



# 2014

Annual report  
and accounts

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## About us

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**Carpetright plc is a floor coverings and beds retailer, trading from 614 stores organised across two geographical segments, the UK and the Rest of Europe (comprising the Netherlands, Belgium and the Republic of Ireland).**

## Our objectives

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**The Group's key business objective is to be a leading European retailer of floor coverings and beds, offering a comprehensive range of products at the keenest prices, supported by excellent customer service.**

**The primary financial objective of the Group is to deliver long-term sustainable growth in earnings per share and cash flow.**

See 'Group at a glance' on page 2.

For more information visit [www.carpetright.plc.uk](http://www.carpetright.plc.uk)

## Strategic report

# Financial highlights

The Directors present their Annual Report to the shareholders together with the audited financial statements for the financial year ended 26 April 2014. This report describes the results and activity for the period, trends and factors affecting the development, position and performance of the business.

## Strategic report

### Overview

About us/Our objectives	IFC
Financial highlights	1
Group at a glance	2
Chairman's statement	3

### Strategy

Our business model and strategy	4
Our markets and trends	6
Measuring our performance	7
Operating review	8

### Performance

Financial review	10
Risk management	14
Principal risks and uncertainties	15
Corporate responsibility	17

## Directors' report

Board of Directors	19
Corporate governance	20
Audit Committee report	23
Directors' remuneration report	27
Other information	44

## Financial statements

Financial statements	48
Notes to the Financial statements	52
Group five-year financial summary	83
Independent auditors' report	84

## Shareholder information

Calendar	89
Advisers	89

## Financial highlights

	52 weeks ended 26 April 2014	52 weeks ended 27 April 2013	Change
Revenue	£447.7m	£457.6m	(2.2%)
Underlying profit before tax <sup>1</sup>	£4.6m	£9.7m	(52.6%)
Profit/(loss) before tax	(£7.2m)	(£5.1m)	
Underlying earnings per share <sup>1</sup>	4.7p	9.6p	(51.0%)
Basic earnings/(loss) per share	(5.3p)	(9.8p)	
Dividend per share	Nil	Nil	
Operating cash flow	£11.3m	£17.4m	(£6.1m)

1. Where this report makes reference to 'Underlying', these relate to profit/earnings before exceptional items.

Strategic report continued

## Group at a glance

<b>Over 3,000 People</b>	<b>Store portfolio at 26 April 2014</b>		
	<b>UK</b>	Sites	'000 Sq ft
<b>4 Countries</b>	Standalone	457	4,039
	Concessions	15	27
<b>614 Stores</b>	<b>Total</b>	<b>472</b>	<b>4,066</b>
	<b>Rest of Europe</b>		
		Sites	'000 Sq ft
	Netherlands	95	1,104
	Belgium	25	298
	Republic of Ireland	22	162
	<b>Total</b>	<b>142</b>	<b>1,564</b>
	<b>Group total</b>	<b>614</b>	<b>5,630</b>

## Regional performance

<b>UK</b>	52 weeks ended 26 April 2014	52 weeks ended 27 April 2013	Year on Year
Revenue	375.8	381.6	(1.5%)
Like-for-like <sup>1</sup>	(0.2%)	2.2%	
Underlying operating profit	10.7	10.9	(1.8%)
Trading space '000 sq ft	4,066	4,153	(2.1%)
Number of stores	472	478	(1.3%)
Number of people	2,606	2,663	(2.1%)

## Rest of Europe

Revenue	71.9	76.0	(5.4%)
Like-for-like <sup>1</sup>	(8.6%)	(11.0%)	
Underlying operating profit/(loss)	(3.8)	0.5	
Trading space '000 sq ft	1,564	1,566	(0.1%)
Number of stores	142	142	Level
Number of people	587	617	(4.9%)

1. Like-for-like sales growth – calculated as this year's net sales divided by last year's net sales for all stores that are at least 12 months old at the beginning of our financial year. Stores closed during the year are excluded from both years. No account is taken of changes to store size or the introduction of third party concessions. Sales from insurance and housebuilders' contracts are supplied through the stores and included in their figures.





## Chairman's statement

“I am extremely proud to have led the team which developed Carpetright into one of Europe's leading specialist floor covering retailers. I am confident the Company will be led successfully by Wilf Walsh, as I reduce my day-to-day involvement in the business. I wish him and all my colleagues every future success.”

### Overview

While indicators point to an overall improvement in UK economic performance over the past twelve months, it has been a challenging time for the Group with our markets remaining highly competitive and deal-driven.

In the first half of the year, we reported that like-for-like sales in the UK were down and although we delivered a small improvement in this key metric in the second half, we had expected to see a stronger recovery as UK housing transaction volumes improved. Thus far, the improvement has yet to translate into incremental sales growth to any great extent.

The performance of our business in the Rest of Europe is principally a reflection of the continued difficult trading in the Netherlands. However, whilst this business reported a loss for the year, it remained cash generative.

As shareholders will be aware, I will be 72 later this year and have been planning a managed handover of my responsibilities for some time. Subsequent to the year end, the Group confirmed its management succession plans, with the appointment of a new Chief Executive and a number of other Board changes. These important developments are discussed in detail below.

### Earnings and dividend

Total revenue for the 52 weeks ended 26 April 2014 decreased by 2.2% to £447.7m (2013: £457.6m). Underlying profit before tax decreased by 52.6% to £4.6m (2013: £9.7m). After the impact of exceptional items, the loss before tax was £7.2m (2013: £5.1m loss). Underlying earnings per share decreased to 4.7p (2013: 9.6p) and basic loss per share was 5.3p (2013: 9.8p loss).

The Board feels it is important to see a sustained recovery in the financial results of the Group before restoring the dividend and will continue to review this on a biannual basis.

### People

The backbone of the business and key to Carpetright's future success will be the very best ranges at competitive prices, backed by the quality of our customer service. On behalf of the Board, I would like to thank all colleagues across stores, distribution centres and support offices for their continuing hard work and commitment in what has been a difficult year.

### Board

In October 2013, Darren Shapland stepped down from his role as Chief Executive. At that time I became full time Executive Chairman until such time as a new Chief Executive could be appointed, with Graham Harris joining the Board as Chief Operating Officer to assist me during this transitional period.

As recently announced, I am delighted that Wilf Walsh has been appointed Chief Executive, effective from 21 July 2014. He has strong retail and online credentials alongside a successful track record in managing multi-site consumer-facing businesses.

Once Wilf is in post, I will become Non-Executive Chairman until such time as a new Chairman has been appointed. I may remain on the Board in a non-executive capacity following the appointment of a new Chairman.

Once we had appointed our new Chief Executive, the transitional role of Chief Operating Officer was no longer needed. Accordingly, Graham Harris stepped down from this role and his position on the Board in May 2014.

In addition, Martin Harris, currently Group Development Director, has informed the Board that he will step down from his post at the AGM in September. Martin first joined the business in 1991 and believes now is the appropriate time to pursue other business opportunities.

Alan Dickinson has also decided not to seek re-election at the Annual General Meeting.

I would like to thank Darren, Graham, Martin and Alan for their respective contributions to the Group and wish them well for the future.

Baroness Noakes will be leading the search for a new Chairman and, once concluded, will step down from the Board. She has made a tremendous contribution to the Company over the years and I thank her for her efforts and sage advice.

It has been an incredible journey from opening the first store in Canning Town in 1988, through the stock market flotation in 1993, expansion into Europe in 2002, to make Carpetright a true market leader. I am extremely proud to have led the team which developed Carpetright into one of Europe's leading specialist floor covering retailers. I am confident the Company will be led successfully by Wilf Walsh, as I reduce my day-to-day involvement in the business. I wish him and all my colleagues every future success.

### Lord Harris of Peckham

Executive Chairman

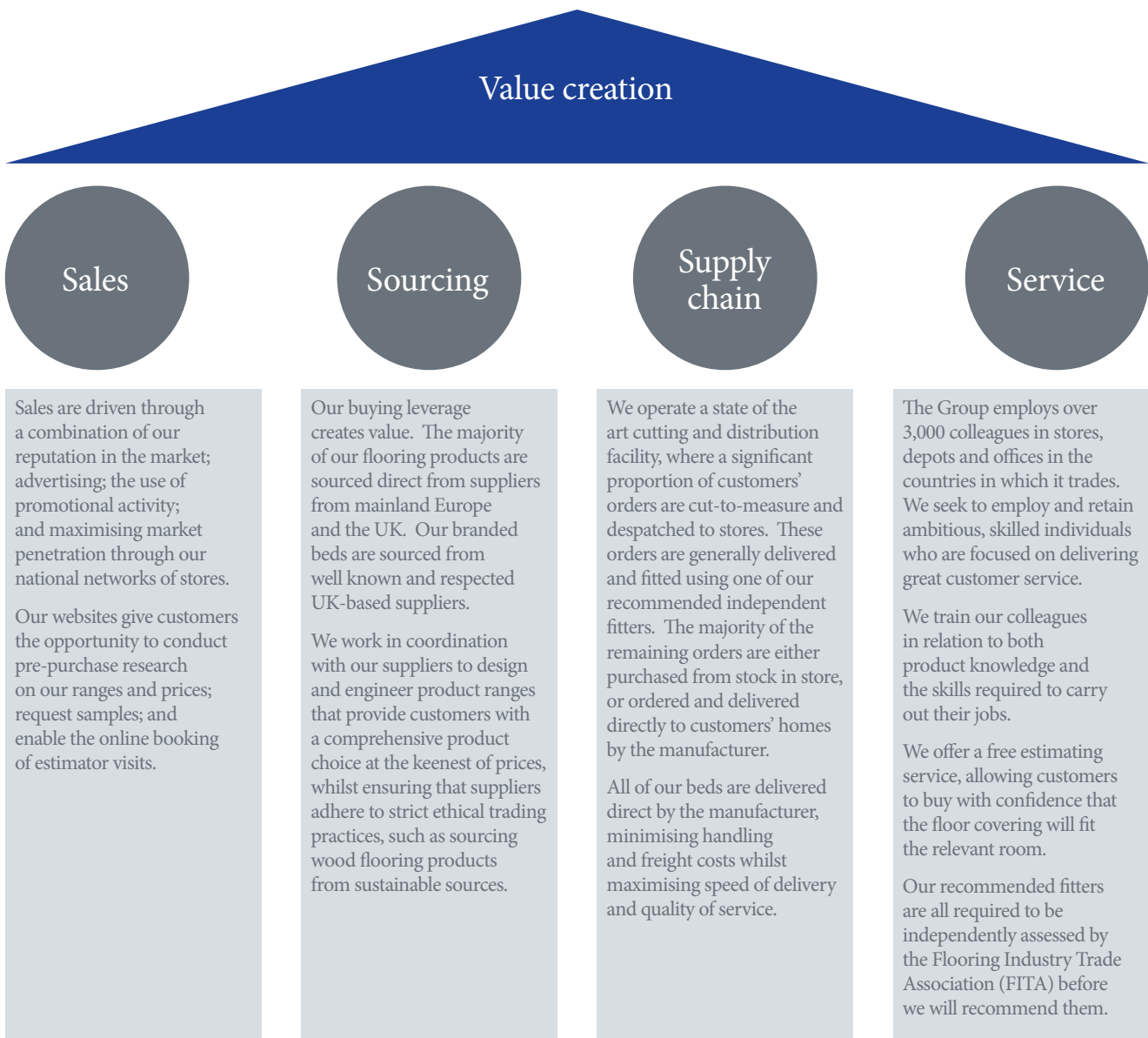
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Strategic report continued

## Our business model and strategy

### Our business model

As a retailer, Carpetright generates profit from the combination of driving top line sales volumes; optimising low cost sourcing; maintaining an efficient supply chain; and providing our customers with excellent service. This is delivered across a national network of stores in each of the countries we operate, supported by country-specific transactional websites. The size of our operation means that we leverage advantages of scale and spread the cost of our back office functions.



## Our strategy

### Our strategy

In order to deliver our objectives we have focussed on initiatives to improve our sales and manage our fixed property costs.

### Modernising the estate

We are part way through a programme of refurbishing the UK store estate, introducing an updated store design with a newer, more contemporary, feel. These modernisations are standardised around three operational formats, which are differentiated by means of store size, typically 8,000 to 10,000 sq ft, 4,000 to 8,000 sq ft and up to 4,000 sq ft.

### Adjusting the store portfolio

We wish to be represented nationally within the UK and in our chosen markets in Europe. Where we have more space than we require we are, where practicable, taking steps to reduce the size of our store estate, either in number of stores or by moving to smaller locations.

We also take advantage of opportunities at, or towards, the end of a lease period to secure lower property costs in future years.

There are areas in the UK where there are opportunities to open stores where we are under-represented. We target these areas, following a process to ensure that we are not cannibalising trade from existing stores.

### Optimising digital as part of a multi-channel offering

We are investing in developing our websites to drive online sales and sales leads, by customers being able to arrange a free estimate and requesting free carpet samples. We continue to focus on improving the customer journey and increasing conversion rates from initial enquiries.

### Developing our bed proposition

The sale of beds provides an important complementary revenue stream in our UK business. We have a broad in-store range and an expanded online range with a variety of mattress, frame and storage options. We continue to refresh the layout and design of our in-store bed departments as part of our store modernisation programme, making them a softer, more engaging environment and differentiating them from the space dedicated to floor coverings.



Strategic report continued

## Our markets and trends

### Our markets and trends

The past five years have been especially challenging for the floor coverings sector in the UK, with near stagnant housing markets, fragile consumer confidence and shoppers deferring big ticket purchases. These factors combined have had a significant impact, with consumer spend in this market contracting almost 30%.

Our market is highly fragmented, with approximately 4,000 floor covering businesses. Current estimates place the UK market at £1.7bn per annum for the calendar year to December 2013, placing ourselves as the market leader with a share of around 25%.

Historically, trends in UK housing transactions and mortgage approvals have been useful lead indicators of consumer demand in our sector, bearing a positive correlation with floor covering sales. Both of these indicators have shown signs of improvement, albeit from a low base.

The nature of our product means that the vast majority of customers prefer to visit a store to make their purchase, to give them the opportunity to see and touch their choice of floor covering. However, the internet is playing an ever-increasing role in pre-purchase behaviour, becoming a vital research tool for many customers, and the rapid growth of smart phone and tablet use also underlines the importance of having an effective and integrated digital proposition.

Within our operations in the Rest of Europe, the businesses in the Netherlands and Belgium have faced tough trading conditions. Since 2011, there has been a prolonged period of consumer uncertainty, a weak economic environment and the impact of government austerity measures.

In the Republic of Ireland, the downturn in consumer demand was severe in the period from 2007 to 2010. Although there have been some positive indicators of an improvement in the economy, it is yet to materialise into any significant change in consumer demand in our sector.

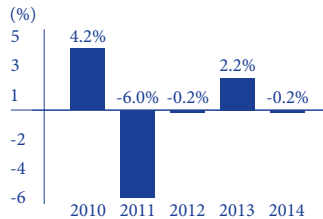
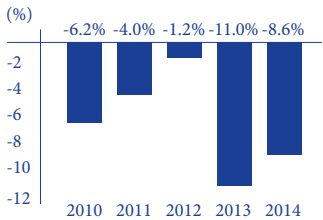
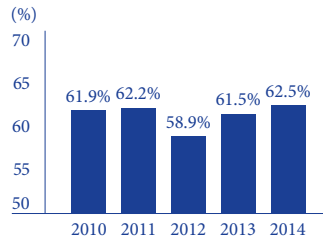
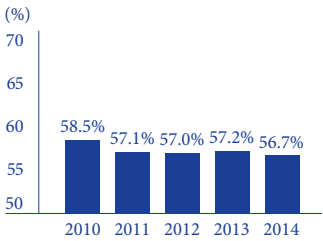
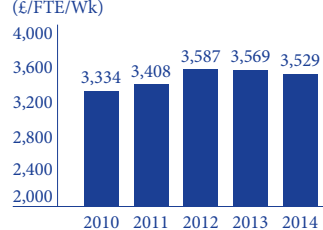
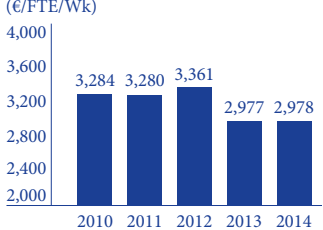
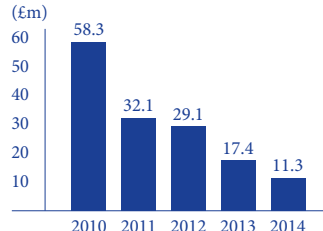
In our UK business, beds provide an important complementary revenue stream to our core floor coverings offer and we believe this category has significant further growth potential. The total beds and bedding market is estimated at £3.2bn and our market penetration, whilst low, is growing steadily as we establish our credentials in this competitive sector.





## Measuring our performance

The Board of Directors and executive management receive a wide range of management information delivered in a timely manner. Listed below are the principal measures that are reviewed on a regular basis to monitor the performance of the Group.

