expected long-term performance of asset classes such as equities. There is a risk that these returns will not be achieved in practice, which would result in an increase in the Scheme's liabilities and further contributions being required. Further, the value of the Scheme's assets may not move in line with the Scheme's liabilities – either because the Scheme invests in volatile assets whose value might fall, or because the value of the liabilities has increased due to falling interest rates and the assets are not of sufficient duration to keep up (or a combination of these).

Inflation

In projecting the expected future benefit payments, assumptions are made regarding future price inflation. There is a risk that the actual rate of inflation will be higher than assumed which will increase the cost of providing the benefits and thus the liability. This would result in additional contributions being required and a deterioration in the solvency position unless investment returns are similarly higher than expected.

Mortality

It is not possible to predict with any certainty how long members of the Scheme will live, and if members live longer than expected, additional contributions will be required and the Scheme's solvency position will deteriorate.

Managing risk

To manage the risks of the Scheme, TPIE exercises were carried out during 2015 and 2016, which resulted in a number of members transferring out of the Scheme. The TPIE option has now been embedded within the scheme.

IFRIC 14

IFRIC 14 is an interpretation relating to IAS 19 that covers whether pension scheme surpluses can be recognised on the balance sheet. Based on the circumstances of the Fund and in line with the prior period, management do not believe that IFRIC 14 impacts the IAS 19 results since the Company has a right to a refund of surplus assets at some point in the future, and as such have not made any adjustments to the results.

25 Pensions – continued

Funding

The Scheme is funded by Studio Retail Group plc and its subsidiaries. During the current period, the Group contributed £4,792,000 to the scheme (2019: £2,500,000). The Group expects to make contributions of £5,000,000 in the financial year ended March 2021, in line with the agreed schedule of contributions.

The following table shows the expected future benefit payments for the Findel Group Pension Fund:

Findel Group Pension Fund (expected future benefit payments)	£'000
2020 – 2029	51,481
2030 – 2039	60,687
2040 – 2049	49,546
2050 – 2059	28,749
2060 – 2069	7,090
2070 – 2079	488
2080 – 2089	6
2090 – 2099	—
After 2099	—
Total	198,047

26 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using share capital and borrowings. The main risks arising from the Group's financial instruments are credit, interest rate, foreign currency and liquidity risk.

The Board reviews and agrees the policies for managing each of these risks on an annual basis. A full description of the Group's approach to managing these risks is set out in the Risk Committee Report on pages 71 to 72.

The Group does not engage in trading or speculative activities using derivative financial instruments. A group offset arrangement exists for cash balances to take advantage of the most rewarding short-term investment opportunities.

Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the net debt and equity balance. The Board of Directors reviews the capital structure of the Group regularly considering both the costs and risks associated with each class of capital. The capital structure of the Group consists of:

	2020 £000	2019 £000
Net debt		
Borrowings (note 18)	282,591	270,545
Cash at bank and in hand (note 16)	(33,163)	(37,603)
Leases liabilities (note 13)	43,496	498
	292,924	233,440
Total equity		
Share capital (note 23)	48,644	48,644
Translation reserve	321	764
Hedging reserve	(26)	(54)
Retained earnings/(accumulated losses)	26,442	(5,834)
	75,381	43,520
Gearing (being net debt divided by total equity)	3.89	5.36

26 Financial instruments – continued

Externally imposed capital requirement

Revolving credit facility

The Group is subject to two financial covenants based on debt-based ratios (Interest Cover and Net Debt: EBITDA). These covenants are tested quarterly against pre-agreed limits.

Securitisation facility

The Group is subject to a number of covenants in relation to the quality of receivables securitised, of which the principal measures are the collection ratio, the default ratio, the excess spread ratio and the dilution ratio. The covenants are tested monthly against pre-agreed targets, testing for compliance on a three-month rolling basis.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Fair value of financial assets and liabilities

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2020 Carrying value £000	2020 Fair value £000	2019 Carrying value £000	2019 Fair value £000
Trade and other receivables	220,732	220,732	221,596	221,596
Cash and cash equivalents	33,163	33,163	37,603	37,603
Trade and other payables	(37,392)	(37,392)	(48,569)	(48,569)
Bank loans	(282,591)	(282,591)	(270,545)	(270,545)
Lease liabilities	(43,496)	(43,496)	(498)	(498)
Derivative financial instruments	3,216	3,216	610	610
	(106,368)	(106,368)	(59,803)	(59,803)
Unrecognised gain/(loss)		—		—

Basis for determining fair values

The following summarises the principal methods and assumptions used in estimating the fair value of financial instruments reflected in the table above:

(a) Derivatives

Broker quotes are used for all interest rate swaps, caps and foreign currency exchange contracts where relevant.

(b) Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

(c) Trade and other receivables/payables

Trade receivables are held at amortised cost (i.e. net of provision for expected credit loss). At Studio an appropriate allowance for expected credit loss in respect of trade receivables is derived from estimates and underlying assumptions such as the Probability of Default and the Loss Given Default, taking into consideration forward looking macro-economic assumptions.

The main risks arising from the Group's financial instruments are credit, interest rate, foreign currency, and liquidity risk. The Board reviews and agrees the policies for managing each of these risks on an annual basis.

Fair value hierarchy

The different levels of valuation method for financial instruments carried at fair value have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The derivative financial instruments held by the Group at 27 March 2020 and 29 March 2019, namely the interest rate caps and forward foreign exchange contracts, were valued under level 2 measurement bases.

26 Financial instruments – continued

Financial risk management objectives

The Group's financial risks include market risk (including currency risk and interest risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to manage its exposure. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the purchase of inventory principally in US dollars; and
- interest rate caps to mitigate the risk of rising interest rates.

