

# Findel plc

ANNUAL REPORT & ACCOUNTS 2017

## INVESTING IN OUR ONLINE FUTURE



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The Findel group contains market leading businesses in the UK online value retailing and education supplies markets

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# Highlights

## Group

- New executive management team in place to deliver medium-term growth plans
- Group revenue up 10.2% on a like-for-like basis\* (11.3% on a GAAP basis of 53 weeks in FY17 compared to 52 weeks in FY16), driven by significant increase in customer numbers at Express Gifts
- Adjusted profit before tax\* of £22.2m, down by £2.6m, following investment for future growth and digital transformation in both businesses
- Strong cash generation and core net debt\* down by £4.8m to £80.8m, despite significant growth in Express Gifts' credit receivables
- Individually significant items totalling £82.2m leading to a reported loss before tax of £59.4m

## Express Gifts

- Strong growth in customer recruitment at Express Gifts underpinning product revenue growth of 15.6% on a like-for-like basis\* to £260.0m (16.6% on a GAAP basis of 53 weeks in FY17 compared to 52 weeks in FY16)
- Financial services revenue on a like-for-like basis\* increased by 12.6% to £99.2m
- Customer base now stands at 1.6m, up by over 229,000 on prior year, with further growth seen in early weeks of the new financial year as we move to all-year-round recruitment
- Increase in online customer ordering to 63% (FY16: 56%) with over 71% of new customers placing their first orders online
- First-time investment in recruitment during final months of the financial year suppressed near-term profitability, but is expected to produce significant medium-term returns
- Customer redress programme proceeding to plan, with approximately £8m refunded to date
- New bad debt provisioning model introduced to provide more granular estimation. No impact on business operations or cash flow, but results in an individually significant charge of £35.2m. Minimal impact expected in FY18

## Findel Education

- Fall in Education revenue of 3.3% on a like-for-like\* basis (2.8% on a GAAP basis of 53 weeks in FY17 compared to 52 weeks in FY16) driven entirely by loss of market share in our Schools brands where sales were down 10.6% against the prior year on a like-for-like\* basis
- The rest of the business showed growth of 2.4% on a like-for-like\* basis against the backdrop of an overall market decline
- Intangible assets impaired by £20m due to longer profit recovery period than previously anticipated, although no cash impact
- Warehouse consolidation project completed on time and on budget, anticipated to deliver annual savings of £2-3m in 2017/18
- Future strategy based around delivering value, service, digital solutions and improved profitability is to be rolled out in the coming months

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



# Financial Highlights

	2017	2016	Change
Revenue – like-for-like basis**^	£452.4m	£410.6m	+10.2%
Revenue^	£457.0m	£410.6m	+11.3%
Adjusted operating profit**^	£31.1m	£34.7m	-10.4%
Adjusted operating profit margin**^	6.9%	8.4%	-150bps
Adjusted profit before tax**^	£22.2m	£24.8m	-10.5%
Loss before tax^	(£59.4m)	(£1.7m)	n/a
Loss for the year^	(£57.7m)	(£1.6m)	n/a
Loss for the year	(£57.7m)	(£10.2m)	n/a
Free cash flow generation*	£13.3m	£4.5m	£8.8m
Core net debt*	£80.8m	£85.6m	-5.6%
Overall net debt*	£225.0m	£216.7m	+3.8%

^ From continuing operations

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

All of the above footnotes are relevant to the financial highlights table above and throughout the commentary on pages 1 to 25.

# Chairman's Statement



"I'm excited about the opportunity for sustainable growth in a marketplace for value-conscious customers who are rapidly moving their purchases online."

Ian Burke  
Chairman



Inspire · Create · Educate



## Dear Shareholder,

Welcome to our 2017 Annual Report and Accounts.

Since joining the Group in January 2017, I have spent time getting to know our two businesses, Express Gifts and Findel Education. Both have leading positions in their respective markets and have strategies to build on the progress of recent years, evolving their operating models to cater for their customers' future demands and ways of shopping. I'm excited about the opportunity for sustainable growth in a marketplace for value-conscious customers who are rapidly moving their purchases online, although there is a significant amount of further work required to achieve that goal.

The new executive management team that we announced at the start of April 2017, led by Phil Maudsley, have a wealth of relevant experience that will be used to deliver this growth.

We have seen good progress in the last financial year, with Express Gifts moving its customer recruitment programme to be all-year-round through a focus on great-value products and TV advertising. A 17% increase in its customer base to 1.6m indicates the success of that approach, as this business continues to drive the growth of the Group as a whole. Findel Education completed the consolidation of its warehousing operations to improve future profitability with no disruption to its supply chain. Both businesses have increased their capital expenditure on developing digital solutions to make it easier and more compelling for our customers to shop with us.

The Group has, however, produced an outturn for the year that has once again been below the expectations set internally and externally at the start of the year. It has also seen a high level and incidence of individually significant items. We have therefore introduced additional resource into the relevant areas to improve upon the setting and delivery of achievable targets for future years.

## Financial performance

Revenue<sup>^</sup> for the Group grew by 10.2% in the year on a like-for-like basis\* (11.3% on a reported basis for the 53-week period), with adjusted profit before tax<sup>^</sup>\* falling to £22.2m (2015/16: £24.8m). The Group incurred individually significant charges totalling £82.2m, primarily relating to the cost of refunding customers for their purchase of financial services products from us in the past, onerous leases, impairment of intangible assets and additional provisions from the adoption of our new bad debt provisioning model. As such, the loss before tax for the year was £59.4m. It should be noted that the vast majority of the individually significant items recorded in the year do not lead to any incremental or accelerated cash outflows.

Core net debt\* fell by £4.8m to £80.8m, within which the element not relating to customer receivables fell to just £22.6m or 0.6x adjusted EBITDA\* (2015/16: 0.8x). Debt supporting the customer receivables\* increased to £200.8m (2015/16: £181.6m) of which the expanded securitisation facility provided £142.5m (2015/16: £128.9m).

# Chairman's Statement



## Dividends

The Board continues to focus on strengthening the financial position of each of the operating subsidiaries' balance sheets and that of the parent company. As such, the Company does not have plans to reinstate dividend payments at this stage.

## Management and Board

I joined the Board in January 2017 as Chairman, initially in an executive capacity before reverting to a more conventional non-executive capacity in April 2017. Phil Maudsley was appointed as CEO at that time, with Paul Kendrick stepping up to replace Phil as managing director of Express Gifts. Stuart Caldwell became the acting CFO, with Chris Mahady remaining as managing director of Findel Education.

David Sugden and Tim Kowalski left Findel in 2017 having steered the Group over the last seven and six years respectively. They joined at a time when the Group had a diverse composition and was over-indebted, but they left it well funded and simplified for the medium term. We wish them both well for the future.

## Employees

I have met many of our employees since joining in January and have been struck by their enthusiasm for our businesses and their shared belief in modernising our operating models to make it easier and more compelling for our customers to shop with us. On behalf of the Board, I would like to thank all of our employees for their continued hard work.

## Current trading

We have made an encouraging start to the year, with Express Gifts trading in line with expectations, although Findel Education has seen weaker demand in recent weeks than anticipated. The early weeks of our financial year are always relatively quiet trading periods for our businesses. A fuller update on trading will be given at our AGM which will be held at the end of August.

## Outlook

The investment in growing the Express Gifts customer base has provided a strong foundation for the new financial year, and we expect to see the initial benefits coming through towards the second half of the year. Our plans to improve the profitability of Findel Education will start to take shape during the coming year.

The impact of higher input costs from the depreciation in Sterling since the Brexit referendum will feed its way through the sector in the coming months. We are working hard with our suppliers and continue to review our internal cost-base to maintain Express Gifts' proposition as a leading online value retailer. The general level of uncertainty arising from recent events and the start of the Brexit process, inevitably, is impacting consumer confidence. However, any weakening in this confidence would be expected to lead to value retailers such as Express Gifts gaining market share. Therefore, we remain confident in the opportunities for growth in our business.

Ian Burke  
Chairman

26 June 2017

^ from continuing operations

\* this is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on page 21

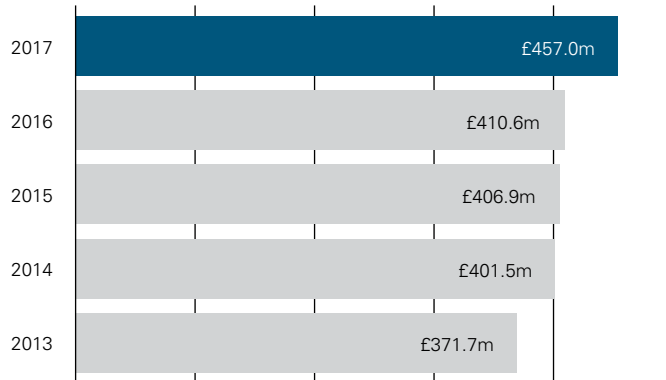
# Five Year Financial Progress

## Revenue

(from continuing operations)

£457.0m ↑ 11.3%

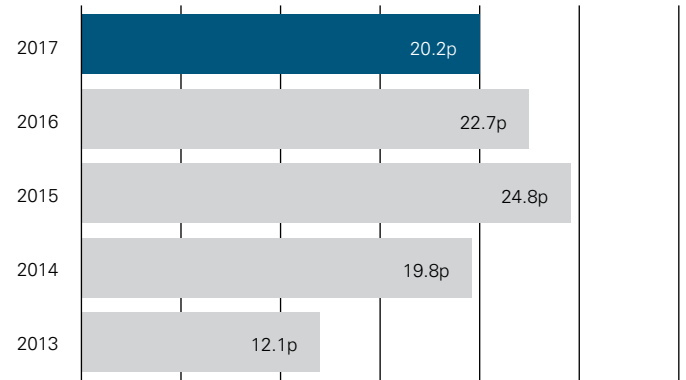
(+10.2% on like-for-like basis for 52 weeks)



## Adjusted earnings per share\*

(from continuing operations)

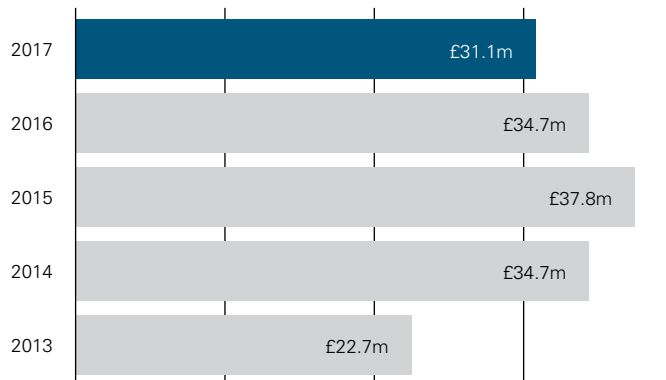
20.2p ↓ 11.1%



## Adjusted operating profit\*

(from continuing operations)

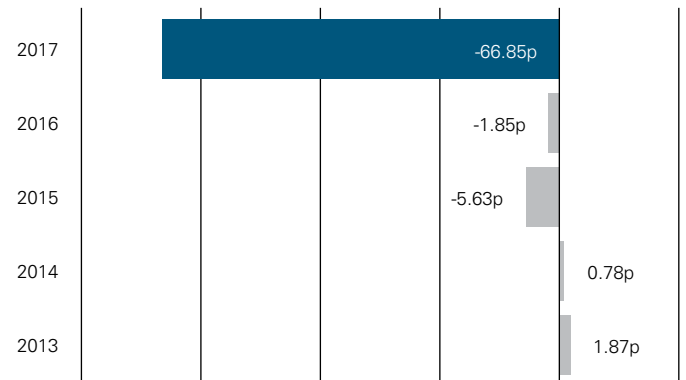
£31.1m ↓ 10.2%



## Earnings per share

(from continuing operations)

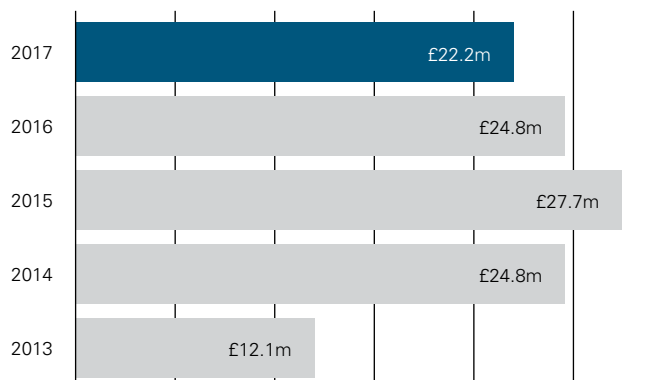
-66.9p



## Adjusted profit before tax\*

(from continuing operations)

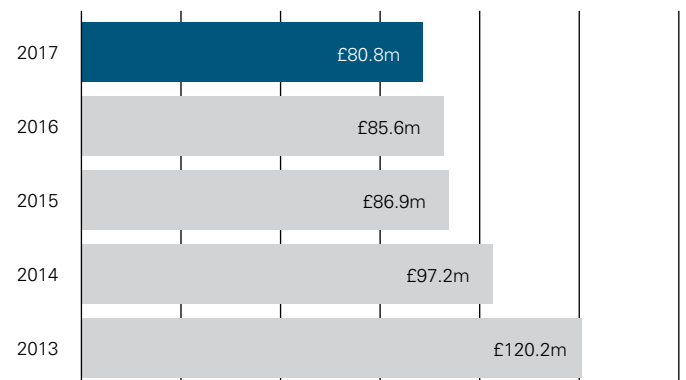
£22.2m ↓ 10.3%



## Core bank debt\*

(from continuing operations)

£80.8m ↓ 5.6%



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# Chief Executive's Review



"The last year has seen further building blocks put in place to enable the Group to deliver on its medium-term plans. While the reported performance was disappointing, the new leadership structure we now have in place will support the delivery of future growth."

Phil Maudsley  
Chief Executive Officer

Recent years have seen Findel make significant progress in restructuring and simplifying the Group. In Express Gifts and Findel Education we now have two core businesses that we believe have the potential to generate significant incremental shareholder value over the coming years. My challenge as CEO is to build on the good work of the last few years and put in place the strategies and actions to unlock that potential, whilst eliminating the individually significant charges and legacy cash outflows that have undermined our recent performance.

## Customers are at the heart of our businesses

We must continue to put the customer in both businesses at the heart of everything we do, by listening to customers and through delivering excellent product choice and quality at every-day good value.

To better improve our offer, we are constantly seeking to understand the following from our customers:

- Why do they shop with us rather than our competitors and vice versa?
- How can we improve their shopping experience to convince them to come back to us in future?
- How can we encourage them to spend a greater proportion of their wallet with us?

Our business models are adapting to cater for a marketplace that is increasingly moving online. The paper catalogues used by both businesses will remain a key element of our marketing for some time, as that's what our customers tell us that they want. However, we also know that increasingly they want to shop

online, with the catalogue in many cases forming part of the browsing journey. We are making that process seamless for customers by investing to ensure that we always have online channels that meet their expectations.

We also have to be alert to changing patterns of use and expectation of service levels. 63% of Express Gifts' customers ordered online last year. However, in Spring this year we have seen over 80% of our new customers that we have recruited placing their first orders online. At some point in the future we will see this figure inevitably approaching 100%. We are planning now for the investment and transformation required to keep pace with this digital evolution.

## Maximising our potential

Broadly speaking, our businesses have operated on a standalone basis over the last few years, with little focus on Group synergies. This was logical at a time when the smaller business units may have been under consideration for disposal. However, with the Group structure now established, we can see several areas going forward where we can better utilise our resources to drive value and efficiency. We are already working on two areas of opportunity. Firstly, we have moved our small plc-team from Hyde (where Findel Education is headquartered) to Accrington (where Express Gifts is based). By doing this, we can share the plc finance and business support functions with those of Express Gifts to share skills and make efficiency savings. Secondly, we are encouraging Findel Education to make greater use of our own Far East sourcing offices, which have increasingly moved away from their Hong Kong heritage in favour of the Chinese industrial

areas where goods are manufactured. By revisiting that opportunity, Findel Education has identified a number of new suppliers who can provide better quality products at significantly lower prices, allowing us to pass savings onto our customers whilst protecting margins. They have also identified opportunities where they could buy from the same sources as Express Gifts, so both can gain bulk discounts. We will explore further ideas over the coming months in order to maximise the efficiencies of our two businesses.

Whilst the future opportunities look exciting and the rate of customer growth at Express Gifts remains strong, we cannot escape the fact that our financial performance during FY17 was disappointing and below the expectations that we set ourselves. However, we have addressed a number of judgemental issues in these results and, whilst the increased provisions for past financial services matters are necessary, it is right that we address these issues now for the benefit of our customers.

## Leadership

As Ian has indicated in his Chairman's Statement, I have a new executive leadership team in place. It comprises the two divisional managing directors, Paul Kendrick of Express Gifts and Chris Mahady of Findel Education, along with our acting CFO, Stuart Caldwell, and our Company Secretary, Mark Ashcroft. Together, we are focused on sustainable, improved profit performance in both businesses leading to improved shareholder returns.





### Brexit

In line with the wider retail sector, the decision to leave the European Union has had an impact on import costs. Express Gifts' goods are generally manufactured outside the UK, so exposing us to the fluctuations in Sterling at some point in the supply chain. Where that exposure is seen directly, namely where we buy in US\$ or euros which represents around a third of total purchases, we are well-placed with hedging policies in place to cover planned purchases on a rolling 12-month basis. That provides time for us to adapt our supply chain, so mitigating the impact upon our customers. Indirect exposures are managed similarly through discussion with suppliers and reviewing our internal processes.

All of Express Gifts' customers are based in the UK, and Findel Education's international customers buy in Sterling.

### Performance in FY17

Express Gifts saw continued progress in FY17, particularly in acquiring a significant number of new customers in a cost-effective way and retaining more of its established customers. The use of TV and social media in our recruitment approach will inevitably attract a broader audience than just our target customer, but the proportion of new customers taking credit terms is in line with our expectations. The new Philippines-based operation increased our capacity to handle inbound enquiries, but we also made substantial improvements to its online systems to make it easier for customers to trade with us and handle any queries they may have without the need to physically contact us. The business navigated through the sharp changes to exchange rates in June 2016 and made further improvements to the

way we use our Far East sourcing office. However, the combination of increased investment in customer recruitment in Q4 and requiring additional currency at lower than average rates to source goods to support it, impacted profit in the year by around £2.0m.

Findel Education continued to see challenging market conditions, with price competition for the commodity-based School brands being particularly intense and leading to a further loss in market share. It did, however, manage to regain lost customers for its Classroom and Specialist brands. Importantly, it completed its warehouse consolidation project on time, on budget and without disruption to customers.

The Group's underlying cash generation remained strong, providing the basis for reinvestment into customer growth and system improvements.

However, the headline results fell short of our expectations, and were accompanied by a number of individually significant items that produced a significant net loss.

### Focus for the year ahead

The building blocks put in place to enable the Group to deliver on its medium-term plans provide a strong platform for growth and I am very excited about the prospects for the Group as we enter the new financial year.

Looking ahead, we are confident in delivering against the respective strategies of both businesses. At Express Gifts we are focused on further growth in customers and share of wallet, while at Findel Education we will continue to address market share losses through better use of great value product, service

and its new online channels. The Group will also increase its risk management resource, aimed at improving the resilience of the Group.

Phil Maudsley  
Chief Executive Officer

26 June 2017

# Our businesses and strategic objectives

Entity	Summary Description	Principal Strategic Objectives
<b>Findel plc</b>	<p>Central holding company</p> <ul style="list-style-type: none"> <li>– Capital and resource allocation</li> <li>– Leadership and oversight</li> <li>– Shared service provision as appropriate</li> </ul>	<ul style="list-style-type: none"> <li>– Maximising value for shareholders</li> <li>– Setting overall vision and strategy of the Group</li> <li>– Overseeing the control environment and risk management throughout the Group</li> <li>– Determining and implementing appropriate financing resources</li> </ul>
<b>Express Gifts</b>	<p>One of the UK's leading online value retailers. Key proposition elements:</p> <ul style="list-style-type: none"> <li>– Value</li> <li>– Personalisation</li> <li>– Integrated credit</li> </ul>	<ul style="list-style-type: none"> <li>– Delivering sustainable growth in revenue and customer numbers</li> <li>– Enhancing our overall offer to the customer to increase our share of their spending</li> <li>– Ensuring that treating customers fairly is at the heart of the business</li> <li>– Migrating the business to a digital first approach</li> </ul>
<b>Findel Education</b>	<p>One of the leading suppliers of resources/equipment to schools in the UK and overseas</p>	<ul style="list-style-type: none"> <li>– Regaining market share in UK brands</li> <li>– Managing the cost base to increase the business's profitability to peer-levels</li> <li>– Transforming the business to meet the online needs of schools and nurseries</li> </ul>

**Key Strategic Priorities**

- Ensuring rigorous review of strategic direction and performance management of each business
- Ensuring that experienced management teams are deployed in the businesses to execute the strategy plans
- Monitoring risk levels against appetites and relevant actions
- Monitoring the overall consumption of capital resources by the businesses to maintain adequate funding headroom

**Progress in year**

- Changed the structure and composition of the executive leadership team and reverted to a normal form of corporate governance
- Agreed a £10m increase in the securitisation facility to £155m to support receivables growth
- Created a new Board Risk Committee to provide additional emphasis on risk management activities across the Group
- Restructured and relocated the PLC team to work more closely with Express Gifts

**Future plans**

- Update and agree strategic and financial objectives for each business and incentivise delivery
- Monitor management succession plans in each business
- Develop plans for refinancing debt facilities during 2018
- Review medium-term property and warehousing requirements across the Group

- Use customer insight to offer targeted, personalised offers and service enhancements
- Improve sourcing processes to underpin our value offering
- Treating customers fairly whilst maximising the commercial benefits of our credit proposition
- Improving communication and customer service to reduce avoidable contacts
- Continued investment in flexible systems to improve business efficiency and support increased use of online channels

- Significant growth in the customer base, with good progress towards all-year-round recruitment
- Online order levels increased from 56% to 63% with 71% of new customers using websites for ordering
- Full consumer credit permissions confirmed by the FCA
- Implemented new ecommerce platform
- Opened new contact centre in the Philippines

- Roll-out the new credit account management system
- Ongoing development of our online channels and data capabilities
- Continued growth of the customer base and spend from existing customers
- Substantially complete the customer refund programme
- Review structure of FASL to increase effectiveness of Far East sourcing channels
- Review organisational capabilities to support the transition to a digital first business

- Increase our share of spending from schools through use of loyalty schemes, outstanding value products and high-quality service
- Reduce buying costs to improve price competitiveness
- Review head office costs and logistics processes to improve profitability
- Increase the level of online ordering through seamless integration with schools' operating systems

- Realigned the catalogue launch programme to better match customer demands
- Completed warehouse consolidation with no operational disruption
- Developed and commenced the roll-out of new websites and e-catalogues to integrate with industry-standard school systems

- Increase the proportion of goods purchased from the Far East to reduce buying costs
- Continue with roll-out of new websites
- Continue with expansion of contracts with multi-academy trusts to increase customer loyalty
- Simplify logistics arrangements for 2018 to improve services levels and reduce costs

# Express Gifts

“Express Gifts has delivered strong sales and customer growth against a challenging backdrop.”

## Summary income statement

£000	2017	2016	% change
Product	262,240	224,880	16.6%
Interest	85,802	71,729	19.6%
Services & fees	15,278	16,369	-6.7%
Revenue	363,320	312,978	16.1%
Cost of sales	(180,161)	(154,393)	-16.7%
Gross profit	183,159	158,585	15.5%
Trading costs	(152,727)	(126,838)	-20.4%
Adjusted operating profit*	30,432	31,747	-4.1%
Product gross margin*	31.30%	31.34%	-0.04%
Adjusted operating margin*	8.4%	10.1%	-1.7%

\* this is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on page 21.

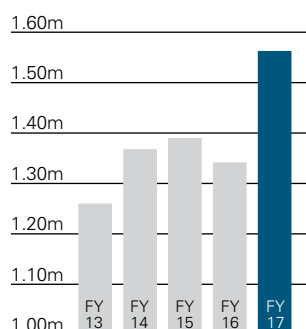
## Key Investment Features

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. Already on a digital transformation with 63% of sales made online.
4. Investment in new systems and a strengthened management team will enable us to offer a broader range of more flexible financial products and grow a sustainable level of financial services income.

## KPIs – measuring our progress

### Customer base

1.58m



#### How it is measured?

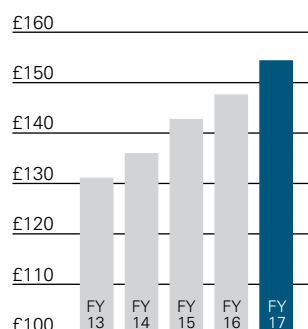
Active customer accounts at the end of each calendar year.

#### Why is it used?

To show the base from which future sales can be made.

### Spend per customer

£156



#### How it is measured?

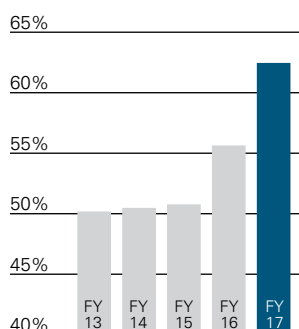
Total product sales divided by active customers.

#### Why is it used?

To illustrate the level of future sales that can be made from the customer base.

### Online ordering

63.0%



#### How it is measured?

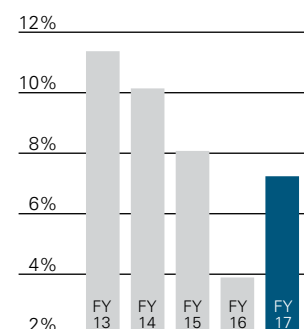
Proportion of the year's product sales placed using an online route – financial year.

#### Why is it used?

To show the changing nature of customer ordering patterns.

### Bad debt as % revenue

7.3%



#### How it is measured?

Bad debt charge for the year as a % of revenue for the year.

#### Why is it used?

To show trends in the quality of the credit portfolio.



## Express Gifts' mission is to be the UK's online retail destination of choice for value-conscious customers.

Express Gifts is an online and catalogue value retailer and trades through two key brands (Studio and Ace). Both brands offer customers a broad range of fashion, home and leisure items, toys and gifts at affordable prices. Its in-house personalisation facility, its focus on every-day value, combined with a flexible credit offer, creates a point of difference from other retailers. The business continues to use its traditional paper catalogues to engage customers but is increasingly transforming to be digitally led.

### Customers

Express Gifts puts the customer at the heart of the business. Our core target customers are aged 25-55, typically female, and are extremely value-conscious. They are busy people with lives centred around their families and our brands are a treat in their everyday lives.

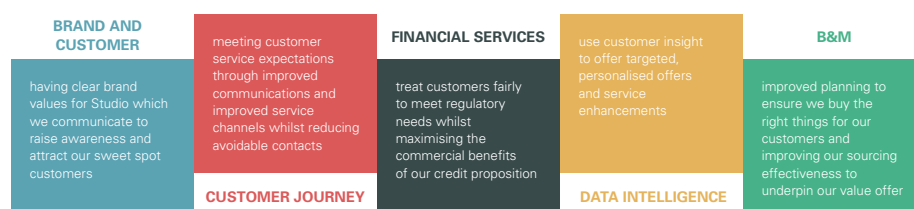
During the year, 1.6m customers shopped with us, an increase of over 229,000 or 17% compared to the previous year. This represents a key success for the business and gives us a strong platform for the coming year.

The size and loyalty of the customer base is the lifeblood of any online retailer. Our focus in FY17 was therefore to implement a strategy to significantly increase trading customers through a combination of extra recruitment and deployment of better online systems and processes to retain established customers.

**"1.6 million customers shopped with us. An increase of over 229,000 vs last year"**

We increased marketing activity in the year, specifically TV and digital advertising, using a small number of exceptional value, 'showcase' lines to attract new customers. This proved to be a successful approach with over 40% of new customers buying at least one of the 'showcase' products with their first order. We then saw the level of subsequent ordering and credit

### EXECUTIVE SUMMARY – 8 PRIORITIES FOR THE NEXT 3 YEARS...



To deliver these will require changes to:

- **People:** transform the culture and organisation to have the capability to operate in a customer focused, digital world...
- **Process:** remove the non-value tasks to enable us to focus on doing the right things well 'efficient and effective'...
- **Technology:** continued investment in our systems – focus on modern, flexible and agile systems that can win in the digital age, plus enable business efficiency

In the longer term (beyond 2020) new growth opportunities will need to be found:

- Identify and test these over the next 3 years
- Should opportunities become available in the short term (such as a partnership with SDI), these will be progressed providing they do not detract from the priorities above



### Our strategic priorities

take-up in line with our expectations. This marketing activity also had a halo effect on the established customer base.

Given the success of this marketing approach through the year, we took the decision to invest in further marketing activity during February and March to continue customer growth momentum in 2017/18.

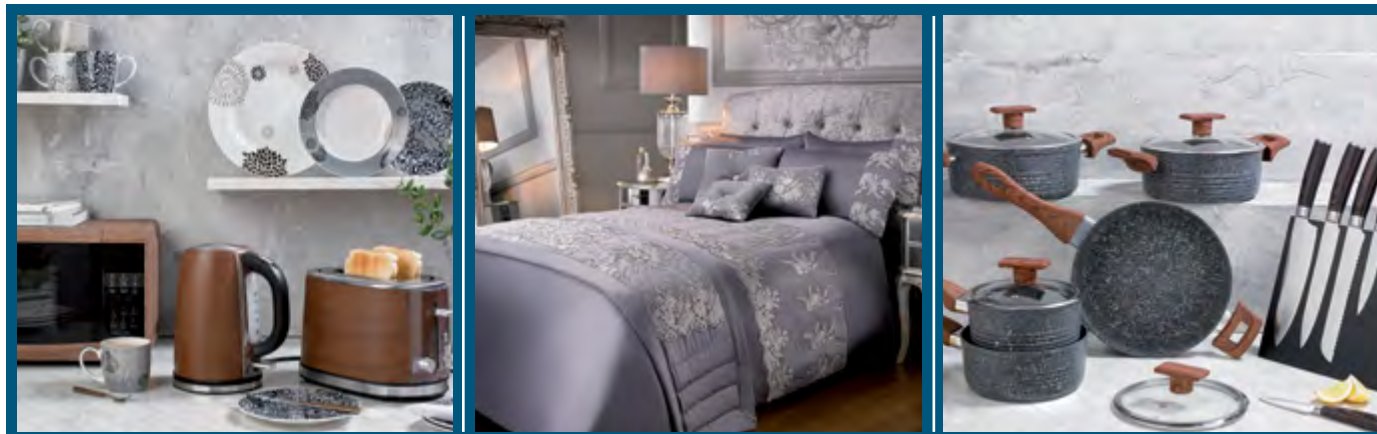
It typically takes around 18 months to recoup the investment in new customer recruitment due to a combination of the initial marketing cost itself, a relative high bad debt charge compared to an established customer, and a lower initial credit line from which we can earn financial services income. As a result, the increased recruitment activity, especially towards the end of the year, suppressed near-term profitability.

Historically, the business has been unable to invest in customer recruitment in the Spring season, but this provides an opportune period where good long-term returns can be achieved, and customers are more established by the time we get into our peak season later in the year. It also provides an opportunity to recruit customers with clothing offers. We intend to invest in customer recruitment all-year-round moving forwards.

### Online development

Express Gifts is well-advanced in its journey from being a traditional catalogue business to a digitally-driven online value retailer. In the year, 63% of customers ordered online, up from 56% last year. However, for new customers, over 71% placed their first order online last year, with significant growth coming from the use of mobiles and tablets. This increases to over 93% for our youngest customers. All metrics have increased further this Spring. We therefore can foresee a time in the future where virtually all orders are made online and need to plan now for that.

In April 2016, Express Gifts moved its websites to IBM's Commerce platform. This gives a robust market-leading solution from which to grow in the future, as well as introducing several new features to make it easier for our customers to shop and manage their account online. We also introduced Qubit, allowing us to tailor customers' online experience, and implemented a number of online-only campaigns that helped to drive record sales in the weeks running up to Christmas.



We know that being an online value retailer requires continuous improvement to make sure we keep meeting customer expectations in a rapidly-changing marketplace. Further developments to our online offering are being made ahead of the peak season in 2017.

Increasingly, online business brings with it risks around cyber security and resilience. By using a market-leading platform hosted externally, we are able to reduce these risks. More broadly, we are undergoing a review of the business's resilience and have a project initiative to ensure our management of data is compliant with new regulations that come into force in May 2018.

### Product development

Express Gifts has had a strong heritage in gifts, Christmas decorations, cards and accessories, but has moved over recent years to offer a broader appeal through clothing, homewares and electricals. It was encouraging to see clothing grow by 44%, but it still only represents 28% of total sales, presenting a significant opportunity for further growth as we recruit new customers year-round through our enhanced clothing offer. It also helps to increase the ordering frequency with our customer base. In the year, we highlighted our value through a range of 'showcase' products. These included:

- Tablet –£19.99
- Personalised Pencils
- Boyfriend Cardigan

The sharp fall in Sterling that followed the Brexit referendum presented a number of challenges to our supply chain. We were relatively well protected on purchases transacted in US\$, although the strong

sales performance and the decision to target Spring recruitment required additional stock purchases beyond our original plans. The business has put plans in place to address the foreign exchange headwinds for 2017/18 but the impact of inflation in the market is anticipated to have an impact on customers' spending ability and choices. We are also utilising the expertise of our Far East sourcing office to ensure we have close relationships with suppliers and can source products at a level to maintain our strong value offer.

Express Gifts will utilise its flexible business model, its exceptional customer value and retail credit proposition to mitigate these uncertain market conditions.

### Financial Services

The majority of our customers open a flexible account that allows them to choose whether to pay for their purchases within 21 days, or spread the cost over a number of months. Interest is charged on outstanding balances each month.

These consumer credit activities have been regulated by the Financial Conduct Authority since April 2014. Express Gifts has operated on an interim permission since that date, but in October 2016 we were granted our full authorisation. The standards expected by the FCA are high, and we have invested in our systems, processes and risk management over the last two years to ensure that we meet those high standards.

As part of that work, we have reviewed all the historical credit and insurance products sold after 2005. We identified those products that were flawed and have put in place programmes to refund

affected customers over the next few months. We have made good progress already, with nearly £8m already returned to customers.

