

RIVER ISLAND CLOTHING CO.
LIMITED

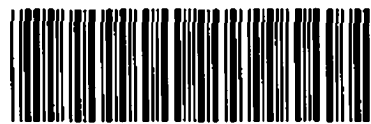
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED

28 DECEMBER 2019

COMPANY NUMBER: 00636095

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**RIVER ISLAND CLOTHING CO. LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019**

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Company information

Directors: Bernard Lewis
Clive Lewis
Vanessa Lewis
Benjamin Lewis
William Kernan

Secretary and registered office: Cavendish Square Secretariat,
Chelsea House, West Gate, London, W5 1DR

Auditor: BDO LLP
55 Baker Street, London, W1U 7EU

Company number: 00636095

RIVER ISLAND CLOTHING CO. LIMITED
STRATEGIC REPORT
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

The directors submit their strategic report together with the audited financial statements for the 52 weeks ended 28 December 2019.

Results and dividends

The profit and loss account is set out on page 7, and statement of comprehensive income is set out on page 8, which show the results for the period.

The directors did not declare any dividends in 2019. (2018: £276.3m dividends paid).

Principal activities

The company is engaged in the design and retailing of women's, men's and children's clothing and accessories in the UK, Ireland, and the rest of the world. Sales are made through stores, the website, franchise agreements and wholesale agreements with selected partners internationally.

Business review and future developments

Turnover for the period of £843.5 million has decreased by 3.9% (2018: £877.7 million) and operating profit for the period of £28.4 million has decreased by 32.7% (2018: £42.2 million). Despite difficult market conditions, the business has succeeded in keeping the revenue materially stable, and has experienced growth from its online and wholesale channels while remaining focused on maintaining its physical store presence. The reduction in operating profit is a combination of decline in store sales and additional property provisions. As at the year end the company held a cash balance of £163.2m (2018 £127.1m), and a net assets position of £356.4m (2018 £341.5m) details are set out in the balance sheet on page 9.

During the year, the company opened two new retail outlets, and five retail outlets were relocated. As at 28 December 2019, the company traded from stores across the UK, with online, franchise and wholesale channels reaching customers all around the world.

However, the global coronavirus pandemic is expected to have a material impact on 2020 performance. The company has performed modelling on potential financial consequences of the pandemic and Directors have acted quickly and decisively to manage the company through this unprecedented time. Whilst the company saw no revenue from its stores for one quarter, it recorded an increase in the web sales and store performance since re-opening, whilst significantly down on prior year, has been ahead of expectations. Further details are set out in subsequent events note 20.

Principal risks and uncertainties

The market for the retailing of fashion clothing is fast changing with customer preferences for more diverse, speedier and more convenient shopping journeys and with increasing competition especially in the digital sector. The key business risks for the company are considered to be pressures of an highly competitive and changing retail environment and increased economic uncertainty fuelled by Brexit and coronavirus resulting in inflation and weaker disposable income. The company's operations expose it to a variety of financial risks that include credit risk and foreign currency risk. The company responds to these risks as noted below.

Coronavirus

As with all businesses the company is currently exposed to the risks posed by the coronavirus pandemic, including the risk of decreased store revenue due to potential further lockdowns. The company has performed modelling on the potential financial consequences of the pandemic on our financial performance and position. The company enters this time of uncertainty with a strong cash position, and a number of mitigating actions to preserve cash, as already shown during 2020. (For further details refer to note 20 subsequent events.)

Competitive retail environment

River Island competes with a diverse range of retailers – across both physical and online channels – in an increasingly challenged sector faced with continued pressures, changes in consumer behaviours and macroeconomic uncertainties. Delivering competitive product ranges across all our selling channels with a clear and competitive customer proposition is critical to the business. To mitigate the risk, the company has strengthened the management team over the course of the year, adding product, digital and marketing capabilities. It has also continued to invest in its digital proposition as well as expand with new wholesale partners.

Credit risk

The company's credit risk is primarily attributable to its trade debtors, most of which represents credit card payments and debtors from franchise and wholesale partners. The company regards these as low risk.

RIVER ISLAND CLOTHING CO. LIMITED
STRATEGIC REPORT (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

Brexit

As at the reporting date there are still uncertainties around the terms of Brexit. While Brexit does not create a new principal risk for the company, it does potentially affect some areas such as supply chain, duties and tariffs, and pricing. River Island has established a cross-functional Brexit monitoring group who meet regularly to discuss and assess the potential risks, and report to the board, who review the risk analysis, and respond accordingly. The Brexit monitoring group will continue to assess any future potential risk, and the board will respond as appropriate.

Foreign currency risk

The company is exposed to movements in exchange rates. The company monitors the foreign exchange (FX) market daily and has systems and procedures in place to respond quickly to movements in the FX market, which include entering into forward foreign exchange contracts where appropriate.

Financial Instruments

The company's policy is to hedge currency risk using forward foreign currency contracts. This exposure arises where the company purchases products in different currencies to the selling and local currencies or expects to receive payments for products sold in different currencies to the local currencies.

Key Performance Indicators

The directors monitor company performance on both weekly and periodic (four-weekly) cycles using a wide range of financial and non-financial indicators including turnover, gross profit, operating profit, and store footfall. Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA), individual store performance and a robust approval process on investment are monitored regularly to ensure that the company is maximising the use of its assets.