Foreign currency risk management

A proportion of the products sold through Studio and Education are procured through the Group's Far-East sourcing operations. The currency of purchase for these goods is principally the US Dollar. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed utilising forward foreign exchange contracts. The Group has a policy of hedging these foreign currency denominated transactions by entering into forward exchange purchase contracts for the purchases forecast for the next 12 months. At the balance sheet date, details of the notional value of outstanding US dollar forward foreign exchange contracts that the Group has committed to are as follows:

	2020 £000	2019 £000
Less than 6 months	36,683	32,137
6 to 12 months	34,056	37,646
	70,739	69,783

Forward contracts outstanding at the period end were contracted at US dollar exchange rates between £1/$1.32 and £1/$1.23. Hedge accounting has not been applied to these derivatives.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities		Net exposure	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Euro	3,377	217	—	(104)	3,377	113
US Dollar	6,260	4,156	(205)	(6,682)	6,055	(2,526)
Chinese Yuan Renminbi	75	—	(253)	—	(178)	—
Hong Kong dollar	213	36	(57)	—	156	36
	9,925	4,409	(515)	(6,786)	9,410	(2,377)

Foreign currency sensitivity analysis

A significant proportion of products sold through Studio and Education are procured through the Group's Far-East sourcing operations. The currency of purchase for these goods is principally the US dollar, with a proportion being in Hong Kong dollars.

The following table details the Group's sensitivity to a 10% increase or decrease in the 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 period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. 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 an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Euro currency impact		US dollar currency impact		Chinese Yuan Renminbi currency impact		Hong Kong dollar currency impact	
	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000	2020 £000	2019 £000
Profit or loss and equity	(307)	(10)	(550)	230	16	(21)	(14)	(3)

26 Financial instruments – continued

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions on a rolling twelve-month basis.

At 27 March 2020, the Group was committed to forward foreign exchange contracts for a notional sterling contract value of £70,739,000.

	2020 £000	2019 £000
Notional amount – Sterling contract value	70,739	69,783
Fair value of net asset recognised	3,214	604

The fair value of the net derivative asset recognised in the balance sheet at 27 March 2020 in this regard was £3,214,000 (2019: asset £604,000). Changes in fair value of forward foreign exchange contracts amounted to a credit of £2,608,000 (2019: credit of £4,750,000) which has been recorded separately in the Consolidated Income Statement.

The fair value of foreign currency derivatives contracts is their market value at the balance sheet date. Market values are based on the duration of the derivative instrument together with the quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date.

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds at floating interest rates. The risk is managed by the Group by the use of interest rate cap contracts when considered necessary. The Group has two interest rate caps in place at 27 March 2020. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit and equity reserves for the period ended 27 March 2020 would decrease/increase by £1,364,000 (2019: £1,328,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Interest rate cap contracts

Under interest rate cap contracts, the Group agrees to cap the LIBOR element of its interest cost at an agreed level calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of rising interest rates on its variable rate debt.

The following caps were in place at 27 March 2020:

	At 27 March 2020		
	Notional borrowing amount £000	Cap rate	Fair value £000
Maturity			
Less than 12 months	95,000	1.477%	—
1 to 2 years	50,000	1.117%	2
			2

The Group has two caps in place. The first cap was purchased on 12 March 2019 and matures in August 2020. The second cap was purchased on 14 February 2020 and matures in July 2021. Both caps were designated as cash flow hedges from inception. The movement in the fair value of interest rate caps during the current and prior periods was as follows:

	2020 £000	2019 £000
At the beginning of the period	6	47
Purchase of interest rate caps	13	34
Movement in fair value credited/(charged) to the hedging reserve	28	(19)
Movement in fair value of ineffective element charged to finance costs	(45)	(56)
At the end of the period	2	6

26 Financial instruments – continued

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk is primarily attributable to its trade receivables. At Studio an appropriate allowance for expected credit loss in respect of trade receivables is derived from estimates and underlying assumptions such as the Probability of Default and the Loss Given Default, taking into consideration forward looking macro-economic assumptions. A more detailed commentary of the Group's exposure to credit risk within its trade receivables, and the procedures employed to manage this risk, is set out in note 15.

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 connected entities. Concentration of credit did not exceed 5% of gross monetary assets at any time during the year. 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 financial assets recorded in the financial statements, which is net of impairment losses, represents the directors' best estimate of the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 18 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its financial assets and financial liabilities. The tables have been drawn up based on the undiscounted cash flows of the financial assets and financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both estimated interest and principal cash flows.

2020

	Weighted average effective interest rate %	Less than 1 year £000	1 to 5 years £000	Total £000
Financial liabilities				
Non-interest bearing		(37,392)	—	(37,392)
Variable interest rate instruments	3.18	(282,591)	—	(282,591)
Lease liabilities	3.62	(6,035)	(37,461)	(43,496)
		(326,018)	(37,461)	(363,479)

2019

	Weighted average effective interest rate %	Less than 1 year £000	1 to 5 years £000	Total £000
Financial liabilities				
Non-interest bearing		(48,569)	—	(48,569)
Variable interest rate instruments	3.62	(270,545)	—	(270,545)
Lease liabilities	4.72	(498)	—	(498)
		(319,612)	—	(319,612)

The Group has access to financing and securitisation facilities, the total unused amount of which was £nil* (2019: £nil*) at the balance sheet date. The Group expects to meet its other obligations from operating cash flows. Borrowings drawn under the Group's revolving credit facility are shown above as being repaid within one year as drawings are made on one-month or three-month loan periods. The Group may then redraw these amounts until the contractual maturity of the underlying facility which expires in December 2021. The Group may draw up to £200m subject eligible receivables to support borrowings.

The Group enters into derivative financial instruments relating to gross settled foreign exchange contracts and net settled interest rate caps. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the interest and foreign currency rates prevailing at the balance sheet date.

* This figure represents drawn headroom against the available facilities. Total headroom (i.e., including cash and cash equivalents) 27 March 2020 is £33,163,000 (2019: £37,603,000).