Financial income received during FY17 increased by 12.6% on a like-for-like basis\*, due to the increase in product sales plus the introduction towards the end of FY16 of "Risk-Based Pricing", where the rate of interest charged to customers is tailored to the credit risk they present.

Moving forward, Express Gifts is well advanced in its implementation of a new credit account management system. This will provide a number of customer benefits, including improved statements (and e-statements), and will allow new financial services products to be offered to customers, ensuring this part of the business remains relevant for our customer base.

Our customer recruitment allows new starters to choose whether to open a credit account or utilise an alternative approach where cash is paid within 21 days. We are looking at a variety of payment options moving forward and will utilise the capabilities of these new account management systems.

As part of the preparation for the new system, the business commissioned a new series of models to calculate its bad debt provision, using more granular predictions of potential default and loss for different categories of customer. Industry practice on this subjective area has evolved in recent years and so we have ensured that our new models are based on sustainable and realistic assumptions. This has produced a substantial increase to the provision, as discussed below, but



importantly does not change the way in which we manage customers' accounts or the cash we expect to generate. Over time, the granular nature of the new models should allow for better credit decision making.

#### Operational efficiency

Express Gifts runs efficient customer service and warehouse operations to ensure it maintains its value proposition, whilst constantly seeking opportunities to improve the quality of these services and meet customers' expectations.

In May 2016, we opened Express Gifts Philippines. This provides contact centre support to the business and provided increased capacity to handle peak season volumes with significant reduction in handling time, notably around email contacts. Since its opening, we have seen service levels (measured via our "net promoter score" survey) increase steadily and we are now in a position to grow this capability further.

The new websites launched at the start of the year help customers to manage enquiries online, rather than requiring telephone or email assistance for routine matters. This has reduced the number of inbound contacts significantly.

#### People

Paul Kendrick joined Express Gifts in May 2016 as Commercial Director and Deputy Managing Director having previously held senior roles at Bonmarche and NBrown. In April 2017, he subsequently took on the role of Managing Director.

A degree of cultural change and people development is critical to the success of Express Gifts' strategy. Our operational support functions need to evolve to

meet the needs of a larger and digitally focused business. We integrated the Group Finance functions at the start of April to provide closer support to Express Gifts. A new Director of Financial Services joined in March, a new IT Director started in June 2017 and a new HR Director will start in August 2017.

#### FY17 performance and progress

The substantial growth in trading customer numbers seen in the year produced strong growth in product sales, which were up £35.2m or 15.6% on a like-for-like 52-week basis\* (£37.4m or 16.6% on a 53-week GAAP basis). Financial services income increased by 12.6% on a like-for-like basis\* (14.7% on a 53-week GAAP basis). The impacts of marketing activity via the deeply discounted "showcase" lines in the first half of the year, together with higher import costs in the second half of the year led to gross profit increasing at a slower rate to £183.2m, although the gross product margin\* remained broadly flat for the year as a whole at 31.3%.

The new websites, along with a number of other new fixed asset investments, replaced old items that had been fully depreciated several years ago. Consequently, the depreciation charge for the business increased from £4.4m to £6.6m in the year.

We noted at the end of last year that we planned to review the credit scorecards to ensure we balanced growth and fair outcomes for customers. Therefore, as anticipated and seen at the half-year, the adjusted bad debt charge\* as a percentage of revenue therefore increased to 7.3% (FY16: 3.9%) which is within the expected range of 7-8%. The introduction

of the new bad debt provisioning models led to an individually significant charge of £35.2m being recognised. Other operational costs increased by 9.3% – significantly less than the level of sales growth in the period.

The investment in recruitment, the foreign exchange headwinds and the effect of the new bad debt model have led to the adjusted operating profit\* being down slightly against the prior year at £30.4m (FY16: £31.7m). However, the growth of 17% in our customer base provides sales momentum as we move into FY18.

Other individually significant charges totalling £18.7m were recorded in the year, principally due to increases in amounts provided in respect of customer refunds for legacy flawed financial services products, impairments of intangible assets resulting from the retirement of small legacy brands, and restructuring costs. After taking account of these, the business saw an operating loss of £23.5m.

\* this is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on page 21.

# Findel Education

“We have a clear strategy based on value, service and digital solutions underpinned by cost reduction.”

## Summary income statement

£000	2017	2016	% change
Revenue	91,739	94,401	-2.8%
Cost of sales	(58,309)	(60,228)	3.2%
Gross profit	33,430	34,173	-2.2%
Trading costs	(32,013)	(30,959)	-3.4%
Adjusted operating profit*	1,417	3,214	-56.0%
Gross margin*	36.4%	36.2%	0.2%
Adjusted operating margin*	1.5%	3.4%	-1.9%

\* this is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on page 21.

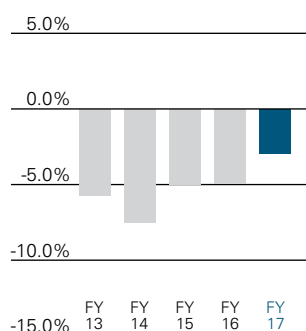
## Key Investment Features

1. A strong portfolio of highly-regarded regional, national and specialist brands allowing a one-stop shop for schools both in the UK and internationally.
2. A market-leading position in the higher population growth areas of London and the South East as well as strongholds in Scotland and Northern Ireland.
3. A simplified and modernised warehouse function providing cost-effective distribution throughout the UK.

## KPIs – measuring our progress

### UK core customer number growth

-3.0%



#### How it is measured?

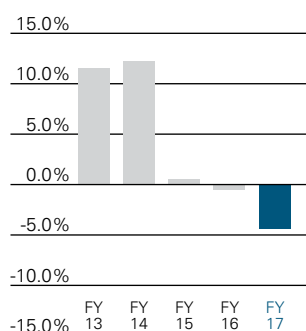
Annual core customer growth.

#### Why is it used?

To show the underlying level of growth in the business.

### Demand per trader

-4.5%



#### How it is measured?

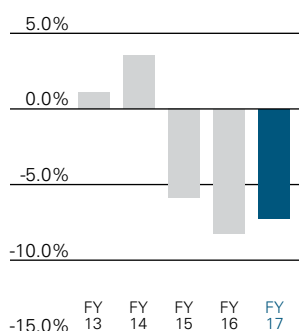
Annual growth in the annual trader spend.

#### Why is it used?

To show the trend in sustainable income from the average customer.

### UK Brands revenue growth

-7.4%



#### How it is measured?

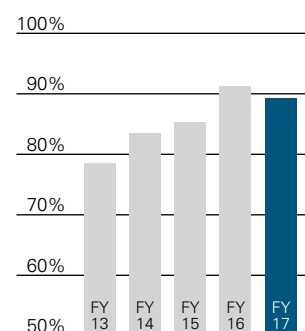
Annual revenue growth from UK brands (i.e. excluding retail partners and international sales).

#### Why is it used?

To show the underlying level of growth in the business.

### Net promoter score

90%



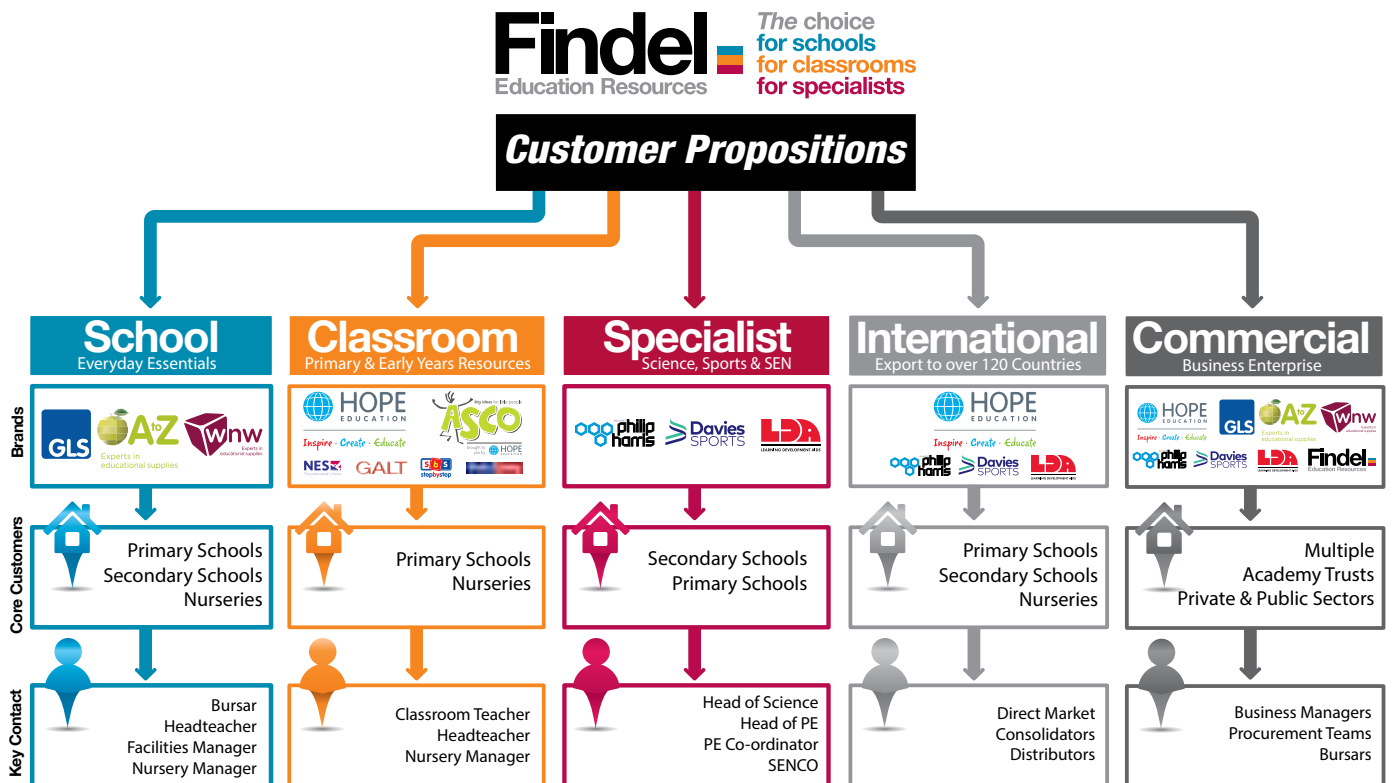
#### How it is measured?

Proportion of surveyed respondents that would recommend Findel Education net of those that would not.

#### Why is it used?

To show trends in the business's reputation with its customers and indicate customer loyalty.





### Our business model

Findel Education is one of the largest independent suppliers of school and early years resources (excluding IT and publishing) to primary, secondary and nursery educational establishments in the UK. The division's international business unit exports to English-speaking schools in over 130 countries worldwide.

It offers three distinct brand propositions: School, Classroom and Specialist. The main route to market is via printed catalogues and, increasingly, via web based solutions, including multiple websites and e-procurement solutions. The School brands (GLS, A-Z and WNW) are primarily focused on servicing the basic commodity needs of all educational establishments with products such as stationery, janitorial supplies, furniture and arts & crafts materials. The Classroom brands (Hope Education) focus on the supply of specialist curriculum and early years teaching aids to Primary School and Nurseries. The Specialist brands (Davies Sports, Philip Harris Scientific, and Learning Development Aids – LDA) are specialists in their respective fields and focus on both Primary and Secondary school establishments.

The Commercial business unit focuses on new business opportunities covering multiple academy groups (MAT's), LEA tenders, trade customers and key account customers.

Findel Education operates internationally and uses all of its product, brand strengths and market leading supply chain to support international schools in the delivery of their educational teaching requirements.

The business continues to maintain its strong relationship with Sainsbury's PLC, having successfully delivered their Active Kids programme for 12 years.

### Market conditions

Schools are typically funded based on an annual sum per pupil, which must cover costs such as buildings, staff, IT, utilities and educational resources. Whilst the total sum per pupil has kept pace with inflation, we have seen increased pressure in recent years on the educational resources element. In 2016/17 this was due to increased staff costs driven by mandatory increases in pension and NI contributions. This has in turn seen spending on school resources across the five major educational resources suppliers reducing

by 6.3% in the 12 months to March 2017 (BESA Market Data).

LEAs and schools are already planning and preparing for the School national fair funding formula that will come in during April 2018. This will see a redistribution of funding across regions in the UK which will put increased pressure on our London heartland schools.

At the same time, the long-term fundamentals remain positive with pupil numbers expected to increase by 0.55m through 2017-2022, with the weighting of this being favourable towards London and Secondary schools. Our London based GLS School brand business is well placed to benefit from this.

The market has also continued to see strong movement towards more commercially focused Multi Academy Trusts (MATs) who are driving value through aggregated procurement. During the year, we have strengthened our Business Development team who are entirely focused on winning new MAT contracts through strong commercial and service led propositions.

## How are we responding to these market challenges

### 1. We must support the UK schools' ever-increasing needs as they continue to face challenging funding circumstances

The significant changes in funding and budgets have made teachers and bursars realise that budgets need to go further. Coupled with the fact that teachers are time poor, there is a need to ensure that we deliver the best value in the market through time-efficient digital procurement systems.

### 2. We need to regain market share for the medium-term success of the business

Budgetary pressures will continue to be very challenging for the next few years and the total market may continue to contract. In addition to this, however, we have lost market share to our competitors in recent years, particularly in our Schools brands, and this has been the primary cause of our continued underperformance and reduction in operating profits.

We recognise that regaining market share is critical to the future success of the business. This is a strategy we are already making progress against.

## We have a clear strategy based on value, service and digital solutions underpinned by cost reduction

Our strategy is simple – we need to deliver a one-stop shop where value and service are guaranteed. All of this needs to be supported by market-leading digital procurement solutions and a continuous focus upon reducing overheads to improve profitability.

### Value “Delivering everything you need at everyday low prices”

We currently source just 7% of our products directly from the Far East, and don't make sufficient use of the Group's own sourcing office. We are going to significantly increase this over the next 12 months.

The value we gain through this will be reinvested in lower prices for customers, whilst protecting our product margins. This will allow us to re-activate lost customers and increase the average spend of our established customers.

Currently 90% of customers spend less than 10% of their budget allocated to our product ranges with us. This provides a significant opportunity to increase average sales per customer in future.

### Service “Our service is the best in the marketplace”

We will continue to build on our impressive Net Promoter scores which increased from 84% to 85% during FY17. In the year we were very pleased to win the UK Customer Experience award for Business Change. We know that high standards of customer service are essential to maintaining customer loyalty when schools are feeling budgetary pressure, so increasing this score further will remain a key strategic goal for the business.

### Digital “Our market-leading digital solutions make shopping easy”

New market-leading digital website and e-procurement solutions are currently being launched, with each of our brands' websites rolled out by July 2017. Currently just 18% of our sales come through digital channels, which is currently significantly below our market peers. The new solutions significantly improve site speed, product search, customer payment and checkout.

Our existing solutions were poor by comparison, which gives us confidence that online customer frequency and average order values will increase significantly over the coming months. The newly developed e-procurement systems integrate with existing school financial platforms, taking away lengthy and time consuming administration processes for teachers and school office managers.

Our goal is to deliver to 50% of our sales through digital channels within the next 24 months.

### Profitability “Simplifying our business operations to improve the return on sales to peer-levels”

During November 2016, we completed our major business IT systems and warehouse integration programme. This has been an investment of around £7m to produce a modernised distribution facility in Nottingham and a single core ERP IT system for the business. This will deliver £2-3m of annual cost benefits from FY18, whilst also improving our operational service levels.

We have subsequently reviewed our distribution arrangements in the light of having just one warehouse and have identified significant streamlining and cost savings that will start to come through in Q4 of FY18. Further business simplification actions have also been identified to reduce costs and improve our return on sales back to peer-levels over the next 2-3 years.

## FY17 Performance and Progress

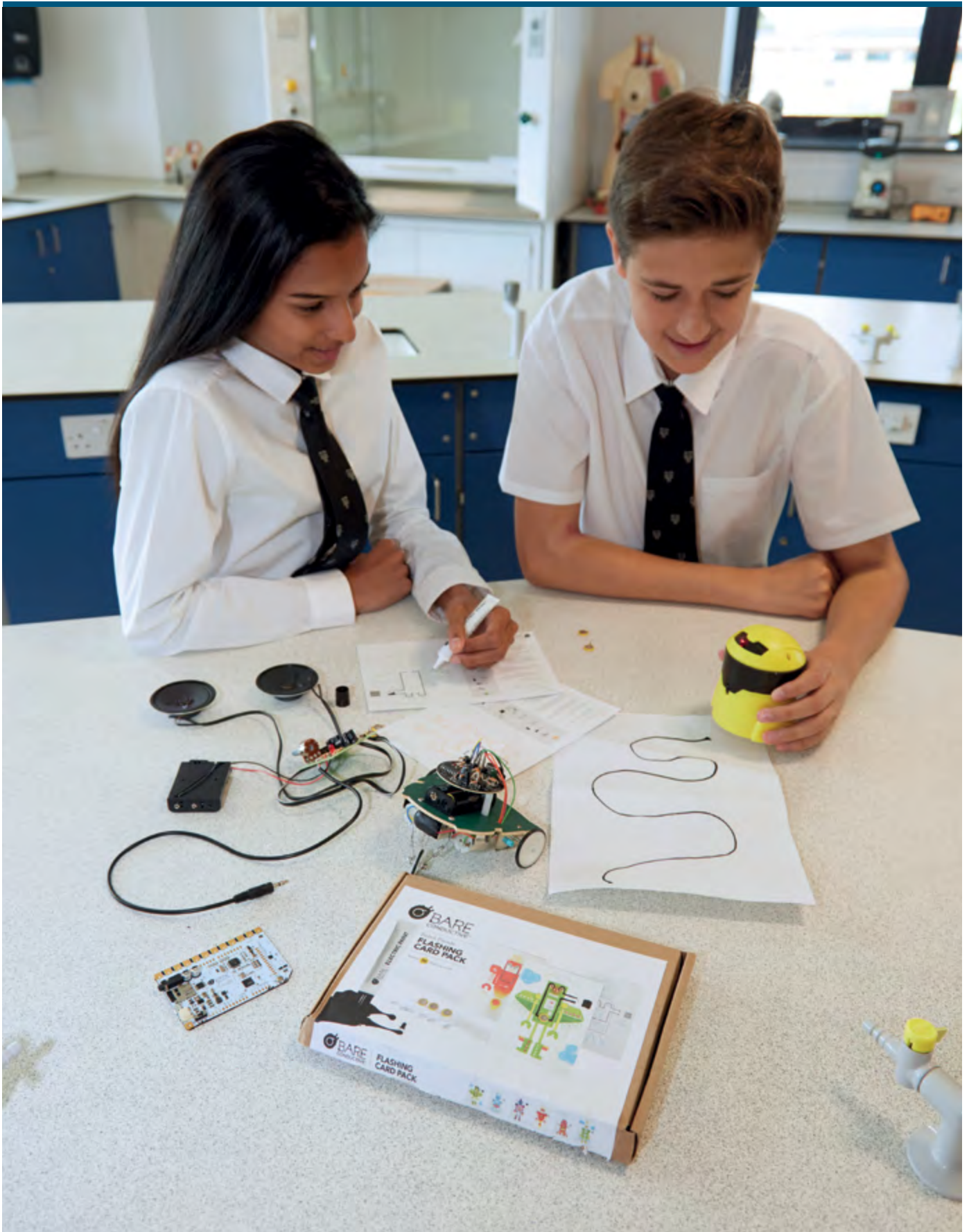
FY17 was another challenging year with overall sales down by 3.3% on a like-for-like basis\* against the prior year (2.8% on a GAAP basis for the 53-week period). As noted above, this has been driven entirely by our School brands which were 10.6% down against the prior year on a like-for-like\* basis. The rest of the business showed growth of 2.4% on a like-for-like\* basis against the prior year against the backdrop of an overall market decline.

Product margins held up well against the prior year, although we had to invest unit cost savings into deeper discounting on our UK brands to support sales.

The timing of the launch of the Hope brand's annual catalogues was changed from April to January this year to better align with customer requirements, which produced a one-time timing impact of (£0.9m). This was offset by equivalent gains from the early delivery of the warehouse consolidation and systems project. Other overhead costs were broadly unchanged.

The divisional adjusted operating profit\* fell to £1.4m (FY16: £3.2m). The continued decline in revenue and hardening of market conditions plus Findel Education's continued failure to hit internal forecasts, has led management to record a £19.8m impairment charge in respect of the goodwill and other intangible assets allocated to the Findel Education Cash Generating Unit (CGU). This has been recorded as an individually significant item. Further individually significant items have been recorded in respect of the early retirement of the business's former web platform and an onerous lease provision in respect of areas of the business' head office which are no longer in use, bringing the total to £28.0m. After taking this into account, Findel Education reported an operating loss of £26.6m (FY16: loss of £2.4m).

\* this is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on page 21.





# Finance Review



"Group adjusted profit before tax\* from continuing operations was £22.2m in FY17, down from £24.8m in FY16."

Stuart Caldwell  
Acting Chief Financial Officer

## Group profit before tax

Group adjusted profit before tax\* from continuing operations was £22.2m in FY17, down from £24.8m in FY16, as summarised below.

	2017 £000	2016 £000	Change £000
Adjusted operating profit*:			
Express Gifts	30,432	31,747	(1,315)
Findel Education	1,417	3,214	(1,797)
Overseas sourcing	(699)	(284)	(415)
Total continuing operations	31,150	34,677	(3,527)
Net finance costs*	(8,921)	(9,901)	980
Adjusted profit before tax*	22,229	24,776	(2,547)
Individually significant costs	(82,152)	(26,456)	(55,696)
Fair value movement on derivative financial instruments	556	—	556
(Loss)/profit before tax from continuing operations	(59,367)	(1,680)	(57,687)

\* this is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found on page 21.

The adjusted operating profit\* of the continuing operations of the Group fell by £3.5m to £31.1m as indicated above and as discussed earlier in the Strategic Report.

## Individually significant items

Individually significant items for the Group before tax totalling £82.2m (FY16: £26.5m) are discussed in note 6 and are summarised below.

	2017 £000
Express Gifts financial services redress and refunds	14,700
Change in accounting estimate regarding impairment modelling	35,215
Onerous lease provisions	7,532
Impairment of goodwill and other intangible assets	21,178
Restructuring costs	2,330
Advisory costs relating to shareholder proposal	680
Impairment of Findel Education web platform	650
Recovery of amounts due from Kleeneze Limited	(133)
Total individually significant items	82,152

The key items are discussed in more detail as follows:

### Express Gifts financial services redress and refunds

Reviews of the provisions required for redress and refunds to customers for flawed financial services have taken place throughout the year as additional information and granularity has become available. An additional £14.7m has been set aside as an individually significant charge to cover these exposures based upon information and estimates made at the current time. £4.0m was repaid to customers during FY17 and a further £3.6m has been paid since the year end. We have noted the recent guidance from the Financial Conduct Authority in relation to the remaining claims for Payment Protection Insurance and the impact of the Plevin case. We believe that our provisions in relation to this are adequate

based upon current estimates. However, these inherently remain subject to change in the light of actual costs incurred and ongoing evolution of market practice.

## Receivables provisioning

As disclosed in last year's annual report, during FY16 management commenced a comprehensive build of a new statistical model for calculating the impairment of trade receivables, which has been completed during FY17. The new model has enabled management, at the FY17 year end, to assess impairment at an account level. In comparison to the model previously used by the Group, the new model allows for the calculation of a more precise impairment provision, based on the risk rating of individual customers. The impairment model used in prior years necessitated the estimate of impairment provisions based on an assessment of the population on a collective basis, which included the use of averages, based on historic roll rates and collection rates.

The granular information provided by the new model has also enabled management to have greater visibility over the impact of changes introduced to receivables collection processes by Express Gifts in recent periods, including the introduction of a strategy to pursue the sale of significantly overdue receivables to third parties. As a result management are able to predict with a greater level of accuracy, based on actual historical performance and specific customer behaviour, the level of provisions required, including for accounts in forbearance arrangements, and to factor in more balanced estimates of the Group's experience of emergence periods. Management have also sought to reflect



the impact of a more balanced approach to its debt sale strategy within the year end estimate, which includes assumptions around the future value, probability and timing of the expected cash flows from the debt sales.

Following the adoption of the new model during FY17, there has been an increase in the impairment provision at March 2017 of £35.2m. This increase represents the impact of changes in accounting estimates since the prior year as a result of the ability to conduct a more granular account by account bad debt estimate and additional information which became available during FY17. In assessing the appropriate treatment of this increase in provision, management has considered whether an adjustment to the level of provision recognised at 31 March 2017 and prior should be recognised as a prior period adjustment in accordance with IAS 8. As the additional provision has arisen from the development of the new model during the year, and is based on information which was not available to the Group in prior years, management has recognised the increase in the provision in the current year. Due to the scale of the charge, however, and as the charge does not relate to the current trading period, management has concluded that the additional charge should be separately disclosed, as an individually significant item, in the income statement.

It is important to note that the changes to the provision have no impact upon the cash generation from customer receivables, or on the way in which customer accounts are managed on a day-to-day basis. Over time, the granular nature of the new models should allow for better credit decision making.

### Onerous lease provisions

The Group's head-office functions relocated from the offices in Hyde that it shared with Findel Education to the Accrington site used by Express Gifts. The move will result in ongoing cost savings and more closely align the Group functions and Express Gifts. Findel Education will remain in situ in Hyde and new tenants will be sought for the vacated space. In light of current market rates, and the lease running until 2034, the Group has therefore recognised an

onerous lease provision of £7.5m as an individually significant item. The provision will be utilised and the associated cash costs will be incurred over the period to 2034.

### Impairment of Intangible assets

Findel Education has a significant level of intangible assets, including brands and goodwill, that arose from a series of acquisitions undertaken over a decade ago. Accounting standards require us to review the carrying value of those non-amortising intangible assets each year against the anticipated discounted future cashflows from the division. We indicated in last year's accounts that the position was sensitive to downside changes to forecast assumptions. As indicated in the Strategic Review on pages 14 to 16, the market conditions facing Findel Education remain challenging in the light of ongoing austerity and budgetary pressures for schools. The business's own performance has also fallen short of previous internal expectations in FY17, with corresponding reductions in the pace of recovery for future years. The completion of the warehouse consolidation in November 2016 and the cost savings that flow from that action are anticipated to improve profits in FY18. However, those savings were already assumed within previous impairment reviews. Consequently, an impairment of £19.8m has been recognised as an individually significant charge. There are no ongoing cash implications from this charge.

Intangible assets and goodwill totalling £1.4m relating to the HHS brand previously used by Express Gifts have been impaired during the year, as the business focuses upon its Studio and Ace brands.

### Restructuring

The ongoing transformation of the Group's businesses has resulted in individually significant restructuring costs totalling £2.3m being recognised during the year. £0.3m of this was settled within the year, with the remaining £2.0m expected to be settled during FY18.

### Pensions

The Group has continued to make additional voluntary contributions to its defined benefit schemes totalling £2.3m in the current financial period (FY16: £2.5m) to improve the funding levels of these closed schemes. An agreement has been reached with the scheme trustees on the ongoing level of contributions, which will remain at £2.5m in FY18, rising to £5.0m from FY20 until FY23. The net deficit at the end of FY17 measured in accordance with IAS19 increased to £5.4m (FY16: £2.3m) due to a lower discount rate being used to value the scheme's liabilities offset by the additional employer contributions.

### Taxation

The Group posted a credit of £1.7m in the year in respect of taxation for the continuing operations (FY16: £0.1m). The effective rate of tax for the year before individually significant items was 21.1% (FY16: 21.1%).

### Earnings per share

The adjusted earnings per share for the year reduced from 22.70p in FY16 to 20.19p in FY17. The basic loss per share from continuing operations was 66.85p per share (FY16: loss per share of 1.85p).

### Summary balance sheet

	2017 £000	2016 £000	Change £000
Intangible fixed assets	26,186	47,322	(21,136)
Tangible fixed assets	44,416	41,423	2,993
Net working capital	165,745	201,370	(35,625)
External net debt	(224,975)	(216,682)	(8,293)
Other net liabilities	5,331	5,442	(111)
Net assets	16,703	78,875	(62,172)

Consolidated net assets amounted to £16.7m at the period end (FY16: £78.9m), reflecting the net loss reported and the actuarial losses in respect of the pension deficit. The net assets are equivalent to 19p per ordinary share (FY16: 91p per ordinary share).

# Finance Review

## Cash flow and borrowings

A part of management's variable incentive plans relates to the generation of free cashflow, as defined in the table below. Free cashflow generation was £13.3m (FY16: £4.5m). After taking account of interest and the net proceeds of M&A activities, the Group's core net debt reduced by £4.8m to £80.8m (FY16: £85.6m), as summarised below.

	2017 £000	2016 £000	Change £000
Adjusted EBITDA* (Increase)/decrease in Express Gifts' receivables net of securitisation inflows (Increase)/decrease in other working capital	40,594	41,519	(925)
Capital expenditure	(7,066)	(526)	(6,539)
Individually significant items	1,706	(12,494)	14,200
Pension scheme contributions	(11,723)	(15,940)	4,217
Other	(8,209)	(6,013)	(2,196)
Free cashflow	(2,291)	(2,500)	209
Interest	258	440	(179)
Repayment of finance leases	13,269	4,486	8,784
Net business disposals	(9,107)	(9,549)	442
Net cash inflow/(outflow)	(562)	0	(562)
Opening core net debt	1,168	6,333	(5,165)
Closing core net debt	4,768	1,269	3,499
	(85,595)	(86,864)	(1,269)
	(80,827)	(85,595)	(4,768)

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

	2017 £000	2016 £000	Change £000
External bank borrowings	110,000	120,000	(10,000)
Less total cash	(29,173)	(34,405)	5,232
Core net debt	80,827	85,595	4,768
Securitisation drawings	142,534	128,911	13,623
Finance leases	1,614	2,176	(562)
Net debt	224,975	216,682	8,293

The Group's bank facilities were refinanced in November 2015, with the facilities all maturing in November 2019. The securitisation facility was increased during the year from £145m to £155m to cater for the continued growth in Express Gifts' credit receivables.

## Dividends and capital structure

The directors have determined that no interim dividend will be paid (FY16: nil) and are not recommending the payment of a final dividend (FY16: nil).

The Company has not received any dividends from its subsidiaries during the period and its balance sheet as at the end of March 2017 shows a deficiency of £95.3m on its retained reserves (FY16: deficiency of £33.2m). The position has worsened as a result of a review of the carrying value of Findel Education Limited in the light of its intangible asset impairment noted above. Findel plc is therefore not yet in a position to declare a dividend. As described in the Strategic Report, the Company does not have plans to reinstate dividend payments at this stage.

## 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 28 to the financial statements. The Group has purchased interest rate caps covering the period to October 2018 to protect against the risk of unforeseen increases to LIBOR rates.

Net finance costs for the year were £8.9m, slightly lower than the £9.9m from FY16, reflecting lower pension scheme interest and the lower borrowing margin achieved in Q4. This charge was covered 3.5 times by adjusted operating profit\* (FY16: 3.5 times).

## Currency risk management

A significant proportion of the products sold, principally through the Group's Express Gifts division, are procured through the Group's Far East buying office and beyond. The currency of purchase for these goods is principally the US dollar, with a small proportion being denominated in Hong Kong dollars.

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 \$52m (FY16: nil). The market value and unrealised gain on those contracts in F17 was £0.6m, and is presented separately on the Income Statement as it represents an element of product costs to be realised in FY18 as the contracts unwind. The Group currently has forward contracts in place with an outstanding principal of \$85m covering the 12 months to June 2018.

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 page 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 EBITDA, adjusted operating profit and adjusted profit before tax

Individually significant items are non-recurrent and therefore not reflective of the underlying performance of the Group. We therefore exclude them when assessing segment 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.

The reconciliation to both operating profit and loss before tax are as follows:

	2017 £000	2016 £000
<b>Adjusted EBITDA</b>	<b>40,594</b>	<b>41,519</b>
Individually significant items	(82,152)	(26,456)
Depreciation and amortisation	(9,444)	(6,842)
Fair value movements on derivatives	556	—
Finance costs	(8,921)	(9,901)
Loss before tax	(59,367)	(1,680)
<b>Adjusted operating profit</b>	<b>31,150</b>	<b>34,677</b>
Individually significant items	(82,152)	(26,456)
Fair value movements on derivatives	556	—
Finance costs	(8,921)	(9,901)
Loss before tax	(59,367)	(1,680)
<b>Adjusted profit before tax</b>	<b>22,229</b>	<b>24,776</b>
Individually significant items	(82,152)	(26,456)
Fair value movements on derivatives	556	—
Loss before tax	(59,367)	(1,680)

## Like-for-like revenue

The Group's businesses operate to a weekly reporting cycle, rather than a calendar month cycle. Consequently, it normally reports upon a 52-week period. The prior year ended on 25 March 2016, so the directors decided to make the current year a 53-week period ending on 31 March 2017 to return closer to the Group's statutory reporting date of March.

A like-for-like comparison of revenue in a 52-week period has been selected as being the 52 weeks ended on 31 March 2017 against the 52 weeks ended on 25 March 2016, as follows:

	53 weeks to 31 March 2017 £000	52 weeks to 31 March 2017 £000	52 weeks to 25 March 2016 £000	Like- for-like change £000
Sales of goods	262,240	260,045	224,880	35,165
Financial services <sup>^</sup>	101,080	99,179	88,098	11,081
Express Gifts	363,320	359,224	312,978	46,246
Findel Education	91,739	91,240	94,401	(3,161)
Major divisions	455,059	450,464	407,379	43,085
Overseas sourcing	1,971	1,971	3,223	(1,251)
Group revenue	457,030	452,435	410,601	41,834

<sup>^</sup> includes rendering of services and fees and interest

## Express Gifts gross product profit

Express Gifts has two primary sources of revenue, sale of goods and financial services. In order to assess the gross profit derived from the sale of goods and the corresponding margin %, it is necessary to deduct the financial services revenues from the reported gross profit, as follows:

	2017 £000	2016 £000
Express Gifts gross profit	183,159	158,585
Less financial services revenue	(101,080)	(88,098)
Express Gifts gross product profit	82,079	70,487

## Express Gifts bad debt as a % of revenue

This is an assessment of the impairment charges incurred in respect of Express Gifts' credit receivables, which is calculated using the impairment loss for the year before individually significant items, as follows:

	2017 £000	2016 £000
Impairment losses recognised (see note 16)	61,643	16,415
Less individually significant items	(35,215)	(4,300)
Adjusted impairment losses	26,428	12,115
Express Gifts total revenue	363,320	312,978
Bad debt as a % of revenue	7.3%	3.9%

## Core net debt

The Group's revolving bank facility contains covenants that monitor the borrowings under that facility net of cash held by the Group. This is therefore our preferred measure of indebtedness.