	2019	2018	Change
	£million	£million	%
Turnover	843.5	877.7	(3.9%)
Gross profit	106.7	107.1	(0.5%)
Operating profit	28.4	42.2	(32.7%)
Depreciation	29.6	29.6	(0.0%)
EBITDA (operating profit plus depreciation)	58.0	71.8	(19.2%)
Stores footfall (m)	32.6	36.1	(9.7%)

Research and Development

The company incurred expenditure of £1.5m (2018: £1.5m) in the field of research and development.

Audit Committee

The River Island Clothing Co board of directors has decided not to establish a separate sub-committee to fulfil the responsibilities of an audit committee as the board is responsible for oversight of the financial reporting process, selection of the independent auditor, and the receipt of audit results both internal and external.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor, BDO LLP, Chartered Accountants, have been appointed in office.

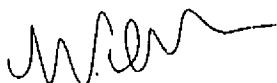
Post balance sheet events

See note 20 for details of events after the balance sheet date.

Approval

This strategic report was approved on behalf of the Board.

Mr W.Cohen
Cavendish Square Secretariat
Chelsea House, West Gate, London, W5 1DR
Company Secretary
18 September 2020
Company registered number: 00636095



RIVER ISLAND CLOTHING CO. LIMITED
DIRECTORS' REPORT
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

The directors submit their report together with the audited financial statements for the 52 weeks ended 28 December 2019.

Directors

The directors who served throughout the year and to the date of this report were as follows:

Bernard Lewis
Clive Lewis
Vanessa Lewis
Benjamin Lewis
William Kernan (appointed October 2019)

Statement of directors' responsibilities in respect of the annual report and financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Disclosure of information to auditor

In so far as the directors are aware there is no relevant audit information of which the company's auditor is unaware and they have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

RIVER ISLAND CLOTHING CO. LIMITED
REPORT OF THE DIRECTORS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

Disabled persons and employee involvement

It is the company's policy to employ disabled persons whenever appropriate and to evaluate employees on the basis of merit. In respect of employee involvement, the company circulates on a regular basis information of interest to all members of staff.

Creditors' payment policy

The company negotiates payment arrangement and other terms and conditions with all its principal suppliers. Payments are made after negotiations in respect of payment period and other terms and conditions other than in the event of a dispute.

Companies Act Requirements

The following items required in the Directors' Report are included in the Company's Strategic Report:

- Financial risk management
- Exposure to credit risk, liquidity risk and other cash flow risks
- Post balance sheet events
- Future developments
- Dividends
- Research and development

Modern Slavery Act 2015

River Island condemns the practice of Modern Slavery. In accordance with the Modern Slavery Act 2015 the group publishes an anti-slavery statement annually on its website.

Indemnity provisions

The company maintains qualifying 3rd party indemnity provisions for its Directors and officers; this was in place for the 52 weeks ended 28 December 2019 and up to the date of approval of the Directors' Report.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the principal activities and business review within the strategic report.

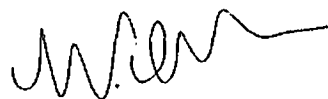
The main financial risks arising from the activities of the company are set out in the strategic report together with the company's policies and processes for managing these risks.

The company acknowledges that coronavirus has led to unprecedented circumstances. However the company has strong cash reserves, and Management has taken steps to protect the cash position.

The company has prepared forecasts which take into account possible changes in trading. These forecasts show that the company will be able to operate within the existing facilities.

The directors have a solid expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The directors therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements for the company.

By order of the board



Mr W.Cohen
Cavendish Square Secretariat
Chelsea House, West Gate, London, W5 1DR
Company Secretary
18 September 2020
Company registered number: 00636095

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RIVER ISLAND CLOTHING CO. LIMITED

Opinion

We have audited the financial statements of River Island Clothing Co. Limited ("the Company") for the 52 weeks ended 28 December 2019 which comprise the Profit and loss account, Statement of comprehensive income, Balance sheet and Statement of changes in equity, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 December 2019 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RIVER ISLAND CLOTHING CO. LIMITED
(Continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of directors' responsibilities in respect of the Annual report, the Strategic report, the Directors' report and the financial statements, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

BDO LLP

Sophia Michael (Senior Statutory Auditor)

for and on behalf of BDO LLP, Statutory Auditor

London, United Kingdom

18 September 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

RIVER ISLAND CLOTHING CO. LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

	Note	2019 £million	2018 £million
Turnover	2	843.5	877.7
Cost of sales		<u>(736.8)</u>	<u>(770.6)</u>
Gross profit		106.7	107.1
Distribution expenses		(20.9)	(20.2)
Administration expenses		<u>(57.4)</u>	<u>(44.7)</u>
Operating profit	3	28.4	42.2
Other interest receivable and similar income		0.3	3.1
Interest payable and similar charges		<u>(0.2)</u>	<u>-</u>
Profit before taxation		28.5	45.3
Tax on profit	6	(6.4)	(8.3)
Profit for the financial year		<u><u>22.1</u></u>	<u><u>37.0</u></u>

All amounts relate to continuing activities.

The notes on pages 11 to 26 form part of these financial statements.