Notes to the Consolidated Financial Statements

27 Related parties

During the current and prior periods, the Group made purchases in the ordinary course of business from Brands Inc. Limited and Firetrap Limited, subsidiaries of Frasers Group plc (formerly Sports Direct International plc), which is a significant shareholder in the ultimate parent company, Studio Retail Group plc. In the prior period, the Group also provided consultancy services to Frasers Group plc itself in the current period on arm's-length terms. The value of purchases made, and consultancy fees charged in the current and prior periods and amounts owed at the 27 March 2020 and 29 March 2019 were as follows:

Brands Inc. Limited

	2020 £000	2019 £000
Purchases	43	196
Amounts owed	17	22

Firetrap Limited

	2020 £000	2019 £000
Purchases	—	176
Amounts owed	—	—

Frasers Group plc (formerly Sports Direct International plc)

	2020 £000	2019 £000
Consultancy fees received	—	93
Amounts due	—	—

Transactions between Studio Retail Group plc and its subsidiaries, which are related parties of Studio Retail Group plc, have been eliminated on consolidation and are not discussed in this note. All transactions and outstanding balances between group companies are priced on an arm's-length basis and are settled in the ordinary course of business.

Compensation of key management personnel

The remuneration of the Directors including consultancy contracts and share-based payments, who are the key management of the Group, is set out in the audited part of the Directors' Remuneration Report on pages 39 to 65 and is summarised below.

	2020 £000	2019 £000
Short-term employee benefits	1,223	1,730
Company pension contributions	131	123
Long-term incentives	519	—
Termination payments	—	7
	1,873	1,860
Share-based payments charge	318	642
	2,191	2,502

28 Subsidiaries

The subsidiaries of Studio Retail Group plc, the Group's ultimate parent company, at 27 March 2020 were as follows:

Name	Registered Office Address	Activity
Findel Education Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Trading entity
Studio Retail Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Trading entity
Findel Sourcing (Shanghai) Limited	Unit 1506, Tower A, Financial Street Hailun Center No.440, Hailun Road, Shanghai, PRC	Overseas entity*
Findel Asia Sourcing Limited	Room 1102, Two Harbourfront, 22 Tak Fung Street, Hunghom, Kowloon, Hong Kong	Overseas entity
Express Gifts Philippines Inc.	Second Floor, Clark Center 7, Berthaphil Clark Center, Jose Abad Santos Avenue, Clark Freeport Zone, Pampanga, Philippines	Overseas entity*
Findel Europe B.V.	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Overseas entity
SPA 4 Schools Limited	Units 1-2, Down Business Centre, 55 Antrim Road, Ballynahinch, Co Down, BT24 8AN	Non-dormant entity*
Findel Wholesale Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Non-dormant entity
TCC1 Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Non-dormant entity
Hope Holdings (U.K.) Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Non-dormant entity
2Care4 Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Ace of Clubs Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Alternative Choice Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Burley House Weddings Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
C.& S.(SUTTON)LIMITED	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Care 4 Schools Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Care Cards Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Care4Free Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Cascade Party Toys Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Christmas-E Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Dean's Childsplay Toys Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Dee Textiles Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Designed For Giving Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Designed For You Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Designers File Limited(THE)	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Durban Mills Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity

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28 Subsidiaries – continued

Name	Registered Office Address	Activity
E.J. Arnold & Son Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
E.J. Arnold Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
EB2C Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Estore Fulfilment Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Express Gifts Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Express Home Shopping Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
FD1 Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel (Toys) Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel 2010 Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Education Group Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Findel Educational Supplies Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Fundraising Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Gifts Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Healthcare Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Home Shopping Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Interactive Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Properties Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Services Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Findel Stationery Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Fine Art Designs Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Fine Art Developments (Marketing) Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Fine Art Developments (Supplies) Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Fine Art Developments Employee Trust Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Fine Art Developments Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity

28 Subsidiaries – continued

Name	Registered Office Address	Activity
Friends of Nature Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Fundraising Direct Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Galt Education Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
GLS Educational Supplies Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Hamsard 3278 Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Heron Educational Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Hope Adventureplay Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Hope Education Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Hope Export Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
International Schools Supply Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Ivory Cards Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Jones Williams Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Letterbox Mail Order Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Living and Learning, Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Matchmaker Parties Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Miller Leswyn Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Minitogs Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Mistrale Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Natural Reflections Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Naturally Direct Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
NES Arnold Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Philip & Tacey Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Philip Harris Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Philograph Publications Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*

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28 Subsidiaries – continued

Name	Registered Office Address	Activity
Pippa Dee International Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Pippa Dee Parties Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Premier Educational Supplies Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Protus Plastics Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Rock Bottom Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Rosgill Group Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Rosgill Holdings Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Say It with Ease.com Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Standard Debt Collections Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Step By Step Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Studio Cards Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Studio Dee Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Studio Retail Group Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity*
Sutcliffe Sport Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
The Dee Group P.L.C.	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
The Findel Educational Company Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Tradersgate Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Unilab Science Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Webb Ivory Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
World Class Learning Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity
Xpress Gifts Limited	Church Bridge House, Henry Street, Accrington, United Kingdom, BB5 4EE	Dormant entity

* Indirectly held.

All subsidiary undertakings are wholly owned (meaning ownership of 100% of all issued share capital), either directly or indirectly, by Studio Retail Group plc and operate mainly in the jurisdiction in which they are registered. There are no other related undertakings to disclose.