It is calculated as follows:

	2017 £000	2016 £000
<b>Total bank loans</b>	<b>252,534</b>	<b>248,911</b>
Less securitisation loans	(142,534)	(128,911)
Less cash and cash equivalents	(29,173)	(34,405)
<b>Core net debt</b>	<b>80,827</b>	<b>85,595</b>

## Net debt

This measure simply takes account of total borrowings less cash held by the Group and represents our total indebtedness.

It is calculated as follows:

	2017 £000	2016 £000
<b>Total bank loans</b>	<b>252,534</b>	<b>248,911</b>
Less cash and cash equivalents	(29,173)	(34,405)
<b>Net debt</b>	<b>223,361</b>	<b>214,506</b>

## Debt funding consumer receivables

The majority of the credit receivables of Express Gifts are eligible to be funded in part from the securitisation facility, with the remainder being funded from bank loans and cash equivalents. This measure simply indicates the size of those eligible receivables.

It is calculated as follows:

	2017 £000	2016 £000
<b>Securitisation loans (71%)</b>	<b>142,534</b>	<b>128,911</b>
Cash and bank (29%)	58,218	52,654
<b>Eligible receivables (100%)</b>	<b>200,752</b>	<b>181,565</b>

## Free cashflow

The Group's cash generation to service indebtedness is monitored using the framework set out on page 20 of the Finance Review. It reconciles to cash generated by operations as follows:

	2017 £000	2016 £000
<b>Free cashflow</b>	<b>13,268</b>	<b>4,486</b>
Securitisation loans drawn	(13,623)	(9,224)
Purchases of property plant and equipment and software	11,723	15,940
Other	(214)	(2,313)
<b>Net cash from operations</b>	<b>11,154</b>	<b>8,889</b>

# Principal risks and uncertainties

Risk	Root cause	Key mitigating controls
<p><b>Our customers</b></p> <p>We don't meet customers' expectations resulting in poor brand and product advocacy</p>	<p>Our metrics that monitor the Customer Experience may not identify underlying common issues</p> <p>Our operational processes may be more inward focusing than external</p> <p>Our IT systems do not interact flexibly and timely in line with evolving market demands</p>	<p>We are continuing to develop a suite of non-financial KPIs through regular engagement with customers to maintain our understanding of their view of our process and their experience</p> <p>Our transformation programme and investment decisions are derived and reported from the customer perspective</p> <p>We have and will continue to invest in customer-facing IT systems. We also monitor industry-standard innovations in this area</p>
<p>Express Gifts' strategy to match its brand, products and financial services offer to meet the specific needs of different groups of customers is not successful</p>	<p>Brand positioning does not align with our target customer set(s) resulting in a poor customer experience and/or sub-optimal profitability</p> <p>Operational processes do not meet the demands of customers</p> <p>Underwriting and collection policies and procedures are sub optimal from both a customer experience and financial recoveries perspectives</p>	<p>Express Gifts have 6 'core personas' of our customer base, with tailored marketing and operational processes to match the needs of customers</p> <p>Constant research is performed on products and experience using in-house as well as specialist agencies to conduct pilots as well as market research before full rollout</p> <p>New functionality, with tailored credit products on-line combined with enhanced forecasting and modelling capability will enhance existing systems in the coming months</p>
<p>External market factors limit our customers' choices around buying</p>	<p>Government funding changes impact available funding for educational resources</p> <p>Competitor activity drives market changes in non-sustainable direction such as continuous discounting</p> <p>Economic conditions adversely affect consumer confidence and spending</p>	<p>We work closely with industry advisory groups to both understand future political decisions and plan responses</p> <p>We monitor competitors' prices to identify strategic actions and adapt our own pricing models</p> <p>We use a series of bureau reports and economic indicators to adapt our marketing and responsible lending strategies</p>

Risk	Root cause	Key mitigating controls
<p><b>Risks specific to the Group's divisions</b></p> <p>Express Gifts is seasonal, and is more heavily weighted towards the second half of the financial year. In Findel Education, the September "Back-to-School" period accounts for much of the market's annual sales and profits</p>	<p>Seasonal fluctuations in trading volumes can lead to staffing levels and systems resilience being insufficient to meet peak demand, whilst being sub-optimal at quieter times</p>	<p>The seasonal trends are highly predictable and the Group is focused on delivering a high quality of service and being well prepared for managing peak demand in both of its businesses</p>
<p>We lose specific key customers within our Education markets</p>	<p>We fail to secure and/or retain positions on key regional panels of preferred suppliers</p>	<p>We proactively engage using dedicated customer relationship managers to ensure we are delivering the outcomes that they expect and also explore broader options in areas such as Corporate Social Responsibility</p>
<p><b>Regulatory risks</b></p> <p>The financial services activities of Express Gifts are subject to regulation from the Financial Conduct Authority (FCA)</p>	<p>The withdrawal or material variation of this permission would have a material adverse effect on the Group. In addition, any changes in legislation, regulation or FCA policy (for example restrictions on interest rates or account fees) could have a material adverse effect on the Group</p>	<p>The Group has taken advice from industry-recognised third party professionals to put in place appropriate practices, policies and plans. It monitors developments and changes to regulatory standards internally and in conjunction with advisors</p>
<p>It is also required to conduct its business and develop operating cultures that mitigate against the risk of its customers receiving a poor outcome from its financial services activities</p>	<p>Failure to manage this conduct risk may lead to customers seeking appropriate levels of redress or refund, as well as the potential withdrawal of its FCA permissions</p>	<p>The Group monitors compliance with applicable financial services and consumer credit regulations by taking advice from industry-recognised third party professionals, where appropriate. It also undertakes regular training on conduct-related matters with relevant directors, employees and managers</p>
<p>The refund and redress programmes for legacy financial services products costs more than currently anticipated, and/or is not conducted in line with the FCA's expectations</p>	<p>Weaknesses in the models, and/or the assumptions used to estimate the sums required, and/or the processes used to facilitate the programme lead to further material changes to the cost</p>	<p>External advice has been taken to produce customer-level calculations of sums due and experienced co-sourcing partners have been engaged to assist with the implementation. We have regular dialogue with the FCA</p>



# Principal risks and uncertainties

Risk	Root cause	Key mitigating controls
<b>Operational risk</b> Both Express Gifts and Findel Education are undergoing a significant amount of operational and systems transformation	Failure to manage this change, risks disruption to operations or a failure to achieve the planned level of benefits	The businesses both rely upon having dedicated project management teams and appropriate levels of governance to oversee change management
The Group may be subject to cyber-attacks/malware	Prolonged attacks could lead to a material disruption to operations and/or a loss of key systems and data	This risk is mitigated through the security systems within the Group's IT infrastructure and through maintenance of appropriate back-up procedures. The Group monitors potential new threats from cyber-attack and deploys appropriate levels of resource to close emerging loopholes. It has business continuity plans covering both the business and customer engagement and carries insurance cover against a prolonged loss of service. Employees receive training to identify potential threats
The Group's businesses rely upon the ability to source products for resale to its customers	Interruptions in the availability or flow of stock from third-party product suppliers, or issues arising from the sale of faulty or defective goods leading to product recalls could have an adverse effect on the Group's business	To mitigate this risk, the Group purchases products from a wide variety of domestic and international third party product suppliers and engages in appropriate quality assurance processes. Further details of these processes are set out in the Corporate Social Responsibility Report on pages 63 to 65
The Group is dependent on third parties for outsourcing functions	Interruptions in the supply of outsourcing functions could have an adverse effect on the Group's business	The Group carries out extensive reviews of any potential outsourcing partner. The Group has established disaster recovery procedures designed to minimise the impact of any such disruption. The Group also carries insurance cover against the potential loss of key facilities
<b>Financial risk</b> The Group is reliant on the continued provision of credit facilities, and the ability to refinance them as they fall due, to support its operations	The current facility agreements which mature in November 2019 include various financial and operational covenants which, if not complied with, would enable the lenders to seek immediate repayment of amounts outstanding under the outstanding credit facilities	The level of headroom against the covenants within the new facility agreement mitigates this risk
The business is required to comply with applicable taxation laws	Failure to manage this risk may lead to penalties being imposed	The Group monitors compliance with applicable tax laws by taking advice from industry-recognised third party professionals, where appropriate. It does not undertake any tax planning schemes

# Our people, our products, community and the environment

Our Corporate Social Responsibility Report is set out on pages 63 to 65 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

We also report on the gender diversity of the Board and within the senior management team and the gender balance amongst the Group's UK employee base. The position as at 31 March 2017 was as follows:

	Male employees		Female employees		Total employees	
	Number	Percentage	Number	Percentage	Number	Percentage
Findel PLC Board	7	100%	0	0%	7	100%
Senior Management	53	68%	26	32%	79	100%
All UK Employees	761	48%	835	52%	1,596	100%

This Strategic Report is approved on behalf of the Board

Ian Burke  
Chairman

Phil Maudsley  
Chief Executive Officer

26 June 2017

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# Directors, Officers and Statutory Information

## Board of Directors



### 1. Mr M I Burke, 61<sup>(a)</sup> Chairman

Ian Burke joined the Board on 12 January 2017. He has spent the majority of his career in the leisure industry and is currently chairman of The Rank Group, having previously overseen the growth of that business as chief executive. Previously, he has served as chief executive of Thistle Hotels and has also held the position of managing director at both Holiday Inn Worldwide and Gala Clubs.

### 2. Mr P B Maudsley, 56 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.

### 3. Mr E F Tracey, 68<sup>(a)(b)(c)(d)</sup> Senior Non-Executive Director

Eric Tracey was appointed to the Board on 28 August 2009. He is chairman of investment manager GO Investment Partners LLP and a trustee director of the Stroke Association and chairman of Goodenough College and two New Zealand related charities and a property management company. Prior to this, Eric was senior independent director, an independent director and chairman of the Audit Committee at Chloride Group plc and chairman of the Audit Committee at Burtons Holdings Ltd and The NEC Group and group finance director of Amey plc and then Wembley plc having previously been a partner in Deloitte & Touche LLP.

### 4. Mr F Coumau, 45<sup>(a)(c)(d)</sup> Non-Executive Director

Francois Coumau was appointed to the Board on 12 August 2013. He is group managing director at Immediate Media Company Limited having previously held a series of senior roles at eBay, most recently as general manager for Continental Europe. Prior to this, his career has included senior roles at L'Oreal and Mars.

### 5. Mr W Grimsey, 65<sup>(a)(b)(d)</sup> Non-Executive Director

Bill Grimsey joined the Board on 1 March 2012. He has held a variety of senior executive and non-executive roles with companies in the retail sector such as Tesco, Kingfisher, Wickes and the Big Food Group. Most recently he was the non-executive chairman of Focus (DIY) Ltd. He is currently non-executive chairman of The Physical Company Ltd.

### 6. Mr G F Ball, 54<sup>(a)(b)(c)</sup> Non-Executive 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 a director of GF Ball Consultancy Ltd.

1 2 3 4 5 6

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<sup>(a)</sup> Member of the Nomination Committee

<sup>(b)</sup> Member of the Audit Committee

<sup>(c)</sup> Member of the Risk Committee

<sup>(d)</sup> Member of the Remuneration Committee



## 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 53 week period ended 31 March 2017. The Corporate Governance Report set out on pages 32 to 35 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 25. 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

In determining whether the Group's financial statements for the period ended 31 March 2017 can be prepared on a going concern basis, the directors considered all factors likely to affect its future development, performance and its financial position, including its cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities in the current economic climate. The financial position of the Group, its cash flows, liquidity position and borrowing facilities and details of those key risks and uncertainties are set out in further detail in the Finance Director's Review on pages 18 to 20.

The directors have reviewed the Group's trading and cash flow forecasts as part of their going concern assessment, including considering the potential impact of reasonably possible downside sensitivities which take into account the uncertainties in the current operating environment, including amongst other matters, demand for the Group's products, its available financing facilities, and regulatory licensing and compliance. Although at certain times the level of facility and/or covenant headroom reduces to a level which requires cash flow initiatives to be introduced to ensure that the funding requirements do not exceed the committed facilities or result in non-compliance with covenants, management are confident that such actions are supportable, and that further controllable mitigating actions are available that could be implemented if required. The Group's current banking facilities mature in December 2019.

Taking into account the above circumstances, the directors have formed a judgement that there is a reasonable expectation, and there are no material uncertainties that the Group and the Company have adequate resources to continue in operational existence for a period of at least 12 months.

Accordingly, they continue to adopt the going concern basis in preparing the Group's annual consolidated financial statements.

### Viability Statement

While the financial statements have been prepared on a going concern basis, the provisions of the UK Corporate Governance Code requires 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 2020.

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 reasonable downside scenarios. 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 24.

On the basis of this review, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period up to March 2020.

### Dividends

The directors have determined that no interim dividend will be paid (FY16: nil) and are not recommending the payment of a final dividend (FY16: nil).

The Board will focus on strengthening the financial position of each of the operating subsidiaries' balance sheets 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 28, on pages 57 and 58 of the Report of the Audit Committee, on page 62 of the Report of the Risk Committee and on pages 22 and 24 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 24 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 is greater than 479.4p;
- the convertible shares will automatically be converted into ordinary shares in the event of a takeover offer;
- 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.

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 23. 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.

## Directors' Report

### Acquisition of own shares

The Company did not obtain authority from shareholders at the AGM held in July 2016 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 27. Information concerning their interests in the share capital of the Company as at 31 March 2017 and as at 26 June 2017 is included in the Board Report on Directors' Remuneration on page 54. All the directors served throughout the year save that Mr Burke was appointed to the Board on 12 January 2017, replacing Mr Sugden as chairman of the Board, who stepped down from the Board on the same date. Since the year end Mr Kowalski has also stepped down from the Board with effect from 5 April 2017. A summary of the rules relating to the appointment and removal of directors and details regarding the powers of the directors are set out in the Corporate Governance Report on pages 32 to 35. Notwithstanding those rules the Board has decided that all members of the Board will now put themselves up for election or annual re-election.

Following the annual performance evaluation, the Board 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. The Nomination Committee endorses their proposed reappointment at the forthcoming Annual General Meeting.

Mr Maudsley has a service contract with the Company which provides a 12 month notice period which will reduce to 6 months on 1 April 2018. As at the year-end Mr Burke had a service contract with the Company which provided a 6 month notice period, however on switching status to that of a non-executive chairman on 5 April 2017 that agreement was terminated by mutual consent (so that he no longer has a service contract with the Company) and he now has a 1 month notice period under his letter of appointment. Mr Tracey as a non-executive director does not have a service contract with the Company. His letter of appointment provides for a 3 month period of notice. 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. Further details of the service contracts and letters of appointment of directors can be found on pages 44 and 45 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.

### Employees

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 to employees regarding the Company and factors affecting its performance and that of its subsidiaries is provided through normal management channels and regular consultation.

### Environmental matters

Information on environmental matters, including our greenhouse gas emissions is disclosed in the Corporate Social Responsibility Report on pages 63 to 65.

### 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 32 to 35. 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 (2016: £nil).

### Substantial Shareholdings

As at 31 March 2017 the Company had been notified pursuant to the Disclosure and Transparency Rules of the following material interests of 3% or more in its share capital:

	Number of shares	Proportion of share capital	Number of voting rights		Proportion of voting rights
			Direct	Indirect	
Sports Direct International plc	25,850,000	29.90%	25,850,000	—	29.90%
Schroders plc.	17,286,983	20.00%	—	15,118,175	17.49%
Toscafund Asset Management LLP	10,447,575	12.09%	—	10,447,575	12.09%
River & Mercantile Asset Management LLP	3,850,000	4.45%	3,850,000	—	4.45%
FIL Ltd	8,644,253	9.99%	—	8,644,253	9.99%
Aberforth Partners Ltd	4,705,300	5.44%	—	4,705,300	5.44%
Henderson Global Investors Limited	4,253,193	4.94%	—	4,253,193	4.94%

On 11 May 2017 Toscafund Asset Management LLP notified the Company that it had increased its interest to 11,245,661 shares, representing 13.01% of the Company's share capital.

There had been no further notifications between 31 March 2017 and 23 June 2017.

### Auditor

KPMG LLP has notified its willingness to continue as auditor to the Company and a resolution concerning their re-appointment will be proposed at the Annual General Meeting together with a resolution to authorise the directors to set the remuneration of the auditor. An analysis of audit and non-audit fees earned by the auditors during the year is set out in note 10 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 ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are 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 29 August 2017 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.

### 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 2017 Annual Report & Accounts.

### Recommendation

The Board considers that all business to be proposed at the 2017 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 2017 Annual Report & Accounts.

By order of the Board

Mark Ashcroft  
Company Secretary  
26 June 2017



## Corporate Governance Report

### Compliance

The Board considers that throughout the year under review the Company has complied with the relevant provisions of the 2014 issue of the UK Corporate Governance Code (the "Code"), and with the rules of the UK Listing Authority, save that the Board operated with an Executive Chairman throughout the year. A copy of the Code can be located at <https://www.frc.org.uk>.

### Application of the principles of the Code

This report explains how the Company has applied the main principles of the Code to its activities. The section of the Code entitled "Main Principles of the Code" sets out the main and supporting principles of good governance for companies, which are split into the following topics: leadership; effectiveness; accountability; remuneration and relations with shareholders.

### The Board

At 31 March 2017, the Board was made up of seven members comprising the Chairman, Mr Burke; the finance director, Mr Kowalski; a further executive director, Mr Maudsley and 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 27.

The current Chairman, Mr Burke, joined the Board on 12 January 2017, taking over as executive chairman from Mr Sugden who stepped down from the Board on the same date. Mr Burke's other commitments are summarised in the biographical details on page 27 and the Board considers these are not a constraint on his agreed time commitment to the Company. On 5 April 2017 Mr Burke became non-executive chairman. The Board considers Mr Burke to be independent at the time of his appointment and on the change of his status notwithstanding his short period of executive service which the Board considers to be a very short-term transitional period and in respect of which he did not participate in any incentive plans.

On 5 April 2017, as Mr Burke stepped back into a non-executive chairman role, Mr Maudsley was appointed Chief Executive of the Company, returning the Board to a more usual governance structure. On the same date, Mr Kowalski stepped down from the Board and the Company is currently operating with an Acting CFO who is not a director of the Company pending the completion of a formal recruitment process for a new Finance Director which is being overseen by the Nominations Committee.

The Senior Independent Director is Mr Tracey and he is the director whom shareholders may contact if they feel their concerns are not being addressed through the normal channels. During the period under review the Company operated with an Executive Chairman and the role of the Senior Independent Director was enhanced, including in the following ways, to ensure continued independent oversight by the Board:

- Chairing the Nomination Committee
- Agreeing Board agenda and minutes with the Executive Chairman
- An enhanced role in shareholder meetings
- Carrying out the annual appraisal of Board performance
- Reporting to shareholders via a Nomination Committee Report in the annual report.

Following the change of status of the chairman to that of a non-executive chairman and the appointment of Mr Maudsley as CEO, the role of the Senior Independent Director has reverted to a more normal brief and Mr Burke has taken over the role of chair of the Nomination Committee. The non-executive directors met during the year without the executive directors present.

Directors are subject to election at the annual general meeting immediately 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. The Board assesses annually whether each non-executive director is independent against the criteria set out in the Code.

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 Main Board Terms of Reference, copies of which are available on request, and are summarised in the Corporate Governance Report on pages 32 to 35.

Notwithstanding the above the Board has determined that all directors should in future stand for election or re-election on an annual basis and this approach will be adopted at the 2017 Annual General Meeting.

During the period ended 31 March 2017, no director had any material interest in any significant contract to which the Company or any subsidiary was a party.

### 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.

### Board Procedures

The Board met formally in person or by telephone conference call on 15 occasions during the period (3 of which were two day meetings) and individual attendance at those and at the meetings of the Audit Committee, the Remuneration Committee, the Risk Committee and the Nomination Committee is set out in the table below. 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 57 to 60 and in the Report of the Risk Committee on pages 61 to 62. 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 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.findel.co.uk](http://www.findel.co.uk)).

### Attendance at Board and Committee Meetings

The following table shows the attendance of directors at meetings of the Board and of its standing committees during the period to 31 March 2017:

	Board	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
D A Sugden <sup>^</sup>	12	*	*	*	4
I Burke <sup>‡</sup>	3	*	*	*	1
T J Kowalski	15	*	*	*	*
P B Maudsley	15	*	*	*	*
E F Tracey	15	6	1	9	7
G Ball	13	5	1	*	7
F Coumau	14	*	1	8	6
W Grimsey	15	6	*	9	6
Number of meetings in the year	15	6	1	9	7

\* Where an asterisk appears in the table the director listed was not a member of the committee during the period.

<sup>^</sup> Mr Sugden stepped down from the Board on 12 January 2017. He attended all 12 Board meetings and 4 of the 6 Nomination Committee meetings held during his tenure.

<sup>‡</sup> Mr Burke was appointed on 12 January 2017 and attended all 3 Board meetings and the one Nomination Committee meeting held during his tenure.

Three of the above referenced Board meetings were each held over a two day period and seven of the meetings were held by telephone conference call. On the occasions when a full complement of the Board could not attend a Board meeting the Chairman subsequently discussed the issues covered with the Board member concerned.

## Corporate Governance Report

### Board Effectiveness

During the year 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 and he discussed his reports with each of the Chairman, the Senior Independent Director and the respective chairmen of the standing committees before a full board discussion was held in March 2017. Subsequently the Chairman held one to one meetings with each of the directors to discuss feedback regarding that director's performance. The Board accepted the conclusions of the review and has a plan of action for further improvements in its processes and performance.

The Senior Independent Director met during the financial year with each of the non-executive directors to discuss the performance of the Chairman. The Senior Independent Director has discussed the results of that 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.findel.co.uk](http://www.findel.co.uk)).

The Chairman, the CEO and the Finance Director are primarily responsible for investor relations. 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. During the year the Senior Independent Director and the Chairman of the Remuneration Committee also meet with institutional shareholders as required. 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 show of hands, unless a poll is validly called and after each such vote the number of proxy votes received for and against the resolution is announced.

### 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.

### Committee Membership

During the year the Board decided to split the Audit & Risk Committee into two separate committees effective from August 2016. The members of the Audit & Risk Committee remained in post on the Audit Committee, and Mr Ball took over the chairmanship of the newly created Risk Committee with Mr Tracey and Mr Coumau making up the membership of that committee. On his appointment as chairman in January 2017 Mr Burke joined the Nomination Committee replacing his predecessor, Mr Sugden, and Mr Maudsley also joined that committee upon his appointment as CEO. Otherwise the membership of the board's standing committees remained stable during the year.

Details of the membership of the committees as at the end of the period under review are included on page 27.

### Audit Committee

The Audit Committee operates under written terms of reference which are available on the Company's website ([www.findel.co.uk](http://www.findel.co.uk)) and is comprised of only independent non-executive directors. It is chaired by Mr Tracey. The Committee's report is set out on pages 57 to 60.

**Remuneration Committee**

The Remuneration Committee operates under written terms of reference which are available on the Company's website ([www.findel.co.uk](http://www.findel.co.uk)). It is comprised of only independent non-executive directors and Mr Grimsey is the chairman. The Committee's report is set out on pages 46 to 55.

**Nomination Committee**

The Nomination Committee operates under written terms of reference which are available on the Company's website ([www.findel.co.uk](http://www.findel.co.uk)) and is comprised of the Chairman, the chief executive (since his appointment in April 2017) and the independent non-executive directors. The committee chairman during the year was Mr Tracey, the Senior Independent Director. This reflected the enhanced role for the Senior Independent Director agreed by the Board during the period in which the Company operated with an executive chairman. Since the year end the chairmanship of the Committee passed to the Chairman, Mr Burke. The Committee's report is set out on page 56.

By order of the Board

Mark Ashcroft  
Company Secretary

26 June 2017



## Remuneration Policy Report

### Introduction

This report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. 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 2017 AGM and, if it is approved, will be effective from the date of approval. The policy will run until the 2020 AGM, unless a further policy is submitted for shareholder approval prior to that meeting. In 2016/17 we have operated under our previous remuneration policy (approved at the 2014 AGM). The policy is included in our 2015/16 Directors' Remuneration Report and can be accessed from our website at [www.findel.co.uk](http://www.findel.co.uk).

The Annual Report on Remuneration, along with the Annual Statement from the Committee Chairman, will be put to a single advisory vote at the 2017 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 remain:

- To provide a competitive remuneration package which will attract and retain the highest calibre of executive;
- To ensure that individual rewards and incentives 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;
- To operate simple, transparent incentive structures 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 UK Corporate Governance Code together with guidance from the FCA, institutional investors and investor bodies (including 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).

**Policy table**

This policy came into effect, as a result of shareholder approval, on 18 July 2014.

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics
Base Salary			
To attract and retain high calibre executives.	<p>Reviewed on an annual basis with increases effective from 1 August.</p> <p>Takes into account:</p> <ul style="list-style-type: none"> <li>• pay levels in companies of comparable size and complexity</li> <li>• skills, knowledge and experience of the individual;</li> <li>• individual performance and development within the role;</li> <li>• any change in responsibilities;</li> <li>• rates of inflation and market wide wage increases in comparable companies; and</li> <li>• pay and employment conditions elsewhere in the Group.</li> </ul>	<p>Salary levels are normally reviewed annually and are eligible for increases during the three year policy period.</p> <p>While no maximum applies, the Committee will be guided by the salary increase budget (in percentage of salary terms) set across the workforce generally.</p> <p>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.</p>	A broad assessment of individual and corporate performance is considered as part of the annual review process.
Pension			
To provide market competitive long-term retirement benefits and reward mechanisms.	<p>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.</p> <p>Only basic salary is pensionable.</p>	<p>The Company's policy, other than in the case of legacy arrangements, is to limit pension contributions to 20% of salary.</p> <p>Phil Maudsley's company pension contribution is set at £83,020. For new directors, a pension contribution of up to 15% of salary may be made.</p>	None.

## Remuneration Policy Report

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics
Benefits			
To provide cost effective employee benefits.	<p>Other benefits include a company car or car allowance, fuel, private medical insurance, home telephone costs and any all employee share incentive plan adopted by the Company.</p> <p>The Committee may elect to offer Executive Directors other employee benefits on broadly similar terms as other employees.</p> <p>In the event that an Executive Director is required to relocate, reasonable expenses or an allowance may be payable.</p>	<p>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.</p> <p>Any all-employee share incentive will be operated within the limits set by HMRC from time to time.</p>	None.
Performance related bonus			
To incentivise and reward for the achievement of short-term targets linked to the company's annual KPIs.	<p>A bonus is paid based on the achievement of performance conditions set at the beginning of the financial year.</p> <p>The annual bonus is paid in cash although Committee may elect to defer a portion of the performance related bonus into Company shares for a period of time (to be determined by the Committee on award).</p> <p>Clawback provisions enable the Committee to reclaim any bonus paid as a result of performance that is later the subject of a restatement of the Company's results within a two-year period.</p>	Bonus opportunity of 100% of salary.	<p>Annual bonus will be earned based on performance against a subset of the Company's key performance indicators.</p> <p>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.</p> <p>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 or business unit objectives).</p> <p>For achieving the threshold performance targets, typically no more than 20% of the maximum bonus opportunity is payable.</p> <p>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.</p> <p>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 if it feels it is appropriate to do so.</p>

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics
Performance Share Plan ('PSP')			
<p>To incentivise and reward for the achievement of long-term targets which support the business strategy.</p> <p>Aligns Executives' interests with those of shareholders.</p>	<p>Annual grant of share-based awards which are subject to performance conditions and normally vest three years from grant.</p> <p>A holding period applies which requires all vested shares (net of tax) to be held by the executive for a period of two years.</p> <p>Participants may be entitled to any dividends payable on vested shares.</p> <p>Clawback provisions enable the Committee to reclaim any amount paid in the event of a restatement of the Company's results, an error, a significant failure of risk management or gross misconduct.</p>	<p>PSP grants of up to 150% of salary (or 200% of salary in exceptional circumstances such as recruitment).</p>	<p>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.</p> <p>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.</p> <p>Up to 20% of an award may vest for threshold performance with full vesting taking place for equalling, or exceeding, the maximum performance targets.</p> <p>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 if it feels it is appropriate to do so.</p>
Share ownership Guidelines			
<p>To provide a continued focus on long-term sustainable value creation and to further align executives' and shareholders' interests.</p>	<p>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 share ownership guideline has been achieved.</p>	<p>The share ownership guideline is currently set at 100% of salary for directors and this shall be kept under review over the life of the policy.</p>	<p>N/A</p>



## Remuneration Policy Report

Purpose and Link to Strategy	Operation	Maximum	Performance Metrics
Non-Executive Director Fees			
To attract and retain individuals with relevant experience and knowledge to enhance the Board.	<p>The Committee is responsible for setting the Company Chairman's fee. The Chairman receives a single fee encompassing all his responsibilities.</p> <p>The Board as a whole (excluding the non-executive directors) is responsible for setting the level of remuneration for non-Executive Directors.</p> <p>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. Fee levels are reviewed periodically and take into account:</p> <ul style="list-style-type: none"> <li>• skills, knowledge and experience of the individual;</li> <li>• the expected time commitments, scope and responsibilities of each role; and</li> <li>• market rates at companies of a comparable size and complexity.</li> <li>• Non-Executive Directors are excluded from any discussions relating to their own fees.</li> </ul> <p>Reasonable expenses may also be reimbursed.</p>	<p>The current fee levels will be eligible for increases 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.</p> <p>Non-Executives are not eligible to participate in any incentive arrangements.</p>	None.

### 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;
- Discretion required when dealing with a change of control (e.g. the timing of testing performance targets) 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;
- 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 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 52 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, the majority of bonus is subject currently to the achievement of challenging profit and free cash flow targets.

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, outstanding 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 share price targets which provide clear alignment of interests between shareholders and executives in terms of delivering successful progress in the Group's businesses. New measures which are aligned to the Company's medium to long term strategy may be introduced 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.

## Remuneration Policy Report

### 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, although awards to divisional executives are also subject to specific divisional performance conditions and underpins.

### How employee's views are taken into account

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

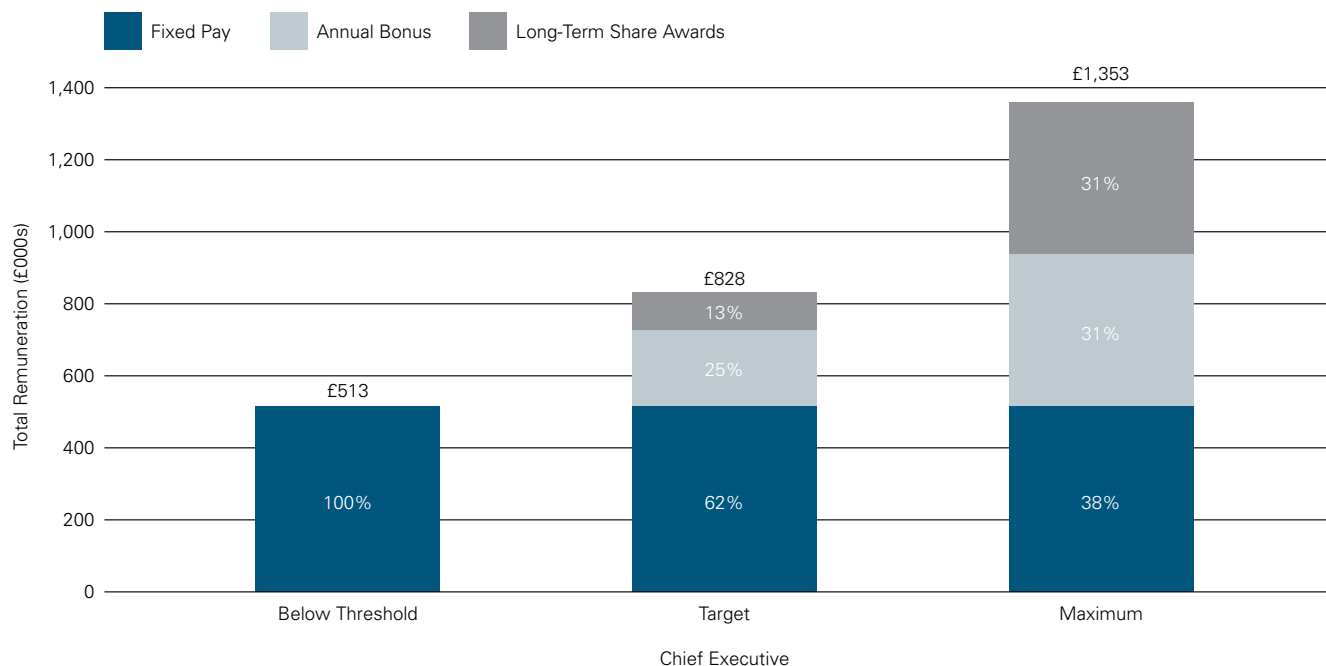
However, the Committee is provided with an overview of employee and executive remuneration structures at the Company. The Committee is kept up to date, more generally, with pay and employment conditions elsewhere in the Company and is informed of the salary increase budget for the Group as a whole when setting Executive Directors' pay increases (if any) each year.

### How shareholders views are taken into account

As a matter of course, after the AGM, the Committee will consider feedback from shareholders and relevant guidance from shareholder representative bodies. The Committee will also seek feedback from shareholders from time to time as part of a wider shareholder dialogue if considered appropriate. This feedback is then considered as part of the Committee's ongoing review of remuneration policy.

### 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 three different performance scenarios: below threshold, on-target and maximum. When reviewing the charts that follow, it should be noted that these have been prepared based on the policy detailed in the table above but ignoring the potential impact of future share price growth.