Definition	Rationale	Performance
<p><b>Like-for-like sales % growth (LFL)</b></p> <p>Calculated as this year's net sales divided by last year's net sales for all stores that are at least 12 months old at the beginning of the financial year. Stores closed during the year are excluded from both years (calculated in local currency).</p>	<p>Maximising our like-for-like sales opportunities drives cash inflow. This KPI also measures the health of our core retail estate and reflects customer reaction to our products, proposition and price.</p>	<p><b>UK</b></p>  <p><b>Rest of Europe</b></p> 
<p><b>Gross profit percentage</b></p> <p>Gross profit as a percentage of net sales (calculated in local currency).</p>	<p>Gross profit is an important indicator of the Group's financial performance. It reflects our ability to source effectively, run an efficient supply chain, and promote and deliver the correct mix of products to maximise cash margin.</p>	<p><b>UK</b></p>  <p><b>Rest of Europe</b></p> 
<p><b>Store colleague productivity</b></p> <p>Productivity is calculated as gross turnover per colleague, per store, per week.</p>	<p>Productivity is used as a measure in order to determine whether the colleague levels are appropriate and whether they need to be increased or reduced accordingly.</p>	<p><b>UK</b></p>  <p><b>Rest of Europe</b></p> 
<p><b>Operating cash flow</b></p> <p>This measure is determined by taking underlying operating profit and adding back non-cash items and any movements in working capital.</p>	<p>The Group's ability to finance its future investment, pay corporation taxes, pay interest on its borrowings and make returns to shareholders is aided by strong cash flows from its operations.</p>	<p><b>Group</b></p> 

## Strategic report continued

# Operating review

### Operating review

The Group's underlying profits declined in the year, with the Rest of Europe reporting a loss, reflecting the continuation of extremely difficult trading conditions in the Netherlands. The performance of the UK business was characterised by significant sales volatility throughout the year, resulting in a small decrease in reported profit (details of the financial performance can be found on pages 10 to 13).

In August 2013, the Office of Fair Trading (OFT) announced that it was investigating the pricing practices of a number of retailers, including ourselves. No action was taken by the OFT, which closed its investigation in March 2014. We are pleased the OFT publicly welcomed Carpetright's commitment to open and transparent pricing.

The Group performance was supported by the implementation of our strategy as set out on page 5.

### Modernising the estate

We are part way through a programme of refurbishing the UK store estate, introducing an updated store design, with a newer, more contemporary, feel in which it is easier for customers to shop. This has involved improving natural light, updating signage, developing new layouts, replacing floor coverings and upgrading in-store lighting.

During the year we modernised a further 89 stores, making a total of 275 stores now completed, being 58% of the estate. Within this programme, we trialled a 'sample only' smaller store format, with extended ranges of roll stock samples, a special 'smooth flooring area' and the introduction of premium branded carpets. The post-refurbishment sales uplifts are highest in these smaller stores and this will be reflected in the remainder of the programme, with opportunities for 'sample only' stores being prioritised.

As previously announced, following the success of the UK modernisation plan, we have a similar refurbishment programme in the Rest of Europe to adapt to changing customer preferences. We now have a total of 33 completed to date.

### Adjusting the store portfolio

At the end of April 2014 we had 472 stores trading in the UK and during the year we opened 13 stores and closed 19. This net reduction is primarily the result of implementing the plan from our catchment analysis work which identified a small number of overlaps, where having more than one store in a town was not beneficial to profit or cash flow. In the past 12 months we have negotiated exits from seven locations where we had onerous leases, removing us from all future liabilities.

We continue to take a robust view at lease renewal, which provides an opportunity to secure lower rental cost for future years. In the year we achieved an average rent reduction at lease renewal of over 19%. Within the next five years 21% of the estate has lease renewals scheduled, with the average length of lease as at April 2014 falling to 7.7 years (2013: 8.3 years).

In the Rest of Europe we had 142 stores trading as at the end of April 2014, with one opening and one closure in the year. In line with the UK activity, discussions are being held with landlords in respect of lease renewals, which is delivering rental reductions. The potential to secure reductions is generally dictated by the average length of lease remaining, with this being 3.2 years in the Netherlands and 1.6 in Belgium. In the Republic of Ireland this is 11.2 years, reflecting the agreement of long-term deals during the expansion into this market in the period from 2001 to 2008.

Across the Group, we have taken opportunities to reduce our store size and we now have 105 stores operating as 'sample only' with a small takeaway range format, which has the benefit of lower operating costs without negatively affecting customer choice. This format is allowing us to reduce fixed occupancy costs by either sub-letting or handing back space to the landlord, hence benefiting profitability.

### Optimising digital as part of a multi-channel offering

Our UK customer research indicates that the nature of our product means that the vast majority of customers prefer to visit a store to make their purchase, to give them the opportunity to see and touch their choice of floor covering. However, the internet has become a vital research tool for many customers and the rapid growth of smart phone and tablet use has made an effective and integrated multi-channel proposition a necessity.

We have continued to develop our website to improve the customer experience and drive sales. One specific improvement has been the re-launch of the bed section in September 2013, with significantly enhanced navigation filters. We have been encouraged by the increased visitor numbers and subsequent sales growth this has produced.

In the second half of the financial year, on a weekly basis we were achieving an average of over 98,000 unique visitors to our website, a 15% increase on the same period last year, and this has produced a corresponding increase in appointment leads and sample requests. Some of the increase is attributable to an enhanced search engine optimisation programme and increased investment in pay-per-click. We have also continued to focus on improving our conversion to sales ratio, through a call centre and improved follow-up at store level. Sales from this combination of the call centre and an online capability have grown significantly during the period and by April 2014 were the equivalent of one of our top five stores.

We have transferred much of this learning to our Dutch business, with the launch of an updated website in January 2014. The new site has the functionality of sample ordering, booking of appointments, 'call to buy' via a freephone number and online payment of outstanding customer balances. We are encouraged by the early results of this activity.

### Developing our bed proposition

In our UK business, beds provide an important complementary revenue stream to our core floor coverings offer and we believe this category has significant further growth potential. At the end of April 2014, the offer 'Sleepright by Carpetright' was trading from 260 stores (2013: 271 stores), with the decrease reflecting the net closure of 11 stores and the decision to remove this category from certain locations where it compromised the flooring offer. The category delivered an increase in sales of 10.9% in the year as a whole, with the sales momentum accelerating to 16.8% in the second half. Beds now represent 7.6% of total UK sales revenue (2013: 6.7%) and 11.1% of the sales mix in those stores where they are available. We are pleased with this performance and are stepping up our investment in marketing to establish greater customer awareness of the strength of our beds offer.

Building on the lessons learnt in the UK, we replicated the bed proposition in seven stores in the Netherlands, albeit adjusted to reflect the needs of the local consumer. The performance of these trial stores has been disappointing and further roll out has been put on hold, allowing management to concentrate on the core flooring category.

### Outlook

Although there are signs that the UK economy is improving, with reduced unemployment, growing levels of consumer confidence and an increase in the number of housing transactions, we continue to assume we will trade in a subdued retail environment until the recovery is clearly established.

In the Rest of Europe, there appear to be tentative signs that the rate of decline in the Netherlands market is slowing and the competitive environment is easing in Belgium. Against this backdrop, we have implemented a revised promotional programme to drive sales and margin, alongside a restructuring of central support functions to improve efficiency and reduce costs. It is anticipated that the combination of these activities will improve profitability.

The Republic of Ireland remains a drag on Group performance, with the major contributory factor being excessive rents relative to sales. Whilst we continue to address this, the trading plan is focused on growing sales and margin in a tough economic climate.

Against this backdrop, we continue to take steps to develop the business. While we anticipate trading conditions will remain challenging, we expect these actions will underpin an improvement in Group performance in the new financial year.

## Strategic report continued

## Financial review

## Highlights

A summary of the financial results for the year ended 26 April 2014 is set out below:

	2014 £m	2013 £m	Change
Revenue	447.7	457.6	(2.2%)
Underlying operating profit	6.9	11.4	(39.5%)
Net finance charges	(2.3)	(1.7)	(35.3%)
Underlying profit before tax	4.6	9.7	(52.6%)
Exceptional items	(11.8)	(14.8)	
Profit/(loss) before tax	(7.2)	(5.1)	
Earnings/(loss) per share			
– underlying	4.7p	9.6p	(51.0%)
– basic	(5.3p)	(9.8p)	
Dividends per share	Nil	Nil	
Net debt	11.1	10.2	up £0.9m

## Overview

Total sales decreased by 2.2% to £447.7m, reflecting the tough consumer environment in all the geographic markets in which we operate. During the year, the Group opened 14 stores and closed 20 which gave a net decrease of six stores, with a total store base of 614. Total store space declined by 1.5% to 5.6 million square feet.

Operations in the UK continued to be challenged by a fragile consumer environment where the disposable incomes of our customers remained under pressure. The key driver in the performance of the Rest of Europe continues to be the deterioration of consumer confidence in the Netherlands, where the floor coverings market remains weak.

Overall, Group underlying operating profit decreased by 39.5% to £6.9m. Underlying net finance charges were £0.6m higher at £2.3m. These factors combined to generate an underlying profit before tax of £4.6m, a 52.6% decrease on the prior year.

Exceptional charges totalled £11.8m (2013: £14.8m), primarily from onerous lease provisions and non-cash impairment charges.

As a result, the loss before tax was £7.2m (2013: £5.1m loss). Basic loss per share was 5.3p, reflecting the post tax loss (2013: 9.8p loss).

The combination of cash flow from continued underlying profitability, effective management of working capital and control of capital expenditure enabled year-end net debt to be held broadly flat at £11.1m (2013: £10.2m).

## UK

Total UK revenue decreased 1.5% in the year to £375.8m. We opened 13 stores and closed 19 stores in the year, which translated into net space decline of 87,000 sq ft, a decrease of 2.1%. After taking into account the movement in the number of stores, like-for-like sales for the year decreased by 0.2%, with the first half decrease of 0.8% partially offset by a stronger second half, being an increase of 0.3%. Excluding the expected contraction in sales from the wholesale business, the core business grew 0.5%.

Gross profit increased by £0.3m to £235.1m, representing 62.5% of sales, an increase of 100 basis points. The margin was achieved through better sourcing and promotional planning. The impact of the increase in bed sales at a lower margin was offset by a corresponding decrease from our wholesale business.

The total UK cost base increased by 0.2% compared with the prior year to £224.4m (2013: £223.9m). Store payroll costs continue to be monitored closely relative to the volume of sales, but increased by 0.9% to £58.8m (2013: £58.3m). Store occupancy costs fell 0.6% to £125.7m (2013: £126.4m) due to a net reduction in the number of stores and successful rent negotiations, although this was partially offset by business rates inflation. The underlying rent in like-for-like stores held level with the prior year, with the majority of rent reviews being settled at zero. Marketing and central support costs increased 1.8% to £39.9m (2013: £39.2m), primarily the result of an increased investment in television and digital advertising.

Underlying operating profit decreased by 1.8% to £10.7m (2013: £10.9m).

## UK – Performance review

The key financial results for the UK were:

	2014 £m	2013 £m	Change
Revenue	375.8	381.6	(1.5%)
Like-for-like sales	(0.2%)	2.2%	
Gross profit	235.1	234.8	0.1%
Gross profit %	62.5%	61.5%	1.0ppts
Costs	(224.4)	(223.9)	(0.2%)
Underlying operating profit	10.7	10.9	(1.8%)
Underlying operating profit %	2.8%	2.9%	(0.1ppts)

## The UK portfolio is now as follows:

	Store numbers			Sq ft ('000)		
	27 April 2013	Openings	Closures	26 April 2014	27 April 2013	26 April 2014
Standalone	462	13	(18)	457	4,124	4,039
Concessions	16	–	(1)	15	29	27
<b>Total</b>	<b>478</b>	<b>13</b>	<b>(19)</b>	<b>472</b>	<b>4,153</b>	<b>4,066</b>



## Rest of Europe

The flooring market in the Netherlands and Belgium remained weak, impacted by government austerity measures restricting customers' disposable income and low consumer confidence. This resulted in an extremely challenging year for our business. Performance in the Republic of Ireland also stepped backwards over the year, with a small reduction in sales volumes.

After exchange rate movements, the three businesses combined to produce a total sales decline of 5.4% in reported currency. In local currency terms, total sales fell 8.6%, with like-for-like sales decreasing by 8.6%.

Gross profit percentage decreased 50 basis points to 56.7% (2013: 57.2%), and this, combined with lower sales volumes, resulted in a decline of gross profit to £40.8m (2013: £43.5m). In local currency terms, this represented a 9.5% decline.

Reported operating costs increased by 3.7% to £44.6m. In local currency terms costs remain level, reflecting tight management control in offsetting inflationary pressures.

The net result was an underlying operating loss of £3.8m (2013: profit of £0.5m).

## Rest of Europe – Performance review

The key financial results for the Rest of Europe were:

	2014 £m	2013 £m	Change (Reported currency)	Change (Local currency)
Revenue	71.9	76.0	(5.4%)	(8.6%)
Like-for-like sales	(8.6%)	(11.0%)		
Gross profit	40.8	43.5	(6.2%)	(9.5%)
Gross profit %	56.7%	57.2%	(0.5ppts)	
Costs	(44.6)	(43.0)	(3.7%)	Level
Underlying operating profit/(loss)	(3.8)	0.5		
Underlying operating profit/(loss) %	(5.3%)	0.7%	(6.0ppts)	

The Rest of Europe portfolio is now as follows:

	Store numbers			Sq ft ('000)		
	27 April 2013	Openings	Closures	26 April 2014	27 April 2013	26 April 2014
Netherlands	95	–	–	95	1,104	1,104
Belgium	26	–	(1)	25	307	298
Republic of Ireland	21	1	–	22	155	162
<b>Total</b>	<b>142</b>	<b>1</b>	<b>(1)</b>	<b>142</b>	<b>1,566</b>	<b>1,564</b>

## Strategic report continued

## Financial review continued

**Net finance costs and taxation**

Underlying net finance charges were £2.3m (2013: £1.7m). This increase was a combination of the impact of an amendment to IAS 19 relating to pension costs and interest on deferred tax liabilities.

The underlying tax rate reduced to 30.6% (2013: 31.3%) reflecting the 1.0% reduction in the UK corporation tax to 23.0% and losses in Europe. A further 3.0% reduction in future UK corporation tax rates reduced deferred tax liabilities by £2.7m. This, along with the impact of exceptional items, results in an exceptional tax credit of £5.0m and an effective tax rate credit of 52.0% (2013: charge of 29.3%).

**Exceptional items**

The Group recorded a net charge of £11.8m (2013: £14.8m charge) in the year.

	(Charge)	
	2014 £m	2013 £m
Property profits/(losses)	(1.6)	(1.2)
Onerous lease provisions	(6.6)	(8.1)
Impairment charge – store assets	(0.5)	(0.3)
– freehold properties	(1.9)	(5.2)
European office restructuring	(1.2)	–
<b>Pre tax exceptional items</b>	<b>(11.8)</b>	<b>(14.8)</b>

The out-of-town retail property market remains subdued, impacting our ability to exit unprofitable stores and the valuation of our freehold estate. A net loss of £1.6m was made on property disposals in the year (2013: £1.2m loss). This was principally the result of surrender premiums being paid to exit loss-making stores.

At the prior year end we carried onerous lease provisions for 30 stores. During the year we disposed of seven stores, relieving us from all future liabilities. Leases for three stores returned to us under privity of contract following their current occupier's administration. The net movement in other store re-openings and closures led to there being 25 onerous stores at the end of the financial year. The onerous estate has been reviewed in detail and the Group is increasing an onerous lease provision for the estimated future outgoings by £6.6m to £13.4m.

We have reviewed the carrying value of the store assets in our balance sheet, consistent with the approach in previous years. The model used to value these assets includes a number of assumptions relating to market growth and inflationary expectations. These tests have led to a net impairment charge of £0.5m (2013: £0.3m charge).

Changes in the property market in both the UK and the Netherlands, with more properties being returned to landlords, has led us to review the carrying value of the Group's freehold properties. Based upon an independent valuation of the Group's freehold assets, the review has resulted in a non-cash impairment charge of £1.9m.

In this difficult retail environment, the Group has focused on organisational changes aimed at enhancing our efficiency and leveraging our strengths to provide a solid framework for growth. This has involved the consolidation of our offices in Europe at a cost of £1.2m. Given the irregular nature and amounts associated with business restructuring, these have been treated as exceptional items.

**Earnings per share**

Basic loss per share was 5.3 pence (2013: loss of 9.8 pence). Underlying earnings per share decreased to 4.7 pence (2013: 9.6 pence).

**Dividend**

The Board has decided not to pay a dividend (2013: nil).

**Balance sheet**

The Group had net assets of £61.1m (2013: £65.3m) at the end of the year, a decrease of £4.2m since 27 April 2013, reflecting the post tax loss for the year.

	26 April 2014 £m	27 April 2013 £m
Freehold & long leasehold property	71.0	75.0
Other non-current assets	114.4	118.0
Stock	33.9	37.6
Trade & other current assets	19.8	19.8
Creditors < 1 year	(93.5)	(94.6)
Creditors > 1 year	(70.1)	(75.2)
Net debt	(11.1)	(10.2)
Pension deficit	(3.3)	(5.1)
<b>Net assets</b>	<b>61.1</b>	<b>65.3</b>

During the period, one freehold property disposal was completed. The Group owns a significant property portfolio, most of which is used for retail purposes. The carrying values are supported by a combination of value in use and independent valuations.

**Net debt and cash flow**

The Group's net debt at 26 April 2014 was £11.1m, an increase of £0.9m on the prior year end position of £10.2m. This increase was driven by the underlying operating profit performance being offset by a £4.9m cash outflow related to provisions, £0.9m contributions to closed defined benefit pension schemes and a £8.1m increase in working capital.

The increase in working capital in the year was attributable to the decline in merchandise creditors, a consequence of lower sales and stock levels and the net amortisation of property lease incentives.

The resulting net inflow of cash generated by operations of £11.3m was offset by net capital expenditure, interest and tax net outflows totalling £12.3m.

The Group's average cost of funding was 4.5% (2013: 4.7%), with an average net debt of £16.4m (2013: £21.4m).

