

27 June 2017

Findel plc (“Findel” or “the Group”)

Increase in sales driven by successful customer recruitment programme and ongoing digital transformation

Results for the 53 weeks ended 31 March 2017

Findel, the online value retail and Education business, today announces its Full Year Results for the 53 week period ended 31 March 2017.

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%
Individually significant items	(£82.2m)	(£26.5m)	(£55.7m)
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 bank debt*	£80.8m	£85.6m	-5.6%
Overall net debt*	£225.0m	£216.7m	+3.8%

Summary

Group revenue up 11.3% to £457.0m, with adjusted profit before tax* from continuing operations of £22.2m, down by £2.6m, following investment for future growth and digital transformation in both businesses

Express Gifts produced a strong sales performance, driven by an increase in new customers:

- Customer base up by 229,000 on prior year at 1.6 million, with further growth seen in early weeks of new financial year
- Product revenue up 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), with strong category performance in Household and Clothing
- Financial services revenue up 12.6% on a like-for-like basis* at £99.2m (up 14.7% on a GAAP basis of 53 weeks in FY17 compared to 52 weeks in FY16), and online sales up 22.6%, with over 71% of new starters shopping online
- Adjusted operating operating profits down by £1.3m to £30.4m as first-time investment in recruitment during final months of the financial year suppressed near-term profitability

Findel Education had a challenging year in a difficult market, but a clear strategy for transformation is in place:

- 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
- Warehouse consolidation project completed on time and on budget, anticipated to deliver annual savings of £2-3m in 2017/18

- Responding to market challenges with a clear strategy based on value, service and digital solutions underpinned by cost reduction

Individually significant items recognised during the year totalled £82.2m (FY16: £26.5m), leading to a Group loss before tax of £59.4m

- Mostly non-cash items, with little or no impact on incremental or accelerated cash outflows
- Individually significant items include:
 - £35.2m in respect of a new, more granular, bad debt provisioning model introduced at Express Gifts;
 - £21.2m relates to impairment of intangible assets, primarily at Findel Education;
 - £14.7m relates to additional financial services redress and refunds at Express Gifts, as previously announced; and
 - £7.5m relates to onerous lease provisions, following the relocation of head office functions also as previously announced.

Strong cash generation throughout the year, and the Group's core bank debt further reduced by £4.8m to £80.8m

Appointment of Ian Burke as Chairman, and new executive management team in place to deliver medium-term growth plans

Current trading and outlook

- Express Gifts has seen a good start to the new financial year, with further growth in the customer base as we move to all-year-round recruitment.
- 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
- Trading at Findel Education remains challenging, although a further £3-4m of savings in that business identified to primarily benefit FY19
- The digital transformation of both businesses continues to progress well, and the strengthening of our online, value retail offer leaves us well-placed to counter any changes in consumer sentiment

Commenting on the results, Phil Maudsley, Chief Executive, said:

"These results reflect a year of good progress in the group's largest business, Express Gifts and we are focussed on supporting our leading value proposition with a digital transformation in both businesses.

"At Express Gifts, the ongoing investment in our product offer and our move to year-round customer recruitment is already resonating well and delivering strong results. In particular, the 17% rise in customer numbers to 1.6 million is very encouraging, and underlines the strength of our strategy. While at Findel Education, we are addressing market share decline through a clear strategy based on value, service and digital.

"Within today's results, we have also announced increased provisions related to our new bad debt model and the impairment of goodwill and other intangible assets, both non-cash items. Whilst this is disappointing, it is a necessary measure and we have now addressed a number of judgmental issues for the benefit of our customers.

"Looking ahead, the new management team is confident in delivering against the respective strategies of both businesses. The ongoing operational improvements being made provides a strong platform for future growth and I am excited about the prospects for the group as we enter the new financial year."

^ *from continuing operations*

* *this is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found below*

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CHAIRMAN'S STATEMENT

Ian Burke

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[^] 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[^] 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).

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 below*

CHIEF EXECUTIVE'S REVIEW

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 focussed 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

DIVISIONAL OVERVIEW

Express Gifts

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 below*

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.

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 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 by 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 focussed 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 below*

Findel Education

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 below*

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 focussed 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 lead 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 below*

GROUP FINANCE REVIEW

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	2016	Change
	£000	£000	£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	(59,365)	(1,680)	(57,687)

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

The adjusted operating profit* of the continuing operations of the Group fell by £3.5m to £31.1m as indicated above.

Individually significant items

Individually significant items for the Group before tax totalling £82.2m (FY16: £26.5m) 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 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.

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 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. 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 focusses 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 IAS 19 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	2016	Change
	£000	£000	£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).