**Assumptions**

- Below threshold – fixed pay only being 2017/18 base salary, the value of 2016/17 benefits and 2017/18 pension contribution
- Target – fixed pay plus 50% of 2017/18 bonus payable and 25% vesting of 2017 PSP award
- Maximum – fixed pay plus 100% of 2017/18 bonus payable and 100% vesting of 2017 PSP award

Assumes 2017 PSP award of 100% of salary and ignores potential 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	<p>Base salary levels will be set by reference to the experience of the individual, taking into account relevant market data and internal relativities.</p> <p>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.</p>
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 15% of salary.
Annual Bonus	<p>The maximum ongoing incentive opportunity under the Company's policy is 100% of salary.</p> <p>The annual bonus will operate as outlined for current executives, with the respective maximum opportunity, albeit pro-rated for the period of employment.</p> <p>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.</p>
Long-Term Incentives	<p>PSP awards will be granted in line with the policy outlined for the current Executive Directors.</p> <p>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 150% 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.</p> <p>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.</p>
Buy-out Awards	<p>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.</p> <p>The Committee will make an announcement to shareholders, detailing the remuneration arrangements, at the time of appointment.</p>

## Remuneration Policy Report

### 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. 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.

The Committee will retain discretion, on appointment of a new Executive Director, to agree a service contract with a 24 month notice period (e.g. in the event that the Company was the subject of takeover speculation) which would reduce on a monthly basis during the first 12 months of appointment to a 12 month notice period or less. While this provision is not considered part of 'normal' policy, it is considered appropriate to retain flexibility should exceptional circumstances arise which would be detailed in the Annual Report on Remuneration at the relevant time.

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

##### Service Contracts of Executive Directors

The service contract of Mr Maudsley dated 6 October 1997 (amended 18 January 2011) was amended on 5 April 2017 to reflect his promotion to Chief Executive. Mr Maudsley's contract contains a 12 month notice period from either party until 31 March 2018, after which time it reduces 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 Kowalski left the Board on 5 April 2017. His service contract, dated 2 October 2010, was subject to one year's rolling notice by either party. In the event of termination of employment, the Company could elect to make up to 12 monthly payments to the value of base salary and benefits that may cease, at the discretion of the Company, to the extent that alternative employment is taken up. Full details of his termination arrangements are provided on page 53.

##### 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 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.

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 PSP (approved by shareholders at the 2016 AGM), 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 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. Mr Burke is a director of The Rank Group Plc and there were no other such arrangements in place during the period under review.

### 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.

Ian 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. Ian 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 Tracey is dated 11 November 2009; for Mr Grimsey, 30 January 2012; for Mr Coumau, 2 August 2013; for Mr Greg Ball, 16 February 2016.

Mr Tracey's letter of appointment entitles him to 3 months' notice of termination. The letters of appointment of the other Non-Executive Directors are terminable at will. Save for any payment of fees in lieu of notice to Mr Tracey there is no entitlement to compensation for loss of office in connection with the termination of the services of the Non-Executive Directors.

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

### Dear Shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 March 2017.

The previous Findel Remuneration Policy was approved by shareholders in 2014 and had a three year life. In preparation for this, the Remuneration Committee carried out a comprehensive review of remuneration and is putting forward a revised remuneration policy to shareholders at the AGM to be held on 29 August 2017. If it is approved, the intention is for the policy to operate over the next three year period to 2020. Further details of the review that was undertaken is provided below. As usual, there will also be an advisory vote on the remainder of the remuneration report.

This report comprises

- this Annual Statement;
- the proposed Directors' Remuneration Policy for FY2017-2019; and
- the Annual Report on Remuneration, which explains how we applied our policy in 2016/2017 and how we intend to apply the new policy 2017/18.

### Performance and Remuneration for 2016/17

As detailed in the Strategic Report, FY17 has been a challenging year for Findel Education with strong revenue and customer number growth from Express Gifts, however, after taking into account a number of individual significant items the net profit is lower than expectations.

Our FY17 performance related bonus was subject to Profit Before Tax (PBT) targets and non-financial objectives relating to business transformation, treating customers fairly and personal objectives.

Despite management's efforts, and reflecting the level of stretch in our target setting process, the threshold level of profit was not met. Whilst a number of key strategic objectives were completed successfully, the Committee determined that no bonus would be payable to Executive Directors.

With regards to our longer-term performance, the Performance Share Plan ("PSP") awards which were granted on 20 June 2014 were eligible to vest in 2017. These awards were subject to an equal blend of EPS growth and share price appreciation targets. In summary the absolute share price targets ranged from 390p to 510p, and EPS targets ranged from 40p to 50p (based on performance in 2016/17). The share price achieved for the purposes of testing against the condition was 199.3p and so this element of the award lapsed in full as a result of the threshold share price target not being met. The adjusted EPS for the year ended 31 March 2017 was 20.19p and as the threshold target was not met this element of the award also lapsed in full.

This performance meant that the stretching performance conditions attached to the 2014 long-term incentive plan award have not been met and accordingly these awards will lapse.

### Proposed Directors' Remuneration Policy

During the year the Committee reviewed the Directors' Remuneration Policy which will be subject to a binding vote at the coming AGM. The Committee felt that the policy was, in general, operating well but has made some changes in response to best practice and shareholder preferences:

- The policy has been made more flexible (for example on the choice of performance measures) to enable the Committee to make changes over the life of the policy to align with Company strategy; and
- Recovery and withholding provisions on variable pay and a two-year holding period on the long-term incentive (both already in operation) have been added to the policy.

The Committee's policy remains to set remuneration at an appropriate level to retain and motivate executives of the appropriate calibre to deliver the Company's strategy. Supporting the Company's current phase of development and strategy, remuneration is clearly biased towards performance-related elements that are aligned with continued delivery of improved levels of profitable growth and thus returns to our shareholders.

### Changes to the Board

On 12 January 2017 we welcomed Ian Burke as Executive Chairman, replacing David Sugden who stood down following seven years as Chairman of the Group. Mr Burke's remuneration package on joining the Board comprised a base salary of £250,000 p.a. only. Mr Sugden ceased to be a director on 12 January 2017 and remained an employee of the Company until 31 January 2017. Mr Sugden did not receive any payments for loss of office, he received no bonus in respect of the portion of 2016/17 he worked and he did not participate in the Company's PSP.

On 6th April 2017 we announced the appointment of Phil Maudsley as Chief Executive (previously Mr Maudsley was MD, Home Shopping). He receives a base salary of £420,000 reflecting his change in role. His bonus opportunity will remain at a maximum of 100% of salary and he will receive a PSP award with a face value of 100% of salary in 2017.

Following the appointment of Phil Maudsley as CEO, Ian Burke assumed the role of Non-Executive Chairman and now receives a fee of £150,000 p.a. On the same date, we also announced that Tim Kowalski would be standing down from his role as Finance Director after seven years with the Company. As part of Mr Kowalski's departure terms, which are consistent with the remuneration policy, he will receive monthly payments equal to 12 months' salary and benefits which will be subject to a reduction if alternative employment is found. Mr Kowalski will receive no bonus in respect of 2016/17 and his outstanding PSP awards have lapsed.

### Performance metrics

To align with the Company's strategy to minimise debt, free cash flow has been added as a performance measure for the FY18 performance related bonus. The total portion of the bonus subject to financial performance conditions will be increased to 75% (from 60%) with an equal weighting (37.5%) for both Group Profit before Tax and Group Free Cash Flow. The final 25% will be based on performance against pre-agreed personal objectives. Any pay-out under the bonus (including for the non-financial elements) is subject to Group PBT being above the threshold target and there being no material incidence of bad behavior in relation to Treating Customers Fairly during the year.

Consistent with previous years, the 2017 PSP award will be subject to financial performance conditions with 50% of awards tied to EPS targets and 50% to absolute share price hurdles.

On behalf of the Board, I would like to thank shareholders for their continued backing and look forward to your support of our remuneration policy at the 2017 AGM.

William Grimsey  
Chair of the Remuneration Committee  
26 June 2017

## Board Report on Directors' Remuneration

### Annual Report on Remuneration

#### 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 throughout the year and Messrs. Coumau and Tracey were members. 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 normally attends meetings of the Committee by invitation except when matters concerning his own remuneration are discussed. Following the appointment of Mr Maudsley as CEO and Mr Burke taking up a non-executive chairman role it is expected that both will attend the Committee's meetings when not conflicted. The Committee is assisted when required by New Bridge Street (a trading name of AON plc) who are appointed by the Committee, 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, New Bridge Street provides no other services to the Company and during the year charged fees of £139,915 (excluding VAT) (FY16: £132,061).

The Company Secretary acts as the secretary to the Committee.

The Committee meets three or more times a year and met 10 times in 2016/17. Individual attendance details can be found within the Corporate Governance Report on page 33. The Committee's terms of reference are available on the Company's website ([www.findel.co.uk](http://www.findel.co.uk)). During the year the key matters which were discussed were:

- The salary levels of the Executive Directors;
- The bonus out-turn for the 2015/16 annual bonuses;
- The terms of the 2016/17 annual bonus plan;
- The quantum and performance targets for the 2016/17 Performance Share Plan awards;
- Testing of the 2013 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;
- Review of the 2017-2020 Directors' Remuneration Policy;
- Review of the regulator guidance on remuneration;
- Approval of 2015/16 Directors' Remuneration Report;
- Initial design of the 2017/18 annual bonus plan
- The annual self-evaluation of the effectiveness of the Committee; and
- Consideration of developments in best practice.

#### Non-Executive Directors' Fees

In 2016/17 the Non-Executive Director base fee was £37,500 with the additional fees payable for the position of Senior Independent Director and Chairmanship of a Board Committee as follows:

- Senior Independent Director fee: £20,000;
- Chairman of the Audit Committee fee: £10,000;
- Chairman of the Risk Committee fee: £10,000; and
- Chairman of the Remuneration Committee fee: £10,000.

Until 1 August, there was a single Audit & Risk Committee and since that date, two separate Audit and Risk Committees were established.

The fee for the Senior Independent Director was increased to reflect additional responsibilities carried out in lieu of a Non-Executive Chairman, including but not limited to the chairmanship of the Nomination Committee. Following the appointment of Phil Maudsley as Chief Executive, Ian Burke became Non-Executive Chairman (from Executive Chairman) with effect from 6 April 2017 and his fee was set at £150,000 p.a. On 1st May 2017 Mr Burke took over the chairmanship of the Nominations Committee and as a result the fee for the Senior Independent Director reverted to £10,000.

### Shareholder Voting at the 2016 AGM

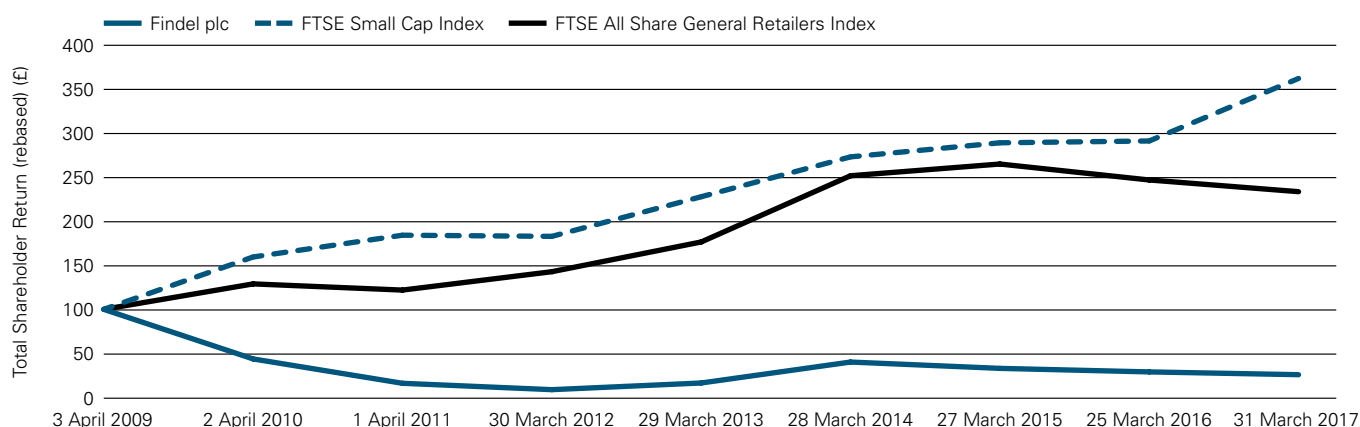
At last year's AGM, the Annual Report on Remuneration received the following votes from shareholders:

Resolution	Annual Report on Remuneration		Findel Performance Share Plan 2016	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For	78,018,546	99.3%	78,029,560	99.3%
Against	548,610	0.7%	571,188	0.7%
Total votes cast (for and against)	78,567,146	100%	78,600,748	100%
Withheld votes	35,886	N/A	2,294	N/A
Total votes cast (including withheld votes)	78,603,042	N/A	78,603,042	N/A

### Performance Graph

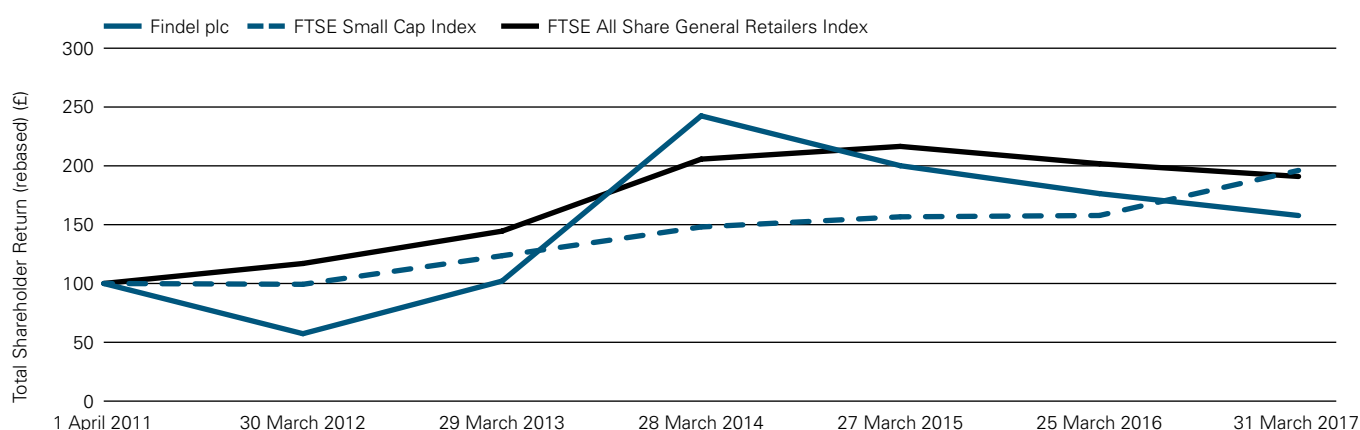
The following graphs contrast the total shareholder return of the Company with the FTSE Small Cap Index and FTSE All Share General Retailers Index. These indices were selected as being, in the opinion of the Committee, the most appropriate for comparison because Findel is currently a constituent member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

The first graph shows the total shareholder return over the eight financial years to 31 March 2017 as required by the reporting requirements. However, the Committee considers that the total shareholder return over the six financial years to 31 March 2017 to be a relevant additional disclosure since this timeframe relates to the period during which the 2016/17 executive team were executing the Board's recovery and growth strategy for the Group.



This graph looks at the value, by 31 March 2017, of £100 invested in Findel plc on 3 April 2009 compared with that of £100 invested in the FTSE Small Cap Index and £100 invested in the FTSE All Share General Retailers Index on the same date. The other points plotted are the values at intervening financial year-ends.

Source: Thomson Reuters



This graph looks at the value, by 31 March 2017, of £100 invested in Findel plc on 1 April 2011 compared with that of £100 invested in the FTSE Small Cap Index and £100 invested in the FTSE All Share General Retailers Index on the same date. The other points plotted are the values at intervening financial year-ends.

Source: Thomson Reuters



## Board Report on Directors' Remuneration

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

Executive	Year ending									
	P B Maudsley <sup>(1)</sup> 2010	2011	2011	2012	R W J Siddle <sup>(2)</sup> 2013	2014	2015	D Sugden <sup>(3)</sup> 2016	2017	I Burke <sup>(4)</sup> 2017
Total Remuneration (£000)	£771	£607	£484	£496	£745	£2,650	£509	£428	£332	£55
Annual bonus (as % of maximum)	0.0%	14.9%	64.9%	0.0%	62.3%	67.9%	0.0%	0.0%	0.0%	N/A
LTIP vesting (as % of maximum)	0.0%	0.0%	0.0%	0.0%	0.0%	36.3%	0.0%	N/A	N/A	N/A

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 last year's Remuneration Report David Sugden does 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. Ian Burke joined the Board as Executive Chairman on 12 January 2017 and received base salary only.

**Emoluments of the directors (subject to audit)**

The emoluments of the directors in the period ended 31 March 2017 are shown below:

£000	Salary and fees <sup>(1)</sup>		Taxable benefits <sup>(2)</sup>		Pensions <sup>(3)</sup>		Annual bonus <sup>(4)</sup>		Long-term incentives <sup>(5)</sup>		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<i>Chairman</i>												
M I Burke	55	—	—	—	—	—	—	—	—	—	55	—
D A Sugden	266	340	13	20	53	68	—	—	—	—	332	428
<i>Executive Directors</i>												
T J Kowalski	296	295	21	17	44	44	—	—	—	—	361	356
P B Maudsley	374	368	20	21	83	83	—	—	—	—	477	472
<i>Non-Executive Directors</i>												
E F Tracey	68	68	—	—	—	—	—	—	—	—	68	68
F Coumau	38	38	—	—	—	—	—	—	—	—	38	38
W Grimsey	48	40	—	—	—	—	—	—	—	—	48	40
G Ball	44	6	—	—	—	—	—	—	—	—	44	6
<i>Previous Directors</i>												
A Kinney-Pritchard	—	20	—	—	—	—	—	—	—	—	—	20
<b>Total</b>	<b>1,189</b>	<b>1,175</b>	<b>52</b>	<b>58</b>	<b>180</b>	<b>195</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,421</b>	<b>1,428</b>

**Notes:**

1. Following the annual salary review in July 2016 Mr Maudsley received a 2.5% salary increase from £367,750 to £376,944 with effect from 1st August 2016. The salaries for each of Mr Sugden and Mr Kowalski remained at the previous level following the review.
2. 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.
3. Pension values include contributions to defined contribution pension plans or cash allowances in lieu of pension contributions.
4. As detailed below, no annual bonuses are payable to Executive Directors in relation to the year under review.
5. As detailed on page 52, the 2014 PSP awards which were based on a performance period ending at the conclusion of the 2016/17 financial year lapsed.
6. 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.

**2016/17 Annual bonus (subject to audit)**

The 2016/17 performance related bonus plan maximum was 100% of salary for both the Finance Director and MD, Home Shopping. Messrs. Sugden and Kowalski stepped down from the Board on 12 January and 5 April 2017 respectively and did not receive a bonus in respect of 2016/17.

With regards to the proportion of the total bonus that could be earned against each element, 60% of the maximum opportunity was based on profit performance (split as 40% based on Express Gifts operating profit and 20% on Group profit before tax in the case of the MD, Home Shopping), with 15% based on business transformation targets, 15% on treating customer fairly outcomes and 10% on individually tailored strategic targets.

The non-financial targets were subject to an underpin of threshold profitability. In addition, the entire 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 2016/17 profit targets were:

Profit Performance	Threshold	Max
Group profit before tax*	£25.75m	£29.45m
Express Gifts operating profit**	£37.25m	£45.10m

\* Group profit before tax is stated before exceptional items and fair value movements on foreign currency derivative financial instruments

\*\* The Express Gifts annual operating profit figures used in the plan exclude the allocation of central PLC costs and are stated before exceptional items

Based on actual figures of £22.2m for Group adjusted profit before tax and £30.4m for Express Gifts adjusted operating profit, the threshold targets were not met. No payments will therefore be made with respect of FY2016/17.

**Non-financial objectives**

Executive Directors had objectives relating to regulatory compliance, Findel's Customer Transformation Project, cashflow, development of an updated bad debt model, a roll out of a finance software system and organisational effectiveness.

Achievement against these objectives was assessed by the Committee based on demonstrated progress against agreed milestones.

The personal objectives for the CEO in respect of his period as MD, Home Shopping were partially achieved in that (i) he oversaw the granting of full FCA permission for Express Gifts to continue to carry out its consumer credit activities; (ii) limited progress was made in delivering the Express Gifts customer transformation programme and work will continue in this area; (iii) some progress was made during the year in the development of a new bad debt model for the business; and (iv) management changes within the finance area immediately after the end of the year and the appointment of a Deputy MD of Express Gifts during the year were important steps towards the management development goals set. However (v) the delayed roll out of the new Financier software system and (vi) cash flow management has made these matters top priorities in 2017/18. The Finance Director shared objectives (i) to (iv) and (vi) with the MD, Home Shopping. In addition he was tasked with consolidating certain Group and divisional head office functions and limited progress was made in that respect within the year.

Despite progress against certain objectives, in light of the financial performance noted above (i.e. failure to meet the threshold profit target), no bonuses were payable notwithstanding the progress achieved against the non-financial targets noted above.

**Directors' pension entitlements (subject to audit)**

No director was a member of a defined benefit scheme during FY2017. Mr Maudsley previously participated in the Findel Group Pension Fund but elected to transfer his benefits out of the scheme in December 2015.

**Directors' Share Options and Long-Term Incentive Plans (subject to audit)****Awards vesting in relation to FY2016/17**

The performance conditions for the awards granted in 2014 were an equal blend of EPS growth (before exceptional items) and share price appreciation targets. In summary the absolute share price targets range from 390p to 510p, and EPS targets range from 40.0p to 50.0p.

The average share price for the three months to 31 March 2017 was 199.3p. This was below the threshold target so this element of the awards lapsed in full. The Company's adjusted EPS of 20.19p resulted in this element of the awards also lapsing in full.

The performance against targets was assessed by independent consultants (with appropriate liaison between the Audit and Remuneration Committees).

## Board Report on Directors' Remuneration

**PSP Awards granted in FY2016/17**

During FY2016/17 the following awards were made under the PSP:

Executive	Award (as a % of salary)	Share price at date of grant*	Number of shares subject to award	Face value of award	% of face value which vests at threshold
Finance Director	100%	159.7p	185,034	£295,500	20%

\* Based on the average share price over the 5 trading days immediately preceding 5 August 2016, being the date of grant

Mr Kowalski stepped down from the Board on 5 April 2017 and the above award has lapsed. No award was made to the MD, Home Shopping in view of the enhanced award that was made to him in FY2015/16 or to the Executive Chairman (who was not eligible for LTIP awards).

As set out in the FY2015/16 report, the award was 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 FY2016/17 grants are:

Annual Compound Growth in TSR (to 31 March 2019 from the 31 March 2016 base year)	Annual Compound Growth in EPS (to 31 March 2019 from the 31 March 2016 base year)	Percentage of Shares subject to the Award that vests
Below 15% p.a.	Below 15% p.a.	0%
15% p.a.	15% p.a.	20%
Between 15% and 25% p.a.	Between 15% and 25% p.a.	Between 20% and 100% on a straight-line basis
Above 25% p.a.	Above 25% 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 are 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 (e.g. the absolute TSR targets maximum performance requirement at 25% p.a. growth, which remains above the typical upper quartile performance level required to achieve full vesting in a relative TSR condition against a general Index such as the FTSE Small Cap).

The award was also subject to an underpin that are no material incidences of bad behaviour of any employee within the Company's group in relation to "treating customers fairly" during the Performance Period. When assessing the outcome of the performance the Committee would also have had regard to the overall performance of the Group and have had the discretion to reduce the award (including to zero) if it felt that the outcome did not reflect underlying performance.

A two-year holding period would have applied to any vested shares.

**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:

	26 March 2016	Granted	Exercised	Lapsed	31 March 2017	Award date	Vesting date
R W J Siddle	50,052	—	—	—	50,052	20 June 14	20 Jun 17
T J Kowalski	150,158	—	—	150,158	—	12 Jul 13	12 Jul 16
	102,912	—	—	—	102,912	20 Jun 14	20 Jun 17
	145,946	—	—	—	145,946	1 Mar 16 <sup>(1)</sup>	1 Mar 19
	—	185,034	—	—	185,034	5 Aug 16	5 Aug 19
P B Maudsley	191,676	—	—	191,676	—	12 Jul 13	12 Jul 16
	128,182	—	—	—	128,182	20 Jun 14	20 Jun 17
	389,978	—	—	—	389,978	1 Mar 16 <sup>(1)</sup>	1 Mar 19

1. The notional grant date for these awards is 29 July 2015, the same date of grant as awards made to other participants. Due to a prolonged close period awards could not be made to a select group of senior executives until 1 March 2016

**Compensation for loss of office (subject to audit)**

On 12 January 2017 Mr Sugden stood down from the Board and left the Company on 31 January 2017. He received pay and benefits until that date. No additional payments for loss of office were made and he received no bonus in respect of his employment in the 2016/17 year.

Following the end of the year, it was announced that Group Finance Director, Mr Kowalski was stepping down from the Board. In line with his service agreement and the approved remuneration policy, Mr Kowalski will receive monthly payments of salary and benefits in lieu of his notice period subject to a reduction if alternative employment is found while payments are being made. The maximum aggregate value of emoluments payable over this 12 month period will be £356,000. Mr Kowalski will not receive a bonus in respect of 2016/17 performance and his outstanding PSP awards as set out above shall lapse.

**Payments to former directors (subject to audit)**

The long-term incentive award made to Mr Siddle in 2014 was due to vest in June 2017. As detailed above the performance conditions were not met and the award will lapse. Mr Siddle has no other outstanding awards.

**Percentage increase in the remuneration of the Chief Executive (subject to audit)**

	2016/17	2015/16	% Change
Executive Chairman/ Chief Executive (£'000)			
Salary	321	340	(6%)
Benefits	66	88	(25%)
Bonus	—	—	—
Total	387	428	(10%)
Average of Comparator Group*			
Salary	174	165	5%
Benefits	27	26	4%
Bonus	2	0	n/a
Total	203	191	6%

\* 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 table above shows the movement in the salary, benefits and annual bonus for the Executive Chairman between the current and previous financial year compared to total employee cost for the same elements for the senior management level. The 2016/17 values are based on the sum of remuneration paid to Messrs. Sugden and Burke in their capacity as Executive Chairman.

**Relative importance of the spend on pay (subject to audit)**

	2016/17	2015/16	% Change
Staff Costs (£m)	54.9	61.0	(10%)
Distributions to shareholders (£m)	—	—	—
Adjusted Profit* (£m)	22.2	24.8	(10.5%)

\* Profit Before Tax from continuing operations before exceptional items and fair value movements on foreign currency derivative financial instruments.

## 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 31.03.17	Legally Owned 25.03.16	PSP Awards		Total 31.03.17*
			Unvested	Vested but not exercised	
<i>Executive directors</i>					
P B Maudsley	238,606	328,606	518,160	—	756,766
<i>Former directors</i>					
D A Sugden	124,708 <sup>1</sup>	124,708	—	—	—
T J Kowalski	181,779	181,779	433,892	—	615,671

1. Mr Sugden's value is based on his holding on cessation of employment on 31 January 2017

\* Based on current beneficially owned shares and the year-end share price of 201p, Mr Kowalski and Mr Maudsley satisfy the Company's 100% of salary share ownership 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 31.03.17	Legally Owned 25.03.16	PSP Awards		Total 31.03.17*
			Unvested	Vested	
<i>Non-executive directors</i>					
I Burke	40,000	—	—	—	40,000
F Coumau	18,803	18,803	—	—	18,803
W Grimsey	25,000	25,000	—	—	25,000
E F Tracey	45,173	45,173	—	—	45,173
G Ball	—	—	—	—	—

\* 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 31 March 2017, being the last day of stock market trading before the period end, was 201.0p and the range during the period was 130.0p up to 215.8p.

**Implementation of Policy for FY2017/18****Executive Directors**

On 6 April 2017 we announced that Phil Maudsley had been appointed as Chief Executive. To reflect his new role, his salary was set at £420,000. In 2017/18, he will be eligible for an annual bonus award of up to 100% of salary and a PSP award with a face value of 100% of salary.

**Performance related bonus**

Mr Maudsley's FY18 performance related bonus will be based on:

- 37.5% Group Profit Before Tax
- 37.5% Group Free Cash Flow
- 25% personal objectives

Pay-out under the bonus is subject to Group PBT being above the threshold target and there being no material incidence of bad behavior in relation 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 FY2018 Annual Report on Remuneration.



**Long-term incentive awards**

Awards will be made under the PSP in line with the Directors' Remuneration Policy. FY2018 awards will continue to be based on Absolute TSR and EPS performance conditions.

Any vested shares will be subject to a two year holding period. The targets for this award will be:

	Weighting	Threshold (20% vesting)	Maximum (100% vesting)
EPS targets	50%	10% p.a. CAGR	19.4% p.a. CAGR or higher
Absolute TSR targets	50%	10%p.a. CAGR	18.8% p.a. CAGR or higher

Any incentive payments will be subject to recovery and withholding provisions as set out in the Directors' Remuneration Policy.

**Recruitment**

A search for a new Finance Director is underway. The remuneration package for any successor will be in line with the Recruitment Policy on pages 43 to 45 and will be disclosed in the relevant Annual Report on Remuneration.

**Non-executive directors**

Mr Burke became Non-Executive Chairman on 5 April 2017. He will not be eligible for a performance related bonus for FY2017/18.

On behalf of the Board

William Grimsey  
Chairman of the Remuneration Committee  
26 June 2017

## Nomination Committee Report

The Nomination Committee operates under written terms of reference which are available on the Company's website ([www.findel.co.uk](http://www.findel.co.uk)). Its principal duties are to periodically review the composition of the Board and to recommend suitable candidates for approval by the Board to fill executive and non-executive vacancies.

During the year the Committee comprised the Chairman and the independent non-executive directors. The committee chairman was Mr Tracey, the Senior Independent Director. This reflected the enhanced role for the Senior Independent Director agreed by the Board during the period in which the Company operated with an executive chairman. Since the year end Mr Burke has taken up the position of non-executive Chairman of the Company and has taken over the chairmanship of the Nomination Committee.

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 which recognises that diversity (including but not restricted to gender) is an important factor in ensuring that the profile of Board members provides the necessary range of perspectives and skill-sets to ensure effective stewardship.

The majority of the Committee's work during FY2017 has focused upon the appointment of a new Chairman for the Group following Mr Sugden's indication in February 2016 that he planned to retire from the Board at the conclusion of the 2016 Annual General Meeting. The Committee appointed The Zygos Partnership to assist in this process. However, the uncertainty created by discussions with major shareholders regarding the potential appointment of Mr Mike Ashley as Chairman, which ultimately did not take place, resulted in Mr Sugden agreeing to remain in his position beyond the AGM. Zygos resumed its work in the autumn of 2016 and in December 2016 the Board confirmed the appointment of Ian Burke as Chairman with effect from 12 January 2017.

The other primary area of focus for the Committee in the second half of the year was upon the balance of the Board, succession planning and a return to a more conventional Board structure with a separate non-executive chairman and a CEO. This process led to the appointment of Mr Maudsley as CEO in April 2017, with Mr Burke moving to a non-executive chairman role.

At the same time the Board also announced the departure of the Group Finance Director, Tim Kowalski, from the Group. The Committee recommended the appointment of Stuart Caldwell (previously the Group Financial Controller) as Acting CFO but without a seat on the Board, and is well advanced in its search for a permanent replacement Finance Director.

During the year the Committee undertook an evaluation of its effectiveness using external consultants, Armstrong Bonham Carter. It also reviewed the performance and commitment of the directors, all of whom are to be proposed for election/re-election at the 2017 annual general meeting and reported to the Board that it should recommend those elections/re-elections to shareholders. It has also concluded that Mr Burke was independent at the time of his appointment and on the change of his status to non-executive chairman notwithstanding his short period of executive service which the Board considers to be a very short-term transitional period and in respect of which he did not participate in any incentive plans.

The Committee met on seven occasions during FY2017. It plans to hold at least two scheduled meetings during the coming year.

Ian Burke  
Chairman of the Nomination Committee

26 June 2017

## 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. As noted in last year's Annual Report, the Audit and Risk Committee was split into separate Audit and Risk Committees during 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.findel.co.uk](http://www.findel.co.uk)).

The committee is comprised of three independent non-executive directors. Brief biographical details of the committee members, including their expertise and experience, are set out on page 27 and the number of meetings and attendance are set out on page 33. 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 auditors 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 auditors, 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 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 32 to 35.

### 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 Express Gifts Limited;
- (b) Financial services redress provisions;
- (c) Recoverability of goodwill and unamortised intangible assets;
- (d) Individually significant items; and
- (e) Carrying amount of inventories.

The committee received a paper from the Acting CFO supporting his judgements in each of these areas and another report from the external auditors setting out their opinions and subjective assessments of the level of prudence involved in the key judgements. The committee challenged the robustness of these proposals. In all cases, the committee was guided by the overriding mantras of "fair, balanced and understandable" and "true and fair view".

## Audit Committee Report

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

- (a) Receivables provisioning – In light of the decision to develop a new bad debt provisioning model to provide a more robust and granular assessment of potential loss, we needed to challenge whether the new model's output was based upon appropriate assumptions and methodologies to comply with applicable accounting standards and industry best practice. Was the accounting treatment of the impact of the adoption of the new model appropriate? Were the reasons for the changes between the output of the two models reasonable?

Were changes in Express Gifts' approach to the management of debt sales and customers with whom forbearance arrangements have been agreed appropriately reflected in the provision for doubtful debts? The committee received satisfactory responses to all these challenges.

Following the adoption of the new bad debt model during FY17, there has been an increase in the impairment provision at March 2017. The Committee challenged management as to whether this adjustment should be recognised as a prior period adjustment in accordance with IAS 8. As the additional provision has arisen from the development of the new model during the year, and is based on information which was not available to the Group in prior years, management has recognised the increase in the provision in the current year. Due to the scale of the charge, however, and as the charge does not relate to the current trading period, management has concluded that the additional charge should be separately disclosed as an individually significant item in the income statement. The Committee was satisfied with management's responses.

- (b) Financial Services redress provisioning – had the review of legacy processes within Express Gifts been robust in identifying the areas of system or operation flaws which may have resulted in customer detriment? Where detriment had been established, and especially where changes in earlier estimates has been made, were the forecast assumptions underpinning the calculation of provisions appropriate, in the light of both the Company's data collection and the interactions of the Company with the FCA? Do the draft financial statements adequately explain why previous estimates have had to be revised? The committee received satisfactory responses to these challenges.
- (c) Goodwill and Intangible asset recoverability – In light of the deteriorating medium-term outlook for the educational resources market, was the proposal to impair the carrying value of goodwill and intangible assets of the Education CGU by £19.8m reasonable? The committee received satisfactory responses to its challenges.
- (d) Individually significant items – were the items truly individually significant in nature? Had all individually significant charges and credits been disclosed? Were the disclosures sufficient? The committee concluded that all individually significant items were appropriate and consistent with the financial statements showing a true and fair view of the financial performance for the year.
- (e) Stock provisioning – were the stock provisions adequate given the Company's plans for reducing the volume of slow moving items and the continued increase in the proportion of clothing sold by Express Gifts? The committee was satisfied with the responses to its challenges.