**Cash flow**

	2014 £m	2013 £m
<b>Underlying operating profit</b>	<b>6.9</b>	<b>11.4</b>
Depreciation and other non-cash items	13.9	14.6
(Increase)/Decrease in stock	3.5	1.0
(Increase)/Decrease in working capital	(8.1)	(6.2)
Provisions paid	(4.9)	(3.4)
<b>Operating cash flow</b>	<b>11.3</b>	<b>17.4</b>
Net interest paid	(1.4)	(1.4)
Corporation tax paid	(0.7)	(1.4)
Net capital expenditure	(10.2)	(6.6)
<b>Free cash flow</b>	<b>(1.0)</b>	<b>8.0</b>
Other	0.1	0.9
<b>Movement in net debt</b>	<b>(0.9)</b>	<b>8.9</b>
Opening net debt	(10.2)	(19.1)
<b>Closing net debt</b>	<b>(11.1)</b>	<b>(10.2)</b>

Net capital expenditure was £10.2m (2013: £6.6m). This can be broken down into the following principal categories:

	2014 £m	2013 £m
Capital expenditure	(10.8)	(9.6)
Purchase of freehold properties	-	(1.6)
Proceeds from freehold property disposals	0.4	2.7
Proceeds from leasehold property disposals	0.2	1.9
<b>Net capital expenditure</b>	<b>(10.2)</b>	<b>(6.6)</b>

After the repayment of borrowings, net debt increased by £0.9m to £11.1m at the year end (2013: £10.2m).

**Current liquidity**

At the year end the Group held cash balances of £6.3m (2013: £7.9m), principally a combination of Sterling and Euros.

Gross bank borrowings at the balance sheet date were £14.9m (2013: £16.1m) of which £0.6m is term based, with the balance of £14.3m being drawn down from overdraft and revolving credit facilities. The Group had further undrawn facilities of £47.1m at the balance sheet date. The term of the majority of these facilities is to July 2015 and they are subject to a number of covenants, against which the Group monitors compliance.

The Board considers that the Group has sufficient headroom to enable it to comply with the covenants on its existing facilities. The Directors have commenced discussions with the Group's lenders with regard to renewing the principal facility and intend to complete a refinancing during the financial year ending in 2015.

**Pensions**

At 26 April 2014, the IAS 19 net retirement benefit deficit was £3.3m (2013: £5.1m). The discount rate was 4.2% (2013: 4.2%), reflecting prevailing corporate bond rates. The higher market value of plan assets and additional Company contributions led to a decrease of £1.8m in the calculation of the net pension liability. As previously announced, the Company scheme was closed to future accrual with effect from 1 May 2010.

The Company agreed a recovery plan with the Trustees in 2012 and this will be reviewed following the completion of the next triennial valuation, which will be performed as at 5 April 2014.

**Neil Page**

Group Finance Director

Strategic report continued

## Risk management

### Our approach to risk management

Carpetright recognises that effective business management requires regular review of business risks to identify, evaluate and prioritise them, to assign management ownership and to ensure appropriate controls are in place to provide mitigation. We have established a flexible and practical framework, sponsored by senior executives, which aims to identify and manage the principal risks that may prevent us from achieving the Group's strategic objectives.

### The Board and Audit Committee

The Board has overall responsibility for the Group's risk appetite, system of internal control and for reviewing its effectiveness.

In order to fulfil this responsibility, the Directors have established an organisational framework with clear operational procedures, lines of responsibility and delegated authority which has operated throughout the year under review and up to the date of approval of the Annual Report and Financial Statements.

The system of internal control is designed to identify, evaluate and manage significant risks associated with the achievement of the Group's objectives. Because of the limitations inherent in any system of internal control, this system is designed to meet the Group's particular needs and the risks to which it is exposed rather than eliminate risk altogether. Consequently, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee assists the Board through its work covering the Group's system of internal controls, the assessment of risks and related compliance activities. This includes the Committee's oversight of the Group's Internal Audit Department, which:

- undertakes its work, both on central functions and in the field, based on a risk assessment model;
- provides the Audit Committee and the Board with objective assurance on the control environment across the Group; and
- monitors adherence to the Group's key policies and principles.

The Audit Committee reports to the Board on its activities and makes recommendations and escalates significant risks or issues to the Board as appropriate. Its role is described in more detail on pages 23 to 26.

The Board has reviewed the Group's systems of internal control including financial, operational and compliance controls as well as risk management, and is satisfied that these accord with the guidance on internal controls set out in Internal Control: Revised Guidance for Directors on the Combined Code, issued by the Financial Reporting Council in October 2005.

### Identification of business risks

An Executive Risk Committee ('ERC') comprising the Executive Directors and senior managers exists to review key risk and control issues. The ERC met quarterly during the year reported. The Group's principal risks are individually sponsored by a member of the ERC.

The ERC identifies and assesses risks to the Group's medium-term strategy. The ERC directs the risk management processes within both the UK and the Rest of Europe to address each of the identified risks, formulate a mitigation strategy and assess the likely impact of such risk occurring. The Group Finance Director provides regular reports to the Audit Committee in relation to its work.

The principal risks and uncertainties affecting the business are set out on pages 15 and 16.

### Oversight and assurance

Our Group Finance department is responsible for the financial policies and standards adopted within the Group. It also manages our financial reporting processes to ensure the timely and accurate provision of information which enables the Board to discharge its responsibilities.

Our Company Secretary and Legal Director is responsible for maintaining and developing the Group's framework of governance, including our anti-bribery policy and whistleblowing process, alongside ensuring that any changes to the Group's legal obligations are brought to the attention of the relevant teams who are responsible for the implementation of any changes.

The Internal Audit department provides independent assessment on the robustness and effectiveness of the systems and processes of risk management and control across the Group. It achieves this through undertaking reviews which are approved by and reported to the Audit Committee. The Group also uses the services of independent third party advisers and consultants to review controls and processes where the nature of the review requires expertise not available in-house.



## Principal risks and uncertainties

We are subject to the same general risks as many other businesses; for example, changes in general economic conditions, currency and interest rate fluctuations, changes in taxation legislation, cyber-security breaches, failure of our IT infrastructure, the cost of our raw materials, the impact of competition, political instability and the impact of natural disasters.

The risk factors addressed below are those which we believe to be the most material to our business model, which could adversely affect the operations, revenue, profit, cash flow or assets of the Group and which may prevent us from achieving the Group's strategic

objectives. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse effect on the Group.

We use our risk management process as described on page 14 to identify, monitor, evaluate and escalate such issues as they emerge, enabling management to take appropriate action wherever possible in order to control them and also enabling the Board to keep risk management under review.

### Risk description

#### Customer proposition & changing customer preferences

A failure to respond to changing customer expectations and preferences, across our in-store and online propositions, could lead to a failure to deliver our business objectives.

#### Property portfolio

The Group operates from a substantial property portfolio with a large geographical spread across four Northern European countries. There is a risk associated with changing property values and long-term commitments reduce flexibility to adjust our property portfolio. Managing the location planning and cost base associated with this infrastructure represents a key risk to both profit and long-term cash flow.

#### Marketing strategy and pricing

We recognise that if our products are, or are perceived to be, of poor value for money, or that our marketing channels and promotions fail to engage with our target audience, we risk losing sales.

#### Reputation and product

The Carpetright name is a key asset of the business and as the largest operator in its markets, expectations of the Group are high. Failure to provide high quality products and services could lead to a loss of trust and confidence, and damage the Group's reputation and brand. This could result in a decline in the customer base and affect our ability to recruit good people.

### Mitigation & controls

We continue to invest in both our existing estate and online platforms to ensure we remain relevant and contemporary. We actively engage with our customer base utilising a wide range of methods including customer satisfaction surveys and mystery shopping and employ this feedback to improve our products and services.

There are regular meetings of appropriate executives to review property decisions set against a framework of delegated authority from the Board. The Group has also invested in a detailed location planning model which aids our understanding of store catchments and customer demographics. This model supports our store opening and re-location plans, allowing us to assess the impact of portfolio movements before committing to change. We also consult external advisers, where appropriate, to provide expert advice and inform decision making.

Throughout the year we monitor the effectiveness of our pricing, promotional and marketing strategies across our businesses, tailoring our consumer offering where appropriate.

The Group works closely with its suppliers to ensure the products it sells are of the highest quality and meet the organisation's required ethical and safety standards. We ensure our flooring customers receive a first class fitting experience by having the work of our third party contractors independently assessed, ensuring they are fully insured and have been checked for criminal records. The performance of our bed delivery partner is continuously monitored, with improvements made as necessary. We regularly engage with our customers and where their feedback, either via social media or more traditional channels, suggests that their experience has not met expectation, we strive to resolve their issue promptly.

## Strategic report continued

## Principal risks and uncertainties continued

	Risk description	Mitigation & controls
Operational	<p><b>People</b></p> <p>The Group relies upon attracting and retaining talented and appropriately qualified people in order to deliver its long-term objectives. An inability to maintain an adequate pool of suitable resource could disrupt business operations and potentially undermine the Group's ability to deliver sustainable growth.</p>	<p>We aim to recruit, train and develop a suitably skilled and qualified team of people to meet the current and future operational needs of the Group. We are also committed to creating opportunities for individuals to progress their careers.</p>
	<p><b>IT performance and security</b></p> <p>Carpetright is dependent on the reliability and capability of key information systems and technology. A major incident or sustained performance problems with regard to store, logistics, multi-channel or support office systems could constitute a significant threat to the business and reputation, at least in the short term.</p>	<p>The Group has extensive controls in place to maintain the integrity of our systems and to ensure that systems changes are implemented in a controlled manner. The business has developed and tested continuity plans and has separate disaster recovery facilities to mitigate significant risks and Group systems are mirrored in a separate location. The systems are regularly tested to provide assurance as to their security.</p>
Financial	<p><b>Cash management</b></p> <p>The Group risks exposure to exchange rate, interest rate, liquidity and credit risks having an adverse or unexpected impact on results, funding requirements or purchasing ability.</p>	<p>The Group frequently reviews its financial position to ensure that its funding requirements are being met. Bank covenant tests are regularly monitored. Rolling cash flow forecasts are produced weekly.</p>

## Corporate responsibility

Our Corporate Responsibility (CR) policy is designed to support our objectives and strategy.

Our principal areas of focus are:

- Our customers – how our activities affect our current and future customers;
- Our people – the Group’s policies and actions towards our employees;
- Our environment – the impacts we have on the wider environment and how we are seeking to reduce this; and
- Our community – how the Group interacts with those communities from which our employees and customers are drawn.

The Customer and Corporate Responsibility Committee was created on 1 July 2012 and oversees, amongst other matters, the Group’s CR activities. Martin Harris is the Executive Director responsible for co-ordinating the Group’s CR activities. Details of the number of meetings and attendance are set out on page 22.

### Our customers

Corporate responsibility starts with our customers and during the year we measured how we interact with our customers and provide great service through mystery shopping visits. We also monitor the level of complaints which have been escalated to the store support office.

We recognise that matters such as how we treat our people, the environment and ethical trading are important to customers, and details can be found below.

### Our people

The Group employs over 3,000 people.

### Equal opportunities

The Board believes in creating throughout the Company a culture that is free from discrimination and harassment, and will not tolerate discrimination in any form. We are an equal opportunities employer and our people and applicants are treated fairly and equally regardless of their age, colour, creed, disability, full or part time status, gender, marital status, nationality or ethnic origin, race, or sexual orientation. Applications from people with disabilities are always fully considered. Should an individual become disabled while working for the Company, efforts are made to continue their employment and retraining is provided, if necessary.

We believe the attributes of individuals and their different perspectives and experiences adds value to our business. We recognise that a diverse workforce will provide us with an insight into different markets and help us anticipate and provide what our customers want from us.

A breakdown by gender of the number of persons, who were Directors of the Company, senior managers and other employees as at 26 April 2014, is set out below.

	Male	Female
Directors	7	2
Senior managers	14	1
Other employees	2,570	599

### Training and development

Our training and development programmes are focused on giving our people the skills they need to carry out their jobs and in due course to move up to new roles, enabling them to develop their careers. This has included training in relation to health and safety, product knowledge and customer service.

### Engagement

There are a number of communication channels in place to help people develop their knowledge of, and enhance their involvement with, the Group. These channels include surveys, management briefings, weekly briefings broadcast to stores and offices, and other less formal communications. Additionally, all annual results and interim management statements are made available through the intranet. Directors and senior management regularly visit stores and discuss matters of current interest and concern with their colleagues.

### Share ownership

All colleagues have an opportunity to invest in the Company’s shares and through two all-employee share schemes, namely an All Employee Share Ownership Plan and a Savings Related Share Option Scheme. Approximately 500 colleagues participate in these schemes.

### Bribery and whistleblowing

As a responsible employer we maintain a firm stance against any type of corruption within the business.

There is a Group-wide Anti-bribery and Corruption Policy in place which requires compulsory Anti-Bribery compliance and a copy of the Policy is circulated to all new starters when they join the business.

The Group operates whistleblowing hotlines through third party providers enabling matters of concern to be raised with the Company on a named or anonymous basis.

## Strategic report continued

## Corporate responsibility continued

**Health and safety**

We operate an established process for risk assessment and employees are expected and encouraged to be proactive on health and safety issues.

Health and Safety Committees meet to review any issues to identify, prevent and mitigate against potential risks. Regular updates on health and safety are given at Board meetings. There have not been any fatalities this year (2013: nil). There has been a reduction in the total number of accidents to 97 (2013: 129) and the number of serious accidents that are reportable to the Health and Safety Executive also decreased in the period to 10 (2013: 11). However, there were 7 (2013: 3) accidents in the Rest of Europe which would have been reportable had they occurred in the UK.

**Human rights**

We do not have a specific human rights policy at present, but we do have policies that adhere to international human rights principles. We will review from time to time whether a specific human rights policy is needed in the future, over and above our existing policies.

**Our environment**

In line with our strategy of building a sustainable business, we are committed to taking steps to control and minimise any damage our operations may cause to the environment through manufacturing processes, transport, energy usage and packaging. In particular, we are aware of the issue of climate change and we are taking steps to understand and minimise our carbon emissions.

**Products and suppliers**

We have an Ethical and Environmental Code of Conduct (the Code) to ensure that we have an ethical supply chain and require our suppliers to sign up to the Code. The Code prohibits, for example, animal testing, the use of timber from non-sustainable sources and the use of certain chemicals which may be harmful to customers.

In the UK we make our own cardboard tubes on site, thereby reducing the cost of delivery of what is, essentially, air in the centre of the tubes. Where possible we re-use cardboard tubes. Sheet polythene wrapping and cardboard tubes that are not re-used but are delivered within the UK (excluding Northern Ireland) from our main distribution centre are recycled.

No waste produced from our store support office, warehouse and distribution centre is sent to landfill. General rubbish is compacted and incinerated to produce energy. We have also introduced a mattress recycling service this year. Customers' old mattresses can be collected and then stripped down to their constituent parts and recycled.

In the UK we are trialling the recovery of customers' old carpet and off-cuts for disposal other than by way of landfill.

**Energy usage and greenhouse gas emissions**

We recognise that the Company benefits through reduced cost and the environment benefits by reducing our consumption of energy and water. The release of greenhouse gases (ghg), notably CO<sub>2</sub> generated by burning fossil fuels, has an impact on climate change, which presents a risk to both our business and the wider environment. We accept our responsibility to continually improve our environmental performance.

In order to monitor this, Automatic Meter Readers for electricity and gas have been installed in the vast majority of eligible locations. This has enabled us to identify high-use locations and take corrective action where necessary. In particular, a number of locations were identified where heating was being used during the night, which has since stopped. This has resulted in a reduction in the UK of electricity consumption to 218 kWh/m<sup>2</sup> of sales space (2013: 255).

We have also invested in a fleet of more energy efficient delivery vehicles this year in the UK, which will result in greater fuel efficiency in delivering carpet and other flooring products to our stores.

Emissions data in respect of the financial year ended 2014 is as follows:

Emission type	CO <sub>2</sub> e (Carbon Dioxide equivalent)
Scope 1: Operation of facilities	11,889
Scope 1: Combustion	5,381
<b>Scope 1 Emissions</b>	<b>17,270</b>
Scope 2: Purchased energy	20,031
<b>Scope 2 Emissions</b>	<b>20,031</b>
<b>Total Emissions</b>	<b>37,301</b>

Greenhouse Gas Emissions Intensity Ratio:

Total Footprint (Scope 1 and Scope 2)	37,301
Turnover (£m)	447.7
Intensity Ratio (tCO <sub>2</sub> /turnover £000)	0.083

Notes:

1. Our methodology has been based on the principles of the Greenhouse Gas Protocol.
2. Consumption is based on utility bills. Data for the Netherlands and Belgium has been collected on a calendar year basis.
3. Several stores are heated using fuel oil and one using propane gas. The consumption data for these stores is calculated from delivery invoices.
4. We have reported on all the measured emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations. This includes Scopes 1 and 2 but excludes any emissions from Scope 3. The period used is 1 May 2013 to 30 April 2014.
5. Conversion factors for electricity, gas and other emissions are those published by the Department for Environment, Food and Rural Affairs in 2013 – GHG Conversion Factors for Company Reporting.
6. Refrigerant fugitive emissions have been excluded as the impact was immaterial.

**Our community**

We are committed to being a socially responsible business in how we contribute to our local communities. We therefore understand that, in order to achieve our strategy, we need to contribute to our local communities.

In the last financial year we took part in national appeals such as Children in Need, Jeans for Genes day and raised money for Marie Curie as part of its daffodil appeal.