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Company Balance Sheet

at 27 March 2020

Company Number: 549034

	Notes	2020 £000	2019 £000
Fixed assets			
Tangible assets	3	29,810	56
Investment property	5	8,371	8,697
Investments	6	59,228	59,228
Derivative financial instruments		2	6
Deferred tax asset		—	426
		97,411	68,413
Current assets			
Derivative financial instruments		3,248	604
Debtors: amounts falling due after one year	7	29,931	8,538
Debtors: amounts falling due within one year	8	14,008	35,228
Cash at bank and in hand		1,438	783
		48,625	45,153
Derivative financial instruments		(36)	—
Creditors: amounts falling due within one year	9	(45,254)	(57,128)
Net current assets/(liabilities)		3,335	(11,975)
Total assets less current liabilities		100,746	56,438
Creditors: amounts falling due after more than one year	10	(119,557)	(95,000)
Provisions for liabilities			
Deferred tax liability	11	(5,680)	(3,849)
Other provisions	12	(192)	(8,843)
		(5,872)	(12,692)
Net liabilities		(24,683)	(51,254)
Capital and reserves			
Share capital	13	48,644	48,644
Accumulated losses		(73,327)	(99,898)
Total equity		(24,683)	(51,254)

Approved by the Board and authorised for issue on 22 August 2020.

P B Maudsley }
S M Caldwell } Directors

The accompanying notes are an integral part of this balance sheet.

Company Statement of Changes in Equity

52-week period ended 27 March 2020

	Share capital £000	Accumulated losses £000	Total equity £000
At 30 March 2018	48,644	(95,516)	(46,872)
Loss for the period	—	(3,735)	(3,735)
Remeasurements in respect of defined benefit pension plan, net of tax	—	(1,037)	(1,037)
Transactions with owners			
Share-based payments	—	409	409
Amounts credited to reserves in respect of cash flow hedge	—	(19)	(19)
At 29 March 2019	48,644	(99,898)	(51,254)
Profit for the period	—	9,311	9,311
Remeasurements in respect of defined benefit pension plan, net of tax	—	16,825	16,825
Amounts charged to reserves in respect of cash flow hedge	—	28	28
Transactions with owners			
Share-based payments	—	407	407
At 27 March 2020	48,644	(73,327)	(24,683)

The total equity is attributable to the equity shareholders of the parent company Studio Retail Group plc.

Accumulated losses at 27 March 2020 included a special reserve in respect of the capital reduction exercise which became effective on 15 March 2016 amounting to £15,447,000 which is not distributable (March 2019: £15,447,000).

The accompanying notes are an integral part of this statement of changes in equity.

Notes to the Company Financial Statements

1 Significant accounting policies

Basis of accounting

Studio Retail Group plc is a public limited company incorporated in England. The results of Studio Retail Group plc are included in the consolidated accounts of Studio Retail Group plc which are available from Church Bridge House, Henry Street, Accrington, Lancashire, BB5 4EE. These financial statements present information about the Company as an individual undertaking and not about its group. The separate financial statements of the Company are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Company cash flow statement and related notes
- Disclosures in respect of transactions with wholly owned subsidiaries
- Disclosures in respect of capital management
- The effects of new but not yet effective IFRSs
- Disclosures in respect of the compensation of key management personnel

As the consolidated financial statements of Studio Retail Group plc include equivalent disclosures, the Company has also taken exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 Fair Value Measurement
- Disclosures required by IFRS 7 Financial Instrument Disclosures
- Share-based payments – IFRS 2 is being applied to equity instruments that were granted after 7 November 2002 and that had not vested by 28 March 2014.

The accounts are presented in Sterling, rounded to the nearest thousand.

Significant accounting policies

The accounting policies adopted by the Company are consistent with those used in the Group's consolidated financial statements as set out on pages 96 to 109, except for the following items which are only relevant for the Company as a standalone entity.

Investment properties

Investment properties (which include land and buildings) are stated at cost, net of depreciation, and any provision for impairment. Depreciation is calculated to write off all investment properties on a straight-line basis over their estimated useful economic lives. For buildings, the estimated useful economic life is assessed at 50 years. No depreciation is charged in respect of land.

1 Significant accounting policies – continued

Judgements and key sources of estimation

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

The principal judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

- IAS 36 'Impairment of assets'. In testing for impairment of investments and other assets, the directors have made certain assumptions concerning the future development of its subsidiary businesses that are consistent with their annual budgets and forecasts into perpetuity. Should these assumptions regarding the discount rate or growth in the profitability be unfounded then it is possible that investments included in the balance sheet could be impaired.

  The recoverable amount of the Education CGU was determined from the fair value less cost to sell (FVLCS) calculation. FVLCS has been based on the agreed sale price less disposal costs incurred.

- Discount rate for pension scheme liabilities (note 14)

  At 27 March 2020 the Group and Galt sections of the Findel Group Pension Fund, of which the Company is the sponsoring employer, showed a net surplus of £29.9m (2019: £8.5m). Management makes use of the PwC Single Agency corporate bond yield curve to derive the discount rate applied to the scheme's projected cash flows, in the calculation of its liabilities under IAS 19. Changes to the discount rate applied could lead to significant changes in the level of liabilities recognised. Sensitivity analysis in this regard can be found in note 14.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any of the future periods affected.

Adoption of IFRS 16

IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. For Studio Retail Group plc this is the first reported accounting period under IFRS 16. The Company adopted this standard using the modified retrospective approach with a date of initial application of 30 March 2019. The modified retrospective approach does not require a restatement of the prior period comparatives and consequently, there will be no adjustment to opening retained earnings. Additionally, the disclosure requirements of IFRS 16 have not generally been applied to comparative information.

Under IFRS 16, lease agreements give rise to both a right of use asset and a lease liability for future lease rentals. The right of use asset is depreciated on a straight-line basis over the life of the lease. On transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 30 March 2019. The right of use assets are measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments. The interest is recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised over the life of the lease will be unaffected by the new standard, however, IFRS 16 results in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases.

The £8.3m difference between the opening right use asset and lease liability is due to the portion of the onerous lease provision held at 29 March 2019 relating to lease rentals being netted off against the opening right of use asset.