The committee also considered:

- (f) at the planning stage of the audit, how the auditors defined and applied materiality in their audit. The committee was satisfied with the responses.
- (g) towards the conclusion of the audit, the materiality of adjusted and unadjusted errors as reported by the external auditors to the committee – what caused them? What did they imply for levels of control and how did they impact our view on the annual report as a whole? The committee concluded that appropriate adjustments and disclosures had been made;
- (h) the going concern assessment – the committee was satisfied with the responses to its questions about how the Group could manage various sensitivities to the central estimates;
- (i) the viability statement – the committee approved 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; and
- (j) the overall level of prudence in the accounts – how consistent were the judgements and assessments with the equivalent judgements and assessments of 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, business heads and the Finance Director, 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.

The separation of the previous Audit & Risk Committee into two allows a greater level of focus to be placed upon risk management, as discussed in that Committee's report.

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

- (a) how the Group's businesses were dealing with the challenges of the digitalisation of aspects of their interfaces with suppliers and customers, the changes in customer buying behaviour and the adequacy of the businesses' defences against cyber-attack;
- (b) the ongoing assurance programme in Express Gifts around ensuring a steady journey towards compliance with all of the core principles of the FCA licence as new systems are brought on stream;
- (c) the progress on the level of change required in processes and behaviours and the performance measurement and staff appraisal systems necessary to ensure appropriate behaviours towards customers in accordance with the FCA requirements;
- (d) the risk of customer fraud at both our businesses and the tools required to identify and mitigate against this;
- (e) a review of systems access in relation to data protection requirements and the actions required to mitigate the risks in this area;
- (f) a review of project management across all aspects of the businesses; and
- (g) the treating of staff fairly, especially in the use of zero hours contracts.

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 Express Gifts management team, at which plans were reviewed and challenged, noting that a significant amount of work was still required to achieve the level of behavioural change, understanding of the interaction between product and financial services policies and efficiency desired by the Board. The committee reviewed the significant changes in organisation and personnel within Express Gifts as key elements of the plan to achieve greater regulatory resilience. The committee noted that Express Gifts had improved its IT security over the last year to further mitigate the risk of cyber-attacks and were extending training to its staff on recognising cyber threats as they develop.

The committee oversees the adequacy of Findel'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 a report on the whistleblowing arrangements within the Group and an overview of instances of whistleblowing. The Chairman of the committee also received his annual report on the service by the independent external service provider and no issues were raised. The service was extended during the year to cover all aspects of the business.

The committee has conducted its annual review of the effectiveness of the Group's system of internal control. The committee is satisfied with the progress made during the year, save for three areas where further improvement is anticipated during FY18. Firstly, there are elements of the forecasting process within Express Gifts that are not fully aligned to operational processes. This is particularly the case for the timing of stock intake, which can vary from forecast levels by a greater margin than is desirable. Secondly, the bad debt provisioning model within Express Gifts was becoming insufficiently robust, with manual overlays being required. The new granular model that has now been introduced is expected to overcome those issues in FY18. Finally, the process of change and project management, including embedding contracts, is often suboptimal across the divisions. Changes within the Group and Express Gifts finance functions implemented in April 2017 are expected to deliver improvements in all aspects in the coming year.



## Audit Committee Report

### External auditors

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 would not expect to retain the same audit firm for a period of longer than twenty years. With KPMG having been first appointed in 2011, a compulsory tender in auditors is not required before 2021.

The Group policy on the provision by the external auditor of audit and non-audit services is based on the principle that the external auditor should only undertake non-audit services where they are the best provider and the service is permitted under recently revised regulations. Following the introduction of those regulations, KPMG were replaced by PwC as tax advisers following an external tender process led by the Finance Director. 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 10 to the consolidated financial statements and reflects the committee's recommendation that greater explanation be provided than is required by law. Non-audit work awarded to the auditors related to corporate VAT and taxation advice, and fees payable in respect of the sale of Kitbag in 2016.

Much of this VAT work related to the periodic review of specialist aspects of VAT compliance for retail groups for which KPMG have developed expertise within the niche home shopping sector.

The committee also considered the level of non-audit fees paid to KPMG LLP in the context of similar fees paid during the year to other major accounting firms by the group. It was noted that the total level of such fees were significantly lower in FY17 compared to FY16 due to one-off projects that had occurred during FY16. Consequently, whilst the total level of fees paid to KPMG LLP had also reduced, their proportion had increased to around 50% of all such fees. The committee was satisfied with the level of fees, independence, objectivity and effectiveness of KPMG LLP and noted the changes proposed for FY18 in respect of changes to tax advice.

The committee reviewed the effectiveness of the external audit of the FY16 financial statements by discussing the audit separately with the executive directors and senior finance officers, the company secretary and the external auditors. Accordingly, in the light of the above, the Board accepted the committee's recommendation that a resolution for the appointment of KPMG LLP as auditors of the Company will be proposed at the forthcoming annual general meeting. A review of the effectiveness of the FY17 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. Since the year-end a new head of internal audit was appointed following a search led by the Audit Committee Chairman and assisted by external search consultants. The shortlisted candidates were interviewed by the Audit Committee Chairman, the Finance Director and the previous head of internal audit. The head of internal audit holds discussions with the chairman of the committee at least four times each year and has direct access to him at any time.

The team has delivered improvements in four areas:

- Capacity – the size of the team increased during the year, leading to the delivery of a significant uplift in reviews completed in the second half of the year;
- Capability – the team's technical and geographical base has been strengthened to match the business in terms of retail, financial services and core finance skills;
- Focus – clearer, shorter reporting has been introduced together with regular communication with key customers aligned against a visible, rolling assurance plan; and
- Risk – conversations with review sponsors have focused on controls, risk management and the appropriate toleration of exposure.

The committee approved the internal audit programme for the FY18 financial year, including the use of independent third parties.

Eric Tracey  
Chair of the Audit Committee  
26 June 2017

## Risk Committee Report

On behalf of the Committee, I am pleased to present the first Findel Risk Committee Report, which provides an overview of how we, as a Committee, have discharged our responsibilities, setting out both the areas of review and challenge, the development of our role and processes and the risk management framework in the business.

This report focuses mainly on:

- Development of the Committee's governance structures
- Key risks facing the business;
- Future developments of the Group's risk management framework

### Development of governance

As trialled in last year's annual report, the Board has established a separate Risk Committee whose primary role is to monitor the assessment of strategic risks and check to ensure these are managed within risk appetite in the delivery of strategy. Its written terms of reference are available on the Company's website ([www.findel.co.uk](http://www.findel.co.uk)).

The Committee is comprised of three independent non-executive directors. Brief biographical details of the Committee members, are set out on page 27 and the number of meetings and attendance are set out on page 33. The executive directors, the Chairman of the Board, the Company Secretary and the Head of Internal Audit attended each meeting by invitation together with other senior managers as appropriate.

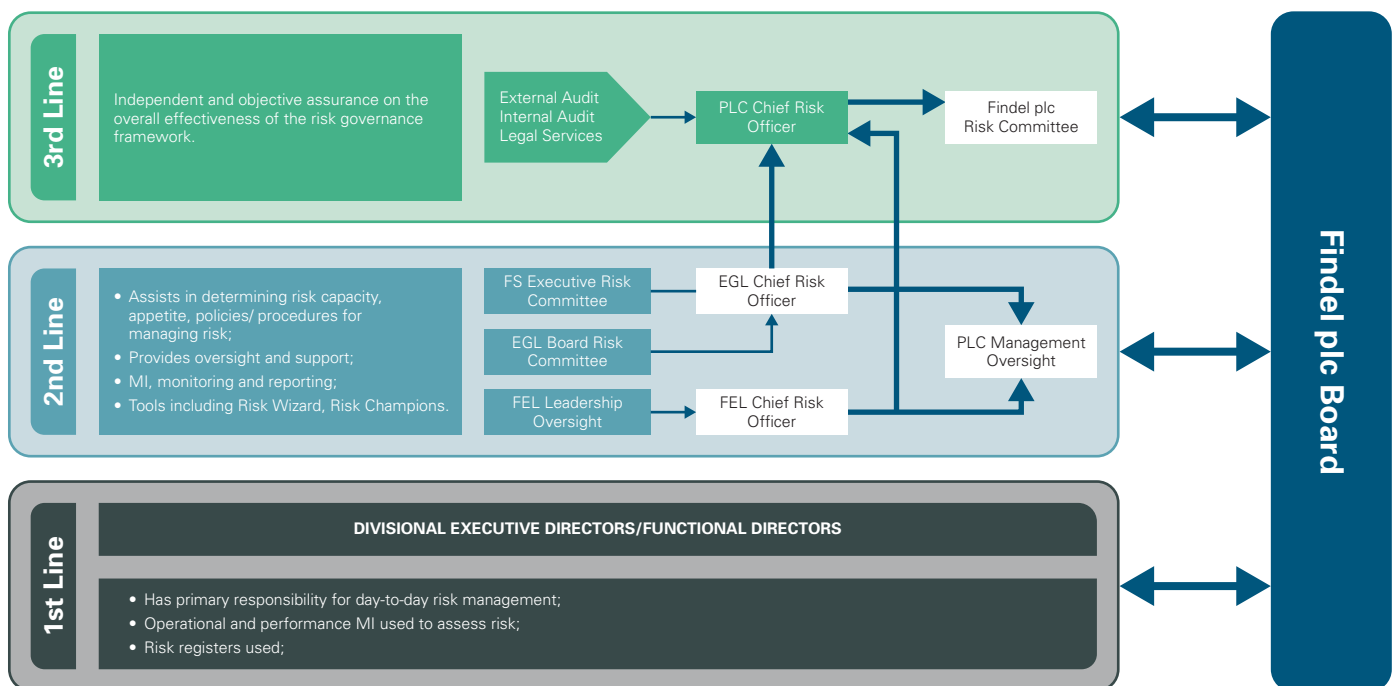
Before engaging in formal Committee meetings the members took part in a series of engagements with management as part of their induction. This included but was not limited to:

- an internal overview of both the existing top down and bottom up approaches to risk management; and
- discussions with management and a series of internal workshops regarding our risk management framework.

Management reached the conclusion, fully supported by the Chairman of the Committee, that it would be helpful to have an external view of the Company's risk management framework and resourcing and to identify areas for improvement. Management commissioned Deloitte to carry out such a review which has been completed since the year end and management is developing prioritised improvement plans whilst keeping the Committee informed of progress in that regard.

The Committee in its full capacity met once in FY17, following the informal engagements with management referred to above and has met again since the end of the year, with an anticipated schedule of four meetings per year from this point forward.

In terms of the broader structure of risk management within the business, a combination of structured governance including oversight committees, capture and reporting tools, alongside a programme of education and training are utilised.



## Risk Committee Report

### Key risks facing the business

As part of the above activity, the business took the opportunity to re-frame its core risks. These are detailed below at a high level.

- An uncertain economic outlook in relation to consumer indebtedness, disposable income, inflation and the outcome of Brexit on the wider economy and Findel's customer base.
- A lack of a modern I.T. capability, impacting the ability to operate flexibly and at speed, in a competitive digital environment.
- A dependency on the deployment of a data strategy in an increasingly regulatory environment, to deliver personalised and targeted customer engagement.
- Increasing cost pressures from a weakening pound and the ability to pass cost increases onto customers, impacting margin rate.
- A dependency and tightening level of Government funding for schools is impacting demand.
- Building a digital capability to match the increasing transition of customers from traditional media and catalogue to on-line.
- Attracting and retaining the right talent given in particular challenges relating to location.
- The increasing demands of the regulatory environment in which EGL operates and the level of focus and resource required in a business with competing priorities.
- Our proposition, including policies and operational procedures, fails to meet the needs of different customer groups impacting the customer experience, demand and potentially recovery of bad debt.

These have been communicated to all of our people so that:

- each member of staff can recognise how they impact on those risks and those risks impact on them;
- financial and operational authorisation levels alongside risk appetite statements can continue to be enhanced in line with the 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 full 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 or liquidity. The principal risks and uncertainties that could impact the performance of the Group are set out on pages 22 to 24.

### Future developments of the risk management capability

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

- monitor the steps being taken by the business to start implementing the enhancements identified within the Deloitte review;
- conduct a number of deep dives into core business risks; and
- draw together multiple sources of assurance including 1st, 2nd and 3rd line activity to provide an overall understanding of the progress being made.

For and on behalf of the Board

Greg Ball  
Chairman of the Risk Committee

26 June 2017

## Corporate Social Responsibility Report

The Board continues to understand the importance that its Corporate Social Responsibility has in the ongoing success of the Findel Group. We remain committed to improvement in all of our interactions with employees, customers, suppliers, the environment and the wider community.

### Our People

Our People are fundamental to the success of our Group.

The Group seeks to set objectives, monitor performance and determine the development needs of its staff, aiming to ensure consistency and to enable our people to understand their contribution to the Group objectives. Both businesses have employee engagement programmes which encourages people's involvement in the business.

We try where possible to offer flexible working solutions which help to maintain a balance between work and life outside of the workplace. With the exception of approximately 150 staff in Asia, the Group is a UK-based employer. 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 with, for example, prayer facilities and employee information in foreign languages where appropriate.

We have a strong commitment to the Modern Slavery Act through our MSA statements, we comply with the National Minimum and Living Wage recommendations to ensure that our people are paid fairly for the work and duties they diligently carry out and we are a fair and consistent employer as evidenced through our employee feedback. This year, we conducted a Group wide review of zero hour contracts. The findings were compliant with the central government policy but also more generous in terms of additional benefits such as payment for breaks. As a result of the review, management agreed that temporary warehouse staff who had worked more than 12 months would move to a permanent contract to give them even more job security resulting with approximately 20 temporary employees moving to a permanent contract in March of this year.

Gender diversity is also important 32% of the senior management team are female (which is an increase of 6% from last year), whilst this figure increases to 52% across the entire workforce. The table below details these figures at year end:

	Male	%	Female	%
Senior Management	53	68	26	32
All Employees	761	48	835	52

Learning and development is also an important part of our People strategy and Express Gifts and Findel Education offer NVQ's and role-specific training programmes. Both businesses have a dedicated training function that supports the development needs and succession planning of the business, together with measuring the employee and customer experience.

Findel Education also recognises the importance of giving customers the protection of knowing our people are suitable to work within the education sector and as such the entire sales force and relevant members of the Marketing and Trading teams are DBS checked. Express Gifts carry out the same checks for all Collections staff giving confidence to customers.

Several staff benefit schemes exist which offer retail discounts and vouchers, technology discount schemes, reduced cost gym membership, NHS checks for the over 40's and a cycle to work scheme, promoting health and wellbeing.

### 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. The health and safety policies and procedures are available to all employees via the divisional intranets.

The focus on health and safety continues and we work closely with our employers' liability insurers, Aviva, in reviewing and improving risk levels across the businesses. There was a small increase in the total accident numbers in the year to March 2017 although this was from a very low base given the size and nature of our businesses and the number of serious accidents fell by 45% year on year.

All areas of the business operate a twelve-month rolling risk assessment programme 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.

Findel Education have successfully renewed its certifications in ISO9001, 14001 and OHSAS18001, the internationally recognised standard for Occupational Health and Safety Management Systems. They are also a registered training centre for the Chartered Institute of Environmental Health. Findel remains a member of the British Safety Council and last year became a member of the Royal Society for the prevention of Accidents (RoSPA).

A pilot scheme of near miss accident reporting was introduced during the year and this will further enhance our systems to identify any emerging risks that can be rectified prior to harm being caused. Additionally, a new Group Health and Safety Handbook was produced and circulated to all employees last year, as part of our system of periodic reviews.

## Corporate Social Responsibility Report

### Our Products and Customers

The Group sells a range of over 100,000 stock lines across an extensive range of categories. Our suppliers are similarly diverse from individual factories to large multinational companies. Product safety and quality has to be 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 division has a team dedicated to maintaining these standards.

Express Gifts require new suppliers to produce an Ethical Trading statement as part of the set-up process from a recognised third party auditor. They have also set up, with the help of Veriso, a grading scheme for suppliers which allows continuous improvement of conditions and standards within the Express Gifts supply chain.

Findel Asia Sourcing Ltd, now with 2 offices in Hong Kong and Shanghai, has been sourcing products for group companies and third parties for over 30 years and requires that each of the 270 factories they deal with has a valid, reputable audit certificate in place with at least six months' validity and there is a programme for monitoring the renewal of these. A further level of scrutiny was introduced last year to require evidence that factories with improvement works required under the audits provide photographic evidence of compliance. Findel Education have included adherence to the UK Modern Slavery Act within the new version of their Trading Manual for 2017 and are holding a supplier workshop later this year in which Ethical Sourcing & the Modern Slavery Act will feature alongside a section on product compliance.

Within Express Gifts, various products in our household and children's furniture ranges are procured from FSC and sustainable sources, whilst within Findel Education all applicable products are assessed for quality & safety including, Toy Safety Directive, Low Voltage Directive, EMC REACH, ROHS, FSC and EU timber regulations compliance. Findel Education are driving standards forward within the education sector with the release of version 2 of their Product Compliance Manual in 2017, supporting vendors in product quality, safety & mandatory compliance by category.

Express Gifts has seen the importance it places on safety and quality of products translated into a reduction in its returns rate by 0.4%. This is in spite of further diversification into clothing ranges which by their nature have a higher rate of return.

Findel Education's Customer Voice programme has once again shown strong positive trends in customer feedback. Their net promoter score continues to show exceptional results, and in March 2017, they recorded a score of 90% against a base established in 2010 of 50%. There has been an 18% reduction in credits, returns and replacements over the last three years, and customer queries have reduced by 48% over the last five years, this clearly demonstrates that Findel Education are fulfilling their mission of being 'easy to do business with' through an ongoing commitment to continuous improvement.

As part of its strategy to "put the customer at the heart of everything we do", Express Gifts has deployed several initiatives to help reduce Returns rates and this can be seen by improvements in a number of customer metrics.

### The Environment

As a business mainly operating within mail order and e-commerce, the Group 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 2016/17 were 170 tonnes of CO<sub>2</sub> compared to 244 tonnes in 2015/16, a reduction of 30% due to a combination of a significantly reduced fleet size and a switch to lower emission vehicles on renewal of the remaining fleet. The Scope 2 emissions from its energy usage were 5,405 tonnes of CO<sub>2</sub> which is an increase of 1.81% from 5,310 tonnes in 2015/16 – this is significantly less than the percentage year on year increase in the Group's business volumes.

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.

Each of our businesses continues to supply its customers with the information necessary to make informed environmental choices. This includes the identification in our catalogues of products made from renewable or recycled materials and the energy ratings of our white goods. Our Education division continues to increase its range of eco-friendly products 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.

### 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. The more efficient use of space combined with energy management initiatives have seen a reduction of total energy consumption in our buildings as reported above.

Energy efficiency is a material consideration when procuring vehicles, equipment or services. From energy saving lighting installation to further automation in our major Express Gifts warehouse. 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 Nottingham Logistics Centre recently installed a self-learning energy management system with an anticipated decrease in gas usage of 20%.

The Group Company Car Policy focuses on low carbon emission vehicles with a reduction in the CO<sub>2</sub> limit for all new vehicles from a maximum permitted CO<sub>2</sub> of 160 g/km to 130 g/km. This has seen a reduction in our average fleet emissions from 115 g/km in 2015/16 to 104g/km in 2016/17.

### Paper

The tonnage of paper used in our catalogues and brochures has shown a reduction from 12,956 tonnes in 2015/16 to 12,827 tonnes in 2016/17, a reduction of 1%. All paper used for printing by our divisions is now manufactured at mills which have 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. We also actively seek out opportunities with suppliers to reduce packaging.

In the current year, we have once again seen a rise in the overall packaging levels consistent with the increased turnover and reflect the already low levels of packaging achieved by previous initiatives.

### Waste

All EGL sites continue to be Zero to Landfill sites and have been since May 2012. In the last 12 months, 2,629 tonnes of waste was collected, of which 69% was recycled and 31% was recovered via an Energy from Waste (EFW) plant. This is an increase in line with turnover against last year's figure.

Findel Education have achieved a Zero to Landfill standard at its two largest sites in Nottingham and Enfield, which recently merged to create further economies of scale, and have continued to reduce the landfill element of its total waste to 2.14% from 2.67% last year.

### Community Support

Once again, the Company and its employees continue to support a number of local and national charities, together with local communities and organisations close to our various bases of operation.

Both Express Gifts and Findel Education are partnering local schools providing support and guidance to staff and students. Findel Education are also involved with 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.



## Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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 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 and prudent;
- 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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:

- i) 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
- ii) 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 Findel plc are detailed on page 27.

By order of the Board

Ian Burke  
Chairman

Phil Maudsley  
Chief Executive

26 June 2017



# Independent auditor's report

to the members of Findel plc only

Opinions and conclusions arising from our audit

## 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Findel plc for the period ended 31 March 2017 set out on pages 74 to 134. 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 31 March 2017 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 *The 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.

### Overview

**Materiality:** £2.0m (2016:£2.0m)  
Group financial statements as a whole 0.4% (2016: 0.4%) of the Group's revenue

**Coverage** 100% (2016:100%) of the Group's profit before tax

### Risks of material misstatement vs 2016

Recurring risks		
	Recoverability of trade receivables in Express Gifts Limited	◀ ▶
	Financial services redress provisions	◀ ▶
	Classification of items as individually significant	◀ ▶
	Valuation of inventories	◀ ▶
	Recoverability of goodwill and other intangible assets	▼

The risk in relation to the recoverability of goodwill and other intangible assets has reduced following the impairment of £21.2m recognised during the year.

## Independent Auditor's Report

## 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The risk	Our response
<p><b>Recoverability of trade receivables in Express Gifts Limited</b></p> <p>(£270.1m, allowance for doubtful debts £83.4m; 2016: £244.3m, allowance for doubtful debts £43.1m)</p> <p><i>Refer to page 58 (Audit Committee Report), page 84 (accounting policy) and pages 106 to 108 (financial disclosures).</i></p>	<p><b>Calculation complexity</b></p> <p>The Group has a significant level of trade receivables which are due to be recovered by instalments as a result of extended credit terms offered to customers by the Express Gifts Limited business. The balance of receivables comprises a significant number of individually small balances.</p> <p>The Group therefore uses a complex financial model to determine the appropriate level of provision against balances which may not ultimately be recovered.</p> <p><b>Accounting treatment</b></p> <p>A new financial model has been prepared during the year and as a result the calculation basis of the impairment provision has changed compared to that used in prior periods, although a number of the input assumptions and estimates remain similar, including the identification of trigger events for customer default ("emergence period"), forbearance and debt sale strategies. Changes in estimates and methodology in the year as a result of the adoption of the new model have given rise to an increase in the provision of £35.2m which must be appropriately disclosed.</p> <p><b>Subjective valuation</b></p> <p>The calculation of the Group's impairment provision requires the Directors to make significant judgements and assumptions over the recoverability of receivables balances.</p> <p>The receivables provision is most sensitive to assumptions made in respect of the probability of default, the timing and value of cash recoveries in particular in respect of debt sales and the emergence period. This is due to limitations with the historical data used to support the assumptions made and the risk of forecasting error. The provisioning model also needs to adequately factor in forbearance arrangements.</p> <p>Small changes in the assumptions and estimates used in the provisioning model can have a significant effect on the results of the Group. As a consequence, adequate disclosure of the assumptions and the areas of estimation uncertainty is also important.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Control re-performance:</b> Testing key controls over the capture, monitoring and reporting of credit advances to customers, by re-performing the controls.</li> <li>— <b>Assessing methodology choice:</b> Comparing the methodology used to our interpretation of the requirements of the relevant accounting standards.</li> <li>— <b>Historical comparisons:</b> Critically assessing the Group's assumptions regarding the timing and value of cash recoveries based on historical experience, and the Group's approved debt sale strategies.</li> <li>— <b>Benchmarking assumptions:</b> Benchmarking the Group's key assumptions, such as emergence period, and assessed provision coverage to externally available data, with particular focus on similar lending.</li> <li>— <b>Assessing transparency:</b> Considering the adequacy of the Group's disclosures of the assumptions and the areas of estimation uncertainty in relation to the impairment provision. We have also challenged management's determination of whether the increase in the provision required on adoption of the new model should be recorded as a prior period adjustment in accordance with IAS 8.</li> </ul>

The risk	Our response
<p><b>Financial services redress provisions</b></p> <p>(£25.5m; 2016: £15.3m)</p> <p><i>Refer to page 58 (Audit Committee Report), page 88 (accounting policy) and page 111 (financial disclosures).</i></p>	<p><b>Subjective estimate</b></p> <p>The Group's provision of credit services to customers means that it operates within a regulated environment which requires the Group to comply with the principles of the Financial Conduct Authority (FCA). There is a risk that any non-compliance with these principles could trigger the need for significant customer redress programmes.</p> <p>Conduct issues have previously been identified in relation to the sale of financial services products, which have resulted in the requirement for significant provisions for redress and refunds. As a result, and given the total value of the provision recorded, and the increases in provisions required in the current and prior year, this area was identified as one of the risks of material misstatement.</p> <p>Where a need for customer redress has been identified, a significant level of judgement is required in assessing the level of the Group's expected cash outflow, and hence the provision required. These judgements are based on consultations with the FCA but also involve directors' assessment, using a complex provisioning model which incorporates assumptions over the timing and value of redress payments.</p> <p><b>Our procedures included:</b></p> <ul style="list-style-type: none"> <li>— <b>Correspondence review:</b> Reviewing correspondence with the FCA and the Group's external advisors, and reviewing customer complaints for material issues, in order to assess the appropriateness of provisions made for all known material redress issues.</li> <li>— <b>Assessing methodology:</b> Assessing the provision methodology against regulator guidelines and our market experience to ensure the provision calculations are not out of line with regulatory requirements or market practice.</li> <li>— <b>Re-performance:</b> Re-performing provision model calculations to evaluate the accuracy and completeness of the model, assessing the methodology against the latest regulatory directives.</li> <li>— <b>Historical experience:</b> Comparing the customer response rates, claims uphold rates and redress settlement levels used within the provision model to actual experience.</li> <li>— <b>Sensitivity analysis:</b> Performing and assessing the impact of sensitivity analysis in relation to the key assumptions on the level of provision recorded.</li> <li>— <b>Assessing transparency:</b> Considering the adequacy of the Group's disclosures in respect of the sensitivity of the provisions to the assumptions made.</li> </ul>
<p><b>Classification of items as individually significant</b></p> <p>(£75.7m; 2016: £26.5m)</p> <p><i>Refer to page 58 (Audit Committee Report), page 81 (accounting policy) and pages 94 and 95 (financial disclosures).</i></p>	<p><b>Presentation appropriateness</b></p> <p>Judgements are required in arriving at the categorisation of items as individually significant in the consolidated income statement, in particular as to whether the nature of the costs is unusual by its nature or scale and is of such significance that separate disclosure is required in order to fairly present the financial performance of the Group.</p> <p>Inappropriate classification of items as individually significant could result in a misleading presentation of the trading performance of the Group for the year, or over a period of time.</p> <p><b>Our procedures included:</b></p> <ul style="list-style-type: none"> <li>— <b>Tests of detail:</b> Agreeing items to supporting documentation to understand the nature of the items and evaluate the appropriateness of their classification as individually significant, having regard to the Group's accounting policy. This also included assessing whether there are any transactions included within the results before individually significant items which we consider should be classified as individually significant.</li> <li>— <b>Assessing consistency:</b> Where provisions were made in the prior period for individually significant items, assessing whether any releases of the provision have also been appropriately classified as an individually significant item.</li> <li>— <b>Assessing transparency:</b> Considering the adequacy of the disclosure in relation to individually significant items being described clearly, accurately and consistently and assessing the extent to which prominence is given to information on results both before and after individually significant items.</li> </ul>

## Independent Auditor's Report

	The risk	Our response
<p><b>Valuation of inventories</b></p> <p>(£57.1m; 2016: £53.5m)</p> <p><i>Refer to page 58 (Audit Committee Report), page 85 (accounting policy) and page 105 (financial disclosures).</i></p>	<p><b>Subjective valuation</b></p> <p>The Group has significant levels of inventory, and judgements are made with regard to the categorisation of stock as obsolete and/or slow moving, and therefore whether items should be considered for provision.</p> <p>Estimation is then involved in arriving at a provision against cost in respect of slow moving and obsolete inventories so that inventory is carried at the lower of cost and net realisable value.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Tests of detail:</b> Comparing inventory levels to historical sales data to corroborate whether slow moving and obsolete inventories have been appropriately identified, and challenging the Group's categorisation as obsolete or slow moving.</li> <li>— <b>Historical comparisons:</b> Considering realisations of inventories during the period and after the period end, in particular of clearance categories, and comparing these to the Group's expected recoveries for inventory categorised as obsolete and/or slow moving.</li> <li>— <b>Assessing transparency:</b> Assessing the adequacy of the Group's disclosures in respect of the judgement and estimation made in respect of inventory provisioning</li> </ul>
<p><b>Recoverability of goodwill and other intangible assets</b></p> <p>(£nil, £26.2m; 2016: £16.7m, £30.6m)</p> <p><i>Refer to page 58 (Audit Committee Report), page 83 (accounting policy) and pages 102 to 104 (financial disclosures).</i></p>	<p><b>Forecast-based valuation</b></p> <p>The current trading environment has remained increasingly challenging for Findel Education, where revenue has decreased during the period and profitability has not improved [resulting in an impairment charge in the current year]. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit is concentrated on.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>— <b>Historical comparison:</b> Assessing the Group's forecasting accuracy by comparing actual results in the period to what was forecast in the prior year.</li> <li>— <b>Benchmarking assumptions:</b> Critically evaluating the risk adjusted discount rates, having regard for market observable data with regard to risk free rates, returns on equity for comparator companies and company size premium. We also evaluated the assumptions for cost inflation and terminal growth rate, having regard for market data.</li> <li>— <b>Our valuation expertise:</b> With assistance from our own valuation specialists, we determined an appropriate range of discount rates adjusted for forecasting risk and compared to the discount rate used by the Group.</li> <li>— <b>Comparing valuations:</b> Comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of the value in use calculations.</li> <li>— <b>Assessing transparency:</b> Assessing whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill and unamortised intangibles.</li> </ul>

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

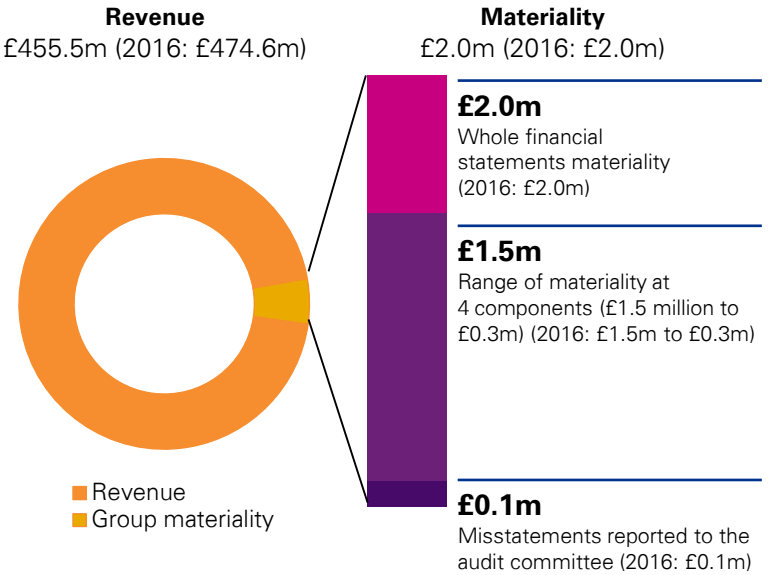
Materiality for the Group financial statements as a whole was set at £2.0m, determined with reference to a benchmark of Group revenue of £455.5m, of which it represents 0.4% (2016: 0.4%) when considering revenue from continuing operations (2016: continuing and discontinued operations). We have used total revenue as the benchmark for setting our materiality as total revenues is a relevant performance measure and is more stable than profit before tax from continuing operations.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.1m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

All of the Group's four (2016: five) reporting components were subjected to full scope audits for group purposes and covered 100% (2016: 100%) of Group revenue; 100% (2016: 100%) of Group profit before taxation; and 100% (2016: 99%) of total Group assets.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £1.5m to £0.3m, having regard to the mix of size and risk profile of the Group across the components. The work on one of the four components (2016: one of the five components) was performed by component auditors and the rest by the Group team.

Telephone conference meetings were held with component auditors. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.





## Independent Auditor's Report

### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

### 5. We have nothing to report on the disclosures of principal risks

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

- the directors' viability statement on page 28, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to March 2020; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

### 6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our 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 Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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.

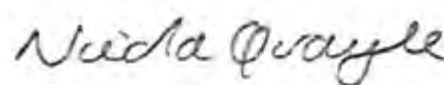
Under the Listing Rules we are required to review:

- the directors' statements, set out on page 28, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 32 to 35 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 66, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.