We also raise money at a local level around the UK, where child-focused charities are selected. Regionally, money was raised through events such as a charity golf day, a sponsored abseil and a sponsored bike ride. In Europe, money was raised to contribute towards Europe's biggest child cancer support hospital, which is being built in the Netherlands.



## Directors' report

# Board of Directors

### Lord Harris of Peckham (71)

#### Executive Chairman

Lord Harris is now in his 57th year in carpet retailing and is one of the best known names in the business. He was Chairman and Chief Executive of Harris Queensway plc from 1964 until the company was taken over in 1988. Lord Harris is a Non-Executive Director of Arsenal Holdings plc and Arsenal Football Club plc. He was a Non-Executive Director of Great Universal Stores plc for 18 years until July 2004 and was a Non-Executive Director of Matalan plc for two years until January 2007. He will become Non-Executive Chairman in July 2014.

### Neil Page (50)

#### Group Finance Director

Neil joined Carpetright in July 2008 as Group Finance Director. Neil began his career with British Rail and Marks and Spencer. He joined Superdrug in 1991, holding a variety of finance and operational positions before taking up the role of Finance and IT Director for AS Watson (Health & Beauty) UK Ltd in July 2002. He is a Fellow of the Chartered Institute of Management Accountants.

### Martin Harris (45)

#### Group Development Director

Martin took up his current role as Group Development Director in May 2013. Martin is also responsible for our Corporate Responsibility programme. Martin first joined Carpetright in 1991, previously having been an Executive Director of Harveys Furnishing Group Limited. He became Marketing Director in 1997, resigning to become a Non-Executive Director in 1998 before returning to the Executive Director position of Buying Director in 2002. He was the Group Commercial Director from 2003 until May 2013. He is stepping down from both the Board and his executive role at the conclusion of the 2014 Annual General Meeting.

### Baroness Noakes (65)

#### Deputy Chairman and Senior Independent Director

Baroness Noakes, a chartered accountant, joined the Board in February 2001. She is a Non-Executive Director of the Royal Bank of Scotland Group plc and Severn Trent plc and is Deputy Chairman of Ofcom. Previously she was with KPMG for 30 years and was the Senior Non-Executive Director of the Bank of England and a Non-Executive Director of Hanson plc and ICI plc. Baroness Noakes was appointed Deputy Chairman in May 2012. She chairs the Nomination Committee.

### Alan Dickinson (63)

#### Non-Executive Director

Alan joined the Board in October 2010. He spent more than 35 years in banking and is a former Executive Committee member of the Royal Bank of Scotland (RBS) Group and Chief Executive of both RBS UK and the bank's UK Corporate Banking business. He is also Chairman of Brown Shipley and a Non-Executive Director of the Nationwide Building Society, Willis Limited and Urban & Civic plc. He chairs the Remuneration Committee.

### Sandra Turner (61)

#### Non-Executive Director

Sandra joined the Board in October 2010. She spent 21 years at Tesco and was part of its senior management team, holding senior commercial and operational roles in the UK and Ireland. From 2003 to 2009 she was the Commercial Director of Tesco Ireland. She is a Non-Executive Director of McBride plc, Greggs plc and Huhtamäki Oyj and was previously a Non-Executive Director of Northern Foods plc and Countrywide plc. She chairs the Customer and Corporate Responsibility Committee.

### David Clifford (62)

#### Non-Executive Director

David, a chartered accountant, joined the Board in December 2011. He was previously a senior partner with KPMG. Throughout his career he held a variety of roles and led the Consumer Markets Unit of KPMG for a period, advising a number of retailers. He is a Trustee and the Treasurer of the Gurkha Welfare Trust. He chairs the Audit Committee.

### Andrew Page (55)

#### Non-Executive Director

Andrew joined the Board in July 2013. He is the Chief Executive of The Restaurant Group plc. Prior to joining The Restaurant Group plc, he held a number of senior positions in the leisure and hospitality industry including Senior Vice President with InterContinental Hotels and Finance Director of Hanover International plc. Prior to that, Andrew spent six years as a Corporate Financier with Kleinwort Benson, having trained and qualified as a Chartered Accountant.

## Directors' report continued

## Corporate governance

## Introduction

One of the Board's key responsibilities is to ensure that the Company is run in the best long-term interests of its shareholders and broader stakeholder base. The Group recognises the importance of high standards of corporate governance and is committed to operating within an effective corporate governance framework.

## Application of the UK Corporate Governance Code

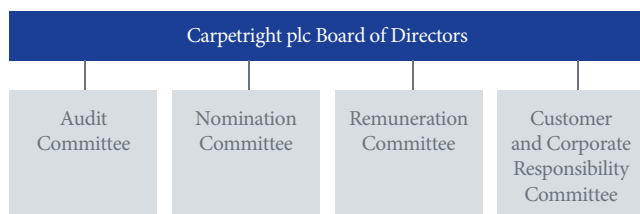
The version of the Corporate Governance Code applicable to the current reporting period is the September 2012 UK Corporate Governance Code (the Code). The Code is issued by the Financial Reporting Council and is available for review on its website.

During the financial year ended 26 April 2014 the Company complied with the provisions set out in the UK Corporate Governance Code except as set out below.

The Company did not comply with provision A.2.1 of the UK Corporate Governance Code for the entire period. The roles of Chairman and Chief Executive were split until 3 October 2013 when Darren Shapland, Chief Executive, stepped down from the Board. Lord Harris, who was the Chairman, became the Executive Chairman at that time as an interim measure to steer the business until a new Chief Executive was appointed. At that time Graham Harris was promoted to the Board as the Chief Operating Officer to provide support to the Chairman. The Company has not had a separate Chief Executive since 3 October 2013, and many of the responsibilities of a Chief Executive have been discharged by the Executive Chairman. The Board considered that this interim arrangement was in the best interests of the Company in view of Lord Harris's long-standing and leading position in the floor covering sector. The role of the Deputy Chairman was adjusted to ensure that there was an appropriate counter-balance in the governance arrangements.

## Governance Structure

The structure of the Board and its Committees is set out below:



## The Board

Details of the number of meetings and Board attendance are set out below:

Number of meetings:		9
Members	Attendance	Meetings eligible to attend
<b>Lord Harris<sup>1</sup></b> Executive Chairman	9	9
<b>Graham Harris<sup>2</sup></b> Chief Operating Officer	6	6
<b>Neil Page</b> Group Finance Director	9	9
<b>Martin Harris</b> Group Development Director	9	9
<b>Darren Shapland<sup>3</sup></b> Chief Executive	3	3

## Notes:

1. Lord Harris was Chairman until 3 October 2013 when he became Executive Chairman.
2. Graham Harris was appointed to the Board on 3 October 2013 and stepped down from the Board on 20 May 2014.
3. Darren Shapland stepped down from the Board on 3 October 2013.

Non-Executive Directors	Attendance	Meetings eligible to attend
<b>Baroness Noakes</b> Deputy Chairman and Senior Independent Director	9	9
<b>Alan Dickinson</b> Independent Non-Executive Director	9	9
<b>Sandra Turner</b> Independent Non-Executive Director	9	9
<b>David Clifford</b> Independent Non-Executive Director	9	9
<b>Andrew Page<sup>1</sup></b> Independent Non-Executive Director	8	8

## Note:

1. Andrew Page was appointed to the Board on 1 July 2013.

The Board currently consists of the Chairman, two Executive and five Non-Executive Directors, brief biographies of whom can be found on page 19. Andrew Page joined the Board on 1 July 2013 as an independent Non-Executive Director. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board and this is described in the section concerning the Nomination Committee on page 22.

Wilf Walsh (53) has been appointed to the Board as Chief Executive with effect from 21 July 2014. He has held senior positions in various roles, most recently as Chairman of Fortuna Entertainment Group NV, and was the Managing Director of Coral between 2000 and 2008 and prior to that spent six years with HMV Media Group as the Managing Director of HMV Germany and as Operations Director for the UK and Ireland. He is a Non-Executive Director of Gala Coral.

Lord Harris had been reducing his time commitment as part of the planned handover to Darren Shapland. However, this returned to a full-time role in October 2013 when he became Executive Chairman following the departure of Darren Shapland. Lord Harris will become Non-Executive Chairman in July 2014 upon Wilf Walsh joining as Chief Executive, and will step down as Chairman on appointment of a new Chairman. He may remain as a Non-Executive Director following the appointment of a new Chairman.

A search for a new Chairman has now commenced. Baroness Noakes, as Chairman of the Nomination Committee, will lead the search. She will step down from the Board once a new Chairman is installed.

Martin Harris and Alan Dickinson have both informed the Board that they will step down from the Board at the conclusion of the AGM on 4 September 2014.

Graham Harris, who was promoted to the Board in October 2013 as its Chief Operating Officer, left the Board in May 2014 following the decision to appoint a Chief Executive. This role was created when Darren Shapland left the business in order to provide additional support to Lord Harris when he returned as Executive Chairman. It was not intended as a permanent role once a Chief Executive was appointed.

Whilst not required by the Code, as the Company is outside the FTSE 350, all Directors other than Martin Harris and Alan Dickinson will offer themselves for election or re-election (as appropriate) at the Annual General Meeting.

The Non-Executive Directors of the Company play a key governance role and bring an extra dimension to the Board's deliberations. The Board considered the independence of each Non-Executive Director against the criteria specified in the Code and has determined that each remains fully independent. The Board in particular considered the independence of Baroness Noakes, who is considered by the Board to be independent in character and judgment.

In reaching this determination, the Board specifically considered the fact that Baroness Noakes is a Non-Executive Director of the Royal Bank of Scotland, the Company's principal banker, and she has served as a Director of the Company for more than nine years from the date of her first election.

Baroness Noakes had intended to step down from the Board in 2012, but at the request of the Board agreed to remain on the Board in order to facilitate the transition of the Company to the new management arrangements. Following Darren Shapland stepping down from the Board, she has led the recruitment of Wilf Walsh as a Chief Executive and will lead the search for a new Chairman. She has been the Senior Independent Director (SID) since 2004 and assumed the role of Deputy Chairman in May 2012. She plays an active role in determining the agenda for the Board, the Board appraisal process and in ensuring that any issues raised by the Non-Executive Directors are dealt with.

The Board views that it is appropriately balanced. It currently comprises three Executive Directors and five independent Non-Executive Directors. After the Annual General Meeting and once a new Chairman has been appointed, the Board will comprise a Chairman, three independent non-Executive Directors and two Executive Directors. If Lord Harris remains on the Board he will be a non-independent Non-Executive Director but the Board will remain appropriately balanced.

The Board believes that its current size and structure are appropriate for managing the Group in an effective and successful manner.

A process of evaluation of the Board and its Audit, Nomination, Remuneration and Customer and Corporate Responsibility Committees has been undertaken. The exercise to evaluate the performance of the Board and its Committees was led by the Deputy Chairman using an external facilitator, Egon Zehnder. Egon Zehnder has no connection with the Company beyond evaluating the Board, its Committees and the individual Directors. The process this year involved the completion of a questionnaire followed by one-to-one confidential meetings between Egon Zehnder and each of the Directors and the Company Secretary. The results of these assessments confirmed that the biggest issue facing the Board was the succession of a new Chief Executive. The announcements made in May concerning this appointment and related Board changes should enable the points which emerged during the evaluation to be dealt with.

The Non-Executive Directors meet, with no Executive Directors present, at least once each year inter alia to review the performance of the Chairman.

The Board is responsible for setting the Group's objectives and policies, providing effective leadership and for approving the Group strategy, budgets, business plans and major capital expenditure. It has responsibility for the management, direction and performance of the Group and is accountable to the Company's shareholders for the proper conduct of its business. The Board has a formal schedule which sets out those matters requiring Board approval and specifically reserved to it for decision.

Directors receive monthly trading results, commentary, briefing notes and reports for their consideration in advance of each Board meeting, including reports on the Group's operations, to ensure that they remain briefed on the latest developments and are able to make fully informed decisions.

All Directors have access to the advice and services of the Company Secretary and the Board has established a procedure whereby Directors may take independent professional advice at the Company's expense. In addition, such advice may include training in order to enable them to discharge their roles and responsibilities as a Director. All new Directors receive an induction tailored to their particular requirements.

## Directors' report continued

### Corporate governance continued

#### Board committees

The Board has four Committees, each of which has written terms of reference which are available on the Company's corporate website ([www.carpetright.plc.uk](http://www.carpetright.plc.uk)).

The Board periodically reviews the membership of its Committees to ensure that it is refreshed. The Company provides the Committees with sufficient resources to undertake their duties. The Company Secretary, or his nominee, acts as Secretary to each Committee.

The role of the *Audit Committee*, its members and details of how it carried out its duties are set out in the Audit Committee report on pages 23 to 26.

The role of the *Remuneration Committee*, its members and details of how it carried out its duties are set out in the Directors' remuneration report on pages 27 to 43.

The *Customer and Corporate Responsibility Committee* comprises the individuals set out in the table below, which also provides details of the number of meetings and attendance. The Corporate Responsibility report is set out on pages 17 and 18.

Number of meetings:		2
Members	Attendance	Meetings eligible to attend
<b>Sandra Turner</b> Committee Chairman	2	2
<b>Darren Shapland</b> (until 3 October 2013)	1	1
<b>Martin Harris</b>	2	2
<b>Baroness Noakes</b> (until 23 June 2014)	2	2
<b>David Clifford</b>	2	2
<b>Claire Balmforth</b> Operations Director – UK (until 10 October 2013)	1	1
<b>Andy Corden</b> Operations Director – Europe (until 26 April 2014)	2	2

The *Nomination Committee* is chaired by Baroness Noakes. Details of its membership and attendance are set out below:

Number of meetings:		3
Members	Attendance	Meetings eligible to attend
<b>Baroness Noakes</b> Committee Chairman	3	3
<b>Lord Harris</b>	3	3
<b>Alan Dickinson</b>	3	3

The responsibilities of the Nomination Committee include:

- identifying and nominating candidates for appointment to the Board for the approval of the Board. External search consultants are generally appointed to assist in the search process;
- reviewing development needs of the Executive; and
- making recommendations to the Board on Board composition and balance.

The Committee considers the diversity of the Board (including gender) and the skills and competencies of the existing Directors when drawing up specifications for new appointments. It ensures that the development needs of Executive Directors and other senior managers are addressed appropriately.

An external search consultancy is ordinarily used in relation to the appointment of both Executive and Non-Executive Directors.

Following the decision for Darren Shapland to step down from the Board, Graham Harris was appointed as a Director and as Chief Operations Officer. This was an internal promotion as Graham had been the Trading Director since May 2013 and was already known to the Board. No external search was conducted in relation to this appointment.

The Nomination Committee initiated the search for a new Chief Executive using an external firm, Spencer Stuart. Spencer Stuart has no connection with the Company beyond acting as an independent search firm. All of the Non-Executive Directors were involved in the appointment of Wilf Walsh as Chief Executive.

The Committee also considers whether Directors due to retire at an Annual General Meeting should be recommended for re-appointment, and whether the appointment of Non-Executive Directors reaching the end of their three-year term should be renewed. Committee members do not vote on their own re-appointment.

#### Continuing professional development

All Board members are updated on matters relevant to the Group, including legal and regulatory developments, and members of Board Committees are updated on matters relevant to their Committee membership. In the year, the Remuneration Committee received updates on current best practice from New Bridge Street.

The performance of individual Directors is considered as part of the annual Board appraisal process. The individual development needs of Executive Directors are overseen by the Nomination Committee, which includes the Chairman. Non-Executive Directors have access to professional development provided by external bodies. Their continuing competence is considered by the Nomination Committee as part of the annual process of recommending the reappointment of Directors at the AGM.

#### Share capital

Details of the Company's share capital and significant shareholders can be found on pages 43 and 45.

## Audit Committee report

“The key objective of the Audit Committee is the provision of effective governance over the Group’s financial reporting. This includes consideration of financial results announcements and related disclosures, the performance of both the internal audit function and the external auditors, and the management of the Group’s systems of internal control, business risks and related compliance activities.

The Committee will continue to keep its activities under review in the light of regulatory and market developments.

I will be available to answer questions at the Annual General Meeting.”

### David Clifford

Chairman of the Audit Committee  
23 June 2014

During the year the Audit Committee has undertaken the following tasks:

- considered our financial results announcements and financial statements and monitored compliance with relevant statutory and listing requirements;
- reported to the Board on the appropriateness of our accounting policies and practices;
- overseen the relationship with the external auditors including reviewing the independence, objectivity and effectiveness of the external auditors and, on the basis of that review, recommended to the Board their re-appointment at the AGM;
- reviewed the external auditors’ plan for the audit of the Group’s accounts, and approved the terms of engagement for the audit;
- reviewed the process for ensuring that senior management confirm that they have supplied the auditors with relevant audit information;
- approved the audit fees paid to the external auditors and reviewed the application of the policy on non-audit work performed by them together with the non-audit fees payable to them;
- reviewed the scope, resources, results and effectiveness of the activity of the Group internal audit department;
- reviewed the work of the Executive Risk Committee, which oversees the identification and management of the risks to the business, together with reports on the Group’s systems of internal control;
- performed in-depth reviews of specific areas of financial reporting, risk and internal controls and challenged the executives responsible for the relevant area;
- reviewed its terms of reference and effectiveness; and
- reviewed the whistleblowing policy and considered relevant items reported under that policy.



