

RIVER ISLAND HOLDINGS LIMITED
STRATEGIC REPORT
FOR THE 53 WEEKS ENDED 31 DECEMBER 2022

The directors submit their annual report and audited financial statements for the 53 weeks ended 31 December 2022.

Results and dividends

The consolidated profit and loss account is set out on page 16, and consolidated statement of comprehensive income is set out on page 17, which show the group's results for the period. The directors did not declare any dividends in 2022 (2021: nil paid).

Principal activities

The group 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 and wholesale agreements with selected partners locally and internationally.

Business review and future developments

Having started the year well, the business subsequently suffered from both falling demand for its fashions and rising stock levels, which affected margins, whilst underlying costs rose. However, despite this, cash control was strong and the business ended the year with substantial cash reserves.

Overall turnover for the year increased by 11.6% to £825.8m (2021:£740.0m), of which the impact of the 53rd week was £22.6m (2021: 52 week period). However, the combination of costs to clear excess stock and cost of goods inflation resulted in a reduction in gross profit to £75.8m (2021:£128.3m). This combined with operating costs inflation led to operating profit reducing to £7.4m (2021:£73.5m) and profit after tax reducing to £5.5m (2021: £62.6m). Profit for the year was not materially affected by the 53rd week during the current period (2021: 52 weeks). For further details, see key performance indicators on page 3. The group continued to operate with strong cash and balance sheet position, closing the year with £110.9m (2021:£159.6m) of cash, and a net assets position of £226.6m (2021: £216.7m). Further details are set out in the balance sheet on page 18.

Following Richard Bradbury's appointment as Executive Chairman at the start of this year, significant changes have been made, which are starting to bear fruit, although this year is planned to be a year of transition. Specifically, product ranges have been refocussed and a new leadership structure has been developed with several new senior hires. The business has invested significantly in shop refits, with some new stores/resites (including the largest store to date in Manchester Trafford) and the digital business and marketing have been reorganised.

Principal risks and uncertainties

The market for retailing of fashion clothing is fast changing with customer preferences for more diverse, convenient and speedier shopping journeys and with increasing competition especially in the digital space. The key business risks for the group are the pressures of a highly competitive and changing retail environment combined with increased economic uncertainty. Geopolitical events such as the Russia - Ukraine conflict and effects of the coronavirus pandemic have resulted in continuing supply chain disruption as well as energy, labour and food price increases, driving inflation higher and resulting in weaker disposable income and lower consumer confidence. Inflation and interest rate increases have also adversely impacted foreign exchange rates. The group is exposed to a variety of risks including financial, operational, strategic and reputational risks. The group responds to these risks as follows.

Principal risks and uncertainties (continued)

Competitive retail environment

The group 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 behaviour and macroeconomic uncertainties. Delivering competitive product ranges across all our selling channels with a clear and competitive customer proposition is critical to the business.

Financial

The main financial risks the group is exposed to are credit risk from its trade debtors, most of which represents credit card payments and debtors from franchise and wholesale partners and foreign currency risk on movements in exchange rates.

People

Our people are the key to our success. Challenges in attracting, developing and retaining a diverse talent base across our business may impede the delivery of our strategy and impact our broader strategic objectives and performance.

Information security

As a retailer reliant on digital technology to run our operations and trusted with customer and employee data, we are aware of the constantly evolving threats to cybersecurity. Failure to adequately prevent or respond to a data breach or cyber-attack could adversely impact our reputation and lead to significant fines and business interruption.

Social, ethical and environmental responsibility

River Island is mindful of the impact its operations and those of the fashion industry can have on the planet and people and we are committed to playing our part in making fashion a force for good. If we do not effectively manage sustainability and environmental issues and fail to deliver against our commitments, we fail to meet the expectations our stakeholders have of the River Island brand.

To mitigate the risk, the group has:

- Continued to strengthen the management team, adding product and digital capabilities.
- Continued to invest in both its digital and store propositions including new store formats and trialling self-checkout.
- Diversified its customer base geographically with international wholesale partners and e-commerce marketplace partners as well as developing newer product categories such as beauty.