RIVER ISLAND CLOTHING CO. LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

	Note	2019 £million	2018 £million restated
Profit on ordinary activities after taxation		22.1	37.0
Other comprehensive income			
Remeasurement of the net defined benefit asset/(liability)	15	4.2	(7.7)
Effective portion of changes in fair value of cash flow hedges	17	(6.7)	10.6
Income tax on other comprehensive income	12	1.5	0.2
Total comprehensive income for the year		<u>21.1</u>	<u>40.1</u>

The notes on pages 11 to 26 form part of these financial statements.

RIVER ISLAND CLOTHING CO. LIMITED
BALANCE SHEET
AS AT 28 DECEMBER 2019

	Note	28 Dec 2019 £million	29 Dec 2018 £million restated
Fixed assets			
Tangible assets	7	<u>89.4</u>	<u>106.1</u>
Total fixed assets		89.4	106.1
Current assets			
Stock	8	81.0	84.0
Debtors	9	204.7	191.4
Cash at bank and in hand		<u>163.2</u>	<u>127.1</u>
		448.9	402.5
Creditors: amounts falling due within one year	10	<u>(147.5)</u>	<u>(140.2)</u>
Net current assets		301.4	262.3
Total assets less current liabilities		390.8	368.4
Provisions for liabilities	11	(29.1)	(17.6)
Net assets excluding pension liability		361.7	350.8
Pension liability and similar obligations	15	(5.3)	(9.3)
Net assets		356.4	341.5
Capital and reserves			
Called up share capital	13	3.4	3.4
Profit and loss account		359.2	332.7
Cash flow hedge reserve		<u>(6.2)</u>	<u>5.4</u>
Shareholders' funds		356.4	341.5

The financial statements were approved and authorised for issue by the board of directors on 18 September 2020.



William Kernan
Director

Company registered number: 00636095

The notes on pages 11 to 26 form part of these financial statements.

RIVER ISLAND CLOTHING CO. LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

	Share Capital £million	Profit and Loss account £million <i>restated</i>	Cash flow hedge reserve £million <i>restated</i>	Total Equity £million
Balance at 29 December 2018	3.4	332.7	5.4	341.5
Total comprehensive income for the year				
Profit for the year	-	22.1	-	22.1
Other comprehensive income				
Actuarial gains on defined benefit pension schemes	-	4.2	-	4.2
Movement in cash flow hedge	-	-	(6.7)	(6.7)
Taxation on other comprehensive income	-	0.2	1.3	1.5
Reclassified to cost of inventory	-	-	(6.2)	(6.2)
Balance at 28 December 2019	3.4	359.2	(6.2)	356.4

	Share Capital £million	Profit and Loss account £million	Cash flow hedge reserve £million	Total Equity £million
Balance at 30 December 2017	3.4	579.5	(1.3)	581.6
Total comprehensive income for the year				
Profit for the year	-	37.0	-	37.0
Other comprehensive income				
Actuarial losses on defined benefit pension schemes	-	(7.7)	-	(7.7)
Movement in cash flow hedge	-	-	10.6	10.6
Taxation on other comprehensive income	-	0.2	-	0.2
Reclassified to cost of inventory			(3.9)	(3.9)
	3.4	609.0	5.4	617.8
Contributions by and distributions to owners				
Dividends paid	-	(276.3)	-	(276.3)
Balance at 29 December 2018	3.4	332.7	5.4	341.5

The notes on pages 11 to 26 form part of these financial statements.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

1 Accounting policies

Basis of preparation

River Island Clothing Co. Limited is a private company, limited by shares, incorporated, domiciled and registered in England in the UK. The company registration number and registered office are stated in the company information.

The financial statements have been prepared in accordance with the historical cost convention modified to include certain items at fair value. The financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102"). The financial statements are presented in 'sterling'. All amounts have been rounded to the nearest £100k.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities and the company's principal risks and uncertainties, including those arising from the current coronavirus pandemic and government's response to it. Based on the strength of the company's balance sheet and cash reserves (2019: £163.2m, 2018: £127.1m), and its cash projections, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future (which under current UK generally accepted accounting principles means a period of at least 12 months from the date of signing the financial statements). Additionally, following guidelines recently issued by the Financial Reporting Council, the company has applied reverse stress testing on to gauge the effects on its cash projections, were the pandemic to affect the retail industry into the longer term (which guidance makes clear, cannot be discounted). Going concern is reliant on the company's strong cash reserve and balance sheet. Due to the impact on consumer spending and the potential for further lockdowns, revenue has been identified as the key variable on which reverse stress testing has been performed. Under such analysis the directors are confident there is the flexibility to adapt the company's longer term strategy to such circumstances, including scaling its operations appropriately, along with the benefit of the resources referred to in the foregoing. Therefore it is considered appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 28 December 2019.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies.