**Nicola Quayle (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

1 St Peter's Square  
Manchester  
M2 3AE  
26 June 2017

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## Consolidated Income Statement

53 week period ended 31 March 2017

	Notes	Before individually significant items £000	Individually significant items £000	Total £000
<b>Continuing operations</b>				
Revenue		457,030	—	457,030
Cost of sales		(235,691)	—	(235,691)
<b>Gross profit</b>		221,339	—	221,339
Trading costs	4,6	(190,189)	(82,152)	(272,341)
Analysis of operating profit/(loss):				
– <b>EBITDA*</b>		40,594	(60,276)	(19,682)
– Depreciation and amortisation		(9,444)	—	(9,444)
– Impairment		—	(21,876)	(21,876)
<b>Operating profit/(loss)</b>	5	31,150	(82,152)	(51,002)
Finance costs	8	(8,921)	—	(8,921)
<b>Profit/(loss) before tax and fair value movements on derivative financial instruments</b>		22,229	(82,152)	(59,923)
Fair value movements on derivative financial instruments		556	—	556
<b>Profit/(loss) before tax</b>		22,785	(82,152)	(59,367)
Tax (expense)/income	9	(4,803)	6,462	1,659
<b>Profit/(loss) for the period</b>	10	17,982	(75,690)	(57,708)
<b>Loss per ordinary share from continuing operations</b>				
Basic	12			(66.85)p
Diluted				(66.85)p

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 25 March 2016

	Notes	Before individually significant items £000	Individually significant items £000	Total £000
<b>Continuing operations</b>				
Revenue		410,601	—	410,601
Cost of sales		(216,446)	—	(216,446)
<b>Gross profit</b>		194,155	—	194,155
Trading costs	4,6	(159,478)	(25,458)	(184,936)
Analysis of operating profit/(loss):				
– <b>EBITDA*</b>		41,519	(25,458)	16,061
– Depreciation and amortisation		(6,842)	—	(6,842)
<b>Operating profit/(loss)</b>	5	34,677	(25,458)	9,219
Finance costs	6,8	(9,901)	(998)	(10,899)
<b>Profit/(loss) before tax</b>		24,776	(26,456)	(1,680)
Tax (expense)/income	9	(5,230)	5,321	91
<b>Profit/(loss) for the period</b>	10	19,546	(21,135)	(1,589)
<b>Discontinued operation</b>				
Loss from discontinued operation, net of tax	6,7	(3,268)	(5,339)	(8,607)
<b>Profit/(loss) for the period</b>	10	16,278	(26,474)	(10,196)
<b>Loss per ordinary share</b>				
<b>from continuing operations</b>				
Basic	12			(1.85)p
Diluted				(1.85)p
<b>from discontinued operation</b>				
Basic	12			(10.00)p
Diluted				(10.00)p
<b>total attributable to ordinary shareholders</b>				
Basic	12			(11.85)p
Diluted				(11.85)p

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

\* Earnings before interest, taxation, depreciation and amortisation.

## Consolidated Statement of Comprehensive Income

53 week period ended 31 March 2017

	2017 £000	2016 £000
Loss for the period	(57,708)	(10,196)
<b>Other Comprehensive Income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Cash flow hedges	(51)	42
Currency translation (loss)/gain arising on consolidation	(149)	213
	(200)	255
<i>Items that will not subsequently be reclassified to profit or loss</i>		
Remeasurements of defined benefit pension scheme (note 27)	(5,367)	7,001
Tax relating to components of comprehensive income (note 22)	912	(1,134)
	(4,455)	5,867
<b>Total comprehensive loss for period</b>	<b>(62,363)</b>	<b>(4,074)</b>

The total comprehensive loss for the period is attributable to the equity shareholders of the parent company Findel plc.

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

# Consolidated Balance Sheet

at 31 March 2017

Company number: 549034

	Notes	2017 £000	2016 £000
<b>Non-current assets</b>			
Goodwill	13	—	16,691
Other intangible assets	13	26,186	30,631
Property, plant and equipment	14	44,416	41,423
Derivative financial instruments	20	32	—
Deferred tax assets	22	8,410	4,182
		79,044	92,927
<b>Current assets</b>			
Inventories	15	57,108	53,472
Trade and other receivables	16	212,648	229,848
Derivative financial instruments	20	556	—
Cash and cash equivalents	17	29,173	34,405
Current tax assets	9	1,748	3,554
		301,233	321,279
<b>Total assets</b>		380,277	414,206
<b>Current liabilities</b>			
Trade and other payables	18	63,473	58,175
Obligations under finance leases	19	545	518
Provisions	21	27,770	17,498
		91,789	76,191
<b>Non-current liabilities</b>			
Bank loans	19	252,534	248,911
Obligations under finance leases	19	1,069	1,658
Provisions	21	12,767	6,277
Retirement benefit obligation	27	5,415	2,294
		271,785	259,140
<b>Total liabilities</b>		363,574	335,331
<b>Net assets</b>		16,703	78,875
<b>Equity</b>			
Share capital	24	48,644	48,644
Share premium account		—	—
Capital redemption reserve		—	—
Translation reserve		824	973
Hedging reserve		(51)	—
(Accumulated losses)/Retained earnings		(32,714)	29,258
<b>Total equity</b>		16,703	78,875

Approved by the Board and authorised for issue on 26 June 2017

Ian Burke  
Chairman

Phil Maudsley  
Chief Executive Officer

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



## Consolidated Cash Flow Statement

53 week period ended 31 March 2017

	2017 £000	2016 £000
Loss for the period	(57,708)	(10,196)
Adjustments for:		
Income tax	(1,659)	(959)
Finance costs	8,921	10,899
Depreciation of property, plant and equipment	7,485	5,812
Impairment of property, plant and equipment and software and IT development costs	698	—
Impairment of goodwill	17,319	—
Impairment of other intangible assets	3,859	—
Amortisation of intangible assets	1,959	2,537
Share-based payment expense	191	239
Loss on disposal of property, plant and equipment	35	76
Loss on disposal of subsidiary	—	4,782
Fair value movements on financial instruments net of premiums paid	(699)	—
Pension contributions less income statement charge	(2,291)	(2,500)
<b>Operating cash flows before movements in working capital</b>	<b>(21,890)</b>	<b>10,690</b>
Increase in inventories	(3,636)	(6,846)
Decrease/(increase) in receivables	14,882	(5,965)
Increase/(decrease) in payables	4,951	(5,133)
Increase in provisions	16,847	16,143
<b>Cash generated from operations</b>	<b>11,154</b>	<b>8,889</b>
Income taxes refunded/(paid)	148	(2,494)
Interest paid	(9,107)	(9,549)
<b>Net cash from operating activities</b>	<b>2,195</b>	<b>(3,154)</b>
<b>Investing activities</b>		
Interest received	3	—
Proceeds on disposal of property, plant and equipment	10	—
Purchases of property, plant and equipment and software and IT development costs	(11,723)	(15,940)
Acquisition of subsidiary, net of cash acquired	(1,150)	—
Sale of subsidiary, net of cash held in subsidiary	2,318	11,115
<b>Net cash used in investing activities</b>	<b>(10,542)</b>	<b>(4,825)</b>
<b>Financing activities</b>		
Repayments of obligations under finance leases	(562)	—
Bank loans repaid	(10,000)	(5,334)
Securitisation loan drawn	13,623	9,224
<b>Net cash from financing activities</b>	<b>3,061</b>	<b>3,890</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,286)</b>	<b>(4,089)</b>
Cash and cash equivalents at the beginning of the period	34,405	38,470
Effect of foreign exchange rate changes	54	24
<b>Cash and cash equivalents at the end of the period</b>	<b>29,173</b>	<b>34,405</b>

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

## Consolidated Statement of Changes in Equity

53 week period ended 31 March 2017

	Share capital £000	Capital redemption reserve £000	Share premium account £000	Translation reserve £000	Hedging reserve £000	Retained earnings/ (accumulated losses) £000	Total equity £000
At 27 March 2015	126,442	403	92,954	760	(42)	(137,807)	82,710
Total comprehensive loss for the period	—	—	—	213	42	(4,329)	(4,074)
Capital reduction (note 24)	(77,798)	(403)	(92,954)	—	—	171,155	—
Share-based payments	—	—	—	—	—	239	239
At 25 March 2016	48,644	—	—	973	—	29,258	78,875
Total comprehensive loss for the period	—	—	—	(149)	(51)	(62,163)	(62,363)
Share-based payments	—	—	—	—	—	191	191
<b>At 31 March 2017</b>	<b>48,644</b>	<b>—</b>	<b>—</b>	<b>824</b>	<b>(51)</b>	<b>(32,714)</b>	<b>16,703</b>

The total equity is attributable to the equity shareholders of the parent company Findel 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

Findel plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 27. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 25.

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.

#### Impact of accounting standards not yet effective

No standards have been adopted for the first time that affect the reported results or financial position.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU). 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:

- *IFRS 15 Revenue from Contracts with Customers* will be effective from the year ending March 2019 onwards. Management continues to assess the likely impact of this standard.
- *IFRS 9 Financial Instruments recognition and measurement* will be effective from the year ending March 2019 onwards, with the main impact being on the provisioning methodology used to value the receivables book in Express Gifts. Whilst management is still considering the impact of this new standard, it is anticipated that the level of provisioning required will be higher than that required under the current standard (IAS 39) due to the requirement to make provisions on a prospective loss basis rather than on an incurred loss basis as required by the existing standard. Process and modelling amendments will be implemented in line with the effective date.
- *IFRS 16 Leases* will be effective from the year ending March 2020 onwards and the impact on the financial statements will be significant to Findel plc. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts. Therefore, the substantial majority of the Group's operating lease commitments (some £56m on an undiscounted basis, as shown in note 26) would be brought on balance sheet and amortised and depreciated separately. There will be no impact on cash flows although the presentation of the cash flow statement will change significantly. Management is still considering the impact of this new standard and is as yet unable to quantify its likely impact.

#### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 principal accounting policies adopted are set out below and have been applied consistently in the current and prior period.

#### Going concern

In determining whether the Group's financial statements for the period ended 31 March 2017 can be prepared on a going concern basis, the directors considered all factors likely to affect its future development, performance and its financial position, including its cash flows, liquidity position and borrowing facilities and the risks and uncertainties relating to its business activities in the current economic climate. The financial position of the Group, its cash flows, liquidity position and borrowing facilities and details of those key risks and uncertainties are set out in further detail in the Finance Director's Review on pages 18 to 20.

The directors have reviewed the Group's trading and cash flow forecasts as part of their going concern assessment, including considering the potential impact of reasonably possible downside sensitivities which take into account the uncertainties in the current operating environment, including, amongst other matters, demand for the Group's products, its available financing facilities, and regulatory licensing and compliance. Although at certain times the level of facility and/or covenant headroom reduces to a level which requires cash flow initiatives to be introduced to ensure that the funding requirements do not exceed the committed facilities or result in non-compliance with covenants, management are confident that such actions are supportable, and that further controllable mitigating actions are available that could be implemented if required. The Group's current banking facilities mature in November 2019.

Taking into account the above circumstances, the directors have formed a judgement that there is a reasonable expectation, and there are no material uncertainties, that the Group and the Company have adequate resources to continue in operational existence for a period of at least 12 months.

Accordingly, they continue to adopt the going concern basis in preparing the Group's annual consolidated financial statements.

## 1 General information and accounting policies – continued

### 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.

#### Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker (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 the Company.

The CODM assesses profit performance using operating profit measured on a basis consistent with the disclosure in the Group financial information.

Prior to the disposal of Kitbag Limited on 1 February 2016, the Group was organised into four operating segments:

- Express Gifts;
- Findel Education;
- Overseas sourcing; and
- Kitbag.

Following the disposal of Kitbag Limited on 1 February 2016, the Group is now organised into three operating segments.

### Income statement presentation

#### Individually significant items

As permitted by IAS1 '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 6.

#### Discontinued operations

The Group completed the disposal of its sports retail company, Kitbag Limited, on 1 February 2016. The business met the criteria to be accounted for as a discontinued operation as defined in IFRS 5, "Non-current assets held for sale and discontinued operations" in the prior period. Results from this discontinued operation have therefore been separated out in the comparator consolidated income statement to enhance the comparability of the ongoing businesses. Further details are given in note 7.

### Revenue recognition

Revenue comprises the fair value of the sale of goods and services to external customers, net of value added tax, rebates, discounts and returns. Revenue is recognised as follows:

#### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, which is considered to be upon despatch, and the amount of revenue can be measured reliably.

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

#### Interest income

Interest income on customer credit accounts is recognised on a time-proportion basis, using the effective interest method.

#### Rendering of services

Revenue is recognised in respect of non-interest related financial income and delivery charges at the point at which the service is deemed to have been rendered. In all cases income is recognised when the relevant service has been provided to the customer.

## Notes to the Consolidated Financial Statements

### 1 General information and accounting policies – continued

#### Volume based discounts and other arrangements with suppliers

Both Express Gifts and Findel Education 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 income statement. In most cases, the discount is set off against outstanding invoices.

Both Express Gifts and Findel Education 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 31 March 2017 was approximately £4.4m (2016: £5.7m) which represents approximately 1.9% (2016: 2.6%) of cost of sales relating to continuing operations.

#### 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 Group's 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 taken to the income statement with the exception of differences on translations that are subject to effective cash flow hedges.

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.

##### Group companies

The results and financial position of overseas Group entities 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; 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 foreign entities are taken to equity. Tax charges and credits attributable to those exchange differences are taken directly to equity.

#### 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.

#### 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;
- Land is not depreciated.

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

## 1 General information and accounting policies – continued

### 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 three to seven 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.

### Goodwill

Goodwill is the excess of the fair value of the consideration payable for an acquisition over the fair value of the Group's share of identifiable net assets of a subsidiary, associate or joint venture acquired at the date of acquisition. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are made where necessary to bring the accounting policies of acquired businesses into alignment with those of the Group.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment. Goodwill is stated at cost less any impairment. Goodwill is not amortised but is tested annually for impairment. An impairment charge is recognised for any amount by which the carrying value of goodwill exceeds its recoverable value.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold, allocated where necessary on a *pro rata* basis.

### Other 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.

### 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

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.



## Notes to the Consolidated Financial Statements

### 1 General information and accounting policies – continued

#### Financial assets

The Group's financial assets are classified as either derivatives or "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the principal amount.

Income is recognised on an effective interest basis for loans and receivables.

#### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For trade receivables in Express Gifts, assets that are not individually significant are assessed for impairment on a collective basis. When assessing for collective impairment, the Group estimates incurred losses using a statistical model which multiplies the probability of default ("PD") for each class of customer (using a balance scorecard for the relevant stage of debt) by the loss given default ("LGD") multiplied by the exposure at default ("EaD") to arrive at the projected expected loss. An emergence period is incorporated to provide the estimated level of incurred losses at each reporting date.

An adjustment is made to discount the expected cash flows from the impairment model, at the assets' original EIR, to arrive at the recorded collective provisions.

The model's results are adjusted for management's judgement as to whether current economic, political and credit conditions are such that actual losses are likely to differ from those suggested by historical modelling, increasing model risk within the impairment.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### 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.

#### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## 1 General information and accounting policies – continued

### 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### Derivative financial instruments

On initial designation of the derivative as the hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

#### Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified in 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 20 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

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.

## Notes to the Consolidated Financial Statements

### 1 General information and accounting policies – continued

#### 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.

#### Leases

##### Finance leases

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 property 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

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.

## 2 Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

### Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, which are described in note 1, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are dealt with below).

In implementing the new model for calculating impairment on trade receivables in Express Gifts, judgement has been applied in considering whether a prior period adjustment is required or whether the changes represent a change in estimate. This is discussed further in the section on 'Change in accounting estimate' below.

### 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:

#### Valuation of indefinite lived intangibles and goodwill (note 13)

The Group has significant investments in indefinite lived intangible assets and goodwill at 31 March 2017 as a result of acquisitions of businesses and purchases of such assets. The carrying value of indefinite lived intangible assets at 31 March 2017 is £17.3m (2016: £21.2m) and, following the impairment recorded during the year, the carrying value of goodwill at 31 March 2017 is £nil (2016: £16.7m). These assets are held at cost less provisions for impairment 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. Such estimates are inherently subjective and can have a material impact on the result of the impairment test.

#### Inventory provisioning (note 15)

The Group carries significant amounts of inventory against which there are provisions for slow moving and delisted products. At 31 March 2017 a provision of £1.9m (2016: £1.7m) is held against a gross inventory value of £59.0m (2016: £55.2m). The provisioning calculations require a high degree of judgement and the use of estimates around historical recovery rates for slow moving and delisted products.

#### Express Gifts' trade receivables (note 16)

Express Gifts' trade receivables are recognised on the balance sheet at original invoice amount less provisions for impairment. At 31 March 2017 trade receivables with a gross value of £270.1m (2016: £244.3m) were recorded on the balance sheet, less a provision for impairment of £83.5m (2016: £43.1m).

Provisions for impairment of receivables within Express Gifts are established when there is objective evidence that the Group will not be able to collect all amounts due. The provision for impairment represents management's best estimate of losses incurred in the portfolio at the balance sheet date. In determining the required level of impairment provisions, the Group uses the output from a new statistical impairment model developed and implemented during FY17, which assesses the probability of default at a customer account level based on customer risk scoring, and uses this estimate of probability to calculate an estimated loss based on the level of exposure at the balance sheet date, adjusted for an estimate of future cash flows expected to be recovered from defaulted accounts.

#### Change in accounting estimate

As disclosed in last year's annual report, during FY16 management commenced a comprehensive build of a new statistical model for calculating the impairment of trade receivables, which was completed during FY17. The new model has enabled management, at the FY17 year end, to assess impairment at an account level. In comparison to the model previously used by the Group, the new model allows for the calculation of a more precise impairment provision, based on the risk rating of individual customers. The impairment model used in prior years necessitated the estimate of impairment provisions based on an assessment of the population on a collective basis, which included the use of averages, based on historic roll rates and collection rates.

The granular information provided by the new model has also enabled management to have greater visibility over the impact of changes introduced to receivables collection processes by Express Gifts in recent periods, including the introduction of a strategy to pursue the sale of significantly overdue receivables to third-parties. As a result, management are able to predict with a greater level of accuracy, based on actual historical performance and specific customer behaviour, the level of provisions required, including for accounts in forbearance arrangements, and to factor in more balanced estimates of the Group's experience of emergence periods. Management have also sought to reflect the impact of a more balanced approach to its debt sale strategy within the year end estimate, which includes assumptions around the future value, probability, and timing of the expected cash flows from the debt sales.

## Notes to the Consolidated Financial Statements

**2 Critical accounting judgements and key sources of estimation uncertainty – continued**

Following the adoption of the new model during FY17, there has been an increase in the impairment provision at March 2017 of £35.2m. This increase represents the impact of changes in accounting estimates since the prior year as a result of the ability to conduct a more granular account by account bad debt estimate, and additional information which became available during FY17. In assessing the appropriate treatment of this increase in provision, management has considered whether an adjustment to the level of provision recognised at 25 March 2016 and prior should be recognised as a prior period adjustment in accordance with IAS 8. As the additional provision has arisen from the development of the new model during the year, and is based on information which was not available to the Group in prior years, management has recognised the increase in the provision in the current year. Due to the scale of the charge, however, and as the charge does not relate to the current trading period, management has concluded that the additional charge should be separately disclosed as an individually significant item in the income statement.

**Provisions for Financial Services redress (note 21)**

In both the current and prior period, the Group made provisions in respect of redress and refunds for flawed financial services products. At 31 March 2017 a provision of £25.5m (2016: £15.3m) was recorded in the balance sheet. The provision amount represents an estimate of premiums, interest and fees to be refunded to customers, based on a review of affected customer accounts using an account level calculator developed for the exercise. The affected population falls into two broad categories; those who have a live relationship with the business and those that do not. The former group have largely been auto refunded however the remaining population, some of whom may not have traded with the business for a significant period, will be contacted in the coming months. In calculating the provision amount, an assumed response rate from this customer contact exercise has been assumed. An increase of 5% in this assumed response rate would increase the provision required by c. £0.8m. Assumptions have also been made over the effective interest rate applied to amounts to be refunded. A 0.6% increase in the effective interest rate assumed would increase the provision required by c. £0.2m.

Due to the scale of the charge required to be made for redress and refunds during the year, and that the issues to which the redress and refund programmes relate did not arise in the current trading period, management has concluded that the additional charge should be separately disclosed as an individually significant item in the income statement.

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.

### 3 Subsidiaries

The subsidiaries of Findel plc, the Group's ultimate parent company, at 31 March 2017 were as follows:

Name	Registered Office Address	Activity
Express Gifts Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Trading entity
Findel Education Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Trading entity
Findel Asia Sourcing Limited	Room 1102, Two Harbourfront, 22 Tak Fung Street, Hunghom, Kowloon, Hong Kong.	Overseas trading entity
Express Gifts Philippines Inc.	Second Floor, Clark Center 7, Berthaphil Clark Center, Jose Abad Santos Avenue, Clark Freeport Zone, Pampanga, Philippines	Overseas entity*
SPA 4 Schools Limited	Units 1-2, Down Business Centre, 55 Antrim Road, Ballynahinch, Co Down, BT24 8AN	Trading entity acquired in the year
Findel Education Group Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Findel Wholesale Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Trading/non-dormant entity
TCC1 Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Trading/non-dormant entity
2Care4 Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Ace of Clubs Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Alternative Choice Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Burley House Weddings Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
C. & S. (Sutton) Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Care 4 Schools Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Care Cards Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Care4Free Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Cascade Party Toys Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Christmas-E Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Dean's Childsplay Toys Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Dee Textiles Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Designed For Giving Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Designed For You Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Durban Mills Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
EB2C Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Estore Fulfilment Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Express Home Shopping Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
FD1 Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel (Toys) Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel 2010 Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Educational Supplies Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Europe B.V.	Burley House, Bradford Rd. Burley-in-Wharfedale, West Yorkshire LS29 7 DZ	Overseas entity
Findel Fundraising Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Gifts Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Healthcare Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Home Shopping Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Interactive Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Properties Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Services Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Findel Stationery Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Fine Art Designs Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Fine Art Developments (Marketing) Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Fine Art Developments (Supplies) Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Fine Art Developments Employee Trust Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Fine Art Developments Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Friends of Nature Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Fundraising Direct Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity



## Notes to the Consolidated Financial Statements

**3 Subsidiaries – continued**

Name	Registered Office Address	Activity
Galt Education Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
E.J. Arnold & Son Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Heron Educational Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
E.J. Arnold Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
GLS Educational Supplies Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Hamsard 2445 Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Hamsard 3278 Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Hope Adventureplay Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Hope Education Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Hope Export Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Hope Holdings (U.K.) Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
International Schools Supply Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Ivory Cards Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Jones Williams Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Letterbox Mail Order Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Living and Learning, LIMITED	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Matchmaker Parties Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Miller Leswyn Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Minitogs Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Mistrale Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Natural Reflections Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Naturally Direct Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
NES Arnold Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Philip & Tacey Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Philip Harris Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Philograph Publications Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Pippa Dee International Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Pippa Dee Parties Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Premier Educational Supplies Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Protus Plastics Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Rock Bottom Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Rosgill Group Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Rosgill Holdings Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Say It with Ease.com Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Sporting Email Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Standard Debt Collections Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Step By Step Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Studio Cards Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Studio Dee Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity*
Sutcliffe Sport Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
The Dee Group P.L.C.	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Designers File Limited (THE)	Church Bridge House Henry Street, Church, Accrington, Lancashire, BB5 4EH	Dormant entity*
The Findel Educational Company Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Tradersgate Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Unilab Science Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Webb Ivory Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
World Class Learning Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity
Xpress Gifts Limited	2 Gregory St, Hyde, Cheshire, United Kingdom, SK14 4TH	Dormant entity

\*indirectly held.

All subsidiary undertakings are wholly owned, either directly or indirectly, by Findel plc and operate mainly in the jurisdiction in which they are registered. There are no other related undertakings to disclose.

## 4 Trading costs

An analysis of the Group's trading costs is as follows:

	2017 Total £000	Continuing operations £000	2016 Discontinued operation £000	Total £000
Selling and distribution costs:				
– Before individually significant items	113,907	96,822	7,103	103,925
– Individually significant items	—	—	—	—
Administrative expenses:				
– Before individually significant items	76,282	62,656	22,542	85,198
– Individually significant items	82,152	25,458	5,480	30,938
	272,341	184,936	35,125	220,061

## 5 Segmental analysis

### Operating segments

The Board has considered the information that is presented to them on each of the trading divisions. In view of this, information on reporting segments has been presented accordingly. The Group is organised into three operating segments.

### Continuing operations

- Express Gifts – direct mail order businesses in the UK, offering online and via catalogue a broad range of home and leisure items, clothing, toys and gifts supported by a flexible credit offer;
- Findel Education – supplier of resources and equipment (excluding information technology and publishing) to schools and educational establishments in the UK and overseas; and
- Overseas Sourcing – sourcing office based in Hong Kong supplying importing services to group companies and a small number of external customers.

Segment information about these operating segments is presented below. The prior period information includes information in respect of Kitbag Limited, which was regarded as a separate operating segment until its disposal on 1 February 2016.

Inter-segmental trading and profitability is not included in the information provided to the CODM and consequently is not disclosed below. Revenue for each reportable segment reflects sales to external customers only. Reportable segmental profits are adjusted for inter-segment profits and as such are stated using costs to the Group.

### 2017 Revenue

	Continuing operations			Total £000
	Express Gifts £000	Findel Education £000	Overseas Sourcing £000	
Sales of goods	262,240	91,739	1,971	355,950
Rendering of services and fees	15,278	—	—	15,278
Interest	85,802	—	—	85,802
Reportable segment revenue	363,320	91,739	1,971	457,030

### 2016 Revenue

	Continuing operations			Discontinued operation	Group
	Express Gifts £000	Findel Education £000	Overseas Sourcing £000	Kitbag £000	Total £000
Sales of goods	224,880	94,401	3,222	63,958	386,461
Rendering of services and fees	16,369	—	—	—	16,369
Interest	71,729	—	—	—	71,729
Reportable segment revenue	312,978	94,401	3,222	63,958	474,559

## Notes to the Consolidated Financial Statements

**5 Segmental analysis – continued****2017****Loss after tax**

	Continuing operations			Total £000
	Express Gifts £000	Findel Education £000	Overseas Sourcing £000	
<b>Reportable segment results</b>	30,432	1,417	(699)	31,150
Individually significant items (note 6)	(53,260)	(28,654)	(238)	(82,152)
Operating loss	(22,828)	(27,237)	(937)	(51,002)
Finance costs				(8,921)
Loss before tax and fair value movements on derivative financial instruments				(59,923)
Fair value movements on derivative financial instruments				556
Loss before tax				(59,367)
Tax				1,659
Loss after tax				(57,708)

**2016****Loss after tax**

	Continuing operations				Discontinued operation	Group
	Express Gifts £000	Findel Education £000	Overseas Sourcing £000	Total £000	Kitbag £000	Total £000
<b>Reportable segment results</b>	31,747	3,214	(284)	34,677	(3,995)	30,682
Exceptional items (note 6)	(19,876)	(5,582)	—	(25,458)	(5,480)	(30,938)
Operating profit/(loss) after individually significant items	11,871	(2,368)	(284)	9,219	(9,475)	(256)
Finance costs (includes £998,000 individually significant finance costs)				(10,899)	—	(10,899)
Loss before tax				(1,680)	(9,475)	(11,155)
Tax				91	868	959
Loss after tax				(1,589)	(8,607)	(10,196)

**5 Segmental analysis – continued****2017****Other information**

	Continuing operations			Total £000
	Express Gifts £000	Findel Education £000	Overseas Sourcing £000	
Additions to non-current assets:				
Goodwill	—	628	—	628
Other intangible assets	—	994	—	994
Property plant and equipment and software and IT development costs	10,287	1,352	40	11,679
Depreciation and amortisation	6,646	2,720	78	9,444
Impairment losses	1,378	20,498	—	21,876
<b>Balance sheet</b>				
Assets				
Segment assets	308,839	81,383	18,661	408,883
Unallocated corporate assets and adjustment for intercompany balances				(28,606)
Consolidated total assets				380,277
Liabilities				
Segment liabilities	(253,486)	(71,898)	(1,651)	(327,035)
Unallocated corporate liabilities and adjustment for intercompany balances				(36,539)
Consolidated total liabilities				(363,574)

**2016****Other information**

	Continuing operations			Discontinued operation		Group
	Express Gifts £000	Findel Education £000	Overseas Sourcing £000	Total £000	Kitbag £000	Total £000
Additions to non-current assets:						
Property plant and equipment and software and IT development costs	10,908	5,009	49	15,966	2,150	18,116
Depreciation and amortisation	4,388	2,414	40	6,842	1,507	8,349
<b>Balance sheet</b>						
Assets						
Segment assets	321,513	113,035	16,507	451,055	—	451,055
Unallocated corporate assets and adjustment for intercompany balances						(36,849)
Consolidated total assets						414,206
Liabilities						
Segment liabilities	(237,157)	(67,721)	(1,305)	(306,183)	—	(306,183)
Unallocated corporate liabilities and adjustment for intercompany balances						(29,148)
Consolidated total liabilities						(335,331)

The segment assets and liabilities above include intercompany balances which eliminate on consolidation, but appear in the information presented to the CODM. Unallocated corporate assets and liabilities principally comprise current tax provisions and deferred tax assets.

## Notes to the Consolidated Financial Statements

**5 Segmental analysis – continued****Geographical segments**

The Group's operations are located in the United Kingdom and Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services.

	2017 Total £000	Continuing operations £000	2016 Discontinued operation £000	Total £000
United Kingdom	448,029	401,945	38,883	440,828
Europe	2,075	2,179	10,955	13,134
Asia	5,414	5,184	3,486	8,670
Other	1,512	1,293	10,634	11,927
<b>Total</b>	<b>457,030</b>	<b>410,601</b>	<b>63,958</b>	<b>474,559</b>

The following is an analysis of the carrying amount of non-current assets analysed by geographical area in which the assets are located.

	2017 £000	2016 £000
United Kingdom	78,964	92,822
Hong Kong	80	105
	<b>79,044</b>	<b>92,927</b>

**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 31 March 2017 or the period ended 25 March 2016.

**6 Individually significant items**

The following is an analysis of the individually significant items arising during the period.

	2017 £000	2016 £000
<b>Continuing operations</b>		
<b>Individually significant trading items</b>		
Restructuring costs	2,330	1,649
Express Gifts financial services redress and refunds	14,700	14,388
Change in accounting estimate regarding impairment modelling	35,215	—
Receivables provisioning in Express Gifts	—	4,300
(Recovery)/write-off of amounts due from Kleeneze Limited	(133)	367
Onerous lease provisions	7,532	4,754
Impairment of Findel Education web platform	650	—
Impairment of goodwill and other intangible assets	21,178	—
Advisory costs relating to shareholder proposal	680	—
	<b>82,152</b>	<b>25,458</b>
<b>Individually significant financing costs</b>		
Debt refinancing costs	—	998
	<b>82,152</b>	<b>26,456</b>
Tax credit in respect of individually significant items	(6,462)	(5,321)
<b>Total</b>	<b>75,690</b>	<b>21,135</b>
<b>Discontinued operation</b>		
Restructuring costs	—	698
Loss on disposal of subsidiary	—	4,782
	—	5,480
Tax credit in respect of exceptional items	—	(141)
<b>Total</b>	—	5,339
<b>Group total</b>	<b>75,690</b>	<b>26,474</b>

## 6 Individually significant items – continued

The directors consider that all items recorded within individually significant items warrant separate presentation in the income statement in order to fairly reflect the underlying performance of the Group.

Restructuring costs in the current period of £2,330,000 (2016: £2,347,000), of which £nil (2016: £698,000) related to discontinued operation, relate to management changes, the relocation of FASL's Hong Kong offices, redundancies and costs associated with the relocation of the head office from Hyde to Accrington.

As highlighted in our 2016 Annual Report, we had set aside a provision of £14.4m in FY16 in respect of creating a provision for customer redress and refunds in respect of flawed financial services products, based upon estimates and assumptions that were subject to change. A pilot-scale contact programme for affected customers was completed in the first half of the financial year. Based on the findings from that programme and initial discussions with the FCA, a charge of £3.3m was recorded as part of the half year process. A more detailed analysis of the refund calculator and a review of the customer database in the second half of the financial year indicated that assumptions around the age and profile of balances to be refunded need to be corrected. As a result, an £11,000,000 increase to the provision was required, bringing the full charge for the year to £14,300,000 (see note 21). A further £400,000 was also provided in respect of the Plevin case.

A charge of £35,215,000 has been recorded in the current period in respect of a change in accounting estimate relating to receivables provisioning in Express Gifts. The charge in the current year relates to the adoption of a revised, granular trade receivables impairment model as referred to in more detail in note 2.

In the 52 week period ended 25 March 2016, costs of £367,000 were incurred in respect of the write-off of amounts due to Express Gifts from Findel plc's former subsidiary Kleeneze Limited, which were assessed as irrecoverable. £133,000 has been recovered during in the 53 week period ended 31 March 2017 which has been credited to income statement.

Costs of £7,532,000 (which includes £48,000 in respect of fixed asset impairments) have been incurred in the current period in respect of an onerous lease provision for areas of Findel Education's head office, which the business no longer occupies. Costs of £4,754,000 were provided in the prior period in respect of an onerous lease provision arising as a result of the consolidation of Findel Education's warehousing operations from two sites to one. The prior period income statement charge was lower than the provision recorded due to the impact of the acceleration of a lease incentive, which was previously being released to the income statement of over the lifetime of the lease which expires in 2028.

In the prior year to March 2016 an individually significant charge of £4,300,000 was recognised in respect of impairment provisioning on trade receivables in Express Gifts. This related to additional information that came to light following a review of the estimation models used for receivables provisioning, notably in relation to customers with whom forbearance arrangements, both with and without interest, have been entered into, as better information was available to allow an improved, more accurate, assessment of the level of provision required. Based on this improved information, an additional provision of £4,300,000 was recognised at March 2016, of which c. £3,000,000 related to an adjustment to correct an area of previous non-compliance with IAS 39. Management concluded that the changes made would not, if they had been made during the year to March 2015, have had a material impact on that year's income statement, as the level of provision at the beginning of 2014 would also have been similarly impacted. As a result, management considered it appropriate to recognise the additional £4,300,000 provision during 2016.

An impairment charge of £650,000 has been recognised in respect of the early retirement of Findel Education's legacy web platforms.

Total charges of £21,178,000 have been recorded in the current period in respect of the impairment of goodwill and other intangible assets. Further detail of the results of the impairment review can be found in note 13.

The Board announced in July 2016 that it had received a proposal from Schroders plc, on behalf of Sports Direct International plc (SDI), to seek to appoint Mr Michael Ashley as Chairman of the Company in succession to David Sugden. Individually significant advisory costs totalling £680,000 have been incurred in the period in dealing with this proposal and other matters relating to SDI.

Following the refinancing of the Group's bank and securitisation facilities in the prior period, costs of £998,000 were recognised in FY16 in respect of the write-off of the unamortised fees that were paid in respect of previous refinancing exercises in May 2014 and January 2015.

### Items specifically related to discontinued operations

In the prior period a loss of £4,782,000 was recorded in respect of the disposal of Kitbag Limited which was completed on 1 February 2016. This loss included a charge of £1,584,000 in respect of deferred tax assets written off as a result of the disposal.



## Notes to the Consolidated Financial Statements

**7 Business Combination and Discontinued operations****Business Combination****Spa 4 Schools Limited (S4S)**

During the period, the Group acquired 100% of the share capital and control of S4S for total consideration of £1,600,000. This constituted a business combination as defined by IFRS 3 and consequently goodwill of £628,000, being the difference between the fair value of the consideration payable and the fair value of the net assets acquired (see below), has been recognised.