## Directors' report continued

### Audit Committee report continued

#### Composition

The Committee meets at least four times during the year. Meetings are attended by the members who are independent Non-Executive Directors and, by invitation, the Chairman, the Chief Executive (in the period to October 2013), the Group Finance Director, and the Director of Group Internal Audit. The external auditors, PricewaterhouseCoopers LLP (PwC), are invited to two meetings per year, preceding the announcement of our interim and full-year results. Other relevant people from the business are also invited to attend certain meetings in order to provide a deeper level of insight into certain key issues and developments. There are also regular private meetings with the external and internal auditors without management present.

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Company. The terms of reference are regularly reviewed by the Audit Committee and are then referred to the Board for approval. These are available on the Company's corporate website ([www.carptright.plc.uk](http://www.carptright.plc.uk)).

The Audit Committee is chaired by David Clifford. The Board has determined that Baroness Noakes and David Clifford have recent and relevant financial experience. Baroness Noakes stepped down from the Committee on 23 June 2014 and Andrew Page was appointed in her place. The biographies of the members of the Committee can be found on page 19. Details of membership and attendance are set out below:

Number of meetings:		4
Members	Attendance	Meetings eligible to attend
<b>David Clifford</b> Committee Chairman	4	4
<b>Alan Dickinson</b>	4	4
<b>Baroness Noakes</b>	4	4

#### Main activities of the Committee during the year

The Committee assisted the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal controls and has an agenda linked to events in the Group's financial calendar. It also reviewed the effectiveness of the Company's internal audit function and managed the Company's relationship with the external auditors. The Committee chairman reported to the Board, as part of a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of its work.

#### Financial reporting

The Committee reviewed with management and the external auditors, the half-year and annual financial statements, concentrating on, amongst other matters:

- the appropriateness and application of accounting policies and compliance with the relevant financial reporting requirements;
- material areas in which significant judgments have been applied or there has been discussion with the external auditors; and
- whether the Annual Report and Accounts contains the necessary disclosures to fairly reflect the Group's financial condition and results of its operations.

To aid its review, the Committee considered reports from the Group Finance Director and also reports from the external auditors on the outcomes of their half-year review and annual audit.

The primary areas of judgment considered by the Committee in relation to the 2014 accounts, and how these were addressed, are set out below. In all cases the Committee discussed with PwC its work in respect of these areas.

#### Goodwill impairment testing

The judgments in relation to goodwill impairment largely relate to the assumptions underlying the calculation of the value in use of the business being tested for impairment, primarily the achievability of the long-term business plan and macroeconomic assumptions underlying the valuation process. This was particularly challenging in relation to the Group's interests in the Netherlands and Belgium given lower medium-term visibility of economic and business performance and the possibility of material changes in valuation assumptions. The Committee addressed these matters through receiving reports from management and constructively challenged the assumptions used. The Committee agreed that no impairment was necessary.

#### Impairment of the valuation of property

The Group owns 44 freehold or long-leasehold properties and it is therefore a material consideration as to whether the value of these assets is appropriately reflected in the accounts. The Committee considered independent valuations by Jones Lang LaSalle, the underlying commercial market conditions and the value in use of the properties. Following review, the Committee agreed a net impairment charge of £1.9m, further details of which can be found in note 5 to the financial statements on page 60.

### Onerous lease provision

The practice is to treat a lease as being onerous if the store relative to the lease is closed. Management makes an assessment as to the cost of exiting the lease based on the Director of Property's best estimate as to the length of time to exit the property. The Committee considered these views and agreed with management that an increase in the onerous lease provision of £6.6m would be appropriate, further details of which can be found in note 5 to the financial statements on page 60.

### Going concern

In order to satisfy itself that the Company has adequate resources for the future and to underpin the use of the going concern assumption in preparing our financial statements, the Committee considered the latest financial projections, the expected progress of the business and its net debt, together with reports from management outlining the projected future cash flow and compliance with banking covenants. The Committee also considered management's assessment of the ability to raise finance, based upon the availability of assets which could be used as security if required. The Committee recommended to the Board that it was appropriate for the financial statements to be prepared on a going concern basis.

### Internal audit

The Committee considered and approved the Annual Internal Audit plan and at each meeting reviewed reports from the Group Director of Internal Audit, including those showing performance against the plan, and approved changes as appropriate. The reports include updates on audit activities, progress of the Group audit plan, the results of any unsatisfactory audits and the action plans to address these areas, and resource requirements of the Internal Audit department. The internal audit team utilises the services of Deloitte LLP to assist in the discharge of its functions. Private discussions are held with the Director of Group Internal Audit as necessary throughout the year.

### Internal control

The Committee reviewed the process by which the Group evaluated its control environment. Its work here is driven primarily by the work undertaken by the Group's Internal Audit department, which includes any reported fraud. The Director of Group Internal Audit monitored the timely implementation of any recommendations and reported to the Committee accordingly. The Committee also reviewed the documentation prepared to support the Board's annual statement on internal controls before its consideration by the full Board.

### Risk management

The Group's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. The Committee received and considered reports from the Group Finance Director on the Group's risk evaluation process and reviewed changes to significant risks identified. It also discussed emerging and potential risks.

The Committee reviewed, in detail, the assessment and controls for the principal risks and uncertainties as set out on pages 15 and 16. The work included a review of the controls in place to mitigate the risk, the assessment by the Director of Group Internal Audit and a discussion with the risk owner, being a member of the executive management team.

In addition, the Committee also considered in-depth reviews into the reasons behind stock losses suffered in Europe, cost reduction, budget planning, cash management and property risks.

The Committee considers these reviews to be an important part of its role, as they allow it to meet executive management responsible for these areas and undertake independent challenge of their activities.

### External audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received a detailed audit plan from PwC, identifying their assessment of these key risks. For the 2014 financial year the primary risks identified were in relation to goodwill impairment, impairment of property valuations together with work to support the going concern statement due to the judgment in these areas. These risks are tracked through the year and the Committee discusses the work done by the auditors to test management's assumptions and estimates around these areas. The Committee assesses the effectiveness of the audit process in addressing these matters through the reporting it receives from, and discussions with, PwC at both the half-year and year end. In addition, the Committee also seeks feedback from management on the effectiveness of the audit process.

For the 2014 financial year, management was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be good. The Audit Committee concurred with the view of management.

## Directors' report continued

### Audit Committee report continued

The Committee holds private meetings with the external auditors twice a year to provide additional opportunity for open dialogue and feedback from the auditors without management being present. Matters discussed include the transparency and openness of interactions with management and confirmation that there has been no restriction in scope placed on them by management. The Audit Committee chairman also meets with the audit partner from time to time outside the formal committee process.

#### Appointment and independence

The Committee and Board place great emphasis on the independence and objectivity of the Group's auditors, PwC, when performing their role in the Group's reporting to shareholders and considering their re-appointment each year.

The Committee reviews the independence, objectivity and performance of the auditors annually, including the annual report on the auditors produced by the Audit Quality Review Team of the Financial Reporting Council and the auditors' own annual report on its independence. On the basis of its reviews, the Committee made a recommendation on the reappointment of the auditors to the Board.

The external auditors are required to rotate the audit partner responsible for the Group audit every five years. The current audit partner has been in place for five years and the audit of this Annual Report and accounts is his last year as audit partner.

PwC have been auditors to the Company since 2005 when they were appointed following a competitive tender. The Company intends to retender the audit no later than 2019 when the incoming audit partner will have completed a five-year term. The auditors' tenure runs from one AGM to the next and there are no contractual obligations that restrict the Committee's choice of external auditors.

#### Non-audit services

To further safeguard the objectivity and independence of the external auditors from becoming compromised, the Committee has a formal policy governing the engagement of the external auditors to provide non-audit services. No material changes have been made to this policy during the year. This precludes PwC from providing certain services such as valuation work or the provision of accounting services and also sets a presumption that PwC should only be engaged for non-audit services where there is no practical alternative supplier bearing in mind the particular circumstances.

The auditors may only provide such services provided that such advice does not conflict with their statutory responsibilities and ethical guidance. There are financial limits in respect of which the engagement of PwC for non-audit services is pre-approved. For all other services, or those permitted services that exceed the specified fee limits, the Audit Committee Chairman's approval is required before PwC can provide non-audit services.

#### Audit and non-audit fees

Details of the auditors' remuneration for audit work and non-audit fees for the period ended 26 April 2014 are disclosed in note 3 to the financial statements on page 59. The Committee approved the fees for audit services for 2014 after a review of the level and nature of work to be performed and after being satisfied that the fees were appropriate for the scope of the work required.

#### Committee evaluation

The Committee's activities formed part of the external review of Board effectiveness performed in the year. Details of this process can be found on page 21.

# Directors' remuneration report

## Part 1 – Annual Statement from the Chair of the Committee

### Dear Shareholder,

I am pleased to present the Directors' Remuneration Report on behalf of the Board.

The Committee's policy is to provide remuneration packages for the Executive Directors that include an appropriate balance between the fixed and variable elements of pay, and which reflect their responsibilities relative to the size and nature of the business.

It is committed to ensuring that the Executives are rewarded for delivering the Company's growth plans and creating long-term shareholder value. The Committee aims to set levels of fixed pay that are competitive within the markets within which it competes for talent, and short- and long-term incentive opportunities at levels that are sufficient to motivate Executives to achieve the Company's short- and long-term goals without encouraging inappropriate behaviours. The remuneration strategy ensures that a significant element of Executives' remuneration remains 'at risk'.

This is the first year that the report is subject to a new reporting regime. As such, it has been separated into the following parts:

- This "Annual Statement", which identifies the key messages on remuneration for the year under review and explains the business context in which the Committee's major decisions during the period were taken;
- A forward looking "Directors' Remuneration Policy Report", which proposes an overall executive remuneration framework that will be adopted and operated by the Company in financial year 2015 and the following two financial years – if approved by shareholders the policy set out in this part of the report will become binding with effect from the AGM to be held on 4 September 2014; and
- An "Annual Report on Remuneration", which provides shareholders with details of the remuneration that was actually delivered to the Company's Directors during financial year 2014 and explains how the new policy referred to above will be applied in financial year 2015 – this final part of the report will be subject to an advisory vote at the forthcoming AGM.

In October the Remuneration Committee needed to make a number of key decisions following Darren Shapland's departure from the role of Chief Executive. He stood down in October 2013 and Lord Harris assumed the responsibilities of Executive Chairman. Darren Shapland's employment with Carpetright formally ended at the end of April 2014 and he will receive payments in respect of salary and benefits in line with his contract until the end of his notice period in October 2014. His awards under the long-term incentive and other share arrangements lapsed.

Consequent upon Darren Shapland's departure, Graham Harris, who joined the Company in May 2013 as the Trading Director, was promoted to the Board as the Group's Chief Operating Officer. His remuneration was set by the Committee in line with the policy outlined in the Directors' Remuneration Policy Report. His salary on promotion was £325,000 and his benefits, pension and incentive arrangements were in line with those offered to other Executive

Directors. No awards were made in connection with his promotion and he participated in the 2013 annual bonus arrangements on the same terms as other Directors and received an award under the LTIP at the same time as other Executive Directors in January 2014. Graham has since left the Company and he will receive his salary and benefits to the end of his notice period in November 2014 in line with his contract.

The Committee reviewed Lord Harris' remuneration as a result of changes to his responsibilities on initially reducing his time commitment as part of the managed handover to Darren Shapland and subsequently increasing his commitment upon becoming Executive Chairman. His salary was consequently reduced from £300,000 to £225,000 with effect from 1 June 2013, and then increased to £400,000 with effect from 3 October 2013. His salary is remaining at this level until the Annual General Meeting to reflect the substantial time commitment to facilitate a successful handover to Wilf Walsh as the incoming Chief Executive.

On appointment of Wilf Walsh as Chief Executive with effect from 21 July 2014, the Committee has determined that his salary will be in line with that of the previous Chief Executive, namely £450,000, with a maximum cash bonus of 100% of salary, pension allowance of 20% of salary and his award under the LTIP at 150% of salary in the first year.

The Committee also reviewed the proposed award levels and targets for the first awards under the Carpetright Long-Term Incentive Plan 2013. This was approved at the AGM in September 2013 and it was intended that for the first two years enhanced awards of up to 250% of salary would be made under the plan. These were to be subject to stretching performance conditions linked to the strategy developed under Darren Shapland. Following his departure, the Committee decided that it would not be appropriate to make awards at this level as any incoming new Chief Executive might develop a different strategy, potentially making the proposed targets inappropriate. As a result, the value of shares over which the first awards were made under the plan on 13 January 2014 was reduced and subject to revised targets.

The performance targets for Executive Directors relating to the 2014 annual bonus were not achieved and, therefore, no payment will be made. The structure of the annual incentive arrangements for the financial year ending 2015 for Executive Directors will be based upon the achievement of underlying profit targets and strategic objectives. Subject to commercial confidentiality, performance against these targets will be disclosed in next year's report. Financial performance in 2014 resulted in a determination that none of the long-term incentive awards made in 2011 would vest and all awards made will therefore lapse. The Committee reviewed the salaries of the Executive Directors in early 2014 and determined that base salaries are broadly in line with market and that no increase would therefore take place.

I will be available to answer any questions at the AGM in September and hope that you will support the Directors' Remuneration Report and Annual Report on Remuneration at our forthcoming meeting.

### Alan Dickinson

Chairman of the Remuneration Committee

23 June 2014

## Directors' report continued

## Directors' remuneration report continued

**Part 2 – Directors' Remuneration Policy Report**

## Introduction

This report sets out the information required by Part 4 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The report also satisfies the relevant requirements of the Listing Rules of the Financial Conduct Authority, and describes how the Board has applied the principles and complied with the provisions relating to directors' remuneration in the UK Corporate Governance Code.

As part of its responsibilities the Remuneration Committee prepares the Policy Report, below, which sets out the remuneration policy which applies to the Directors of the Company with effect from 27 April 2014. The content of the Policy Report will be subject to a binding vote at the AGM to be held on 4 September 2014 and will take formal effect immediately upon receipt of such approval from shareholders.

The Committee also determines the remuneration policy for the senior management of the Company, including the Company Secretary and such other members of the senior executive as it is designated to consider by the Board. Its aim is to attract, motivate and retain executives of the appropriate calibre and expertise, so that the Company is managed successfully for the benefit of its stakeholders. The framework has been designed as an integral part of the Company's overall business strategy.

A description of each of the elements to be comprised in the remuneration package for the Company's Directors is as follows:

**Policy Table – Elements of Directors' remuneration package**

Remuneration element	Purpose and link to strategy	Operation	Maximum	Performance measurement
<b>Base salary</b>	Helps to recruit and retain Executive Directors.  Reflects responsibilities, performance, experience and role.	Generally reviewed annually (with any change effective in May) but exceptionally at other times of the year.  Set with reference to individual performance, experience and responsibilities, reflecting the market rate for the individual and their role.  When reviewing the salaries of the Executive Directors, the Committee also has regard to the impact on the cost of pension provision and pay and conditions elsewhere in the Group. In particular, the Committee takes account of the level of salary increases awarded to other employees of the Group when deciding on increases for Executive Directors.	Annual increases generally in line with the level of standard increase awarded to other employees.  More significant increases may be awarded at the discretion of the Committee in connection with: <ul style="list-style-type: none"> <li>• an increase in the scope and responsibility of the individual's role; or</li> <li>• the individual's development and performance in the role following appointment.</li> </ul>	Not applicable
<b>Benefits</b>	Helps recruit and retain Executive Directors.	Executive Directors are entitled to a competitive package of benefits, including car benefits, life assurance and private medical cover.	A car allowance up to a value of £27,500. The cost to the Company of other benefits is not predetermined and may vary from year to year.	Not applicable



Remuneration element	Purpose and link to strategy	Operation	Maximum	Performance measurement
<b>Annual bonus</b>	Rewards the achievement of annual KPIs and/or other objectives linked to the Company's strategic goals.	<p>Bonuses are awarded by reference to performance against specific targets measured over a single financial year.</p> <p>Any amounts awarded to an Executive Director under this arrangement are paid out in full shortly after the assessment of the performance targets has been completed.</p> <p>Bonuses do not form part of the Executive Directors' pensionable earnings.</p> <p>Bonuses are subject to clawback at the discretion of the Committee in the event of a material misstatement of the financial results, an error in assessing the size of the bonus or where the individual had committed an act of gross misconduct during the relevant financial year.</p>	<p>Maximum (as a percentage of salary): 100%</p> <p>Minimum bonus that can be paid: 0%</p> <p>The percentage payable for on-target performance is determined by the Committee each year in light of the degree of stretch in the targets and affordability of the resulting bonus payouts relative to budgeted levels of profit.</p>	<p>The measures and targets are set annually by the Committee in order to ensure they are relevant to participants and take account of the most up-to-date business plan and strategy.</p> <p>All or a significant majority of the bonus opportunity will normally be determined by reference to performance against a demanding Group underlying profit target.</p> <p>Additional targets applied may relate to the achievement of specific strategic or personal objectives. These measures will be disclosed in the Annual Report on Remuneration, where not deemed commercially sensitive.</p>
<b>Long Term Incentive Plan ('LTIP')</b>	Incentivises Executive Directors to deliver superior levels of long-term performance for the benefit of shareholders, thereby aligning their interests with those of the Company's investors.	<p>The current LTIP was approved at the 2013 AGM (Carpentright Long Term Incentive Plan 2013).</p> <p>Awards consist of annual awards of performance shares that vest three years after grant to the extent that performance conditions have been met over a three year performance period.</p> <p>Awards are subject to clawback at the discretion of the Committee in the event of a material misstatement of the financial results, an error in the calculation of performance conditions or if the participant ceases to be employed as a result of misconduct.</p>	<p>Awards made in the 2014 and 2015 financial years:</p> <ul style="list-style-type: none"> <li>The rules permit a maximum of 250% of salary, although only approximately 150% of salary was, or will be, awarded.</li> </ul> <p>Awards from 2016 financial year onwards:</p> <ul style="list-style-type: none"> <li>Normal maximum of 150% of salary.</li> <li>Exceptional circumstances maximum 250% of salary.</li> </ul>	<p>Awards made prior to the 2014 financial year are subject to targets based on growth in EPS over three years and are disclosed in the Annual Report on Remuneration.</p> <p>Awards made in the 2014 and 2015 financial years are subject to performance conditions measuring growth in the Company's underlying profit before tax.</p> <p>For awards made in the 2014 and 2015 financial years, 25% will vest at threshold.</p> <p>The Committee has discretion to set different targets for future awards.</p>