The company's principal accounting policies are described below:

Cash flow statement

The directors have taken advantage of the exemption in FRS 102 from including a cash flow statement in the financial statements on the grounds that the company's immediate parent undertaking, River Island Holdings Limited includes the company in its consolidated financial statements. The consolidated financial statements of River Island Holdings Limited are prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102) and are available to the public and may be obtained from Companies House.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged to the profit and loss account over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Furniture, fittings and office equipment.	-	10% - 50% straight line
Vehicles and transport	-	25% on written down value or 4% - 33% straight line
Short leasehold property	-	equally over the life of the lease
Capitalised IT software	-	10% - 50% straight line

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

1 Accounting policies (continued)

Impairment of tangible fixed assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date where the company operates and generates taxable income and any adjustment to tax payable.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except:

- (i) the recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- (ii) any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- (iii) where timing differences relate to interests in subsidiaries and the company can control their reversal and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Turnover

Turnover comprises amounts receivable in respect of goods and services supplied to outside customers, net of VAT, returns and a provision made for sales returns, and is attributable to the company's principal activity. *Turnover is recognised when the risks and rewards of owning the goods has passed to the customer, which is generally on the point of sale.* Online, franchise, and wholesale sales are recognised on despatch of the goods to the customer.

Cost of sales

The company classifies all costs involved in getting goods available for sale within cost of sales in the profit and

Prior year comparatives reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net assets.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

1 Accounting policies (continued)

Foreign currency

(a) Functional and presentation currency

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which it operates ('the functional currency').

(b) Transactions and balances

Foreign currency transactions are translated into the company's functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss.

Operating Leases

Rental costs under operating leases are charged to the profit and loss account in equal amounts on a straight line basis over the lease term. The benefits of operating lease incentives are spread on a straight-line basis over the lease term as an integral part of the lease expense.

Where the company has a legal obligation, a dilapidations provision is created on inception of a lease. These provisions are a best estimate of the cost required to return leased properties to their original condition upon termination of the lease. Where the obligation arises from 'wear and tear', the provision is accrued and expensed in profit or loss as the 'wear and tear' occurs.

Leased assets: Lessors

Rental income under operating leases are recognised in the profit and loss account in equal amounts on a straight line basis over the lease term.

Dividends

Equity dividends are recognised when they become legally payable. Final equity dividends are recognised when approved by the shareholders.

Stock

Stock is stated at the lower of cost and net realisable value after making due allowances for any slow-moving or obsolete items. The cost of stock is determined on a weighted average cost basis and includes expenditure incurred in acquiring the stocks, and other costs in bringing them to their existing location and condition.

Pension costs

A defined benefit plan is a post-employment plan other than a defined contribution plan. The company's net obligation in respect of defined benefit plans (and other long term employee benefits) is calculated (separately for each plan) by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods: that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of, the company's obligations. A valuation is performed by a qualified actuary using the projected unit credit method. The company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

1 Accounting policies (continued)

Pension costs (continued)

Changes in the defined benefit liability arising from employer service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in the profit and loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

Other provisions

The company makes provisions for known and anticipated obligations where the company has a present legal obligation or a constructive obligation as a result of past events that can be reliably measured and where it is probable that an outflow of economic benefits will be required to settle the obligation and where a reliable estimate can be made of the best estimate of the obligation at the reporting date.

Where the unavoidable costs as lessee of an operating lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease. This is released over the remaining lease term.

Hedge accounting

The company enters into foreign exchange contracts to manage its exposure to foreign exchange cash flow risk on its foreign transactions. These derivatives are measured at fair value at each reporting date. To the extent the hedge is effective, movements in fair value are recognised in the statement of comprehensive income. Any ineffective portions of those movements are recognised in profit or loss for the period.

Financial assets

Financial assets are measured initially at fair value and subsequently at amortised cost, less any impairment.

Financial liabilities

Financial liabilities are measured initially at transaction price (including transaction costs), and subsequently held at amortised cost. Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than its legal form.

Trade and other debtors / creditors

Trade and other debtors are recognised at transaction price plus attributable transaction costs. Trade and other creditors are recognised initially at transaction price less attributable transaction costs.

Interest receivable and interest payable

Interest receivable and interest payable amounts are recognised in profit and loss as they accrue.

Reserves

The company's reserves are as follows:

- (i) Ordinary share capital reserve represents the nominal value of the shares issued.
- (ii) The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.
- (iii) The cash flow hedge reserve represents the cumulative gains or losses of cash flow hedges.

Critical accounting estimates and judgements

The presentation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates, and management to exercise judgements in applying accounting policies. The directors consider key judgements, and sources of estimation uncertainty in preparing these financial statements to be:-

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

Key judgements

Fixed assets impairment - Factors taken into consideration include economic viability and expected future financial performance of the asset.

Stock provisioning - Factors taken into consideration include seasonality of the stock, current economic environment and historic trade patterns in ensuring that stock recoverability is appropriately estimated.

Sources of estimation uncertainty

Useful economic life of tangible fixed assets - the actual lives of assets and residual value are assessed annually and may vary depending on a number of factors such as product life cycles. Residual value assessments include issues such as future market conditions, the remaining life of the asset, and disposal values.

Onerous lease provision - Factors taken into consideration include estimated rental values of properties and expected shop future financial performance.

Dilapidation provisioning - Factors taken into consideration include dilapidation costs associated with previous store closures, known contractual obligations and current store lease dates.