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

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	2016
Adjusted EBITDA	40,594	41,519
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)

	2017	2016
Adjusted operating profit	31,150	34,677
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)

	2017	2016
Adjusted profit before tax	22,228	24,776
Individually significant items	(82,152)	(26,456)
Fair value movements on derivatives	556	-
Loss before tax	(59,368)	(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	52 weeks to 31 March 2017	52 weeks to 25 March 2016	Like-for-like change
Sales of goods	262,240	260,045	224,880	35,165
Financial services [^]	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

[^] 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	2016
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	2016
Impairment losses recognised	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	2016
Total bank loans	252,534	248,911
Less securitisation loans	(142,534)	(128,911)
Less cash and cash equivalents	(29,173)	(34,405)
Core net debt	80,827	85,595

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	2016
Total bank loans	252,534	248,911
Less cash and cash equivalents	(29,173)	(34,405)
Net debt	223,361	214,506

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	2016
Securitisation loans (71%)	142,534	128,911
Cash and bank (29%)	58,218	52,654
Eligible receivables (100%)	200,752	181,565

Free cashflow

Free cash flow is reconciled to cash generated by operations as follows:

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

Principal risks and uncertainties

Risk	Root cause	Key mitigating controls
<p>Our customers</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 focussing that 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>
<p>Risks specific to the Group's divisions</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>Regulatory risks</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 withdraw 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>
<p>Operational risk</p> <p>Both Express Gifts and Findel Education are undergoing a significant amount of operational and systems transformation.</p> <p>The Group may be subject to cyber-attacks / malware.</p> <p>The Group's businesses rely upon the ability to source products for resale to its customers.</p>	<p>Failure to manage this change, risks disruption to operations or a failure to achieve the planned level of benefits.</p> <p>Prolonged attacks could lead to a material disruption to operations and/or a loss of key systems and data.</p> <p>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.</p>	<p>The businesses both rely upon having dedicated project management teams and appropriate levels of governance to oversee change management.</p> <p>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.</p> <p>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.</p>

<p>The Group is dependent on third parties for outsourcing functions.</p>	<p>Interruptions in the supply of outsourcing functions could have an adverse effect on the Group's business.</p>	<p>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.</p>
<p>Financial risk</p> <p>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.</p> <p>The business is required to comply with applicable taxation laws.</p>	<p>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.</p> <p>Failure to manage this risk may lead to penalties being imposed.</p>	<p>The level of headroom against the covenants within the new facility agreement mitigates this risk.</p> <p>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.</p>

Findel plc**Group financial information****Financial Statements****Consolidated Income Statement**

53 week period ended 31 March 2017

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

Loss per ordinary share*from continuing operations*

Basic	(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

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

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

*Earnings before interest, tax, depreciation and amortisation.

Consolidated Statement of Comprehensive Income

53 week period ended 31 March 2017

	2017	2016
	£000	£000
Loss for the period	(57,708)	(10,196)
Other Comprehensive Income		
<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	(5,367)	7,001
Tax relating to components of comprehensive income	912	(1,134)
	(4,455)	5,867
Total comprehensive loss for period	(62,363)	(4,074)

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**Company Number: 549034**

at 31 March 2017

	2017	2016
	£000	£000
Non-current assets		
Goodwill	-	16,691
Other intangible assets	26,186	30,631
Property, plant and equipment	44,416	41,423
Derivative financial instruments	32	-
Deferred tax assets	8,410	4,182
	79,044	92,927
Current assets		
Inventories	57,108	53,472
Trade and other receivables	212,648	229,848
Derivative financial instruments	556	-
Cash and cash equivalents	29,173	34,405
Current tax assets	1,748	3,554
	301,233	321,279
Total assets	380,277	414,206
Current liabilities		
Trade and other payables	63,474	58,175
Obligations under finance leases	545	518
Provisions	27,770	17,498
	91,789	76,191
Non-current liabilities		
Bank loans	252,534	248,911
Obligations under finance leases	1,069	1,658
Provisions	12,767	6,277
Retirement benefit obligation	5,415	2,294
	271,785	259,140
Total liabilities	363,574	335,331
Net assets	16,703	78,875
Equity		
Share capital	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
Total equity	16,703	78,875

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

Consolidated Cash Flow Statement

53 week period ended 31 March 2017

	2017	2016
	£000	£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)
Operating cash flows before movements in working capital	(21,890)	10,690
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
Cash generated from operations	11,154	8,889
Income taxes refunded/(paid)	148	(2,494)
Interest paid	(9,107)	(9,549)
Net cash from operating activities	2,195	(3,154)
Investing activities		
Interest received	3	-
Proceeds on disposal of property, plant and equipment	10	-
Purchases of property, plant and equipment, software and IT development costs and other intangible assets	(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
Net cash used in investing activities	(10,542)	(4,825)
Financing activities		
Repayments of obligations under finance leases	(562)	-
Bank loans repaid	(10,000)	(5,334)
Securitisation loan drawn	13,623	9,224
Net cash from financing activities	3,061	3,890
Net decrease in cash and cash equivalents	(5,286)	(4,089)
Cash and cash equivalents at the beginning of the period	34,405	38,470
Effect of foreign exchange rate changes	54	24
Cash and cash equivalents at the end of the period	29,173	34,405

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	(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
At 31 March 2017	48,644	—	—	824	(51)	(32,714)	16,703

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.