## Directors' report continued

## Directors' remuneration report continued

Remuneration element	Purpose and link to strategy	Operation	Maximum	Performance measurement
<b>Pension</b>	Helps recruit and retain Executive Directors.	The Company previously operated a defined benefit pension plan, the Carpetright plc Pension Plan, which closed to future accrual from 30 April 2010.  In its place, the Company operates a defined contribution Group Personal Pension Plan ('GPPP'). Executive Directors are offered a specific percentage of their base salary to fund their own pension provision. The Executive Directors are able to choose whether the allowance is paid to the GPPP or to receive the allowance by way of a salary supplement.	Maximum allowance of 20% of base salary.	Not applicable
<b>All employee share schemes, including a Sharesave Plan and Share Incentive Plan ('SIP')</b>	Encourages a broad range of employees to become long-term shareholders.	The Company operates HM Revenue and Customs approved Sharesave and SIP plans with standard terms.	Sharesave and SIP participation limits are as set by the UK tax authorities from time to time.	Not applicable

## Notes:

- A description of how the Company intends to implement the policy set out in this table for the financial year ended 2015 is set out in the Annual Report on Remuneration on page 35.
- The remuneration policy for the Executive Directors and other senior executives is designed with regard to the policy for employees across the Group as a whole. However, the differences set out above arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the Executive Directors and senior executives, a greater emphasis is typically placed on performance-related pay.
- The following differences exist between the above policy for the remuneration of Directors and its approach to the payment of employees generally:
  - a lower level of maximum annual bonus opportunity applies to employees other than the Executive Directors and certain senior managers;
  - store-based colleagues receive commission based upon sales achieved, and field-based colleagues receive bonuses based upon the performance of their sphere of responsibility;
  - participation in the LTIP is limited to the Executive Directors and certain selected senior managers. Other employees are eligible to participate in the Company's all employee share schemes;
  - under the Company's defined contribution pension scheme, the Company contribution for less senior employees is lower than that provided to Executive Directors; and
  - benefits offered to other employees generally comprise pension and colleague discount.
- The Committee may grant awards under the LTIP as conditional share awards or nil (or nominal) cost options. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so. The Committee may decide that participants will receive a dividend equivalent payment (in cash and/or shares) on or shortly following the vesting of their awards.
- The choice of the performance metrics applicable to the annual bonus reflect the Committee's aim that annual incentives should promote growth in underlying earnings, while also promoting the achievement of key non-financial objectives. The LTIP performance measure captures long-term growth in earnings performance, which we believe is most closely aligned with the financial performance expected by our shareholders. In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. More generally, the Committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking.
- For the LTIP award made in 2014, the Committee decided to measure performance on a cumulative basis in order to ensure consistent enhanced performance as well as, given the current economic uncertainty, reducing the risk that a change in economic conditions in a single year of the performance period will unduly influence performance against the targets.
- The Company has a share ownership policy that requires the Executive Directors to build up and maintain a target holding equal to 100% of base salary. Until such a holding is achieved, an Executive Director is obliged to retain shares with a minimum value equal to 50% of the net of tax gain arising from any vesting or exercise under the Company's share incentive plans. Details of the extent to which the Executive Directors had complied with this policy as at 26 April 2014 are set out on page 43.

### Incentive plan determinations and discretions

The Committee will operate the annual bonus and LTIP according to their respective rules, the policy set out above and in accordance with the Listing Rules and HMRC rules where relevant. A copy of the LTIP rules is available on request from the Company Secretary. The Committee, consistent with market practice, is required to make certain determinations under and retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following:

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or a payment (within the limits set out in the policy table above);
- the choice of (and adjustment of) performance measures and targets for each incentive plan in accordance with the policy set out above and the rules of each plan;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- determination of good leaver status for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen; and
- making adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends), provided that the revised conditions or targets are not materially less difficult to satisfy.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

### Legacy arrangements

In approving the Policy Report, authority is given to the Company to honour any commitments entered into with current or former Directors that have been disclosed previously to shareholders. It is also part of this policy that we will honour payments or awards crystallising after the effective date of this policy but arising from commitments entered into prior to the effective date of the new policy, or at a time when the relevant individual was not a Director of the Company.

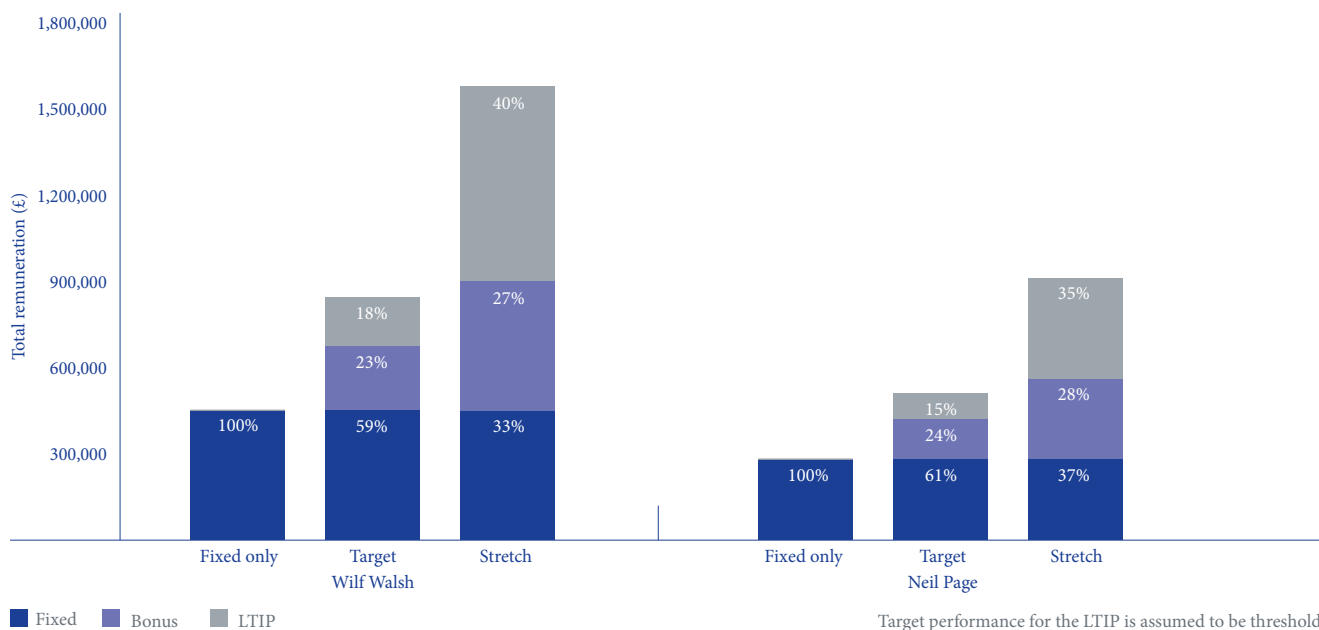
### Consideration of employee views

Although the Committee does not formally consult employees on executive remuneration, the Committee considers the general basic salary increase as well as pay and conditions for the broader employee population when determining the annual salary increases for the Executive Directors.

## Directors' report continued

### Directors' remuneration report continued

#### Application of Remuneration Policy



The chart above illustrates how the total pay opportunities for the Executive Directors vary under three performance scenarios: Minimum, On-Target and Maximum.

#### Assumptions:

- Fixed only – fixed pay only, including base salary (at current rates), 20% pension allowance (based on current base salary) and benefits as disclosed (for Neil Page) in the single figure table on page 37.
- On-target – fixed pay, plus 50% of salary annual bonus, plus 37.5% of salary LTIP vesting (Wilf Walsh) / 31.25% of salary LTIP vesting (Neil Page)
- Maximum – fixed pay, plus 100% of salary annual bonus, plus 150% of salary LTIP vesting (Wilf Walsh) / 125% of salary LTIP vesting (Neil Page)

#### Service agreements and policy on termination

It is the Company's policy to employ UK Executive Directors under contracts with an indefinite term subject to termination by notice given by either party, normally of 12 months or less. Non-UK Executive Directors would be employed under contracts with similar terms to those of UK Executive Directors, subject to market practice and laws of any other jurisdiction where an employee is based.

The Company seeks to avoid any payment for failure. The circumstances of the termination (taking into account the individual's performance) and an individual's duty and opportunity to mitigate losses are taken into account in every case.

If the Company terminates employment without giving full notice to the Executive Director, under the Service Contracts the Company has the option to either:

- pay damages calculated by reference to common law principles, including an obligation on the Executive Director to mitigate loss; or
- make a payment in lieu of notice calculated by reference to basic salary and benefits only. Such payments may be phased and would be reduced or terminated if alternative employment was secured during the notice period. There is also a requirement to mitigate loss.

The Company also retains flexibility to pay reasonable legal fees and other costs incurred by the individual that are associated with the termination and to provide outplacement services.

In addition, the Company would honour any legal entitlements, such as statutory redundancy payments, that executives may have on termination.

No bonuses are payable to individuals who are no longer employed or are under notice at the end of the financial year.

Long-term incentive awards lapse on cessation of employment other than in certain 'good leaver' circumstances (including death, retirement with the agreement of the Committee, redundancy, ill-health, or because the individual's employing company or part of the business in which employment is transferred out of the Group or as otherwise determined by the Committee). Where an individual is a 'good leaver', awards would not lapse but would normally continue to vest at the end of the original performance period but only if, and to the extent that, the applicable performance conditions are satisfied. Awards would also normally be subject to a pro-rata reduction to take account of the proportion of the vesting period that has elapsed, although the Committee has discretion to disapply pro-rating in certain circumstances. On a change of control awards would vest early, subject to performance conditions being achieved, and would normally be subject to a pro-rata reduction, although the Committee has discretion to disapply pro-rating.

Martin Harris has resigned with effect from the close of the AGM to be held on 4 September 2014. Graham Harris was entitled to six months notice under his contract. Notice was given to him on 20 May 2014. Neil Page and Wilf Walsh have contracts of an indefinite term, subject to a 12 month notice period. Non-Executive Directors are entitled to one month's notice.

### Recruitment remuneration

Salaries for new hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning and the market rate for the role. If it is considered appropriate to appoint a new Director on a below market salary (for example, to allow them to gain experience in the role), their salary may be increased to a market level over a number of years by way of a series of increases above the general rate of wage growth in the Group and inflation.

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. The Committee has discretion to set different targets and/or vary the weightings of the targets used in the annual bonus and LTIP for the first year following appointment. In addition, the Committee may offer additional cash and/or share-based elements if it considers these to be in the best interests of the Company (and therefore shareholders). Any such additional cash and/or share-based payments would be: (i) based solely on remuneration lost when leaving the former employer and would reflect (as far as practicable) the delivery mechanism, time horizons and performance requirement attaching to that remuneration; and (ii) delivered under the Group's existing incentive arrangements to the extent possible, although awards may also be granted outside these schemes, if necessary, and as permitted under the Listing Rules.

In the case of an internal appointment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the Board appointment).

The Committee may also agree that the Company will compensate executives, both internal and external, for certain relocation expenses as appropriate. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with the Company. Legal fees and other costs incurred by the individual may also be paid by the Company.

Fees for new Non-Executive Directors would be set in line with the policy outlined overleaf.



## Directors' report continued

### Directors' remuneration report continued

#### Outside appointments of the Chairman and Executive Directors

Executive Directors retain remuneration from outside non-executive directorships. During the year Lord Harris waived his directors' fees payable by Arsenal Holdings plc and Arsenal Football Club plc. Wilf Walsh is a non-executive director of Gala Coral and will be entitled to retain his fees from this directorship.

#### Policy for Non-Executive Directors

The Non-Executive Directors do not have service contracts. They are appointed for an initial three year period, subject to being re-elected by members annually.

Remuneration element	Purpose and link to strategy	Operation	Maximum
<b>Non-Executive Directors' fees</b>	Helps recruit and retain high quality, experienced individuals.  Reflects time commitment and role.	Consist of annual basic fee plus additional fees payable to the Deputy Chairman, and the Chair of each of its Committees.  Limited benefits relating to travel, accommodation and hospitality may be provided in relation to the performance of any Directors' duties.  Non-Executive Directors' fees are set by the Executive Directors with reference to external data on fee levels in similar businesses, having taken account of the responsibilities of individual Directors and their expected annual time commitment.	The aggregate amount of Directors' fees is limited by the Company's Articles of Association.

All Non-Executive Directors are entitled to receive one month's notice under their respective letters of appointment.

#### Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received on the Directors' Remuneration Report each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy.

Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year are set out in the Annual Report on Remuneration.

## Part 3 – Annual report on remuneration

### Introduction

This annual report on remuneration provides details of the way in which the Committee implemented its policy during the financial year to 26 April 2014. It also summarises how the policy contained within the Directors' Remuneration Policy Report on pages 28 to 34 will be applied in the financial year ending 2 May 2015.

It has been prepared in accordance with Part 3 of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). In accordance with the Regulations, this part of the report will be subject to an advisory vote at the forthcoming AGM on 4 September 2014.

The Company's auditors are required to report to Carpetright's shareholders on the "auditable parts" of this Annual Report on Remuneration (which have been highlighted as such below) and to state whether, in their opinion, those parts have been properly prepared in accordance with the Regulations and the Companies Act 2006.

### Operation of the Remuneration Committee during 2014

The Remuneration Committee is chaired by Alan Dickinson. Details of its membership and attendance are set out below:

Number of meetings:		5
Members	Attendance	Meetings eligible to attend
<b>Alan Dickinson</b> Committee Chairman	5	5
<b>Baroness Noakes</b> (Until 23 June 2014)	5	5
<b>Sandra Turner</b>	5	5
<b>Andrew Page</b>	4	4

The Non-Executive Directors who served on the Committee had no personal financial interest (other than as shareholders) in the matters decided, no potential conflicts of interest from cross-directorships and no day-to-day involvement in running the business. Biographical information on the Committee members is shown on page 19. The Company Secretary (Jeremy Sampson) acts as secretary to the Committee.

At the invitation of the Committee, the Chairman (Lord Harris), Group Finance Director (Neil Page), and the Director of Human Resources (Steve Carpenter up until March 2014 and Matthew Blake thereafter) regularly attend Committee meetings. The Chief Executive (Darren Shapland) also attended meetings of the Committee prior to stepping down from the Board in October 2013. The Committee considers their views when reviewing the remuneration of the Executive Directors and Senior Executives. They are not involved in decisions concerning their own remuneration.

The responsibilities of the Committee include:

- determining and agreeing with the Board the broad remuneration policy for the Chairman, Executive Directors and Senior Executives;
- setting individual remuneration arrangements for the Chairman and Executive Directors;
- recommending and monitoring the level and structure of remuneration for those members of senior management within the scope of the Committee; and
- approving the service agreements of each Executive Director, including termination arrangements.

The Committee's terms of reference are available on the Company's corporate website ([www.carpetright.plc.uk](http://www.carpetright.plc.uk)).

## Directors' report continued

## Directors' remuneration report continued

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was advised by New Bridge Street (a trading name of Aon Hewitt Limited, part of Aon plc). The Committee's advisers attended one of the five Committee meetings. New Bridge Street, which is a signatory to the Remuneration Consultants' Group Code of Conduct for Executive Remuneration Consultants, did not provide other services to the Company. Fees paid by the Company to New Bridge Street during the year amounted to £51k (2013: £45k). Although other members of the Aon plc group of companies provided insurance broking and advisory services to the Company, the Committee is satisfied that the provision of such services did not create any conflict of interest. The Committee reviews the effectiveness and independence of its advisers on an annual basis.

As outlined in the Annual Statement, during the year the Committee consulted with its major shareholders on the introduction of the new LTIP and the targets for the first awards proposed to be made following its introduction. Following Darren Shapland's departure as Chief Executive, the Committee reviewed the level of the proposed LTIP awards and its performance targets, and decided to delay the grant of enhanced awards until a successor to Darren Shapland could be appointed. Instead, awards over a reduced value of shares which are subject to revised targets were granted in January 2014. The awards and targets are described later in this report.

In addition, it also considered the following:

- the level of executive and all employee salary increases;
- performance against the targets for the 2013 annual bonus (and following the year end, the 2014 annual bonus);
- the content of and changes to reporting requirements for the Directors' remuneration report;
- the introduction of a new Save-As-You-Earn Scheme (SAYE) and the scheme rules; and
- the launch of an annual invitation under the SAYE scheme.