To mitigate these risks, the group:

- Monitors payment terms and partner relationships.
- Has credit insurance in place for certain partners.
- 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.

To mitigate these risks, the group has:

- Continued to invest in external hires to strengthen capability and diversity of talent at all levels.
- Invested in internal talent to strengthen the leadership pipeline and develop our future leaders.
- An ongoing review of remuneration and benefits including the introduction of cost of living support packages across stores and head office.

To mitigate the risk, the group has:

- A dedicated Information Security function and ongoing review of cyber controls.
- Established governance forums such as our GDPR Steering Committee.
- Established business continuity and disaster recovery plans.
- Firewalls in place and various types of vulnerability scanning and penetration testing carried out, using external expertise where appropriate to supplement our in-house capabilities.

To mitigate the risk, the group has:

- Established Twelve Commitments for People and Planet which are aligned to the United Nations Sustainable Development Goals against which we measure our progress and publish updates.
- Developed plans and introduced tools to continue increasing transparency in our global supply chain, promoting ethical treatment of workers and improving the sustainable attributes of our products.
- Committed to the British Retail Consortium's Climate Roadmap to net-zero emissions by 2040, in owned operations as well as the entire supply chain. Engaged The Carbon Trust to support us in developing a roadmap to achieve this target.
- Trialled and launched initiatives such as our Takeback scheme and used garment resale in partnership with Reskinned Resources Limited.

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Principal risks and uncertainties (continued)

Brexit

Following the UK's exit from the European Union (EU) the business needs to manage new challenges and complexities related to trading with the EU. In addition, a number of uncertainties still remain which may continue to affect some elements of our supply chain, cost base in terms of duties, tariffs and additional administration.

To mitigate these risks, the group has:

- Subject matter experts across the business monitoring changes related to Brexit and developing appropriate responses.
- Plans to further update systems and processes linked to VAT, customs duties and tariffs.
- Continued to actively work with government and industry bodies to drive a simpler customs and exports process.

Legal and regulatory compliance

We recognise that there are a wide range of legal and regulatory requirements that we must comply with to protect our customers, people, product and operations. The regulatory landscape continues to broaden and if we do not manage compliance to these requirements effectively, we may suffer reputational damage, financial penalties, increased costs to remediate issues and even prosecution.

To mitigate these risks, the group has:

- Appropriately qualified and experienced in-house capabilities including Fire, Health and Safety, Product Compliance, Ethical Sourcing, Legal, Retail Risk, Tax, and Internal Audit teams.
- Established governance forums in place with senior management representation such as Fire, Health and Safety Leadership Group and GDPR Steering Committee.
- Continued to review and update policies as appropriate, supplemented by mandatory training for our staff on key risk areas.

Key performance indicators

The directors monitor group 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 and tracking process on investment are monitored regularly to ensure that the group is maximising the use of its assets.

	2022	2021	<i>Change</i>
	£million	£million	%
Turnover	825.8	740.0	<i>11.6%</i>
Gross profit	75.8	128.3	<i>(40.9%)</i>
Operating profit	7.4	73.5	<i>(89.9%)</i>
Depreciation and amortisation	19.2	21.3	<i>(9.9%)</i>
EBITDA (operating profit plus depreciation and amortisation)	26.6	94.8	<i>(71.9%)</i>
Store footfall (m)	107.4	47.3	<i>127.1%</i>
Intensity Metric (Gross emissions) tCO2e/ Gross Sales Area 1000 m2	39.6	44.6	<i>(11.2%)</i>

Research and development

The group incurred expenditure of £1.0m (2021: £1.0m) in the field of research and development in relation to IT software.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed, and BDO LLP will therefore continue in office.

Post balance sheet events

There are no material post balance sheet events as at the date of signature.

Going concern

For further details, see going concern section of directors' report on page 9.

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Section 172(1) Statement

This report sets out how the board of River Island Holdings Limited complies with the requirements of the section 172 of the Companies Acts 2006 (the “Act” and “s172”) and how it engages with stakeholders.