1 Basis of preparation of consolidated financial information

The financial information set out herein does not constitute the Company's statutory financial statements for the periods ended 31 March 2017 or 25 March 2016, but is derived from those financial statements. Statutory financial statements for 2016 have been delivered to the Registrar of Companies, and those for 2017 will be delivered in due course. The financial statements were approved by the Board of directors on 26 June 2017. The auditors have reported on those financial statements; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Copies of the Company's statutory financial statements will be available on the Group's corporate website. Additional copies will be available upon request from Findel plc, 2 Gregory Street, Hyde, Cheshire, SK14 4TH.

The Group financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use within the European Union and in accordance with the accounting policies included in the Annual Report for the period ended 25 March 2016 except as stated 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) 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.

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 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

Key sources of estimation uncertainty

Express Gifts' trade receivables

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.

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.

2 Segmental analysis

2017

Loss after tax

	Continuing operations			
	Express Gifts £000	Findel Education £000	Overseas Sourcing £000	Total £000
Reportable segment results	30,432	1,417	(699)	31,150
Individually significant items	(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
Reportable segment results	31,747	3,214	(284)	34,677	(3,995)	30,682
Individually significant items	(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)

3 Individually significant items

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

	2017	2016
	£000	£000
<i>Continuing operations</i>		
Individually significant trading items		
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 shareholder proposal	680	—
	82,152	25,458
Individually significant financing costs		
Debt refinancing costs	—	998
	82,152	26,456
Tax credit in respect of individually significant items	(6,462)	(5,321)
Total	75,690	21,135
<i>Discontinued operation</i>		
Restructuring costs	—	698
Loss on disposal of subsidiary	—	4,782
	—	5,480
Tax credit in respect of individually significant items	—	(141)
Total	—	5,339
Group total	75,690	26,474

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. 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.

In 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.

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.

4 Current tax

(a) Tax (credited)/charged in the income statement

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

(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 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
Deferred tax:		
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 ⁽²⁾	3,574	308
Higher tax rates on overseas earnings	65	134
Deferred tax asset arising not recognised / (deferred tax asset not previously recognised) ⁽³⁾	5,852	(694)
Impact of change in rate of corporation tax	298	749
Adjustments in respect of prior periods	425	(252)
Total tax income for the period from continuing operations	(1,659)	(91)

(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.

5 (Loss)/earnings per share

Weighted average number of shares

Ordinary shares in issue at start of the period	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	2016
	£000	£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	21,135
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	2016
	£000	£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

Total attributable to ordinary shareholders

(Loss)/profit attributable to ordinary shareholders

	2017	2016
	£000	£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

(Loss)/earnings per share

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.

6 Goodwill and other intangible assets

(a) Goodwill

Cost	£000
At 27 March 2015	44,991
At 25 March 2016	44,991
Amounts acquired in a business combination	628
At 31 March 2017	45,619

Impairment	
At 27 March 2015	(28,300)
At 25 March 2016	(28,300)
Impairment	(17,319)
At 31 March 2017	(45,619)

Carrying amount

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	2016
	£000	£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. 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

(b) Other intangible assets

	Software and IT		Customer	Total £000
	development costs £000	Brand names £000	relationships £000	
Cost				
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	—	500	450	950
Disposals	—	—	—	—
At 31 March 2017	17,589	21,704	20,940	60,233

Accumulated amortisation and impairment

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

Carrying amount

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. These are both being amortised over a useful economic life of 5 years.

The amortisation period for customer relationships, which arose from the acquisition of businesses, is between 2 and 20 years. Management do not consider that any customer relationships are individually material.

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.

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:

	<u>Findel Education</u>
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.

7 Trade and other receivables

	2017	2016
	£000	£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 judgment 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.

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)
Balance at 31 March 2017	83,449	184	83,633

*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)
Carrying value	180,414	6,286	186,700

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	2016
	£000	£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.

8 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

2017

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

2016

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. 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.

9 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 summarised below.

	2017	2016
	£000	£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

By order of the board

P Maudsley

CEO

26 June 2017

M I Burke

Chairman

26 June 2017