## Statement of shareholder voting at the 2013 AGM

The table below shows the voting outcome at the 5 September 2013 AGM for the 2013 Directors' remuneration report and other remuneration-related resolutions:

	For (including discretionary votes)	Against	Total votes cast (for and against excluding votes withheld)	Votes withheld <sup>1</sup>	Total votes cast (including withheld votes)
To approve the Remuneration Report	43,598,373	1,112,222	44,710,595	746,159	45,456,754
% votes cast	97.6%	2.4%	100%	–	–
To approve the Carpetright plc 2013 Sharesave Plan	43,985,810	1,468,927	45,454,737	2,017	45,456,754
% votes cast	96.8%	3.2%	100%	–	–
To approve the rules of the Long-Term Incentive Plan	29,552,429	10,056,605	39,609,034	5,847,720	45,456,754
% votes cast	74.6%	25.4%	100%	–	–

Note:

1. A vote withheld is not a vote in law.

## Single total figure table for financial year ended 2014 (audited)

The remuneration of the Directors for the year was as follows:

	Notes	Salary and fees £000	Benefits <sup>1</sup> £000	Pension <sup>2</sup> £000	Subtotal fixed remuneration £000	Bonus <sup>3</sup> £000	Long-term incentives <sup>4</sup> £000	Other £000	Subtotal variable remuneration £000	Single figure for total remuneration £000
<b>Executive Directors</b>										
Lord Harris	5	332	33	–	365	–	–	–	–	365
Neil Page		280	29	56	365	–	–	–	–	365
Graham Harris	6	187	16	38	241	–	–	–	–	241
Martin Harris		280	32	56	368	–	–	–	–	368
Darren Shapland	7	191	12	38	241	–	–	–	–	241
<b>Total</b>		1,270	122	188	1,580	–	–	–	–	1,580
<b>Non-Executive Directors</b>										
Baroness Noakes		60	–	–	60	–	–	–	–	60
Alan Dickinson		44	–	–	44	–	–	–	–	44
Sandra Turner		44	–	–	44	–	–	–	–	44
David Clifford		44	–	–	44	–	–	–	–	44
Andrew Page		33	–	–	33	–	–	–	–	33
<b>Total</b>		225	–	–	225	–	–	–	–	225

The remuneration of the Directors for the financial year ended 2013 was as follows:

	Notes	Salary and fees £000	Benefits £000	Pension £000	Subtotal fixed remuneration £000	Bonus £000	Long-term incentives £000	Other £000	Subtotal variable remuneration £000	Single figure for total remuneration £000
<b>Executive Directors</b>										
Lord Harris		307	35	–	342	–	–	–	–	342
Neil Page		280	29	56	365	80	–	–	80	445
Martin Harris		280	32	56	368	80	–	–	80	448
Darren Shapland	8	439	27	87	553	118	–	345	463	1,016
<b>Total</b>		1,306	123	199	1,628	278	–	345	278	2,251
<b>Non-Executive Directors</b>										
Baroness Noakes		60	–	–	60	–	–	–	–	60
Alan Dickinson		44	–	–	44	–	–	–	–	44
Sandra Turner		43	–	–	43	–	–	–	–	43
David Clifford		43	–	–	43	–	–	–	–	43
<b>Total</b>		190	–	–	190	–	–	–	–	190

Notes:

- The main benefits available to the Executive Directors during 2014 were a car allowance (£27,500 p.a.), life assurance (4 times salary) and private medical cover.
- Additional disclosures relating to the pension provision for the Executive Directors during 2014 are set out on page 38.
- This column shows the amount of bonus paid or payable in respect of the year in question. Further information in relation to the annual bonus for 2014 is provided on page 38.
- This column shows the value of shares that vested in respect of LTIP awards with performance conditions that ended during the relevant period. Details of the vesting of the 20 September 2011 awards (included in the 2014 Single Figure) are provided on page 38. The LTIP award granted on 16 September 2010 was based on EPS performance over the three years ended 27 April 2013 (included in the 2013 Single Figure); the condition was not met so no awards vested. Further details of the LTIP's operation during 2014 are provided on page 39.
- Lord Harris's remuneration reduced to £225k on 1 July 2013 as a result of a reduced time commitment, but increased to £400k on 3 October 2014 on becoming full-time Executive Chairman.
- Graham Harris's salary and benefits are shown from the period from 3 October 2013 on joining the Board to the end of April 2014. Graham stepped down from the Board on 20 May 2014. As part of his termination arrangements he will continue to receive phased payments for the balance of his six month notice period whilst he is on garden leave. This will amount to a maximum of £231,000 (from 1 May 2014 to 20 October 2014) and is based on his base salary and benefits only for that period. He has not received a bonus in respect of the 2014 financial year and if the outstanding long-term incentive awards vest, there will be a pro-rata reduction in the number of shares on a time basis.
- Darren Shapland stood down as Chief Executive and from the Board on 3 October 2013 and his employment ceased at the end of April 2014. In respect of the period since 3 October 2013, Darren received his pay salary (£248k), benefits (£17k) and pension allowance (£52k) to 30 April 2014. The amount in respect of salary was reduced by fee income being received by Darren from other non-executive directorships. As part of his termination arrangements he will continue to receive phased payments for the balance of his 12 month notice period. This will amount to a maximum of £248,325 for the period from 1 May 2014 to 3 October 2014 and is based on his base salary and benefits only for that period, and is subject to mitigation and offset against any new employment or non-executive directorships. He has not received a bonus in respect of the 2014 financial year and his outstanding long-term incentive awards lapsed.
- The other payment relates to the buyout of an LTIP that lapsed from previous employment as a result of joining the Company.

## Directors' report continued

## Directors' remuneration report continued

**Pensions (audited)**

As explained in the Directors' remuneration policy report set out on page 30, the Company operates a defined contribution pension scheme and a legacy defined benefit scheme.

Executive Directors are offered an allowance of 20% of their base salary to fund their own pension provision. The individual is able to choose whether this allowance is paid to the Company's defined contribution Group Personal Pension Plan ('GPPP') or paid by way of a salary supplement.

Martin Harris and Graham Harris receive their allowance as a salary supplement. Neil Page splits his allowance between a contribution to the GPPP scheme and a salary supplement. Lord Harris is in receipt of a pension and does not receive a salary supplement.

Martin Harris is a deferred member of the Carpetright plc Pension Plan, which is a defined benefit scheme and closed to future accrual from 30 April 2010. Lord Harris receives a pension under the plan.

Details of pensions earned by the Directors who are members of the Plan are shown below:

	Accrued pension		Increase in accrued pension during the year £000 pa	Increase in pension during the year net of inflation <sup>1</sup> £000	Normal retirement age	Transfer value increase in year £000
	Pension accrued at 27 April 2013 £000 pa	Pension accrued at 26 April 2014 £000 pa				
Lord Harris <sup>3</sup>	31.0	32.0	1.0	–	Retired	(62)
Martin Harris	17.8	18.2	0.4	–	60	(44)
Darren Shapland <sup>4</sup>	6.6	6.8	0.2	–	60	(17)

Notes:

1. The cost to the Plan of the increase represents the incremental value to the Director of his service during the period, calculated on service to 30 April 2010. It is based on the increase in accrued pension net of inflation after deducting the Director's contribution.
2. The total change in value includes the effects of fluctuations in the transfer value due to factors beyond the control of the Company and the Directors, such as stock market movements. It is calculated after deducting Directors' contributions.
3. Lord Harris has been in receipt of pension since September 2007.
4. Darren Shapland ceased to be a Director on 4 October 2013 and ceased employment on 30 April 2014.

**Annual incentives – 2014 structure and outcome (audited)**

In respect of the financial year ended 2014, Executive Directors were eligible to receive an annual performance bonus, which is a proportion of salary based on the achievement of the annual budgeted underlying profit.

The maximum bonus opportunity for Executive Directors for the 2014 financial year was 100% (2013: 100%) of basic salary, with 40% (2013: 30%) of salary payable for on-target performance. Of the 2014 bonus, 90% was dependent on underlying profit before tax targets. The target at which minimum bonus is payable was set at a level in excess of the underlying profit before tax achieved in the financial year ended 2013. The remaining 10% of the bonus was only payable if threshold performance had been reached for underlying profit before tax and was determined by reference to internal customer service targets, measured through average marks received for UK mystery shopper visits.

Metric	Threshold (0% payout)	Target (40% payout)	Maximum (100% payout)	Actual performance	Maximum percentage of bonus	Actual percentage of bonus
Underlying profit before tax (£m)	<10	15	19	4.6	90%	0%
Customer service targets (%)	–	–	72.5	68.2	10%	0%
Bonus payout					100%	0%

**Long-term incentives (audited)**

LTIP granted 20 September 2011 (included in 2014 column in Single Figure Table above)

The LTIP awards granted on 20 September 2011 were based on performance to the year ended 26 April 2014. There was a single EPS performance condition relating to these awards:

Underlying EPS for the financial year ended 26 April 2014	Vesting level
Below 21.1 pence	0%
21.1 pence	25%
Between 21.1 pence and 24.0 pence	25% – 100% pro rata
24.0 pence or more	100%

Actual EPS for the full year ended April 2014 was 4.7p. As a result, none of the awards will vest.



### Grants made under the 2013 LTIP in financial year ended 2014

The grants made under the LTIP in 2014, which will vest in January 2017 based on performance over the three financial years beginning 28 April 2013, are shown in the table below:

	Basis of grant	Number of nil cost options	Face value <sup>1</sup>	Performance condition			Performance measure
				End of performance period	Threshold vesting	Maximum vesting	
Graham Harris <sup>2</sup>	c. 150% of salary	97,826	£495,000	2016	25%	100%	Cumulative underlying profit before tax
Neil Page	125% of salary	69,169	£350,000	2016	25%	100%	Cumulative underlying profit before tax
Martin Harris <sup>3</sup>	100% of salary	55,335	£280,000	2016	25%	100%	Cumulative underlying profit before tax

Notes:

- Valued using the share price at the date of grant (13 January 2014), being 506p per share.
- Graham Harris is a good leaver under the rules of the scheme and if these vest there will be a pro-rata reduction in the number of shares, so the maximum number that could vest is 10,869 shares.
- Martin Harris's awards will lapse on 4 September 2014 following his resignation.

Awards will vest according to performance against the cumulative underlying profit before tax, as set out below:

Cumulative underlying profit before tax over the performance period	Vesting level	% of award that vests (on a straight line basis between points)	Compound profit growth from 2013
Less than £44m	Nil	0%	<22%pa
£44m	Threshold	25%	22%pa
£60m	Maximum	100%	41%pa

### Summary of all share awards to Directors under the Long-term incentive plans

Set out below is a summary of all share awards as at 26 April 2014.

	Date granted	Balance at 27 April 2013	Granted during year	Share price at grant (p)	Vested during year	Market price at date of vesting	Market price at date of exercise	Lapsed during year	Amount realised on vesting	Balance at 26 April 2014	Actual/expected vesting date
Graham Harris	13 Jan 2014 <sup>4,5</sup>	–	97,826	506	–	–	–	–	–	97,826	Jan 2017
Neil Page	16 Sept 2010 <sup>1</sup>	37,837	–	740	–	–	–	37,837	–	–	Sept 2013
	20 Sept 2011 <sup>2</sup>	57,601	–	486	–	–	–	–	–	57,601	Sept 2014
	20 Sept 2012 <sup>3</sup>	42,200	–	664	–	–	–	–	–	42,200	Sept 2015
	13 Jan 2014 <sup>4</sup>	–	69,169	506	–	–	–	–	–	69,169	Jan 2017
Martin Harris	16 Sept 2010 <sup>1</sup>	37,837	–	740	–	–	–	37,837	–	–	Sept 2013
	20 Sept 2011 <sup>2</sup>	57,601	–	486	–	–	–	–	–	57,601	Sept 2014
	20 Sept 2012 <sup>3</sup>	42,200	–	664	–	–	–	–	–	42,200	Sept 2015
	13 Jan 2014 <sup>4</sup>	–	55,335	506	–	–	–	–	–	55,335	Jan 2017
Darren Shapland	28 June 2012 <sup>6</sup>	92,573	–	486	–	–	–	92,573	–	–	Jun 2015
	20 Sept 2012	67,822	–	664	–	–	–	67,822	–	–	Sept 2016

Notes:

- The 2010 awards were measured by reference to percentage growth in underlying EPS. The performance condition was not met and the awards lapsed during the year.
- The 2011 awards were measured by reference to percentage growth in underlying EPS. The performance condition was not met and the awards will lapse in September 2014 (see page 38).
- None of the 2012 awards vest if underlying EPS is less than 21.1p in the financial year 2014/15. If underlying EPS is 21.1p then 25% of the award vests and if EPS is 24.0p all of the award vests. For growth between these two points between 25% and 100% vests on a sliding scale. The 2012 awards are not expected to vest.
- The performance conditions relative to the awards are described on page 39. The awards, which are expressed as options, are subject to an exercise price of £nil.
- Graham Harris is a good leaver under the rules of the scheme and if these vest there will be a pro-rata reduction in the number of shares.
- Darren Shapland's 28 June 2012 award was made under rule 9.4.2 of the Listing Rules. The share price used was the same share price as was used for the awards made in September 2011 and the terms are identical to those of the 2011 awards.

## Directors' report continued

## Directors' remuneration report continued

## All-employee share plans

Details of options awarded to the Executive Directors under the Sharesave plan during the course of the year are as follows:

	Granted during year	Exercise price pence	First exercise date	Last exercise date
Lord Harris	3,712	404	April 2019	October 2019
Neil Page	2,227	404	April 2017	October 2017
Graham Harris	3,712	404	April 2019	October 2019

Note:

- Graham Harris ceased to be a Director on 20 May 2014 and will cease employment on 20 November 2014.

## Sharesave options

At the end of the year, the Executive Directors' SAYE share options were as follows:

	As at 27 April 2013	Granted during year	Exercised during year	Lapsed during year	As at 26 April 2014	Exercise price pence	First exercise date	Last exercise date
Lord Harris	5,491	–	5,491	–	–	295	Apr 2014	Oct 2014
	–	3,712	–	–	3,712	404	Apr 2019	Oct 2019
Martin Harris	5,491	–	5,491	–	–	295	Apr 2014	Oct 2014
Neil Page	5,491	–	5,491	–	–	295	Apr 2014	Oct 2014
	–	2,227	–	–	2,227	404	Apr 2017	Oct 2017
Graham Harris	–	3,712	–	–	3,712	404	Apr 2019	Oct 2019

Note:

- The market price of Carpetright shares was 597 pence on 26 April 2014 (27 April 2013: 635 pence). During the period ended 26 April 2014, the shares of Carpetright plc traded between a low of 494 pence and a high of 696 pence.

The total number of shares acquired by each of the current Executive Directors following the exercise of options under the Sharesave plan is included in their beneficial shareholdings disclosed on page 43.

## Share Incentive Plan

Carpetright operates a SIP under which team members may contribute up to £125 per month from pre-tax salary to purchase Carpetright shares. Lord Harris, Martin Harris and Neil Page participate in the SIP, contributing £125 per month.

## Application of the remuneration policy for 2014 and 2015

## Basic salary

Executive Directors' basic salaries have been reviewed and no increase was made, other than Lord Harris's salary was increased in October 2013 to reflect his appointment as full-time Executive Chairman, having previously been part-time Chairman. The current salaries of the Executive Directors are as follows:

	Base salary as at 26 April 2013	Current base salary	Percentage change
Lord Harris	£300,000	£400,000	33%
Graham Harris <sup>1</sup>	–	£325,000	–
Neil Page	£280,000	£280,000	–
Martin Harris	£280,000	£280,000	–

Note:

- Salary on becoming a Director.

On joining as Chief Executive, Wilf Walsh will be entitled to the following key elements of remuneration:

- Basic salary: £450,000;
- Maximum bonus: 100% of salary, with 50% relating to financial performance and 50% relating to strategic objectives in the first year following appointment;
- LTIP award: 150% of salary to be granted at the same time as awards to senior executives in 2014;
- Pension: 20% of basic salary by way of salary supplement or payment into the Group Personal Pension Plan; and
- Car allowance: £27,500.

### Benefits and pension

Benefits and pension will operate in the financial year ended 2015 as per their respective policies set out in the Policy Report on pages 28 to 34.

### Annual bonus plan performance targets

The annual bonus plan for the financial year ended 2015 will operate consistently with the policy detailed in the Policy Report on page 29.

Performance targets will be based on a combination of financial and strategic metrics. Wilf Walsh will have 50% of his potential bonus based on financial metrics and 50% based upon strategic objectives. The relative weighting has been selected as Wilf had no input into the Group's budget for the financial year 2015.

### Long-term incentive awards in the financial year ended 2015

The Committee intends to make the next awards under the LTIP during the summer of 2014. The terms of these awards have not yet been determined, however, it is currently intended that these would again be subject to performance conditions based on cumulative growth in underlying profit before tax over the three year performance period.

Under the rules of the 2013 LTIP, awards may be up to a face value of 250% of salary. The Committee has determined that these would again be made at a reduced level. The performance targets will be set taking account of quantum of the awards.