Taking control of S4S allows Findel Education to protect its market share in Northern Ireland, and to gain access to S4S's contracts with local Library Boards (Library Board contracts are required in order to trade with schools). In addition, there is a benefit from cost savings through economies of scale. For the period in which S4S was under the Group's control it generated revenue of £392,000.

**Consideration transferred**

	£000
Cash	1,150
Deferred consideration	450
Total consideration transferred	1,600

The deferred consideration of £450,000 is contingent on the renewal of specific contracts with the Library Boards from January 2018 onwards and has been recognised in the acquisition value as this is considered to be the fair value.

**Acquisition-related costs**

The Group incurred acquisition-related costs of £109,000 on legal fees and due diligence costs. These costs have been included in 'administrative expenses'.

**Identifiable assets acquired and liabilities assumed**

On acquisition, the Group acquired net assets with a fair value of £22,000. In addition, the Group recognised intangible assets of £950,000, in respect of the S4S brand name and customer relationships. Refer to note 13 for further details.

**Goodwill**

Goodwill arising from the acquisition has been recognised as follows.

	£000
Fair values at acquisition	
Consideration	1,600
Net assets acquired	(22)
Intangible assets recognised on acquisition	(950)
Goodwill	628

The goodwill is attributable mainly to the skills and tacit knowledge of S4S's work force and the synergies expected to be achieved from integrating the company into the Group's existing Education business.

**Discontinued operations****Kitbag Limited ('Kitbag')**

The Group completed the disposal of its sports retail division through the sale of Kitbag and its subsidiaries on 1 February 2016 to Fanatics UK Holdings Ltd, a subsidiary of Fanatics Inc.

The gross consideration received was £13.9m, which comprised an initial payment of £11.6m payable on completion, as well as a further £2.3m received on 20 April 2016 following the agreement of completion accounts. This was dependent upon the level of working capital at completion. The cash proceeds were used to further reduce the Group's bank debt and to help drive further growth within the Group's core businesses, Express Gifts and Findel Education.

Kitbag's results for the period from 28 March 2015 to 1 February 2016 were reported separately as a discontinued operation and are summarised as follows:

	Period ended 1.2.16 £000
Revenue	63,958
Expenses*	(73,433)
Loss before tax	(9,475)
Tax credit	868
Loss for the year	(8,607)

\* including individually significant charges of £698,000 and a loss on disposal (including write-off of deferred tax assets of £1,584,000) of £4,782,000 – see note 6.

**7 Business Combination and Discontinued operations – continued**

The major classes of assets and liabilities of Kitbag at disposal on 1 February 2016 were as follows:

	Period ended 1.2.16 £000
<b>Assets</b>	
Intangible assets	3,886
Property, plant and equipment	2,354
Deferred tax assets	1,584
Inventory	18,779
Trade and other receivables	2,077
Cash	435
	<b>29,115</b>
<b>Liabilities</b>	
Trade and other payables	(11,596)
Provisions	(432)
	<b>(12,028)</b>
<b>Net assets of disposal group</b>	<b>17,087</b>

The net cash flows from/(used in) Kitbag were as follows:

	Period ended 1.2.16 £000
Operating cash flows	(12,510)
Investing cash flows*	8,965
Financing cash flows	15,700
<b>Net cash inflow</b>	<b>12,155</b>

\* includes proceeds (net of cash held in subsidiary) of £11,115,000.

**8 Finance expense**

	2017 £000	2016 £000
Interest on bank loans	8,764	9,519
Net interest cost on defined benefit pension obligations (note 27)	45	340
Individually significant financing costs (note 6)	—	998
Unwind of discount on onerous lease provision	(46)	—
Fair value movements on interest rate caps	60	42
Interest on finance lease obligations	98	—
	<b>8,921</b>	<b>10,899</b>

## Notes to the Consolidated Financial Statements

**9 Current taxation****(a) Tax (credited)/charged in the income statement**

	2017 £000	2016 £000
<b>Current tax expense/(income):</b>		
Current period (UK tax)	—	(2,045)
Current period (overseas tax)	42	32
Adjustments in respect of prior periods (UK tax) <sup>1</sup>	1,615	(319)
	<b>1,657</b>	<b>(2,332)</b>
<b>Deferred tax (income)/expense:</b>		
Origination and reversal of temporary differences	(2,424)	1,425
Adjustments in respect of prior periods <sup>1</sup>	(1,190)	67
Effect of tax rate change on opening balance	298	749
	<b>(3,316)</b>	<b>2,241</b>
<b>Tax income from continuing operations</b>	<b>(1,659)</b>	<b>(91)</b>

1 Relates to capital allowances not claimed in respect of 2016/17 which had both a current tax impact and a corresponding deferred tax impact.

Tax income from continuing operations excludes tax income in respect of the Group's discontinued operation as follows:

	2017 £000	2016 £000
Current tax income	—	(868)
Deferred tax charge	—	1,584*
	—	716

\* Relates to the write-off deferred tax assets on disposal of Kitbag Limited and is recorded within the loss on disposal of £4,782,000 recorded within individually significant items in the prior year relating to discontinued operation.

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.

**(b) Tax recognised directly in other comprehensive income**

	2017 £000	2016 £000
<b>Deferred tax:</b>		
Tax on defined benefit pension plans	(912)	1,134

**(c) Reconciliation of the total tax income**

The tax income in the income statement for the period differs from the standard rate of corporation tax in the UK of 20% (2016: 20%).

The differences are reconciled below:

	2017 £000	2016 £000
Loss from continuing operations before tax	(59,367)	(1,680)
Tax calculated at standard corporation tax rate of 20% (2016: 20%)	(11,873)	(336)
Effects of:		
Expenses not deductible for tax purposes <sup>2</sup>	3,574	308
Higher tax rates on overseas earnings	65	134
Deferred tax asset arising not recognised/(deferred tax asset not previously recognised) <sup>3</sup>	5,852	(694)
Impact of change in rate of corporation tax	298	749
Adjustments in respect of prior periods	425	(252)
<b>Total tax income for the period from continuing operations</b>	<b>(1,659)</b>	<b>(91)</b>

2 Expenses not deductible for tax purposes relates predominantly to impairment of goodwill of £17,319,000.

3 Deferred tax not recognised relates to tax losses in Findel Education Limited and Findel plc company only in the year which, based on estimate of future profitability, are not considered to be recoverable.

**10 Loss for the period**

	2017 Continuing operations £000	Continuing operations £000	2016 Discontinued operation £000	Total £000
<b>Stated after (charging)/crediting:</b>				
Cost of inventories recognised as expense	(230,477)	(208,752)	(35,537)	(244,289)
Impairment charge for inventories (note 15)	(3,960)	(3,605)	(432)	(4,037)
Fair value movements on derivative financial instruments:				
– forward foreign currency contracts	556	—	—	—
– Interest rate caps	(60)	(42)	—	(42)
Depreciation of property, plant and equipment				
– owned	(7,337)	(5,134)	(653)	(5,787)
– held under finance lease	(148)	(25)	—	(25)
Operating lease rentals	(16,757)*	(13,314)*	(764)	(14,078)
Amortisation of intangible assets	(1,959)	(1,683)	(854)	(2,537)
Impairment of other intangible assets and software (note 13)	(4,500)	—	—	—
Impairment of goodwill (note 13)	(17,319)	—	—	—
Impairment of property, plant and equipment	(57)	—	—	—
(Loss)/profit on disposal of property, plant and equipment	(35)	(76)	—	(76)
Impairment charge for receivables (note 16)	(61,663) <sup>†</sup>	(16,507) <sup>†</sup>	(340)	(16,847)
Staff costs (note 11)	(54,860)	(51,769)	(9,260)	(61,029)

\* Includes charge of £7,484,000 in respect of an onerous lease provision relating to unoccupied sections of the Group's Hyde premises. In the prior period, the figure included a charge of £4,754,000 which was incurred as a result of the consolidation of Findel Education's warehousing operations from two sites to one. Refer to note 6 for further details.

† Includes £35,215,000 costs included within individually significant items (2016: £4,300,000).

**Continuing and discontinued operation**

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2017 £000	2016 £000
Audit of these financial statements	115	110
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	255	210
Total audit fees	370	320
Half year review	57	65
	427	385
Taxation compliance services (i.e. related to assistance with corporate tax returns)	72	124
Tax advisory services	130	150
Total services relating to taxation	202	274
Corporate finance – disposal of Kitbag Limited	125	111
Additional fees agreed relating to accounting for disposal of Kitbag	—	10
Other	22	—
Total other non-audit services	147	121
Total audit and non-audit fees	776	780

## Notes to the Consolidated Financial Statements

**11 Staff costs and directors' emoluments****(a) Staff costs relating to continuing and discontinued operation**

The average monthly number of employees (including executive directors) was as follows:

	2017 Total No.	Continuing operations No.	2016 Discontinued operation No.	Total No.
Administration	1,173	1,148	163	1,311
Selling and distribution	781	751	288	1,039
	1,954	1,899	451	2,350

	2017 Continuing operations £000	Continuing operations £000	2016 Discontinued operation £000	Total £000
Wages and salaries	49,168	47,047	8,123	55,170
Social security costs	3,983	3,449	653	4,102
Other pension costs	1,518	1,337	181	1,518
Share-based payments expense/(credit)	191	(64)	303	239
	54,860	51,769	9,260	61,029

**(b) Directors' emoluments**

Directors' emoluments which are included in the above and are detailed further in the Directors' Remuneration Report on pages 46 to 55 are as follows:

	2017 £000	2016 £000
Short-term employee benefits	1,241	1,233
Company pension contributions	180	195
	1,421	1,428

None of the directors are accruing pension benefits under the defined contribution (2016: 2) or the defined benefit (2016: none) pension schemes.

In the current period 185,034 (2016: 535,924) £nil cost options over ordinary shares were granted to directors in respect of the Performance Share Plan.

**12 (Loss)/earnings per share***Weighted average number of shares*

	2017 Number of shares	2016 Number of shares
Ordinary shares in issue at start of the period (note 24)	86,442,534	86,442,534
Effect of own shares held	(114,808)	(348,343)
Weighted average number of shares – basic and diluted	86,327,726	86,094,191

**From continuing operations***(Loss)/earnings attributable to ordinary shareholders*

	2017 £000	2016 £000
Net loss attributable to equity holders for the purposes of basic earnings per share	(57,708)	(1,589)
Individually significant items (net of tax)	75,690	(20,135)
Fair value movements on derivative financial instruments	(556)	—
Net profit attributable to equity holders for the purpose of adjusted earnings per share	17,426	19,546

*(Loss)/earnings per share*

Loss per share – basic	(66.85)p	(1.85)p
Earnings per share – adjusted* basic	20.19p	22.70p
Loss per share – diluted	(66.85)p	(1.85)p
Earnings per share – adjusted* diluted	20.19p	22.70p

**From discontinued operation***Loss attributable to ordinary shareholders*

	2017 £000	2016 £000
Net loss attributable to equity holders for the purposes of basic earnings per share	—	(8,607)
Individually significant items (net of tax)	—	(5,339)
Net loss attributable to equity holders for the purpose of adjusted earnings per share	—	(3,268)

*Loss per share*

Loss per share – basic	—	(10.00)p
Loss per share – adjusted* basic	—	(3.80)p
Loss per share – diluted	—	(10.00)p
Loss per share – adjusted* diluted	—	(3.80)p



## Notes to the Consolidated Financial Statements

**12 (Loss)/earnings per share – continued****Total attributable to ordinary shareholders***(Loss)/profit attributable to ordinary shareholders*

	2017 £000	2016 £000
Net loss attributable to equity holders for the purposes of basic earnings per share	(57,708)	(10,196)
Individually significant items (net of tax)	75,690	(25,476)
Fair value movements on derivative financial instruments	(556)	(998)
Net profit attributable to equity holders for the purpose of adjusted earnings per share	17,426	16,278
<i>(Loss)/earnings per share</i>		
Loss per share – basic	(66.85)p	(11.85)p
Earnings per share – adjusted* basic	20.19p	18.90p
Loss per share – diluted	(66.85)p	(11.85)p
Earnings per share – adjusted* diluted	20.19p	18.90p

\* Adjusted to remove the impact individually significant items and fair value movements on derivative financial instruments.

The (loss)/earnings per share attributable to convertible ordinary shareholders is £nil.

**13 Goodwill and other intangible assets****(a) Goodwill**

	£000
<b>Cost</b>	
At 27 March 2015	44,991
At 25 March 2016	44,991
Amount acquired in a business combination (note 7)	628
At 31 March 2017	45,619
<b>Impairment</b>	
At 27 March 2015	(28,300)
At 25 March 2016	(28,300)
Impairment	(17,319)
At 31 March 2017	(45,619)
<b>Carrying amount</b>	
Net book value at 31 March 2017	—
Net book value at 25 March 2016	16,691

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. After recognition of impairment losses, the carrying amount of goodwill has been allocated as follows:

	2017 £000	2016 £000
Express Gifts	—	320
Findel Education	—	16,371
	—	16,691

During the period, the Group acquired 100% of the share capital and control of SPA 4 Schools Limited. Goodwill of £628,000, being the difference between the fair value of the consideration payable and the fair value of the net assets recognised at acquisition was recognised (see note 7). This goodwill was allocated to the Findel Education cash generating unit (CGU), which is the CGU that will benefit from the synergies of the combination.

Following the year end impairment review, the carrying amount of the Findel Education CGU was determined to be higher than the recoverable amount and an impairment loss of £19,800,000 was recognised. Consequently £16,999,000 of goodwill allocated to the Findel Education CGU was fully impaired.

£320,000 of goodwill allocated to the Express Gifts CGU was also impaired during the period, as this related to a brand which is no longer in use within the business and is therefore considered to have a fair value of £nil.

**13 Goodwill and other intangible assets – continued****(b) Other intangible assets**

	Software and IT development costs £000	Brand names £000	Customer relationships £000	Total £000
<b>Cost</b>				
At 27 March 2015	19,591	27,330	20,490	67,411
Additions	3,528	—	—	3,528
Disposals	(6,550)	(6,170)	—	(12,720)
At 25 March 2016	16,569	21,160	20,490	58,219
Additions	1,020	44	—	1,064
Amounts acquired in a business combination (note 7)	—	500	450	950
Disposals	—	—	—	—
At 31 March 2017	17,589	21,704	20,940	60,233
<b>Accumulated amortisation and impairment</b>				
At 27 March 2015	14,530	6,170	13,185	33,885
Amortisation for the period	1,607	—	930	2,537
Impairment loss	—	—	—	—
Disposals	(2,664)	(6,170)	—	(8,834)
At 25 March 2016	13,473	—	14,115	27,588
Amortisation for the period	930	54	975	1,959
Impairment loss	641	3,859	—	4,500
At 31 March 2017	15,044	3,913	15,090	34,047
<b>Carrying amount</b>				
Net book value at 31 March 2017	2,545	17,791	5,850	26,186
Net book value at 25 March 2016	3,096	21,160	6,375	30,631

Brand names that are expected to be maintained indefinitely and are expected to continue to drive value for the Group are deemed to have an indefinite life, and are subject to annual impairment tests.

Upon the acquisition of SPA 4 Schools Limited, a brand name with a fair value of £500,000 was recognised, which will be amortised over a useful economic life of five 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.

Upon the acquisition of Spa 4 Schools Limited, customer relationships with a fair value of £450,000 were recognised, which will be amortised over a useful economic life of five years.

Brand names and customer relationships acquired in a business combination are allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. After recognition of impairment losses, the carrying amount of brand names has been allocated as follows:

	2017 £000	2016 £000
Express Gifts	—	1,058
Findel Education	17,791	20,102
	17,791	21,160

Customer relationships are all allocated the Findel Education CGU.

**(c) Impairment testing**

The Group tests goodwill and indefinite lived brand names for impairment annually, or more frequently if there are indicators of impairment.

The recoverable amounts of the Express Gifts and Findel Education CGUs are determined from value in use calculations.

## Notes to the Consolidated Financial Statements

**13 Goodwill and other intangible assets – continued****Significant judgements, assumptions and estimates**

In determining the value in use of CGUs it is necessary to make a series of assumptions to estimate the present value of future cash flows. In each case, these key assumptions have been made by management reflecting past experience, current trends, and where applicable, are consistent with relevant external sources of information. The key assumptions are as follows:

**Operating cash flows**

Management has prepared cash flow forecasts for a three year period derived from the approved budget for financial year 2017/18. These forecasts include assumptions around sales prices and volumes, specific customer relationships and operating costs and working capital movements.

**Risk adjusted discount rates**

The pre-tax rates used to discount the forecast cash flows were 12.0% (2016:12.0%) for the Express Gifts CGU and 17.9% (2016: 15.0%) for the Findel Education CGU. These discount rates are derived from the Group's weighted average cost of capital as adjusted for the specific risks related to each CGU.

**Long-term growth rate**

To forecast beyond the detailed cash flows into perpetuity, a long-term average growth rate of 1.9% (2016: 2.1%) has been used. This is not greater than the published International Monetary Fund average growth rate in gross domestic product for the next five year period in the territories where the CGUs operate. The growth rate was assessed separately for each CGU however the 1.9% rate was deemed appropriate in both cases.

**Results**

Following a management decision to discontinue the HHS brand and to focus on the more popular brands of Studio and Ace, the goodwill and indefinite lived brands allocated to the Express Gifts CGU, which entirely related to this brand, have been fully impaired. Allowing for this impairment, the estimated recoverable amount of the Express Gifts CGU exceeds the carrying value of its residual tangible asset base by approximately £19,016,000 (2016: £24,300,000).

The carrying amount of the Findel Education CGU was determined to be higher than the recoverable amount and consequently an impairment loss of £19,800,000 was recognised. The impairment loss was allocated against the remaining goodwill (£16,999,000) with the remainder against indefinite lived brand names. Following the impairment loss recognised, the recoverable amount is equal to the carrying amount. Therefore, any adverse movement in a key assumption would lead to a further impairment. Sensitivity analysis is included below.

**Sensitivity analysis**

The results of the Group's impairment tests are dependent upon estimates and judgements made by management, particularly in relation to the key assumptions described above. Sensitivity analysis to potential changes in operating cash flows and risk adjusted discount rates has therefore been reviewed.

The table below shows the risk adjusted discount rate and forecast operating cash flow assumptions used in the calculation of value in use for the Findel Education CGU and the change to the level of impairment indicated by changes in these assumptions:

	Findel Education
Impairment recognised in the period (£000)	19,800
<i>Assumptions used in the calculation of value in use</i>	
Pre-tax discount rate	17.9%
Total pre-discounted forecast operating cash flow (£000)	57,200
<i>Additional impairment required as a result of changes to key assumptions</i>	
0.5% increase in the pre-tax discount rate	(1,600)
£500k pa decrease in total pre-discounted forecast operating cash flow	(3,600)
<i>Reduction in impairment required as a result of changes to key assumptions</i>	
0.5% decrease in the pre-tax discount rate	1,700
£500k pa increase in total pre-discounted forecast operating cash flow	3,600

Based on the results of the impairment test for the Express Gifts CGU, management are satisfied that there is sufficient headroom against the residual tangible asset base such that a reasonably possible change in assumption would not lead to an impairment. Consequently, no sensitivity analysis has been disclosed.

**14 Property, plant and equipment**

	Land and buildings Freehold £000	Leasehold £000	Plant and equipment £000	Assets under construction £000	Total £000
<b>Cost</b>					
At 27 March 2015	17,213	3,189	71,058	11	91,471
Additions	2	—	14,586	—	14,588
Disposals	—	—	(9,859)	—	(9,859)
Exchange differences	6	3	14	—	23
Transfer from assets under construction	—	—	11	(11)	—
At 25 March 2016	17,221	3,192	75,810	—	96,223
Additions	12	21	10,626	—	10,659
Disposals	(44)	(130)	(189)	—	(363)
Exchange differences	11	3	28	—	42
At 31 March 2017	17,200	3,086	86,275	—	106,561
<b>Accumulated depreciation and impairment</b>					
At 27 March 2015	7,262	2,401	46,738	—	56,401
Provision for the period	331	102	5,379	—	5,812
Disposals	—	—	(7,429)	—	(7,429)
Exchange differences	6	1	9	—	16
At 25 March 2016	7,599	2,504	44,697	—	54,800
Provision for the period	339	129	7,017	—	7,485
Disposals	(44)	(130)	(144)	—	(318)
Impairment	—	—	57	—	57
Exchange differences	13	86	22	—	121
At 31 March 2017	7,907	2,589	51,649	—	62,145
<b>Carrying amount</b>					
Net book value at 31 March 2017	9,293	497	34,626	—	44,416
Net book value at 25 March 2016	9,622	688	31,113	—	41,423

During the prior period plant and equipment with a value of £2,218,000 was acquired under a finance lease in respect of the Findel Education warehouse consolidation project. At 31 March 2017 the net book value of assets held under finance lease agreements was £2,046,000 (2016: £2,193,000). Details in respect of the finance lease arrangement are set out in note 19.

An impairment review has been completed during the year on the basis set out in note 13.

**15 Inventories**

	2017 £000	2016 £000
Inventories at cost	58,998	55,216
Provision for impairment	(1,890)	(1,744)
	57,108	53,472
<b>Movement in the provision for impairment:</b>		
Balance at beginning of period	1,744	3,320
Provision made in the period	3,960	4,037
Provision utilised in the period	(3,814)	(4,585)
Impact of business disposal	—	(1,028)
Balance at end of period	1,890	1,744

Inventories recognised as cost of sales in the year amounted to £230,477 (2016: £244,289).

The provision for impairment is based on estimates around historical recovery rates for slow moving and delisted products. If a further 10% of SKUs were assessed as being slow moving, then the provision required would increase by approximately £200,000. If the recovery rate assumed decreased by 10% then the provision would increase by approximately £600,000.

## Notes to the Consolidated Financial Statements

**16 Trade and other receivables**

	2017 £000	2016 £000
Gross trade receivables	278,816	253,725
Allowance for doubtful debts	(83,633)	(43,334)
Trade receivables	195,183	210,391
Other debtors	2,101	5,122
Prepayments	15,364	14,335
	212,648	229,848

Certain of the Group's trade receivables are funded through a securitisation facility arranged by HSBC Bank plc and funded through a vehicle owned by GRE Trust Company (Ireland) Limited. The facility is secured against those receivables and is without recourse to any of the Group's other assets. The finance provider will seek repayment of the finance, as to both principal and interest, only to the extent that collections from the receivables financed allows and the benefit of additional collections remains with the Group, since the assets are charged but not transferred. At the period end, receivables of £200,753,000 (2016: £181,565,000) were funded through the securitisation facility, and the facilities utilised were £142,534,000 (2016: £128,911,000).

Due to the different nature of debtors within the Express Gifts operating segment compared to that in the rest of the Group, the following analysis on trade receivables has been split between Express Gifts and the rest of the Group.

**Express Gifts**

The average credit period taken on sales of goods is 226 days (2016: 237 days). Interest is charged at 3.1% (2016: 3.1%) per month on the outstanding balance.

Provisions for impairment of receivables within Express Gifts are established when there is objective evidence that the Group will not be able to collect all amounts due. The provision for impairment represents management's best estimate of losses incurred in the portfolio at the balance sheet date. In determining the required level of impairment provisions, the Group uses the output from a new statistical impairment model developed and implemented during FY17, which assesses the probability of default at a customer account level based on customer risk scoring, and uses this estimate of probability to calculate an estimated loss based on the level of exposure at the balance sheet date, adjusted for an estimate of future cash flows expected to be recovered from defaulted accounts. An emergence period is incorporated to provide the estimated level of incurred losses at each reporting date.

**Sensitivity analysis**

Management judgement is required in setting assumptions around probabilities of default, cash recoveries and the emergence period which have a material impact on the results indicated by the model.

A 1% increase/decrease in the probability of default would increase the provision amount by approximately £1.6m.

A 1p increase in the assumed recoveries rate would result in the impairment provision decreasing by approximately £0.3m.

A one month increase/decrease in the assumed emergence period would result in the impairment provision increasing/decreasing by approximately £3m-£3.5m.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality 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.

**16 Trade and other receivables – continued****Rest of Group**

The average credit period taken on sales of goods is 28 days (2016: 29 days). 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 public sector customer base within the Findel Education business segment, 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 receivable balance are debtors with a carrying amount of £184,000 (2016: £283,000) which are past due at the reporting date which are partially provided against. There has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 150 days (2016: 150 days).

Movement in the allowance for doubtful debts:

	Express Gifts £000	Rest of Group £000	Total £000
Balance at 27 March 2015	123,420	314	123,734
Impairment losses recognised	16,415*	432	16,847
Amounts written off as uncollectible	(96,784)	(123)	(96,907)
Impact of business disposal	—	(340)	(340)
Balance at 25 March 2016	43,051	283	43,334
Impairment losses recognised	61,643*	20	61,663
Amounts written off as uncollectible	(21,245)	(119)	(21,364)
<b>Balance at 31 March 2017</b>	<b>83,449</b>	<b>184</b>	<b>83,633</b>

\* Includes £35,215,000 (2016: £4,300,000) of costs classified within individually significant items.

**Express Gifts**

There are no not past due debtors which are unimpaired (2016: none).

There are no past due debtors which are unimpaired (2016: none).

The aged analysis of the carrying values of not past due and past due debtors is as follows:

	Trade receivables £000	Trade receivables on forbearance arrangements £000	Total £000
Not past due	178,154	17,672	195,826
Past due:			
0 – 60 days	20,985	4,255	25,240
60 – 120 days	7,041	751	7,792
120+ days	41,110	181	41,291
Gross trade receivables	247,290	22,859	270,149
Allowance for doubtful debt	(66,876)	(16,573)	(83,449)
<b>Carrying value</b>	<b>180,414</b>	<b>6,286</b>	<b>186,700</b>

## Notes to the Consolidated Financial Statements

**16 Trade and other receivables – continued****Rest of Group**

The carrying value of not past due debtors which are unimpaired is £5,924,000 (2016: £6,459,000).

The aged analysis of the carrying values of past due debtors which are unimpaired is as follows:

	2017 £000	2016 £000
0 – 60 days	1,875	2,026
60 – 120 days	345	387
120+ days	155	10
Total	2,375	2,423

The aged analysis of the carrying values of past due debtors which are impaired is as follows:

	2017 £000	2016 £000
0 – 60 days	—	—
60 – 120 days	—	—
120+ days	184	283
Total	184	283

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

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.

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 35,716 accounts (2016: 35,729) with total gross balances of £22,859,000 (2016: £18,250,000). Provisions are assessed as detailed above.

During the current period, overdue receivables with a gross value of £25,993,000 (2016: £108,217,000) 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. The proceeds received was broadly equal to the carrying value in both periods and consequently no profit or loss on disposal was recognised in either the current or prior period.

**17 Cash and cash equivalents**

	2017 £000	2016 £000
Cash at bank and in hand	29,173	34,405

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.



**18 Trade and other payables**

	2017 £000	2016 £000
Trade payables	49,523	45,993
Other payables	1,674	2,966
Accruals	12,277	9,216
	63,474	58,175

The average credit period taken for trade purchases is 64 days (2016: 65 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.

**19 Loans and borrowings****(a) Secured bank loans (at amortised cost)**

	2017 £000	2016 £000
Bank loans	252,534	248,911
Amount due for settlement within one year	—	—
Amount due for settlement after one year	252,534	248,911
	252,534	248,911

**The average interest rates paid on the loans were as follows:**

Bank loans	3.53%*	3.88%*
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\* 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 3.35% (2016: 3.46%).

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 20.

All the bank loans are denominated in sterling.

The directors consider that the carrying value of bank loans approximates their fair value.

The Group agreed a new four year rolling credit facility with its lenders on 24 November 2015 maturing in November 2019. The facility was initially set at £120m but reduced to £113.6m on 29 April 2016 following the sale of Kitbag. It was reduced to £110m on 31 March 2017 and will decrease by £10m per annum each year thereafter.

The securitisation facility is coterminous with the revolving credit facility. The facility limit was increased to £155,000,000 on 30 November 2016 and remained at that level at 31 March 2017 (2016: £145,000,000).

The Group incurred individually significant finance costs in the prior period of £998,000 in respect of the write-off of the unamortised fees that were paid in respect of previous refinancing exercises in May 2014 and January 2015, since the November 2015 refinancing was accounted for as an extinguishment of the old facility in accordance with IAS 39.

	2017 £000	2016 £000
<b>Borrowing facilities</b>		
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 31 March 2017 is £29,173,000 (2016: £34,405,000).

## Notes to the Consolidated Financial Statements

**19 Loans and borrowings – continued****(b) Finance leases**

	2017 £000	2016 £000
Obligations under finance leases	1,614	2,176
Amount due for settlement within one year	545	518
Amount due for settlement after one year	1,069	1,658
	1,614	2,176
Notional interest rate	4.72%	4.72%

Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Within one year	(610)	(610)	(65)	(92)	(545)	(518)
In the second to fifth years	(1,117)	(1,778)	(48)	(120)	(1,069)	(1,658)
After five years	—	—	—	—	—	—
	(1,727)	(2,388)	(113)	(212)	(1,614)	(2,176)

**20 Derivative financial instruments**

At 31 March 2017 the Group has outstanding derivative financial instruments as follows:

**Non-current assets**

	2017 £000	2016 £000
Interest rate cap	32	—
	32	—

**Current assets**

	2017 £000	2016 £000
Interest rate cap	—	—
Forward foreign exchange contracts	556	—
	556	—

Information about the Group's exposure to credit and market risks, and fair value measurement, is included in note 28.

## 21 Provisions

	Onerous leases £000	Express Gifts financial services redress and refunds £000	Restructuring provision £000	Onerous contracts £000	Total £000
At 27 March 2015	2,719	3,490	—	1,855	8,064
Provided in the period	6,260	14,244	1,016	—	21,520
Utilised in the period	(1,417)	(2,480)	—	(1,480)	(5,377)
Impact of business disposal	(57)	—	—	(375)	(432)
At 25 March 2016	7,505	15,254	1,016	—	23,775
Provided in the period	7,484	14,700	1,153	—	23,337
Utilised in the period	(1,133)	(4,472)	(1,016)	—	(6,621)
Unwind of discount	46	—	—	—	46
At 31 March 2017	13,902	25,482	1,153	—	40,537
<b>2017</b>					
Analysed as:					
Current	1,135	25,482	1,153	—	27,770
Non-current	12,767	—	—	—	12,767
	13,902	25,482	1,153	—	40,537
<b>2016</b>					
Analysed as:					
Current	1,228	15,254	1,016	—	17,498
Non-current	6,277	—	—	—	6,277
	7,505	15,254	1,016	—	23,775

### Onerous leases

A provision was made in the current and prior periods for onerous leases in regards to vacated leasehold properties. The amount provided in the current year is in respect of additional unoccupied sections of the Group's Hyde premises, which became unoccupied as part of the restructuring in the current year. The provision is expected to be utilised over the remaining lease term of approximately seventeen years. Because of the long term nature of the liability, the cash flows have been discounted using a discount rate that reflects the risks inherent in the future cash flows. Cash outflows have been discounted at a risk free rate of 3%. No cash inflows have been assumed.

In the prior year, the amount provided relates to the onerous lease provision arising as a result of the consolidation of Findel Education's warehousing operations from two sites to one and unoccupied sections of the Group's Hyde premises. The provision was calculated as the net of the remaining unavoidable lease rentals, less an assumed level of sublet income (sublet income assumed on the vacant warehouse only). The provision is expected to be utilised over the remaining lease terms of approximately eleven years (for the warehouse) and approximately seventeen years (for the Group's Hyde premises). Because of the long-term nature of the liability, the cash flows were discounted using a discount rate that reflects the risks inherent in the future cash flows. Cash outflows have been discounted at a risk free rate of 3%, whilst the inflows have been discounted at 6%. The level of sublet income and discount rates used continue to reflect management's best estimates.

### Express Gifts financial services redress and refunds

In both the current and prior periods, a provision was made in respect of redress and refunds for flawed financial services products. Further details in respect of the amount provided in the current period can be found in note 6. The provision is expected to be utilised within 12 months.

### Restructuring provision

A provision has been made in the current period in respect of the restructuring exercise undertaken to relocate the head office function from Hyde to Express Gifts' offices in Accrington. The provision is expected to be utilised within the next 12 months.

## Notes to the Consolidated Financial Statements

**22 Deferred tax****Recognised deferred tax**

	Short-term timing differences £000	Accelerated capital allowances £000	Retirement benefit obligations £000	Tax losses £000	Other intangible assets £000	Total £000
At 27 March 2015	(682)	(5,306)	(2,151)	(2,266)	1,264	(9,141)
Adjustments in respect of prior periods	—	78	—	—	(11)	67
Impact of change in rate of corporation tax	67	467	215	125	(125)	749
Recognised in other comprehensive income	—	—	1,134	—	—	1,134
(Credit)/charge for the period	862	585	389	(293)	(118)	1,425
Impact of business disposal (note 7)	13	554	—	1,017	—	1,584
At 25 March 2016	260	(3,622)	(413)	(1,417)	1,010	(4,182)
Adjustments in respect of prior periods	—	(1,146)	—	—	(44)	(1,190)
Impact of change in rate of corporation tax	(15)	265	23	79	(54)	298
Recognised in other comprehensive income	—	—	(912)	—	—	(912)
(Credit)/charge for the period	(60)	(2,037)	382	(3,393)	2,684	(2,424)
At 31 March 2017	185	(6,540)	(920)	(4,731)	3,596	(8,410)

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 (before offset) for balance sheet purposes:

	2017 £000	2016 £000
Deferred tax liabilities	3,781	1,270
Deferred tax assets	(12,191)	(5,452)
	(8,410)	(4,182)

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Group's future current tax charge.

Recognition of deferred tax assets is based on management's assumptions that it is probable that the entities 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.

The aggregate value of deferred tax assets which have not been recognised is £9,425,000 (2016: £6,115,000). 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 relevant subsidiaries will make suitable future taxable profits against which these assets may be utilised.