S172 of the Act requires directors to take into consideration the interests of stakeholders and other matters in their decision making. The directors of the group continue to have regard to the interests of the group's employees and other stakeholders, such as customers and suppliers, and the impact of its activities on the community, the environment, and the group's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly, the directors consider what is most likely to promote the success of the group for its members in the long term. The directors understand the need to regularly review the identity of key stakeholder groups.

The directors are fully aware of their responsibilities to promote the success of the group in accordance with s172 of the Act and the company secretary ensures sufficient consideration is given to issues relating to matters set out in s172(a)-(f).

As the business emerged from the COVID-19 pandemic through 2022, it did so in a new economic climate as a result of unprecedented geo-political developments, which brought significant challenges to the business, its employees, and its network of suppliers, customers and stakeholders. The board acknowledges its responsibilities as a trusted employer, customer, and business operator and makes decisions to ensure the long term interests and successes of its partners and stakeholders are a priority. The board places a high standard on itself to operate the business in such a way that it can remain a sustainable long-term going concern, a conscientious employer, a responsible and considerate member of the global community, and a valuable partner to the wider group of stakeholders it works with.

Principal decisions

The River Island board works closely with the company executives on the Operating Board to ensure that all decisions made are in the best interest of the group and its stakeholders. The board considers its principal decisions to be those that have a significant long-term implications for the group and its stakeholders. The principal decisions taken by the board in the financial year were:

- Appointment of a new Executive Chairman, Richard Bradbury (effective 1 January 2023).
- Approval of cost of living support package provided to all employees to help deal with the impact of the cost of living inflation.

Shareholders

As a family-owned private business, the River Island board includes members of the shareholding family who meet regularly to ensure that the business operates in a transparent and responsible manner, which underpins its long-term sustainability. The shareholders bring generations of knowledge and experience to support the group's decision making on strategy and future development of the River Island brand.

In addition to meetings of the board, and to ensure there is a clear line of communication between the business and business owners, regular meetings and dialogue take place between individual shareholders and the group's executives as well as independent advisors. The Chairman also hosts periodic shareholder updates and invites all shareholders to participate. These cover the group's financial performance, strategic direction, investment decisions and product, and questions are invited for discussion.

Section 172(1) Statement (continued)

Employees

Employees are a key foundation of the group and are recognised as its most important asset. Employees' interests include a positive working environment, health and well-being, investment in training and development, inclusivity and diversity, and open, honest communications.

During the year, the group launched a number of new initiatives in order to support employees and enhance the benefits offered. To help with the cost of living pressure, the group launched a support package including cash payments, free food and sanitary products for all staff. Family benefits, including maternity and paternity leave, were increased and new ones added. A new reward gateway was launched offering flexible benefits and various discounts.

Further details of how the directors have engaged with employees and taken their interests into consideration can be found in the 'Engagement with employees' section of the directors' report on pages 9 to 10.

Customers

Customers sit at the heart of the business and delivering excellent product and service, wherever they shop, is paramount. Directors actively engage with the customers through a number of channels including stores, social media and direct interviews to better understand their needs and concerns. Feedback received by the customer contact centre is regularly reported and reviewed. Executive directors provide updates to the board on customer perceptions and the market sentiment.

The interests of customers are considered in all key decisions, including store portfolio changes, product range development, selection and monitoring of suppliers to ensure quality and safety standards are met, sustainability goals and environmental concerns, amongst many others.

During 2022, a new store concept was trialled across a number of locations, with improved product presentation and ranging, as well as self-check out tills, enabling customers an easier in store experience.

Communities

Being a socially responsible business and creating a positive impact on all the communities it operates in has always been an integral part of the group's culture.

As a fashion business, the group is mindful of its impact on the communities it operates in. They and the wider public expect it to act as a responsible company and neighbour, and to minimise any adverse impact on local communities and the environment. Interests of all the communities have helped to shape the work on sustainability strategy over the year.

Suppliers and partners

Strong relationships and engagement with suppliers and partners are fundamental to the success of the business. The group is proud of its relationships with these stakeholder groups, the majority of which are long-term.