2 Turnover

An analysis of turnover (which all relates to the company's principal activity) by geographical market is given below:

	2019 Turnover £million	2018 Turnover £million
United Kingdom	749.2	765.6
Rest of World	94.3	112.1
	<u>843.5</u>	<u>877.7</u>

3 Expenses and auditor's remuneration

	2019 £million	2018 £million
Included in the profit are the following		
Depreciation	29.6	29.6
Impairment of fixed assets	2.7	(0.4)
Payments made under operating leases:-		
Land and buildings	67.7	71.6
Hire of equipment	0.7	0.4
Gains on foreign exchange	(9.4)	(14.0)
Interest receivable	(0.3)	(3.1)
Interest payable to group undertakings	-	-
Other interest payable	0.2	-
Total interest payable	<u>0.2</u>	<u>-</u>
Bad debts	1.6	0.4
Onerous lease cost (see note 11)	10.8	4.9
Defined contribution pension cost (see note 15)	5.1	4.3
Loss on sale of tangible fixed assets	<u>0.8</u>	<u>3.2</u>

Auditor's remuneration	2019 £million	2018 £million
Audit of these financial statements	<u>0.2</u>	<u>0.1</u>

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

4 Directors' remuneration and transactions

4.1) Directors emoluments:	2019 £million	2018 £million
Aggregate directors' emoluments during period	1.1	1.1
Highest paid director	<u>0.5</u>	<u>0.5</u>

4.2) Number of directors at the end of the period in pension schemes:	2019 Number	2018 Number
Defined benefit schemes	<u>4</u>	<u>4</u>

5 Staff costs and numbers

5.1) Staff costs	2019 £million	2018 £million
Wages and salaries (excluding directors' emoluments)	153.1	150.9
Social security costs	11.4	11.1
Defined contribution pension costs	<u>5.1</u>	<u>4.3</u>
	<u>169.6</u>	<u>166.3</u>

5.2) Average number of employees during the period:

	2019		2018	
	Full time number	Part time number	Full time number	Part time number
Direct	1,356	5,253	1,538	5,768
Administration	<u>1,825</u>	<u>373</u>	<u>1,815</u>	<u>162</u>
	<u>3,181</u>	<u>5,626</u>	<u>3,353</u>	<u>5,930</u>

A defined benefit pension scheme is operated by the company on behalf of the employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the fund and amounted to £5.1m (2018: £4.3m). Company contributions amounting to £0.3m (2018: £0.3m) were payable to the fund at year end and are included in creditors.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

6 Taxation on profit on ordinary activities

	2019 £million	2018 £million
Current tax		
UK corporation tax at current rates	6.7	10.9
Over provision in respect of previous periods	0.3	(1.6)
Overseas tax	<u>0.1</u>	<u>0.1</u>
Total current tax	7.1	9.4
Deferred tax (see note 12)		
Origination and reversal of timing differences:		
Current period	(0.8)	(1.2)
Under provision in respect of previous periods	<u>0.1</u>	<u>0.1</u>
Movement in deferred tax asset (see note 12)	(0.7)	(1.1)
Total taxation charge on ordinary activities	<u><u>6.4</u></u>	<u><u>8.3</u></u>

The tax assessed for the period differs from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 £million	2018 £million
Profit before taxation	<u><u>28.5</u></u>	<u><u>45.3</u></u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	5.4	8.6
Effects of:		
Income not taxable less expenses not deductible for tax purposes	0.5	1.4
Group relief claimed	(3.6)	(5.4)
Payment for group relief	3.6	5.4
Adjustment to tax charge in respect of previous periods	0.5	(1.5)
Change in tax rates	0.1	(0.1)
R&D tax credit	(0.2)	(0.2)
Overseas tax	<u>0.1</u>	<u>0.1</u>
Total tax charge for the period	<u><u>6.4</u></u>	<u><u>8.3</u></u>

Factors that may affect future tax charges:

The UK corporation tax rate will remain at 19% from 1 April 2020.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

7 Tangible assets

	Short Leasehold property £million	Furniture, fittings & office equipment £million	Vehicles & Transport £million	Capitalised IT Software £million	Total £million
Cost					
Balance at 29 December 2018	21.1	384.8	14.7	50.6	471.2
Additions	0.9	12.8	1.0	2.2	16.9
Disposals	(1.3)	(31.8)	(0.9)	(1.0)	(35.0)
Balance at 28 December 2019	20.7	365.8	14.8	51.8	453.1
Depreciation					
Balance at 29 December 2018	13.3	314.6	10.3	26.9	365.1
Charged for the period	1.4	18.9	1.3	8.0	29.6
Disposals	(1.2)	(31.0)	(0.9)	(0.6)	(33.7)
Impairment	0.4	2.3	-	-	2.7
Balance at 28 December 2019	13.9	304.8	10.7	34.3	363.7
Net book value					
Balance at 28 December 2019	6.8	61.0	4.1	17.5	89.4
Balance at 29 December 2018	7.8	70.2	4.4	23.7	106.1

An impairment has been recognised per management's best estimate of future cash flows of loss making stores. The impairment loss recognised on tangible fixed assets in the period was £2.7m (2018: £0.4m gain) and is included in administrative expenses in the profit and loss account. Assets have been written down to their recoverable amount in line with the accounting policies of the company.