**Unrecognised deferred tax**

The following are the major deferred tax assets not recognised by the Group and movements thereon during the current and prior reporting periods:

	Short-term timing differences £000	Accelerated capital allowances £000	Retirement benefit obligations £000	Tax losses £000	Other intangible assets £000	Total £000
At 27 March 2015	(453)	(58)	(423)	(7,686)	—	(8,620)
Adjustments in respect of prior periods	12	(622)	283	839	—	512
Impact of change in rate of corporation tax	44	68	14	685	—	811
Movements during the period	165	598	126	293	—	1,182
At 25 March 2016	(232)	(14)	—	(5,869)	—	(6,115)
Adjustments in respect of prior periods	(39)	(619)	—	(1,907)	—	(2,565)
Impact of change in rate of corporation tax	15	35	—	432	—	482
Movements during the period	125	581	—	(1,933)	—	(1,227)
At 31 March 2017	(131)	(17)	—	(9,277)	—	(9,425)

## 23 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 July 2013 have been based upon the following bases:

- Awards made between July 2013 and December 2013: half linked to the absolute share price in the three months to March 2016 and half linked to the adjusted earnings per share for the year to 25 March 2016.
- Awards made during FY15 were subject to a number of vesting criteria, including division-specific criteria for divisional management. The criteria applicable to the Executive Directors were that half the awards were linked to the share price in the three months to March 2018 and half linked to the adjusted earnings per share for the year to March 2018.
- Awards made during FY16 were subject to a number of vesting criteria, including division-specific criteria for divisional management. The criteria applicable to the Executive Directors were linked to the share price in the three months to March 2019 and are subject to an underpin linked to the adjusted earnings per share for the year to March 2019.
- 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 were linked to the share price in the three months to March 2020 and are subject to an underpin linked to the adjusted earnings per share for the year to March 2020.

#### (ii) Measurement of fair values

The estimated fair value of the awards granted during the period is £1,809,000 (2016: £1,517,000). 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:

	2017	2016
Weighted average fair value (p)	146.5	112.5
Share price at issue (p)	159.7	197.5
Weighted average exercise price (p)	—	—
Expected volatility (%)	40.9	40.9
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

	2017 No. of shares	2016 No. of shares
Outstanding at the beginning of the period	3,142,072	5,425,216
Granted during the period	1,234,840	1,348,672
Lapsed during the period	(1,339,729)	(2,607,639)
Exercised during the period	—	(1,024,177)
Outstanding at the end of the period	3,037,183	3,142,072

The weighted average exercise price of all options is £nil.

The weighted average share price at the date of exercise for share options exercised in the prior period was £2.02.

#### (iv) Charge recognised in the income statement

The Group recognised a charge of £191,000 (2016: £239,000) 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.

## Notes to the Consolidated Financial Statements

**24 Share capital**

The Company has two classes of ordinary shares, neither of which carry any right to fixed income.

**Ordinary shares of 10p each**

	2017 Number of shares	2016 Number of shares	2017 £000	2016 £000
At the beginning of the period	86,442,534	86,442,534	8,644	86,442
Share issue	—	—	—	—
Capital reduction effective 15 March 2016	—	—	—	(77,798)
At the end of the period	86,442,534	86,442,534	8,644	8,644

**Capital reduction**

In the prior year, at the Annual General Meeting of the Company held on 30 July 2015, a special resolution was passed approving the cancellation of all amounts standing to the credit of the Company's share premium account and capital redemption reserve, along with the reduction of the nominal value of the ordinary share capital of the Company to 10p per ordinary share ("Capital Reduction"), subject to the approval of the Court. Court approval was obtained and following the subsequent registration of the Court order with the Registrar of Companies, the Capital Reduction became effective on 15 March 2016.

The impact of the capital reduction on equity in 2016 is summarised as follows:

	2016 (Dr)/Cr £000
Share capital	(77,798)
Capital redemption reserve	(403)
Share premium account	(92,954)
Retained earnings	171,155
Net impact on equity	—

Following the completion of the capital reduction, a special reserve of £15,447,000 has been created within retained earnings which is not distributable, in line with the Court order obtained.

**Convertible ordinary shares of 23.97p each**

	2017 Number of shares	2016 Number of shares	2017 £000	2016 £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 (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.

**25 Capital commitments**

At 31 March 2017, amounts contracted for but not provided in the financial statements in respect of property, plant and equipment amounted to £495,000 (2016: £3,737,000).

## 26 Operating lease arrangements

At the balance sheet date, the Group had total minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £000	2016 £000
Within one year	9,807	8,105
In the second to fifth years	14,810	14,272
After five years	31,794	32,986
	56,411	55,363

During the period £16,757,000 (2016: £14,078,000) was recognised as an expense in the consolidated income statement in respect of operating leases, of which £7,484,000 (2016: £4,754,000) related to onerous lease provisions (see individually significant items – note 6). Included in the prior period figure was £764,000 related to the discontinued operation.

## 27 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 £1,518,000 (2016: £1,518,000) 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. Findel plc (the parent company) is the principal sponsor of two of the sections, the Galt and Group sections, whilst Findel Education Limited (a subsidiary of Findel plc) is the principal sponsor of the Findel Education and Philip and Tacey sections. The scheme is closed to future accrual. The latest triennial valuation of the scheme was completed at 5 April 2016 by Barnett Waddingham 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 is due with an effective date no later than 5 April 2019.

The most recent valuation of the plan for IAS 19 purposes was carried out at 31 March 2017 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:

	2017 £000	2016 £000
Fair value of scheme assets	147,349	127,241
Present value of funded obligations	(152,764)	(129,535)
Deficit in the scheme	(5,415)	(2,294)

The weighted average duration of the Scheme's IAS 19 liabilities is 18.1 years.

### Plan assets

	2017 £000	2016 £000
Plan assets comprise:		
Equities/Property	73,387	65,469
Bonds	67,513	59,947
Other	6,449	1,825
	147,349	127,241



## Notes to the Consolidated Financial Statements

**27 Pensions – continued****Movement in the present value of defined benefit obligations**

	2017 £000	2016 £000
At beginning of period	(129,535)	(143,045)
Interest cost	(4,528)	(4,599)
Remeasurements:		
Effect of changes in financial assumptions	(26,120)	7,765
Effect of changes in demographic assumptions	95	1,869
Effect of experience adjustments	(593)	1,028
Benefits paid (including buyout)	7,917	7,447
At end of period	(152,764)	(129,535)

**Movement in the fair value plan assets**

	2017 £000	2016 £000
At beginning of period	127,241	131,590
Employer contributions	2,291	2,500
Interest on assets	4,483	4,259
Remeasurements – return on scheme assets	21,251	(3,661)
Benefits paid (including buyout)	(7,917)	(7,447)
At end of period	147,349	127,241

**Movement in the pension deficit**

	2017 £000	2016 £000
Deficit at the beginning of the period	(2,294)	(11,455)
Net interest cost	(45)	(340)
Remeasurements	(5,367)	7,001
Employer contributions	2,291	2,500
Deficit at the end of the period	(5,415)	(2,294)

**Expense recognised in the consolidated income statement**

	2017 £000	2016 £000
(i) Included within finance costs		
Net interest cost	(45)	(340)

**Amounts recognised in other comprehensive income**

	2017 £000	2016 £000
Total remeasurements	(5,367)	7,001

**27 Pensions – continued****Actuarial Assumptions**

The following are the principal actuarial assumptions at the reporting date:

	2017	2016
<b>Financial Assumptions</b>		
Discount rate for scheme liabilities	2.60%	3.60%
RPI Price Inflation	3.30%	3.00%
CPI Price Inflation	2.30%	2.00%
Rate of increase to pensions in payment in line with RPI inflation (up to 5% per annum)	3.20%	3.00%
Rate of increase to pensions in payment in line with CPI inflation (up to 5% per annum)	2.30%	2.00%
Rate of increase to deferred pensions	2.30%	2.00%
Post retirement mortality (in years)		
Current pensioners at 65 – male	87.4 yrs	87.2 yrs
Current pensioners at 65 – female	89.6 yrs	89.6 yrs
Future pensioners at 45 – male	89.2 yrs	88.9 yrs
Future pensioners at 45 – female	91.4 yrs	91.5 yrs
<b>Demographic Assumptions</b>		
Cash Commutation (members taking cash lump sum)	80%	80%
Proportion of members that are married at retirement	75%	75%
Proportion of members taking TPIE option*	15%	15%
Age at which members are assumed to take TPIE option*	62.5 yrs	62.5 yrs

Assumptions regarding post retirement mortality are based on published statistics and mortality tables – S2NXA – CMI 2015 1.25% p.a. (2016: S1NXA – CMI 2015 1.25% p.a.)

\* The Scheme now has an embedded option at retirement for members to take TPIE (Total Pension Increase Exchange), following the bulk exercise carried out in late 2014 and early 2015. Since this option is now a formalised process, allowance has been made for this in calculating the IAS 19 liability. A 15% take up at an average age of 62.5 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:

Assumption	Change in assumption	Impact on scheme liabilities	
		If assumption increases	If assumption decreases
Discount rate	0.5%	Decrease by 8.3%	Increase by 9.4%
RPI Inflation	0.5%	Increase by 4.0%	Decrease by 3.5%
CPI Inflation	0.5%	Increase 1.2%	Decrease by 0.9%
Salary increase	0.5%	No change	No change
Longevity	1 year	Increase by 4.5%	Decrease by 4.6%
TPIE take up %	5%	Decrease by £150,000	Increase by £150,000
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.

## Notes to the Consolidated Financial Statements

**27 Pensions – 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 risk of the Scheme, a TPIE exercise was carried out during 2015, 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.

**Funding**

The Scheme is funded by Findel plc and its subsidiaries. During the current period, the Group contributed £2,291,000 to the scheme (2016: £2,500,000). The Group expects to make contributions of £2,500,000 in the financial year ended March 2018, in line with the agreed schedule of contributions.

The following table shows the expected future payments for the Findel Group Pension Fund:

Findel Group Pension Fund (Expected payments)	£000
2017 – 2026	50,361
2027 – 2036	69,681
2037 – 2046	61,860
2047 – 2056	45,124
2057 – 2066	20,517
2067 – 2076	4,041
2077 – 2086	281
2087 – 2096	5
After 2096	—
<b>Total</b>	<b>251,870</b>

## 28 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 on pages 22 and 24.

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:

	2017 £000	2016 £000
<b>Net debt</b>		
Borrowings (note 19)	252,534	248,911
Cash at bank and in hand (note 17)	(29,173)	(34,405)
Finance leases (note 19)	1,614	2,176
	<b>224,975</b>	<b>216,682</b>
<b>Total equity</b>		
Share capital (note 24)	48,644	48,644
Translation reserve	824	973
Hedging reserve	(51)	—
(Accumulated losses)/retained earnings	(32,714)	29,258
	<b>16,703</b>	<b>78,875</b>
Gearing (being net debt divided by total equity)	<b>13.47</b>	<b>2.75</b>

### 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.

## Notes to the Consolidated Financial Statements

**28 Financial instruments – continued****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:

	2017 Carrying value £000	2017 Fair value £000	2016 Carrying value £000	2016 Fair value £000
Trade and other receivables	197,284	197,284	215,513	215,513
Cash and cash equivalents	29,173	29,173	34,405	34,405
Trade and other payables	(51,197)	(51,197)	(48,959)	(48,959)
Secured bank loans	(252,534)	(252,534)	(248,911)	(248,911)
Finance leases	(1,614)	(1,614)	(2,176)	(2,176)
	(78,888)	(78,888)	(50,128)	(50,128)
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 stated net of allowance for doubtful debts where applicable, which in respect of Express Gifts is determined by reference to past default experience.

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 31 March 2017, namely the interest rate caps and forward foreign exchange contracts, were valued under level 2 measurement bases. The Group held no derivative financial instruments at 25 March 2016.

**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.

**28 Financial instruments – continued****Foreign currency risk management**

A proportion of the products sold through the Express Gifts and Findel Education are procured through the Group's Overseas Sourcing division. The currency of purchase for these goods is principally the US Dollar, with a proportion being in Hong Kong Dollars. 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:

	2017 £000	2016 £000
Less than 6 months	28,687	—
6 to 12 months	12,350	—
12 to 18 months	—	—
At the end of the period	41,037	—

Forward contracts outstanding at the period end are contracted at US dollar exchange rates between £1/\$1.48 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	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Euro	995	293	(1,586)	(147)	(591)	146
Hong Kong dollar	362	391	(118)	(159)	244	232
US dollar	354	977	(1,200)	(2,264)	(846)	(1,287)
	1,711	1,661	(2,904)	(2,570)	(1,193)	(909)

**Foreign currency sensitivity analysis**

A significant proportion of products sold through Express Gifts and Findel Education are procured through the Group's Far East buying office. 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		Hong Kong dollar currency impact		US dollar currency impact	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Profit or loss and equity	54	(13)	(22)	(21)	77	117

**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 following a revision to its policy in April 2016.

At 31 March 2017, the Group was committed to forward foreign exchange contracts for a notional sterling contract value of £41,037,000.

	2017 £000	2016 £000
Notional amount – Sterling contract value	41,037	—
Fair value of asset recognised	556	—

The fair value of the derivative assets recognised in the balance sheet at 31 March 2017 in this regard was £556,000. Changes in fair value of forward foreign exchange contracts amounted to a credit of £556,000 which has been recorded in the 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.

## Notes to the Consolidated Financial Statements

**28 Financial instruments – continued****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 had two interest rate caps in place at 31 March 2017. There were no interest rate caps in place at 25 March 2016. 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 31 March 2017 would decrease/increase by £1,256,000 (2016: £1,136,000). 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 31 March 2017:

Maturity	Notional borrowing amount £000	At 31 March 2017	
		Cap rate	Fair value £000
Less than 12 months	100,000	1.06%	—
1 to 2 years	100,000	1.075%	32
			32

The Group has two caps in place. The first was purchased on 4 May 2016 and matures in October 2017. The second cap was purchased on 17 February 2017 and matures in November 2018. Both caps were designated as cash flow hedges from inception in accordance with IAS 39. The movement in the fair value of interest rate caps during the current and prior period was as follows:

	2017 £000	2016 £000
At the beginning of the period	—	—
Purchase of interest rate caps	143	—
Movement in fair value (charged)/credited to the hedging reserve	(51)	42
Movement in fair value of ineffective element charged to finance costs	(60)	(42)
At the end of the period	32	—

**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. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made when there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. 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 16.

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 19 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.



**28 Financial instruments – continued****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.

**2017**

	Weighted average effective interest rate %	Less than 1 year £000	1 to 5 years £000	Total £000
<b>Financial liabilities</b>				
Non-interest bearing		(51,197)	—	(51,197)
Variable interest rate instruments	3.53	(252,534)	—	(252,534)
Finance leases	4.72	(545)	(1,069)	(1,614)
		(304,276)	(1,069)	(305,345)

**2016**

	Weighted average effective interest rate %	Less than 1 year £000	1 to 5 years £000	Total £000
<b>Financial liabilities</b>				
Non-interest bearing		(48,959)	—	(48,959)
Variable interest rate instruments	3.88	(248,911)	—	(248,911)
Finance leases	4.72	(518)	(1,658)	(2,176)
		(298,388)	(1,658)	(300,046)

The Group has access to financing and securitisation facilities, the total unused amount of which was £nil\* (2016: £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 facilities are shown above as being repaid within one year as drawings are made on one month loan periods. The Group may then redraw these amounts until the contractual maturity of the underlying facility which expires in November 2019.

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) 31 March 2017 is £29,173,000 (2016: £34,405,000).

**29 Related parties**

During the prior period, the Group paid operating lease rentals to a company under the control of one of the Group's major shareholders, Toscafund Asset Management LLP ("Toscafund") in respect of a building formerly utilised by the Group. The operating lease rentals paid in respect of this property during prior period were £135,000. On 8 July 2016, the Group entered into an agreement to surrender the lease and paid a premium of £946,524 in this regard. No amounts were accrued at 31 March 2017 or 25 March 2016.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not discussed in this note. All transactions and outstanding balances between the group companies are priced on an arms-length basis and are to be 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 46 to 55 and is summarised below.

	2017 £000	2016 £000
Short-term employee benefits	1,241	1,233
Company pension contributions	180	195
	1,421	1,428
Share-based payments charge/(credit)	145	(101)
	1,566	1,327

## Company Balance Sheet

at 31 March 2017

Company number: 549034

	Notes	2017 £000	2016 £000
<b>Fixed assets</b>			
Tangible assets	3	92	153
Investment property	4	9,355	9,684
Investments	5	59,228	80,093
Derivative financial instruments		32	—
		<b>68,707</b>	<b>89,930</b>
<b>Current assets</b>			
Derivative financial instruments		556	—
<b>Debtors:</b> amounts falling due after one year	6	5,669	6,254
<b>Debtors:</b> amounts falling due within one year	7	49,761	110,413
Cash at bank and in hand		294	5,834
		<b>56,280</b>	<b>122,501</b>
<b>Creditors:</b> amounts falling due within one year	8	(50,532)	(73,109)
<b>Net current assets</b>		<b>5,748</b>	<b>49,392</b>
<b>Total assets less current liabilities</b>		<b>74,455</b>	<b>139,322</b>
<b>Creditors:</b> amounts falling due after more than one year	9	(110,000)	(120,000)
<b>Provisions for liabilities</b>			
Deferred tax liability	10	(1,984)	(2,189)
Other provisions	11	(9,108)	(1,645)
		<b>(11,092)</b>	<b>(3,834)</b>
<b>Net (liabilities)/assets</b>		<b>(46,637)</b>	<b>15,488</b>
<b>Capital and reserves</b>			
Share capital	12	48,644	48,644
Capital redemption reserve		—	—
Share premium		—	—
Accumulated losses		(95,281)	(33,156)
<b>Total equity</b>		<b>(46,637)</b>	<b>15,488</b>

Approved by the Board and authorised for issue on 26 June 2017

P Maudsley	} Directors
M I Burke	

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

## Company Statement of Changes in Equity

53 week period ended 31 March 2017

	Share capital £000	Capital redemption reserve £000	Share premium account £000	Accumulated losses £000	Total equity £000
At 27 March 2015	126,442	403	92,954	(156,443)	63,356
Loss for the period	—	—	—	(50,937)	(50,937)
Remeasurements in respect of defined benefit pension plan, net of tax	—	—	—	3,863	3,863
Capital reduction	(77,798)	(403)	(92,954)	171,155	—
Share-based payments	—	—	—	(836)	(836)
Amounts recycled to income statement in respect of cash flow hedge	—	—	—	42	42
At 25 March 2016	48,644	—	—	(33,156)	15,488
Loss for the period	—	—	—	(60,025)	(60,025)
Remeasurements in respect of defined benefit pension plan, net of tax	—	—	—	(1,459)	(1,459)
Share-based payments	—	—	—	(590)	(590)
Amounts charged to reserves in respect of cash flow hedge	—	—	—	(51)	(51)
At 31 March 2017	48,644	—	—	(95,281)	(46,637)

The total equity is attributable to the equity shareholders of the parent company Findel plc.

Retained earnings at 31 March 2017 includes a special reserve in respect of the capital reduction exercise amounting to £15,447,000 which is not distributable (March 2016: £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

Findel plc is a public limited company incorporated in England. The results of Findel plc are included in the consolidated accounts of Findel plc which are available from 2 Gregory St, Hyde, SK14 4TH, United Kingdom. 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.

The Company's accounts are prepared using the recognition principles of EU-adopted IFRS but make 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 Findel 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 – IFRS2 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 page 74 to 123, 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.

#### 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.
- IFRS 2 'Share-based payments'. The Company has issued equity settled share-based payments to certain employees in exchange for services rendered by them. The fair value is measured using an option valuation model at the date of grant and is recognised as an employee expense over the period in which the employees become unconditionally entitled to the options, with a corresponding increase in equity. This valuation is based on estimates of the number of options that will eventually vest, based on related service and non-market vesting conditions that are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

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.

## 2 Loss for the year

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 loss for the financial period ended 31 March 2017 of £60,025,000 (2016: £50,937,000).

The Auditor's remuneration for audit services to the Company was £115,000 (2016: £110,000).

## 3 Tangible fixed assets

	Leasehold land and buildings £000	Fixtures and equipment £000	Assets under construction £000	Total £000
<b>Cost</b>				
At 27 March 2015	404	101	11	516
Additions	—	198	—	198
Disposals	—	(180)	(11)	(191)
At 25 March 2016	404	119	—	523
Additions	—	13	—	13
Disposals	—	(58)	—	(58)
At 31 March 2017	404	74	—	478
<b>Accumulated depreciation</b>				
At 27 March 2015	261	83	—	344
Charge for the period	16	10	—	26
At 25 March 2016	277	93	—	370
Charge for the period	16	10	—	26
Disposals	—	(58)	—	(58)
Impairment	48	—	—	48
At 31 March 2017	341	45	—	386
<b>Carrying amount</b>				
Net book value at 31 March 2017	63	29	—	92
Net book value at 25 March 2016	127	26	—	153

## 4 Investment property

	Land and buildings £000
<b>Cost</b>	
At 27 March 2015	17,234
At 25 March 2016	17,234
At 31 March 2017	17,234
<b>Accumulated depreciation</b>	
At 27 March 2015	7,221
Charge for the period	329
At 25 March 2016	7,550
Charge for the period	329
At 31 March 2017	7,879
<b>Carrying amount</b>	
Net book value at 31 March 2017	9,355
Net book value at 25 March 2016	9,684

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 (2016: £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 (2016: £800,000) on which no depreciation is charged.

## Notes to the Company Financial Statements

**5 Investments**

	Shares in group undertakings £000
<b>Cost</b>	
At 27 March 2015	193,491
Additional investment in subsidiary	15,700
Disposals	(27,730)
At 25 March 2016	181,461
At 31 March 2017	181,461
<b>Provisions</b>	
At 27 March 2015	103,767
Disposals	(2,399)
At 25 March 2016	101,368
Impairment loss	20,865
At 31 March 2017	122,233
<b>Carrying amount</b>	
Net book value at 31 March 2017	59,228
Net book value at 25 March 2016	80,093

A full listing of subsidiary undertakings can be found in note 3 to the consolidated financial statements.

The Company completed the disposal of Kitbag Limited on 1 February 2016. Full details can be found in note 7 to the consolidated financial statements. A loss on disposal of £13,022,000 was recorded in the Company's income statement in the prior period.

The impairment provision booked in the current period is based on the value in use calculations set out in note 13 to the consolidated financial statements as compared to the carrying value of the respective businesses.

**6 Debtors: amounts falling due within more than one year**

Debtors: amounts falling due within one year comprises the surplus in respect of the Group and Galt sections of the Findel Group Pension Fund of which Findel plc is the main sponsor. Further details can be found in note 14.

**7 Debtors: amounts falling due within one year**

	2017 £000	2016 £000
Amounts due from subsidiary undertakings	46,324	104,961
Trade debtors	342	388
Other debtors	179	2,850
Corporation tax	1,159	—
Prepayments and accrued income	1,757	2,214
	49,761	110,413

**8 Creditors: amounts falling due within one year**

	2017 £000	2016 £000
Bank loans and overdrafts	20,067	20,323
Trade creditors	917	1,066
Amounts due to subsidiary undertakings	26,042	41,600
Other creditors	121	490
Corporation tax	—	5,583
Accruals and deferred income	3,385	4,047
	50,532	73,109

**9 Creditors: amounts falling due after more than one year**

	2017 £000	2016 £000
Bank loans	110,000	120,000
The average interest rates paid on the loans were as follows	3.74%*	4.30%*

\* 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 19 to the consolidated financial statements). The average interest rate excluding these fees was 3.34% (2016: 3.46%).

**10 Deferred tax liability****Recognised deferred tax**

	Retirement benefit obligations £000
At 27 March 2015	—
Recognised in other comprehensive income	2,081
Charge recognised in the income statement	108
At 25 March 2016	2,189
Recognised in other comprehensive income	(299)
Charge recognised in the income statement	94
At 31 March 2017	1,984

The deferred tax liability in respect of the defined benefit pension plan surplus has been calculated using a rate of 35%, which represents the rate of tax that the trustees would be required to withhold on any refund of surplus assets.

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.

The aggregate value of deferred tax assets which have not been recognised is £6,414,000 (2016: £3,643,000). 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.

Reductions in the UK corporation tax from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge.

**11 Other provisions**

	Onerous leases £000	Restructuring provision £000	Total £000
At 27 March 2015	1,543	—	1,543
Utilised during the period	(298)	—	(298)
Provided in the period	—	400	400
At 25 March 2016	1,245	400	1,645
Utilised during the period	(285)	(400)	(685)
Provided in the period	7,484	664	8,148
At 31 March 2017	8,444	664	9,108
Analysed as:			
Non-current	7,955	—	7,955
Current	489	664	1,153

**Onerous leases**

Provision was made in the current and prior periods for onerous leases for vacated leasehold properties. These provisions will be utilised over the remaining term of the lease which runs until 2034.

**Restructuring provision**

A provision has been made in the current period in respect of a restructuring exercise undertaken within Findel plc as a result of relocation of the head office function from Hyde to Express Gifts' offices in Accrington. The provision is expected to be utilised within twelve months.



## Notes to the Company Financial Statements

**12 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**

	2017 Number of shares	2016 Number of shares	2017 £000	2016 £000
At the beginning of the period	86,442,534	86,442,534	8,644	86,442
Capital reduction effective 15 March 2016	—	—	—	(77,798)
At the end of the period	86,442,534	86,442,534	8,644	8,644

**Capital reduction**

In the prior year, at the Annual General Meeting of the Company held on 30 July 2015, a special resolution was passed approving the cancellation of all amounts standing to the credit of the Company's share premium account and capital redemption reserve, along with the reduction of the nominal value of the ordinary share capital of the Company to 10p per ordinary share ("Capital Reduction"), subject to the approval of the Court. Court approval was obtained and following the subsequent registration of the Court order with the Registrar of Companies, the Capital Reduction became effective on 15 March 2016.

The impact of the capital reduction on equity is summarised as follows:

	2016 (Dr)/Cr £000
Share capital	(77,798)
Capital redemption reserve	(403)
Share premium account	(92,954)
Retained earnings	171,155
Net impact on equity	—

Following the completion of the capital reduction, a special reserve of £15,447,000 has been created within retained earnings which is not distributable, in line with the Court order obtained.

**Convertible ordinary shares of 23.97p each**

	2017 Number of shares	2016 Number of shares	2017 £000	2016 £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 (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.

### 13 Financial commitments

The Company had no capital commitments at 31 March 2017 or 25 March 2016.

At the balance sheet date, the Company had total minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Other assets	
	2017 £000	2016 £000	2017 £000	2016 £000
Expiry date:				
Within one year	4,594	4,576	12	144
In the second to fifth years	13,726	12,496	—	—
After five years	31,794	32,986	—	—
	50,114	50,058	12	144

The operating lease charge to the income statement in the current year was £12,185,000 (2016: £5,001,000), of which £7,484,000 (2016: £nil) related to the onerous lease provision (see individually significant items – note 6 in the consolidated financial statements).

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

### 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 £279,000 (2016: £282,000).

Outstanding contributions amounting to £8,000 (2016: £37,000) were payable to the scheme and are included within other creditors.

#### Defined benefit pension schemes

Findel 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 Findel plc. There is no contractual agreement or stated policy for charging the net defined benefit cost of the Group and Galt sections and so Findel 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: £752,000 in the year to 31 March 2017, £615,000 p.a. between 31 March 2018 and 31 March 2019, £1,230,000 p.a. between 31 March 2020 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 31 March 2017 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 £752,000, 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: £265,000 in the year to 31 March 2017, £280,000 p.a. between 31 March 2018 and 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 31 March 2017 by PwC using the assumptions detailed below.

Company contributions to the Galt section for the upcoming financial year are expected to be around £265,000, in line with the current Schedule of Contributions.

The results of the IAS 19 valuation for both sections are summarised as follows:

	Group £000	2017 Galt £000	Total £000	Group £000	2016 Galt £000	Total £000
Fair value of scheme assets	113,821	2,770	116,591	96,984	2,669	99,653
Present value of funded obligations	(105,308)	(5,614)	(110,922)	(88,221)	(5,178)	(93,399)
Deficit/(surplus) in the scheme	8,513	(2,844)	5,669	8,763	(2,509)	6,254

The weighted average duration of the Scheme's IAS 19 liabilities is 18.4 years in respect of the Group section and 17.9 years in respect of the Galt section.

## Notes to the Company Financial Statements

**14 Retirement benefits – continued****Plan assets**

	Group £000	2017 Galt £000	Total £000	Group £000	2016 Galt £000	Total £000
Plan assets comprise:						
Equities/Property	57,266	2,375	59,641	50,995	2,199	53,194
Bonds	50,420	313	50,733	45,369	266	45,635
Other	6,135	82	6,217	620	204	824
	113,821	2,770	116,591	96,984	2,669	99,653

**Movement in the present value of defined benefit obligations**

	Group £000	2017 Galt £000	Total £000	Group £000	2016 Galt £000	Total £000
At beginning of period	(88,221)	(5,178)	(93,399)	(98,430)	(5,478)	(103,908)
Plan amendments – past service cost	—	—	—	—	—	—
Interest cost	(3,096)	(177)	(3,273)	(3,158)	(179)	(3,337)
Settlements	—	—	—	—	—	—
<i>Remeasurements</i>						
Effect of changes in financial assumptions	(18,401)	(867)	(19,268)	5,475	331	5,806
Effect of changes in demographic assumptions	77	—	77	1,305	44	1,349
Effect of experience adjustments	(203)	157	(46)	1,025	44	1,069
Benefits paid (including buyout)	4,536	451	4,987	5,562	60	5,622
At end of period	(105,308)	(5,614)	(110,922)	(88,221)	(5,178)	(93,399)

**Movement in the fair value plan assets**

	Group £000	2017 Galt £000	Total £000	Group £000	2016 Galt £000	Total £000
At beginning of period	96,984	2,669	99,653	100,690	2,520	103,210
Company contributions	689	243	932	752	265	1,017
Interest on assets	3,423	91	3,514	3,242	86	3,328
Settlements	—	—	—	—	—	—
Remeasurements – return on assets	17,261	218	17,479	(2,138)	(142)	(2,280)
Benefits paid (including buyout)	(4,536)	(451)	(4,987)	(5,562)	(60)	(5,622)
At end of period	113,821	2,770	116,591	96,984	2,669	99,653

**Movement in the pension surplus/(deficit)**

	Group £000	2017 Galt £000	Total £000	Group £000	2016 Galt £000	Total £000
At beginning of period	8,763	(2,509)	6,254	2,260	(2,958)	(698)
Plan amendments – past service cost	—	—	—	—	—	—
Net interest (cost)/credit	327	(86)	241	84	(93)	(9)
Settlements	—	—	—	—	—	—
Remeasurements	(1,266)	(492)	(1,758)	5,667	277	5,944
Company contributions	689	243	932	752	265	1,017
At end of period	8,513	(2,844)	5,669	8,763	(2,509)	6,254

**Amounts recognised in the income statement**

	Group £000	2017 Galt £000	Total £000	Group £000	2016 Galt £000	Total £000
Net interest (cost)/credit	327	(86)	241	84	(93)	(9)
Settlement gain	—	—	—	—	—	—
	327	(86)	241	84	(93)	(9)

**14 Retirement benefits – continued****Amounts recognised in other comprehensive income**

	Group £000	2017 Galt £000	Total £000	Group £000	2016 Galt £000	Total £000
Total Remeasurements	(1,266)	(492)	(1,758)	5,667	277	5,944

**Actuarial Assumptions – Group and Galt sections**

The following are the principal actuarial assumptions at the reporting date:

	2017	2016
<b>Financial Assumptions</b>		
Discount rate for scheme liabilities	2.60%	3.60%
RPI Price Inflation	3.30%	3.00%
CPI Price Inflation	2.30%	2.00%
Rate of increase to pensions in payment in line with RPI inflation (up to 5% per annum)	3.20%	3.00%
Rate of increase to pensions in payment in line with CPI inflation (up to 5% per annum)	2.30%	2.00%
Rate of increase to deferred pensions	2.30%	2.00%
Post retirement mortality (in years)		
Current pensioners at 65 – male	87.4 yrs	87.2 yrs
Current pensioners at 65 – female	89.6 yrs	89.6 yrs
Future pensioners at 45 – male	89.2 yrs	88.9 yrs
Future pensioners at 45 – female	91.4 yrs	91.5 yrs
<b>Demographic Assumptions</b>		
Cash Commutation (members taking cash lump sum)	80%	80%
Proportion of members that are married at retirement	75%	75%
Proportion of members taking TPIE option*	15%	15%
Age at which members are assumed to take TPIE option*	62.5 yrs	62.5 yrs

Assumptions regarding post retirement mortality are based on published statistics and mortality tables – S2NXA – CMI 2015 1.25% p.a. (2016: S1NXA – CMI 2015 1.25% p.a.)

\* The Scheme now has an embedded option at retirement for members to take TPIE (Total Pension Increase Exchange), following the bulk exercise carried out in late 2014 and early 2015. Since this option is now a formalised process, allowance has been made for this in calculating the IAS 19 liability. A 15% take up at an average age of 62.5 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**

Assumption	Change in assumption	Impact on scheme liabilities	
		If assumption increases	If assumption decreases
Discount rate	0.5%	Decrease by 8.3%	Increase by 9.4%
RPI Inflation	0.5%	Increase by 4.0%	Decrease by 3.5%
CPI Inflation	0.5%	Increase by 1.2%	Decrease by 0.9%
Longevity	1 year	Increase by 4.25%	Decrease by 4.6%

**Group section**

Assumption	Change in assumption	Impact on scheme liabilities	
		If assumption increases	If assumption decreases
Discount rate	0.5%	Decrease by 8.3%	Increase by 9.4%
RPI Inflation	0.5%	Increase by 4.4%	Decrease by 4.0%
CPI Inflation	0.5%	Increase by 2.1%	Decrease by 2.0%
Longevity	1 year	Increase by 4.0%	Decrease by 4.1%

The above sensitivities are approximate and show the likely increase to each section's liabilities under IAS19 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 risk of the Scheme, a TPIE exercise was carried out during 2015, 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 payments for the Group and Galt sections of the Findel Group Pension Fund:

Findel Group Pension Fund (Expected payments)	Group £000	Galt £000
2017 – 2026	33,816	1,832
2027 – 2036	48,810	2,747
2037 – 2046	43,948	2,448
2047 – 2056	33,191	1,643
2057 – 2066	15,017	624
2067 – 2076	2,793	97
2077 – 2086	178	4
2087 – 2096	3	—
After 2096	—	—
<b>Total</b>	<b>177,756</b>	<b>9,395</b>

**15 Contingent liability**

The Company has issued guarantees of financial support to all its trading subsidiaries from 26 June 2017.







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