The group's suppliers' and partners' interests include the long-term success of River Island, fair terms, long term partnerships and ethical conduct. The group shares its strategic priorities with its suppliers and partners through regular dialogue and events. It has a strong and productive working relationship with its wholesale and franchise partners, underpinned by clear commercial agreements. The group works collaboratively with all its partners to deliver outcomes in the best interest of both parties. A large number of its supplier relationships span a number of years. The group reports on and regularly assesses the results of its Payment Practises Reporting and reviews the terms in place to ensure they remain fair. It also offers access to supply chain finance programme via a third party platform for suppliers looking for the option of faster payments.

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Section 172(1) Statement (continued)

Government authorities/agencies

The group manages its tax affairs responsibly and proactively to comply with tax legislation. The group's policy is to engage with HMRC constructively, honestly and in a timely and professional manner, and the group seeks to resolve disputed matters through active and transparent engagement. Engagement with HMRC is led by the group's tax team of qualified tax professionals. The group finance director provides regular updates to the board on tax matters, and the board annually approve a Tax Strategy paper which is published on the group's website.

Corporate governance statement

The group has always recognised the importance of having strong values, purpose, and an approach to corporate governance that will support and enhance its business and goals, and its approach to doing business in the right way.

The group has carefully considered the fundamental principles of corporate governance for private business and although the group does not comply with a formal code, is satisfied that its existing approach to all areas of the business are covered by its current business practices. For this reason, the group will continue to operate in the way it has always done, in a fair and equitable way, that places emphasis on the importance of its people and its partnerships with suppliers, customers and its community.

Purpose and leadership

Business strategy is regularly reviewed at board level, providing an overview of strategy at a channel, divisional and wider business level. Consistent two-way feedback is facilitated between the executive board and the operating board, with direction on board expectations and bottom-up feedback on the execution of group strategy and performance.

Extensive work is being undertaken to develop clearly articulated values and a clear people promise, defined and reviewed in line with the strategy. All brand value and core strategic work is presented to the main board and explored in detail at that level. Clear view of the customer provides direction for merchandise planning, design and marketing.

Board composition

The main board is made up of senior executives, family members/shareholders and independent advisors providing the business with extensive knowledge and skills across a range of business areas. Below the main board is an operating board, formed of senior executives and leaders across the key divisions of the business.

The resignation of the CEO of the business in November 2022 led to a review of senior reporting lines, board structure and long-term custodianship of the business. The appointment of Richard Bradbury as Executive Chairman brings a new dimension to the senior leadership team and will assist in the evolution of its management and leadership. This change occurred at the end of the reporting period and the board expects a lot of work to be undertaken in the coming year on ensuring the most effective structure of its leadership team is in place for the future success of the business.

Director responsibilities

These are detailed in the directors' report on page 8 of the group's annual report.

Opportunity and risk

Business strategy is regularly reviewed at board level, providing an overview of the current plans and future business opportunities, as well as any risks which are being actively mitigated and managed or may be encountered in the future.

The corporate risk register and framework is owned and updated by the internal audit and risk function, with input from the board and all business functions. Financial risk is regularly monitored and reported to the board. This looks at risks to trade, trading environment, financial performance, margins, product performance, profit, and free cash flow.

Extensive resources have been put into health and safety to develop initiatives and measures designed to protect the business, its staff, and customers.

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Corporate governance statement (continued)

Remuneration

The directors develop and maintain the remuneration policy, which is monitored and operated by the Chief People Officer and the HR team. The policy is designed to attract and retain the best talent across the organisation and comprises of both fixed and variable elements, with the latter linked to delivery of corporate targets. Remuneration is regularly benchmarked both internally and externally to ensure it remains sufficiently competitive.

Stakeholder relationships and engagement

The board is committed to effective communication and engagement with its stakeholders. This is detailed in the s172 report on pages 4 to 6.

Audit committee

The River Island Holdings Limited 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.

Approval

This strategic report was approved on behalf of the board.

Mr W. Cohen
for and on behalf of Cavendish Square Secretariat
Seymour Mews House, 26-37 Seymour Mews, London, W1H 6BN
Company Secretary
27 September 2023
Company registered number: 09337472