8 Stock

	2019 £million	2018 £million restated
Goods in transit	18.7	20.3
Raw materials and consumables	1.8	3.9
Work in progress	1.7	2.7
Finished goods and goods for resale	58.8	57.1
	<u>81.0</u>	<u>84.0</u>

There is no material difference between the replacement cost of stocks and the amounts stated above.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

9 Debtors	2019 £million	2018 £million restated
<u>Amounts due within one year</u>		
Trade debtors	30.4	28.1
Corporation tax	6.5	6.7
Other debtors	2.8	8.3
Amounts owed by group undertakings	6.5	6.2
Amount owed by parent undertaking	119.8	100.2
Prepayments and accrued income	27.6	27.7
Foreign exchange contracts - cash flow hedge	-	5.4
<u>Amounts due after one year</u>		
Deferred Tax (see note 12)	11.1	8.8
	204.7	191.4

The impairment loss recognised in the company profit and loss for the period in respect of bad and doubtful debtors was £1.6m (2018 £0.4m)

10 Creditors: amounts due within one year	2019 £million	2018 £million restated
Trade creditors	31.8	34.8
Taxation and social security	14.1	12.3
Other creditors	8.0	7.9
Accruals and deferred income	87.4	85.2
Foreign exchange contracts - cash flow hedge	6.2	-
	147.5	140.2

11 Provisions for liabilities

	Dilapidations £million	Onerous Lease £million restated	Total £million
At 29 December 2018	12.0	5.6	17.6
Unwinding of discounted amount	0.1	-	0.1
New provision	0.7	11.2	11.9
Provision release	(0.1)	(0.4)	(0.5)
At 28 December 2019	12.7	16.4	29.1

Dilapidations provisions are expected to be utilised between one and eleven years. Onerous lease provisions will unwind over the next 8 years.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

12 Deferred taxation	2019	2018
	£million	£million
Deferred tax asset at start of period	8.8	7.5
Charge for period	0.9	1.2
Adjustments relating to prior periods	(0.1)	(0.1)
Charged to statement of comprehensive income	1.5	0.2
Deferred tax asset at the end of period	<u>11.1</u>	<u>8.8</u>
Recognised in:		
Debtors: amounts due after one year (see note 9)	<u>11.1</u>	<u>8.8</u>
	<u>11.1</u>	<u>8.8</u>
The closing deferred tax asset is in respect of:		
Accelerated capital allowances	7.0	6.4
Short term timing differences	1.9	1.7
Other timing differences	1.3	(0.9)
Defined benefit scheme pension liability	0.9	1.6
Deferred tax asset at the end of period	<u>11.1</u>	<u>8.8</u>

Deferred taxes at the balance sheet date have been calculated using a tax rate of 17% (2018: 17%). Post year end it has been announced that the tax rate will remain at 19% and the effect of this will be dealt with in the 2020 financial statements.

13 Share capital	2019	2018
	£million	£million
Allotted, called up and fully paid:		
34,000,100 ordinary shares of 10p each	<u>3.4</u>	<u>3.4</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

14 Ultimate parent undertaking

The company is a subsidiary undertaking of River Island Holdings Limited, which is registered in the UK. The ultimate controlling party is RI Group Holdings Limited, registered in Jersey.

River Island Holdings Limited is both the smallest and largest group of which the company is a member and for which publicly available group accounts are prepared.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

15 Pension commitments

The company takes part in the United Kingdom pension arrangements of the Lewis Trust Group as well as its own pension arrangements. The United Kingdom pension schemes currently operated by the two groups of companies are the Chelsea Pension Scheme, a Group Personal Pension (GPP) provided and administered by Aegon, the Government-sponsored National Employment Savings Trust (NEST) scheme, which is the company's auto-enrolment scheme, and the Lewis Trust Group Supplemental Pension Plan (LTGSPP).

The assets of each of the company's pension schemes are held separately from those of the company in funds managed by the pension providers.

Until March 2013, the company operated two trustee-based occupational schemes, the Lewis Trust Group Executive Pension Scheme (LTGEPS) and the Westgate Pension Plan (WPP).

LTGEPS was wound up on 17 January 2017.

WPP was wound up on 11 January 2018.

Before winding up, WPP's value relating to members' defined contribution benefits was either transferred to other defined contribution schemes or paid as members' benefits, and its value relating to members' Guaranteed Minimum Pension (GMP) benefits was transferred to a separate section of LTGSPP, the Westgate GMP Section (WGMP).

Defined contribution schemes

The company pension cost charge for the Chelsea Pension Scheme amounted to £3.9 million (2018: £3.6 million) and the amount of contributions outstanding at the period end was £0.3 million (2018: £0.3 million).

The company's auto-enrolment scheme, the National Employment Savings Trust (NEST), is a trustee-based occupational defined contribution scheme. The pension cost charge for NEST amounted to £1.2 million (2018 : £0.7 million) and the amount of contributions outstanding at the period end was £0.2 million (2018: £0.1 million).

Defined benefits schemes

As mentioned above, LTGSPP now has two sections: the Main Section and the WGMP Section. The Main Section provides benefits based on final pensionable pay. The WGMP Section pays the GMP of former WPP members' benefits earned before April 1997. At any time the Trustee can determine the value of WGMP members' GMP and also the value of contributions of WGMP members whose GMP is not yet in payment. WGMP is therefore a defined benefit section with defined contribution overlay.