Notes to the Company Financial Statements

1 Significant accounting policies – continued

Impact on the Company Balance Sheet
At 27 March 2020

	Amounts prior to adoption of IFRS 16 £000	Impact of IFRS 16 adoption £000	As reported £000
Fixed assets			
Tangible assets	43	29,767	29,810
Investment property	8,371	—	8,371
Investments	59,228	—	59,228
Derivative financial instruments	2	—	2
Deferred tax asset	—	—	—
	67,644	29,767	97,411
Current assets			
Derivative financial instruments	3,248	—	3,248
Debtors: amounts falling due after one year	29,931	—	29,931
Debtors: amounts falling due within one year	14,008	—	14,008
Cash at bank and in hand	1,438	—	1,438
	48,625	—	48,625
Derivative financial instruments	(36)	—	(36)
Creditors: amounts falling due within one year	(40,333)	(4,921)	(45,254)
Net current liabilities	8,256	(4,921)	3,335
Total assets less current liabilities	75,900	24,846	100,746
Creditors: amounts falling due after more than one year	(85,000)	(34,557)	(119,557)
Provisions for liabilities			
Deferred tax liability	(5,680)	—	(5,680)
Other provisions	(7,037)	6,845	(192)
	(12,717)	6,845	(5,872)
Net liabilities	(21,817)	(2,866)	(24,683)
Capital and reserves			
Share capital	48,644	—	48,644
Accumulated losses	(70,461)	(2,866)	(73,327)
Total equity	(21,817)	(2,866)	(24,683)

1 Significant accounting policies – continued

Impact on the Company Balance Sheet
At 30 March 2019

	Amounts prior to adoption of IFRS 16 £000	Impact of IFRS 16 adoption £000	Opening balance sheet £000
Fixed assets			
Tangible assets	56	26,970	27,026
Investment property	8,697	—	8,697
Investments	59,228	—	59,228
Derivative financial instruments	6	—	6
Deferred tax asset	426	—	426
	68,413	26,970	95,383
Current assets			
Derivative financial instruments	604	—	604
Debtors: amounts falling due after one year	8,538	—	8,538
Debtors: amounts falling due within one year	35,228	—	35,228
Cash at bank and in hand	783	—	783
	45,153	—	45,153
Derivative financial instruments	—	—	—
Creditors: amounts falling due within one year	(57,128)	(4,846)	(61,974)
Net current liabilities	(11,975)	(4,846)	(16,821)
Total assets less current liabilities	56,438	22,124	78,562
Creditors: amounts falling due after more than one year	(95,000)	(30,425)	(125,425)
Provisions for liabilities			
Deferred tax liability	(3,849)	—	(3,849)
Other provisions	(8,843)	8,301	(542)
	(12,692)	8,301	(4,391)
Net liabilities	(51,254)	—	(51,254)
Capital and reserves			
Share capital	48,644	—	48,644
Accumulated losses	(99,898)	—	(99,898)
Total equity	(51,254)	—	(51,254)

Notes to the Company Financial Statements

2 Profit for the period

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own income statement for the year. The Company reported a profit for the financial period ended 27 March 2020 of £9,311,000 (2019: loss of £3,735,000).

The Auditor's remuneration for audit services to the Company was £155,000 (2019: £115,000).

3 Tangible fixed assets

	Leasehold land and buildings £000	Fixtures and equipment £000	Total £000
Cost			
At 30 March 2018	404	81	485
Additions	—	2	2
At 29 March 2019	404	83	487
Impact of IFRS 16	26,970	—	26,970
At 30 March 2019	27,374	83	27,457
Additions	7,389	1	7,390
At 27 March 2020	34,763	84	34,847
Accumulated depreciation			
At 30 March 2018	355	57	412
Charge for the period	9	10	19
At 29 March 2019	364	67	431
Impairment	1,159	—	1,159
Charge for the period	3,439	8	3,447
At 27 March 2020	4,962	75	5,037
Carrying amount			
Net book value at 27 March 2020	29,801	9	29,810
Net book value at 29 March 2019	40	16	56

4 Leases

The Company leases assets including buildings and plant and equipment that are held within property, plant and equipment. The Company also has certain leases of plant and equipment with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Information about leases for which the Company is a lessee is presented below.

	2020 £000	2019 £000
Net book value of property, plant and equipment owned	43	56
Net book value right of use assets	29,767	—
	29,810	56

Net book value of right of use assets

	Land and buildings – Leasehold £000
At 30 March 2019	26,970
Additions	7,389
Impairment	(1,159)
Depreciation	(3,433)
At 27 March 2020	29,767

4 Leases – continued

Lease liabilities in the balance sheet

A maturity analysis of contractual undiscounted cash flows relating to lease liabilities is as follows:

	At 27 March 2020 £000	At 30 March 2019 £000
Within one year	5,115	5,219
In the second to fifth years	17,863	19,250
After five years	29,908	33,636
	52,886	58,105

	At 27 March 2020 £000	At 30 March 2019 £000
Current	(5,058)	(4,846)
Non-current	(34,557)	(30,425)
	(39,615)	(35,271)

5 Investment Property

	Land and buildings £000
Cost	
At 30 March 2018	17,234
At 29 March 2019	17,234
At 27 March 2020	17,234
Accumulated depreciation	
At 30 March 2018	8,208
Charge for the period	329
At 29 March 2019	8,537
Charge for the period	326
At 27 March 2020	8,863
Carrying amount	
Net book value at 27 March 2020	8,371
Net book value at 29 March 2019	8,697

Investment property relates to a freehold property held by the Company for the purposes of obtaining rental income from a subsidiary undertaking. Rental income of £805,000 (2019: £805,000) was recorded in the income statement in the current period.

The fair value of the property at 25 March 2016 was determined by an external, independent expert with the appropriate professional qualifications and experience and was assessed at £9,700,000. This remains appropriate in the current year, given that there has been no indication that the assumptions used in the valuation have changed significantly.

Investment property includes land costing £800,000 (2019: £800,000) on which no depreciation is charged.

Notes to the Company Financial Statements

6 Investments

	Shares in subsidiary undertakings £000
Cost	
At 27 March 2020, 29 March 2019 and 30 March 2018	181,461
Provisions	
At 27 March 2020, 29 March 2019 and 30 March 2018	122,233
Carrying amount	
Net book value at 27 March 2020, 29 March 2019 and 30 March 2018	59,228

A full listing of subsidiary undertakings can be found in note 28 to the consolidated financial statements.

7 Debtors: amounts falling due after one year

Debtors: amounts falling due after one year comprises the net surplus in respect of the Group and Galt sections of the Findel Group Pension Fund of which Studio Retail Group plc is the main sponsor. Further details can be found in note 14.

8 Debtors: amounts falling due within one year

	2020 £000	2019 £000
Amounts due from subsidiary undertakings	10,080	32,676
Trade debtors	106	195
Other debtors	982	584
Corporation tax	1,718	—
Prepayments and accrued income	1,122	1,773
	14,008	35,228

Loans between the Company and its trading subsidiaries are repayable on demand and attract interest at a rate of 4.6% per annum.

The application of IFRS 9 impairment requirements from 31 March 2018, results in no material additional impairment allowance.

9 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Bank loans and overdrafts	19,889	23,082
Trade creditors	943	484
Amounts due to subsidiary undertakings	16,959	28,249
Lease liabilities	5,058	—
Other creditors	871	104
Corporation tax	—	1,762
Accruals and deferred income	1,534	3,447
	45,254	57,128

Loans between the Company and its trading subsidiaries are repayable on demand and attract interest at a rate of 4.6% per annum.

10 Creditors: amounts falling due after more than one year

	2020 £000	2019 £000
Lease liabilities	34,557	—
Bank loans	85,000	95,000
	119,557	95,000
The average interest rates paid on the bank loans were as follows	3.83%*	4.00%*

* The average interest rates quoted in the current and prior period includes fees relating to the extension of the Company's lending facilities (described in note 18 to the consolidated financial statements). The average interest rate excluding these fees was 3.41% (2019: 3.68%).

11 Deferred tax

Recognised deferred tax

	Retirement benefit obligations £000	Fixed asset timing differences £000	Total £000
At 30 March 2018	4,564	—	4,564
Recognised in other comprehensive income	(504)	—	(504)
Charge recognised in the income statement	(630)	(7)	(637)
At 29 March 2019	3,430	(7)	3,423
Recognised in other comprehensive income	2,624	—	2,624
Credit recognised in the income statement	371	—	371
Effect of corporation tax rate change	(738)	—	(738)
At 27 March 2020	5,687	(7)	5,680
At 27 March 2020			
Deferred tax liabilities	5,687	—	5,687
Deferred tax assets	—	(7)	(7)
At 29 March 2019			
Deferred tax liabilities	3,849	—	3,849
Deferred tax assets	(419)	(7)	(426)

The deferred tax liability in respect of the defined benefit pension plan surplus has been calculated using the prevailing corporation tax rate of 19% (2019: 35%).

Deferred tax liabilities are recognised in full. Recognition of deferred tax assets is based on management's assumptions that it is probable that the Company will have taxable profits against which the unused tax losses and deductible temporary timing differences can be utilised. Generally, in determining the amounts of deferred tax assets to be recognised, management uses profitability information and forecasted operating results based on approved business plans.

In the current period, management has deemed it appropriate to recognise deferred tax assets of £282,000 in respect of the Galt section of the Findel Group pension Fund, which is in a deficit position (this is shown net of the deferred tax liability in respect of the Group section of the fund which is in a surplus position) and £7,000 in respect of fixed asset timing differences. This is on the basis that current tax relief obtained on the payment of pension contributions and claiming of capital allowances can be surrendered to the Company's subsidiaries via group relief.

The aggregate value of deferred tax assets which have not been recognised is £7,142,000 (2019: £6,391,000). These amounts primarily relate to carried forward tax losses. No asset has been recognised in respect of these differences because there is insufficient evidence that the Company will make suitable future taxable profits against which these assets may be utilised.

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Company's future current tax charge accordingly. The deferred tax assets and liabilities at 27 March 2020 have been calculated at 19% (2019: 17%).

Notes to the Company Financial Statements

12 Other provisions

	Onerous leases £000
At 30 March 2018	5,893
Utilised during the period	(624)
Provision reversed during the period	3,502
Unwind of discount	72
At 29 March 2019	8,843
Impact of IFRS 16	(8,301)
Utilised during the period	(350)
At 27 March 2020	192

Analysed as:	
Non-current	—
Current	192

Onerous lease provisions

The onerous lease provision at 27 March 2020 relates to (non-rent related) unavoidable costs in respect of the unused areas of the Group's properties at Enfield and Hyde. The onerous lease provision at 30 March 2019 was reduced by £8.3m (being the portion of the provision related to rental costs) which was offset against the right of use asset recognised on the initial adoption of IFRS 16.

13 Called-up share capital

The Company has two classes of ordinary shares, neither of which carry any right to fixed income.

Ordinary shares of 10p each

	2020 Number of shares	2019 Number of shares	2020 £000	2019 £000
At the beginning of the period	86,442,534	86,442,534	8,644	8,644
At the end of the period	86,442,534	86,442,534	8,644	8,644

Convertible ordinary shares of 23.97p each

	2020 Number of shares	2019 Number of shares	2020 £000	2019 £000
At the beginning of the period	166,878,704	166,878,704	40,000	40,000
At the end of the period	166,878,704	166,878,704	40,000	40,000

The following rights are attached to convertible shares:

- The shares may be converted into 8,343,935 ordinary shares at the option of the holders of the convertible share in the event that: (i) the Company's volume weighted average ordinary share price rises above 479.4p for a period of one month during the period commencing on 22 March 2013 and ending on 22 March 2021; (ii) an offer is made for the Company that is declared unconditional (regardless of the share performance of the Company).
- The holders of the shares are entitled to attend but not vote at the general meetings (save in respect of any resolution relating to the convertible shares).
- The shares may participate in dividends or other distributions declared in excess of 50% of the net income in a particular accounting reference period.
- The shares are freely transferable and the terms may be varied only with the approval of 85% of the convertible shareholders.