The latest actuarial valuation of LTGSPP is as at 01 July 2017. This valuation shows for the Main Section a past service surplus of £0.1m. As a result of the surplus shown by the 2017 Main Section valuation, LTGSPP's Trustee and its Principal Employer agreed on 20 August 2018 a schedule of contributions confirming that the cost of future benefit accrual in the Main Section is to be met from the Main Section surplus and that the Employer is to pay no contributions to the Main Section. This arrangement will be reviewed at the actuarial valuation date, 01 July 2020. The actuarial valuation at 01 July 2017 shows for the WGMP section a deficit of £0.4m.

The Trustee and Principal Employer of the WGMP Section agreed on 20 September 2018 a schedule of contributions incorporating annual employer deficit reduction contributions of £58,000 from 2018 to 2025. The WGMP Section received the second of these contributions in November 2019. The next LTGSPP actuarial valuation due is at 01 July 2020.

Requests for a copy of the actuarial valuation should be sent to the Pensions Administrator, Chelsea House, Westgate, London W5 1DR.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

15 Pension commitments (Continued)

LTGSPP's fund manager is Cavendish Asset Management Ltd (CAM), an associated company of the Main Section's Principal Employer. LTGSPP bears and pays to CAM its own management and safe custody fees. All other costs of SPP are borne and paid by the two sections' Principal Employers.

	2019 £million	2018 £million
<i>Reconciliation of present value of plan liabilities</i>		
At the beginning of the year	70.4	72.3
Current service cost	-	-
Interest cost	1.8	1.7
Actuarial (gains)/losses	6.9	(1.5)
Benefits paid	(2.1)	(2.0)
Net change in DC fund values	0.2	(0.1)
At the end of the year	<u>77.2</u>	<u>70.4</u>
 <i>Composition of plan liabilities</i>		
Schemes wholly or partly funded	<u>77.2</u>	<u>70.4</u>
 <i>Reconciliation of present value of plan assets</i>		
At the beginning of the year	61.1	70.6
Interest income on plan assets	1.5	1.7
Actuarial gains/(losses)	11.1	(9.2)
Contributions by the company	0.1	0.1
Benefits paid	(2.1)	(2.0)
Net change in DC fund values	0.2	(0.1)
At the end of the year	<u>71.9</u>	<u>61.1</u>
 Present value of plan liabilities	 (77.2)	 (70.4)
Fair value of plan assets	<u>71.9</u>	<u>61.1</u>
Net pension scheme liability	<u>(5.3)</u>	<u>(9.3)</u>

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

15 Pension commitments (Continued)

	2019 £million	2018 £million
<i>Amounts recognised in the profit and loss account</i>		
Included in administrative expenses		
Current Service Cost	--	-
Employer contributions	<u>0.1</u>	<u>0.1</u>
	<u>0.1</u>	<u>0.1</u>
Included in interest (payable)/receivable	<u>(0.2)</u>	<u>-</u>
<i>Amounts recognised in statement of comprehensive income</i>		
Experience (gains)/losses arising on scheme liabilities	<u>(4.2)</u>	<u>7.7</u>
	<u>(4.2)</u>	<u>7.7</u>
<i>Composition of plan assets</i>		
Equities	50.3	47.5
Cash & other assets	<u>21.6</u>	<u>13.6</u>
Total plan assets	<u>71.9</u>	<u>61.1</u>
Actual return on plan assets	<u>12.7</u>	<u>(7.5)</u>

For the purposes of these accounts the net pension scheme liability has been calculated using a valuation basis that reflects the yield on fixed-interest and index-linked corporate bonds of equivalent term and currency to the pension scheme's liabilities. This valuation basis does not necessarily reflect the expected return on assets actually held by the pension scheme. The pension scheme's investment strategy, determined by the scheme's trustee, is heavily weighted towards growth assets.

The pension scheme's triennial actuarial valuations determine the funding policy for the scheme. As described earlier in this note, on the valuation basis agreed by the scheme's actuary and trustee, the latest scheme actuarial valuation at 1st July 2017 showed a scheme funding surplus for the Main Section of £0.1m, hence no further contributions are required from the employer for the Main Section. Deficit reduction contributions of £0.1m are payable to the WGMP Section from its Employer for the next 7 years in respect of the WGMP Section's £0.4m deficit shown by the latest actuarial valuation at 1st July 2017.

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE 52 WEEKS ENDED 28 DECEMBER 2019

15 Pension commitments (Continued)

Principal actuarial assumptions used at the balance sheet date

	2019	2018
LTGSPP		
Discount rate	1.8%	2.6%
Future salary increases	2.0%	2.2%
Future pension increases	2.0%	2.2%
Inflation assumption		
- RPI	3.0%	3.2%
- CPI	2.0%	2.2%
Mortality rates		
- For a male aged 65 now	23.9%	23.8%
- At 65 for a male aged 45 now	26.2%	26.1%
- For a female aged 65 now	25.0%	24.9%
- At 65 for a female aged 45 now	27.4%	27.2%

16 Commitments in respect of operating leases

The company's commitments under operating leases relate solely to land and buildings. The minimum lease payments under non-cancellable operating leases are as follows:

Land and buildings	2019	2018
	£million	£million
Operating leases which expire:		
Less than one year	70.4	75.3
Between one and five years	176.3	193.9
More than five years	100.4	119.5
Total commitments	<u>347.1</u>	<u>388.7</u>

During the year £67.7m was recognised as an expense in the profit and loss account in respect of operating leases (2018: £71.6m).