If the shares have not been converted by 22 March 2021 they will automatically convert into non-voting deferred shares. The Company will have the right to buy back such deferred shares for a nominal value at that time.

14 Retirement benefits

Defined contribution pension scheme

The Company operates a defined contribution retirement benefit plan for all qualifying employees. The pension cost for the period represents contributions payable by the Company to the scheme and amounted to £207,000 (2019: £202,000).

There were no outstanding contributions payable to the scheme at 27 March 2020 (2019: £nil).

Defined benefit pension schemes

Studio Retail Group plc is the main sponsor of two sections of the Findel Group Pension Fund, a defined benefit pension plan, the Group section and the Galt section. The other two sections are the Education section and the Philip and Tacey section. The combined scheme is administered by Barnet Waddingham LLP. Only the costs and liabilities associated with the Group section and Galt section of the Findel Group Pension Fund scheme relate to Studio Retail Group plc. There is no contractual agreement or stated policy for charging the net defined benefit cost of the Group and Galt sections and so Studio Retail Group plc has recognised the entire net benefit cost of these two sections in its financial statements.

Group Section

The last funding valuation of the Scheme was undertaken at 5 April 2016 and recorded a deficit of £4,937,000 in respect of the Group section. The Company agreed to pay deficit reduction contributions of: £615,000 p.a. for the period to 31 March 2019, £1,230,000 p.a. between 31 March 2019 and 31 March 2023 and £615,000 between 1 April 2023 and 30 September 2023. The latest full actuarial valuation has been updated for IAS 19 purposes to 27 March 2020 by PricewaterhouseCoopers LLP ('PwC') using the assumptions detailed below.

Company contributions to the Group section for the upcoming financial year are expected to be around £1,230,000, in line with the current Schedule of Contributions.

Galt Section

The last funding valuation of the Scheme was undertaken at 5 April 2016 and recorded a deficit of £2,640,000 in respect of the Galt section. The Company agreed to pay deficit reduction contributions of: £280,000 p.a. for the period to 31 March 2019, £560,000 p.a. between 31 March 2020 and 31 March 2023 and £280,000 between 1 April 2023 and 30 September 2023. The latest full actuarial valuation has been updated for IAS 19 purposes to 27 March 2020 by PwC using the assumptions detailed below.

Company contributions to the Galt section for the upcoming financial year are expected to be around £560,000, in line with the current Schedule of Contributions.

The results of the IAS 19 valuation for both sections are summarised as follows:

	2020			2019		
	Group £000	Galt £000	Total £000	Group £000	Galt £000	Total £000
Fair value of scheme assets	125,176	3,565	128,741	113,108	3,334	116,442
Present value of funded obligations	(93,761)	(5,049)	(98,810)	(102,111)	(5,793)	(107,904)
Surplus/(deficit) in the scheme	31,415	(1,484)	29,931	10,997	(2,459)	8,538

The weighted average duration of the Scheme's IAS 19 liabilities is 16.0 years in respect of the Group section and 16.0 years in respect of the Galt section.

Plan assets

	2020			2019		
	Group £000	Galt £000	Total £000	Group £000	Galt £000	Total £000
Plan assets comprise:						
Equities	33,704	1,947	35,651	40,117	3,086	43,203
Bonds	79,452	366	79,818	72,213	148	72,361
Other	12,020	1,252	13,272	778	100	878
	125,176	3,565	128,741	113,108	3,334	116,442

Notes to the Company Financial Statements

14 Retirement benefits – continued

Movement in the present value of defined benefit obligations

	2020			2019		
	Group £000	Galt £000	Total £000	Group £000	Galt £000	Total £000
At beginning of period	(102,111)	(5,793)	(107,904)	(98,781)	(5,417)	(104,198)
Past service cost[1]	—	—	—	(1,660)	(90)	(1,750)
Interest expense	(2,454)	(140)	(2,594)	(2,575)	(143)	(2,718)
Effect of changes in demographic assumptions	1,366	17	1,383	913	50	963
Effect of changes in financial assumptions	3,562	238	3,800	(4,164)	(228)	(4,392)
Effect of experience adjustments	2,302	495	2,797	(269)	(96)	(365)
Benefits paid	3,574	134	3,708	4,425	131	4,556
At end of period	(93,761)	(5,049)	(98,810)	(102,111)	(5,793)	(107,904)

Movement in the fair value of plan assets

	2020			2019		
	Group £000	Galt £000	Total £000	Group £000	Galt £000	Total £000
At beginning of period	113,108	3,334	116,442	111,822	3,028	114,850
Interest on assets	2,737	86	2,823	2,908	82	2,990
Return on scheme assets – remeasurements	11,726	(258)	11,468	2,177	76	2,253
Company contributions	1,179	537	1,716	626	279	905
Benefits paid	(3,574)	(134)	(3,708)	(4,425)	(131)	(4,556)
At end of period	125,176	3,565	128,741	113,108	3,334	116,442

Movement in the pension surplus/(deficit)

	2020			2019		
	Group £000	Galt £000	Total £000	Group £000	Galt £000	Total £000
At beginning of period	10,997	(2,459)	8,538	13,041	(2,389)	10,652
Past service cost[1]	—	—	—	(1,660)	(90)	(1,750)
Net interest income/(cost)	283	(54)	229	333	(61)	272
Remeasurements	18,956	492	19,448	(1,343)	(198)	(1,541)
Company contributions	1,179	537	1,716	626	279	905
At end of period	31,415	(1,484)	29,931	10,997	(2,459)	8,538

Amounts recognised in the income statement

	2020			2019		
	Group £000	Galt £000	Total £000	Group £000	Galt £000	Total £000
Past service cost[1]	—	—	—	(1,660)	(90)	(1,750)
Net interest income/(cost)	283	(54)	229	333	(61)	272
	283	(54)	229	(1,327)	(151)	(1,478)

Amounts recognised in other comprehensive income

	2020			2019		
	Group £000	Galt £000	Total £000	Group £000	Galt £000	Total £000
Total Remeasurements	18,956	492	19,448	(1,343)	(198)	(1,541)

1. In October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension ("GMP") benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes, including the Findel Group Pension Fund. After discussion with the trustees, actuaries and legal advisors of our fund, a past service cost of £1,750,000 has been recognised, increasing the total scheme liabilities to address this historical issue.

14 Retirement benefits – continued

Actuarial Assumptions – Group and Galt sections

The following are the principal actuarial assumptions at the reporting date:

	2020	2019
Financial Assumptions		
Discount rate for scheme liabilities	2.50%	2.45%
RPI Price Inflation	2.75%	3.30%
CPI Price Inflation	1.85%	2.30%
Rate of increase to pensions in payment in line with RPI inflation (up to 5% per annum)	2.75%	3.20%
Rate of increase to pensions in payment in line with CPI inflation (up to 5% per annum)	1.90%	2.30%
Rate of increase to deferred pensions	1.85%	2.30%
Post retirement mortality (in years)		
Current pensioners at 65 – male	86.5 yrs	87.0 yrs
Current pensioners at 65 – female	88.3 yrs	89.0 yrs
Future pensioners at 45 – male	87.8 yrs	88.3 yrs
Future pensioners at 45 – female	89.7 yrs	90.5 yrs
Demographic Assumptions		
Cash Commutation (members taking cash lump sum)	60%	80%
Proportion of members that are married at retirement	70%	75%
Proportion of members taking TPIE option*	15%	15%
Age at which members are assumed to take TPIE option*	61.0 yrs	61.0 yrs

Assumptions regarding post retirement mortality are based on published statistics and mortality tables – 113% S3NMA/124% S3NFA – CMI 2019 1.25% p.a. (2019: S2NXA – CMI 2018 1.25% p.a.)

* The Scheme has an embedded option at retirement for members to take TPIE (Total Pension Increase Exchange), following bulk exercises carried out in late 2014 and early 2015. Since this option is a formalised ongoing process, allowance has been made for this in calculating the IAS 19 liability. A 15% take up at an average age of 61.0 years has been assumed, based upon take up rates seen to date.

Sensitivities

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Group section

		Impact on scheme liabilities	
Assumption	Change in assumption	If assumption increases	If assumption decreases
Discount rate	0.50%	Decrease by 7.3%	Increase by 8.3%
Inflation	0.50%	Increase by 3.2%	Decrease by 3.0%
Salary increases	0.50%	No change	No change
Longevity	1 year	Increase by 4.5%	Decrease by 4.3%

Galt section

		Impact on scheme liabilities	
Assumption	Change in assumption	If assumption increases	If assumption decreases
Discount rate	0.50%	Decrease by 7.2%	Increase by 8.0%
Inflation	0.50%	Increase by 3.5%	Decrease by 3.7%
Salary increase	0.50%	No change	No change
Longevity	1 year	Increase by 3.8%	Decrease by 3.7%

The above sensitivities are approximate and show the likely increase to each section's liabilities under IAS 19 if an assumption is adjusted whilst all other assumptions remain the same. The sensitivities are for illustration purposes only and do not necessarily represent the directors' view of the expected changes to the assumptions in the future.

Notes to the Company Financial Statements

14 Retirement benefits – continued

Risks

Investment risk
Allowance is made in the assumptions for the expected long-term performance of asset classes such as equities. There is a risk that these returns will not be achieved in practice, which would result in an increase in the Scheme's liabilities and further contributions being required. Further, the value of the Scheme's assets may not move in line with the Scheme's liabilities – either because the Scheme invests in volatile assets whose value might fall, or because the value of the liabilities has increased due to falling interest rates and the assets are not of sufficient duration to keep up (or a combination of these).

Inflation
In projecting the expected future benefit payments, assumptions are made regarding future price inflation. There is a risk that the actual rate of inflation will be higher than assumed which will increase the cost of providing the benefits and thus the liability. This would result in additional contributions being required and a deterioration in the solvency position unless investment returns are similarly higher than expected.

Mortality
It is not possible to predict with any certainty how long members of the Scheme will live, and if members live longer than expected, additional contributions will be required and the Scheme's solvency position will deteriorate.

Managing risk
To manage the risks of the Scheme, TPIE exercises were carried out during 2015 and 2016, which resulted in a number of members transferring out of the Scheme. The TPIE option has now been embedded within the scheme.

IFRIC 14
IFRIC 14 is an interpretation relating to IAS 19 that covers whether pension scheme surpluses can be recognised on the balance sheet. Based on the circumstances of the Fund and in line with the prior period, management do not believe that IFRIC 14 impacts the IAS 19 results since the Company has a right to a refund of surplus assets at some point in the future, and as such have not made any adjustments to the results.

The following table shows the expected future benefit payments for the Group and Galt sections of the Findel Group Pension Fund:

Findel Group Pension Fund (expected future benefit payments)	Group £000	Galt £000
2020 – 2029	34,954	1,792
2030 – 2039	42,481	2,453
2040 – 2049	36,145	2,026
2050 – 2059	21,349	968
2060 – 2069	4,992	180
2070 – 2079	308	6
2080 – 2089	3	—
2090 – 2099	—	—
After 2099	—	—
Total	140,232	7,425

Registered Office:

Studio Retail Group plc
Church Bridge House
Henry Street
Accrington
BB5 4EE

T +44 (0)161 303 3465
F +44 (0)161 367 2139

www.studioretail.group

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RETAIL GROUP