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
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17 Financial Instruments

The company's financial instruments may be analysed as follows:

	2019 £million	2018 £million restated
Financial assets		
Financial assets measured at amortised cost	322.6	269.9
Derivative financial instruments designated as hedges of foreign exchange cash flow risk	-	5.4
	<u> </u>	<u> </u>
Financial liabilities		
Financial liabilities measured at amortised cost	(68.1)	(74.0)
Derivative financial instruments designated as hedges of foreign exchange cash flow risk	(6.2)	-
	<u> </u>	<u> </u>

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors, other debtors and amounts owed by group and parent undertakings.

Financial liabilities measured at amortised cost comprise trade creditors, other creditors, and accruals.

Derivative financial instruments designated as hedges of foreign exchange cash flow risk comprise foreign exchange contracts.

To hedge the potential volatility in future foreign exchange movements, the company has entered into foreign exchange contracts. At the period end the company had entered into contracts totalling £142.0m (2018: £63.3m). Foreign exchange contracts are entered into throughout the period. The fair value of foreign exchange contracts at the period end was £6.2m loss (2018: £5.4m gain). The total change in fair value of foreign exchange contracts was £11.6m loss (2018: £6.7m gain). This was recognised as £1.3m gain in the profit and loss account (2018: Nil), £6.7m loss (2018: £10.6m gain) in the statement of comprehensive income, and £6.2m (2018: 3.9m) was reclassified to inventory.

The company's policy is to hedge currency risk using forward foreign currency contracts. This exposure arises where the company purchases products in different currencies to the selling and local currencies or expects to receive payments for products sold in different currencies to the local currencies.

18 Related party transactions

The company has taken advantage of the exemption allowed by FRS 102, not to disclose transactions with entities that are included in the consolidated financial statements of River Island Holdings Limited on the grounds that 100% of the voting rights in the company are controlled within that group and the company is included within those financial statements.

The company regards key management personnel to be the directors of the company who are named in the company information section of these financial statements.

During the year, the company entered into the following trading transactions with related companies that are not wholly owned subsidiaries.

	2019 £million	2018 £million
Sale of goods and services	<u>0.2</u>	<u>0.1</u>
Purchases of goods and services	<u>4.8</u>	<u>5.7</u>
Amounts owed by related parties	<u>1.3</u>	<u>5.4</u>
Amounts owed to related parties	<u>0.1</u>	<u>-</u>

RIVER ISLAND CLOTHING CO. LIMITED
NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
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19 Prior year reclassification

As at the 2019 year end, the following prior year amounts have been reclassified to be consistent with the current year presentation, and to reflect the balances more appropriately. These reclassifications had no effect on the reported results of operations:

- a) Unredeemed gift cards – A comparative amount of £21.9m was reclassified from trade creditors to accruals and deferred income.
- b) Provision for onerous leases – A comparative amount of £5.6m was reclassified from accruals and deferred income to onerous lease provision within provisions for liabilities.
- c) Shipping costs incurred but not yet invoiced - A comparative amount of £4.3m was reclassified from trade creditors to accruals and deferred income.
- d) Sales returns provision - A comparative amount of £3.0m was reclassified from other creditors to stock.
- e) Deferred tax assets - A comparative amount of £8.8m was reclassified from Debtors: amounts due within one year to Debtors: amounts due after one year.
- f) Cash flow hedge reserve and statement of comprehensive income - A comparative amount of £5.4m was reclassified from profit and loss account to cash flow hedge reserve within equity. In addition to this the disclosure of the net movement in the cash flow hedge reserve of £6.7m has been changed to appropriately reflect the movement as a result of the gross fair value gains (£10.6m) and a subsequent reclassification to the cost of inventory (£3.9m).

20 Subsequent events

In March 2020 the company faced the impact of the global coronavirus pandemic. This resulted in complete closure of all stores for 12 weeks as well as temporary closure of the distribution centre. These events had a material impact on the company's performance. As a result, the directors acted quickly and decisively to manage the company through this unprecedented time.

A number of actions were put in place to preserve cash through this period which included reducing new stock orders, and significant reduction in operating and capital expenditure, to name a few. The company has developed a coronavirus model to monitor the ongoing impact on the business. Further downside sensitivities around the depth of the impact on sales and margin were considered, and reverse stress testing has also been applied to the model to ensure the company has sufficient liquidity to get through the crisis.

Despite the actions taken to mitigate the impact, the significant volatility and business disruption experienced by the company, is expected to reduce the performance in 2020 compared to its expectations. The directors have treated coronavirus as a non adjusting post balance sheet event. As at the date of approval of these financial statements, it is not possible to reliably determine or quantify the impact of the coronavirus pandemic on the company's significant estimates, impairment of property plant and equipment, onerous leases, intangible assets, and recoverability of trade receivables. *Given low visibility, directors continue to evaluate the likely impact on the 2020 financial results..* However, the Board has been encouraged by the recent business performance. Since the stores have re-opened, the company's financial position has been ahead of management expectation due to better than expected trading. Whilst there is still a lot of uncertainty, the directors are satisfied with how the business has managed through the crisis and are now re-focussing on re-building and driving the business forward.