### Non-Executive Directors' fees

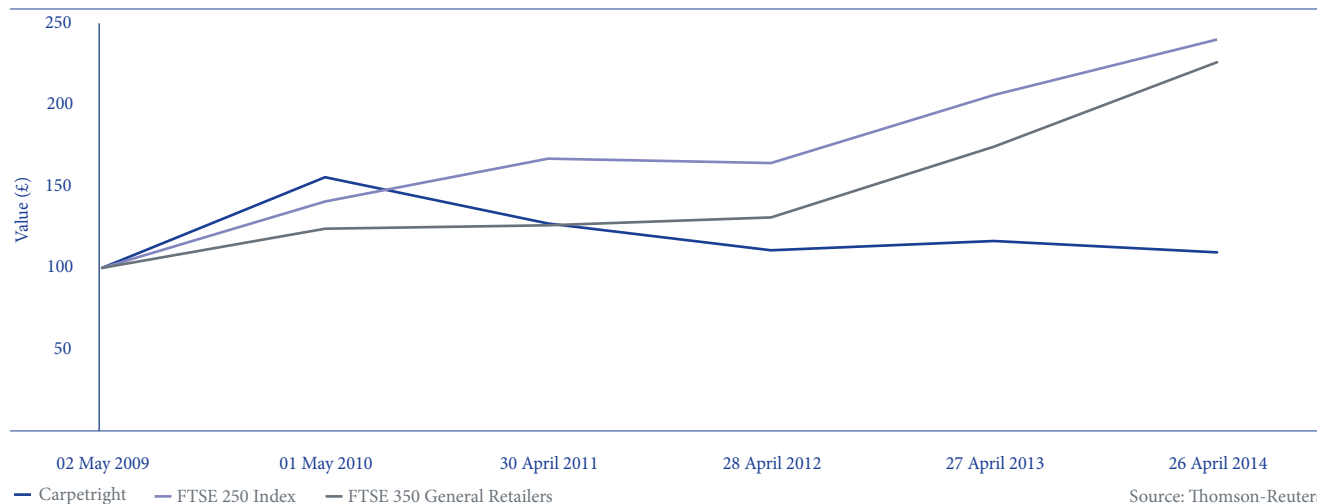
Non-Executive Directors' fees have been reviewed and no increase has been made. The current fees are as follows:

	Base fee	Deputy Chairman fee (including base fee)	Additional fee for Committee Chairman
Current fees	£39,000	£60,000	£5,000

### Other information

#### Performance graph

The graph below shows the value, at 3 May 2014, of £100 in Carpetright plc shares on 2 May 2009 compared with that of £100 invested in the FTSE 250 Index or the FTSE 350 General Retail Index, which the Directors believe to be the most suitable broad comparators. The other points plotted are the values at intervening financial year-ends.



Source: Thomson-Reuters

## Directors' report continued

## Directors' remuneration report continued

## Statement of change in total remuneration of the Chief Executive

Total remuneration of individuals undertaking the role of Chief Executive in each of the past five years is as follows:

Financial year ended	Chief Executive <sup>1</sup>	Total remuneration of Chief Executive <sup>2</sup> £'000	Annual variable element award rates for Chief Executive (as % of max. opportunity)	Long-term incentive vesting rates for Chief Executive (as % of max. opportunity)
<b>2014</b>	<b>Combined remuneration</b>	<b>490</b>		
2014	Lord Harris (3 October 2013 to April 2014)	249	0%	0%
2014	Darren Shapland (May 2013 to 3 October 2013)	241	0%	0%
<b>2013</b>	<b>Combined remuneration</b>	<b>1,025</b>		
2013	Darren Shapland (14 May 2012 to April 2013)	1,007	29%	0%
2013	Lord Harris (to 14 May 2012)	18		
2012	Lord Harris	522	0%	0%
2011	Lord Harris	522	0%	0%
2010	Lord Harris	721	37%	26%

Notes:

1. Lord Harris stood down as Chief Executive in May 2012, at which point Darren Shapland was appointed Chief Executive. Darren Shapland stood down on 3 October 2013, at which point Lord Harris was appointed as full-time Executive Chairman.
2. The amounts shown in this column have been calculated using the same methodology prescribed by the Regulations for the purposes of preparing the single total figure table shown on page 37.
3. Lord Harris was not entitled to a bonus in respect of the financial year ended 2013. Lord Harris has waived any entitlement to LTIPs other than in respect of the financial year ended 2010.

## Statement of change in pay of individuals undertaking the role of Chief Executive compared to other employees

	2014 £'000	2013 £'000	% change
<b>Chief Executive Officer</b>			
– salary	421	451	(7%)
– benefits	31	27	15%
– bonus / payments as a result of performance	–	118	(100%)
<b>Average per employee</b>			
– salary	25	24	2%
– benefits	1	1	13%
– bonus / payments as a result of performance	9	9	(2%)

The table above shows the movement in the remuneration for the role of Chief Executive between the current and previous financial year compared to the average (per full-time equivalent) for all employees. The same methodology has been applied as for the Statement of Change in Total Remuneration for the Chief Executive by apportioning remuneration between Darren Shapland and Lord Harris for 2014 and 2013. Bonus figures include commission payments.

## Relative importance of spend on pay

The table below illustrates the change in expenditure on remuneration paid to all the employees of the Group and distributions to shareholders from the financial year ending 27 April 2013 to the financial year ending 26 April 2014.

	2014 £million	2013 £million	Percentage change
Overall expenditure on pay	99.1	98.7	5%
Dividend plus share buyback	–	–	0%

These matters were selected to be shown as they represent key distributions by the Group to its stakeholders. Further details on overall expenditure on pay can be found in note 4 to the financial statements on page 59.

### Share ownership and shareholding guidelines for Directors (audited)

The Company has a share ownership policy that requires the Executive Directors to build up and maintain a target holding equal to 100% of base salary. Until such a holding is achieved, an Executive Director is obliged to retain shares with a minimum value equal to 50% of the net of tax gain arising from any vesting or exercise under the Company's share incentive plans. As no LTIP awards have vested, all Directors have complied with the guidelines, although the holdings of Neil Page and Graham Harris were below the target holding of 100% of base salary.

The beneficial interests of those persons who were Directors as at 26 April 2014 and their immediate families in the ordinary shares of the Company are set out below:

	Ordinary Shares	Ordinary Shares held in the SIP <sup>2</sup>	Total holding of Ordinary Shares	Value of holding as a % of salary on 26 April 2014 <sup>3</sup>	Ordinary shares under option under the Sharesave Plan <sup>4</sup>	Ordinary shares subject to outstanding unvested awards under the LTIP <sup>5</sup>	Total interest in Ordinary Shares
<b>Executive</b>							
Lord Harris <sup>1</sup>	10,409,736	2,981	10,412,717	Over 100%	3,712	–	10,416,429
Martin Harris <sup>1</sup>	11,372,050	2,337	11,374,387	Over 100%	–	155,136	11,529,523
Neil Page	14,541	1,223	15,764	34%	2,227	168,970	186,961
Graham Harris	–	–	–	–	3,712	97,826	101,538
<b>Non-Executive</b>							
Baroness Noakes	32,225	–	32,225	–	–	–	32,225
Sandra Turner	–	–	–	–	–	–	–
Alan Dickinson	–	–	–	–	–	–	–
David Clifford	5,000	–	5,000	–	–	–	5,000
Andrew Page	–	–	–	–	–	–	–

Notes:

1. The beneficial interest of both Lord Harris and Martin Harris include the interests held by Harris Ventures Limited and its subsidiaries, namely 8,443,470 shares representing 12.5% of the issued share capital of the Company. The aggregate interest of Lord Harris and Martin Harris is therefore 13,343,634 ordinary shares representing 19.69% of the issued share capital.
2. Under the rules of the SIP, certain shares awarded to participants must be retained in the plan for a specified "holding period" of up to five years. The receipt of these shares is not subject to the satisfaction of performance conditions.
3. Share price used is the price as at 26 April 2014, 597p.
4. None of these options are subject to a performance condition. Details of the sharesave interests can be found on page 40.
5. This column shows all unvested and outstanding awards under the LTIP that were held by the Executive Director concerned as at 26 April 2014 (i.e. including those granted during the year). Details of these entitlements, the vesting of which is subject to the satisfaction of performance conditions, are set out on page 39).
6. Darren Shapland was a Director during the year and as at 3 October 2013 he held 25,419 ordinary shares. All options under the share plans have lapsed.

In addition, Lord Harris has a non-beneficial interest in 136,414 shares. 79,000 of these shares are included within Martin Harris's beneficial interests. The Executive Directors have an indirect interest in 27,869 shares held in trust to satisfy awards made under the LTIP. Save as disclosed in this section, none of the Directors has any non-beneficial interests in the shares of the Company.

Between 26 April 2014 and the date of this report 46 shares have been purchased for each of Martin Harris and Neil Page, and 46 shares have been purchased for Lord Harris under the Company's AESOP. There have been no other changes to the above shareholdings.

By order of the Board

**Alan Dickinson**

Chairman of the Remuneration Committee

23 June 2014

## Directors' report continued

# Other information

This section contains the remaining matters on which the Directors are required to report each year, which do not appear elsewhere in this Directors' report. Certain other matters required to be reported on appear elsewhere in the Report and Accounts as detailed below:

- the Strategic report introduced by the Department for Business, Innovation & Skills ('BIS') appears from the Inside Front Cover to page 18;
- the revised reporting on remuneration introduced by BIS appears on pages 27 to 43;
- the new reporting on the Company's carbon footprint introduced by BIS appears on page 18;
- a list of the subsidiary and associated undertakings, including branches outside the UK, principally affecting the profits or net assets of the Group in the year appears on page 68;
- changes in asset values are set out in the consolidated balance sheet on page 50 and in the notes to the financial statements on pages 63 to 67;
- the Group's profit before taxation and the profit after taxation and minority interests appear in the consolidated income statement on page 48;
- a detailed statement of the Group's treasury management and funding is set out in note 23 to the financial statements on pages 76 to 78; and
- a statement that this Annual report and Accounts meets the requirements of Provision C.1.1 of the UK Corporate Governance Code ('the Code') is set out on page 46.

### Directors' interests

Directors' share interests are disclosed in the Directors' report on remuneration on page 43. Except as disclosed in this report, no Director had a material interest in any contract or arrangement with the Company during the year, other than through their respective service contracts.

Details of transactions during the period with companies of which Lord Harris and/or Martin Harris is a Director and/or in which Lord Harris holds a material interest are noted below. All of these transactions are on normal commercial terms.

	Lease and concession agreement payments made		Supplies of goods/services payments received		Supplies of goods/services payments made	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Edinburgh Retail LLP	301	286	–	–	–	–
Greenock Retail Ltd	256	253	–	–	–	–
Harris Ventures Ltd	63	62	–	–	3	3
Hull Unit Trust	388	387	–	–	–	–

As at 26 April 2014, the Group owed related parties £nil (2013: £nil).

### Directors' indemnity arrangements

The Company has provided qualifying third-party indemnities for the benefit of each Director and former Director who held office during the financial year ended 2014. The Company has also purchased and maintained Directors' and Officers' liability insurance throughout the financial year ended 2014.

### Significant agreements – change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements and employee share plans. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole, except for:

- a term loan and revolving facilities agreement dated 19 March 2008, as amended and restated most recently on 27 June 2011. Term loans of £0.6m are outstanding as at 26 April 2014 and there is a revolving credit facility of £45m, which provides that on a change of control all lenders' commitments are cancelled and all outstanding loans, together with accrued interest, will become immediately due and payable. Details of balances at the financial year end can be found in note 23 to the consolidated financial statements; and
- under the Company's all-employee and discretionary share schemes, a change of control of the Company would normally be a vesting event, facilitating the exercise or transfer of awards, subject to any relevant performance conditions being satisfied.

The Company does not have agreements with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions in the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

There is no information that the Company would be required to disclose about persons with whom it has contractual or other arrangements which are essential to the business of the Company.



## Share capital

Details of the Company's issued share capital can be found in note 24 to the financial statements. All of the Company's issued ordinary shares are fully paid up and rank equally in all respects.

The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are contained in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary. The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

There are no restrictions on the transfer of ordinary shares or on the exercise of voting rights attached to them, except (i) where the Company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or (ii) where their holder is precluded from exercising voting rights by the FCA's Listing Rules or the City Code on Takeovers and Mergers.

The Company is not aware of any agreements between shareholders that might result in the restriction of transfer or voting rights in relation to the shares held by such shareholders.

Shares acquired through Carpetright's employee share schemes rank equally with all other ordinary shares in issue and have no special rights. The Trustee of the Company's Employee Benefit Trust ('EBT') has waived its rights to dividends on shares held by the EBT and does not exercise its right to vote in respect of such shares. Shares held in trust on behalf of participants in the All Employee Share Ownership Plan are voted by the Trustee as directed by the participants. Details of share-based payments, including information regarding the shares held by the EBT, can be found in notes 24 and 25 to the financial statements on pages 78 to 80.

## Substantial shareholdings

As at 23 June 2014, the Company has been notified of the following substantial shareholdings, other than those of the Directors, in the issued share capital of the Company:

	Total number of shares held	Percentage of shares held
Franklin Templeton Institutional, LLC	10,865,418	16.0%
The Olayan Group	8,734,513	12.9%
Harris Associates Inc	6,614,414	9.8%
Cascade Investments LLP	4,693,658	7.0%
FIL Limited	6,325,544	9.3%
Phoenix Asset Management Partners Limited	2,783,754	4.1%

## Donations

No political donations were made (2013: £nil).

## Shareholders' views

There is a formal investor relations programme based around the results presentations and interim management statements. All of the Non-Executive Directors are available to attend meetings should shareholders so request. The Executive Chairman and Executive Directors feed back any investor comments to the Board. All Directors normally attend the Annual General Meeting and are available to answer any questions that shareholders may raise.

Last year, the Company consulted its major shareholders and other investor bodies prior to the introduction of the Performance Share Plan which was adopted at the AGM held in September 2013, the voting in respect of which can be found on page 36.

All shareholders will have at least 20 working days' notice of the Annual General Meeting. As required by the Code the Board will, at the 2014 Annual General Meeting, announce the proxy votes in favour of and against each resolution following a vote by a show of hands, and the votes cast will be posted on the corporate website.

## Authority to purchase own shares

At the 2013 Annual General Meeting, shareholders gave the Company renewed authority to purchase a maximum of 6,758,581 shares of one penny each. This resolution remains valid until the date of this year's Annual General Meeting. As at 26 April 2014, the Directors had not used this authority. The Company's present intention is to cancel any shares acquired under such authority, unless purchased to satisfy outstanding awards under employee share incentive plans. A resolution seeking renewal of the authority will be proposed at this year's Annual General Meeting.

## Directors' report continued

### Other information continued

#### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable laws and regulations.

UK company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors whose names and details are set out on page 19 of this report confirms that to the best of their knowledge:

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This Director's Report, including the Statement of Directors' responsibilities, has been approved by the Board.

#### Statement of the Directors in respect of the Annual Report and Financial Statements

As required by the Code, the Directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes, including the following:

- the Annual Report is drafted by appropriate senior management with overall co-ordination by the Group Finance Director to ensure consistency across sections;
- an extensive verification exercise is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Report are undertaken by the Executive Directors and other senior management; and
- a draft is considered by the Audit Committee prior to consideration by the Board.

## Going concern

The Group is principally funded through shareholders' funds and bank debt. The principal banking facility, which includes a revolving credit facility for £45 million, is committed to the end of July 2015. The Directors have considered the future cash requirements of the Group and are satisfied that the facilities are sufficient to meet its liquidity needs.

The facilities are subject to a number of financial covenants, being a leverage covenant, a fixed charge cover covenant, a net worth covenant and a capital expenditure covenant. The fixed charge cover covenant is the most sensitive to changes in the Group's profitability.

The Directors have considered the expected performance of the business over at least the next 12 months and modelled this performance against the covenants that have been set. In addition, the Directors have considered the trading performance necessary to breach the banking covenants as well as mitigating factors that would be available and actionable in the event that the adverse trading performance became reality.

The Directors have commenced preliminary discussions with the Group's lenders with regards to renewing the principal facility and intend to complete a refinancing during the financial year ending in 2015.

The Directors confirm that, after considering the matters set out above, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next financial year and the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. Further details of the Group's liquidity are given in the financial review on page 13.

## Disclosure of information to auditors

Each of the Directors of the Company has confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware and that each Director has taken all steps to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## Annual General Meeting

The 2014 Annual General Meeting of the Company will be held on 4 September 2014 at Harris House, Purfleet Bypass, Purfleet, Essex RM19 1TT at 10.30a.m.. A full description of the business to be conducted at the meeting is set out in the separate Notice of Annual General Meeting.

By order of the Board

**Jeremy Sampson**

Company Secretary and Legal Director

23 June 2014

## Financial statements

## Consolidated income statement

for 52 weeks ended 26 April 2014

	Notes	Group 52 weeks to 26 April 2014			Group 52 weeks to 27 April 2013		
		Before exceptional items £m	Exceptional items (Note 5) £m	Total £m	Before exceptional items £m	Exceptional items (Note 5) £m	Total £m
<b>Revenue</b>	2	447.7	–	447.7	457.6	–	457.6
Cost of sales		(171.8)	–	(171.8)	(179.3)	–	(179.3)
Gross profit	2	275.9	–	275.9	278.3	–	278.3
Administration expenses		(271.1)	(10.2)	(281.3)	(269.2)	(13.6)	(282.8)
Other operating income/(loss)		2.1	(1.6)	0.5	2.3	(1.2)	1.1
<b>Operating profit/(loss)</b>	2,3	6.9	(11.8)	(4.9)	11.4	(14.8)	(3.4)
Finance costs	6	(2.3)	–	(2.3)	(2.7)	–	(2.7)
Finance income		–	–	–	1.0	–	1.0
<b>Profit/(loss) before tax</b>		4.6	(11.8)	(7.2)	9.7	(14.8)	(5.1)
Tax	7	(1.4)	5.0	3.6	(3.2)	1.7	(1.5)
<b>Profit/(loss) for the financial period attributable to equity shareholders of the Company</b>		3.2	(6.8)	(3.6)	6.5	(13.1)	(6.6)
Basic earnings/(losses) per share (pence)	9	4.7	(10.0)	(5.3)	9.6	(19.4)	(9.8)
Diluted earnings/(losses) per share (pence)	9			(5.3)			(9.8)

## Consolidated statement of comprehensive income

for 52 weeks ended 26 April 2014

	Notes	Group 52 weeks to 26 April 2014 £m	Group 52 weeks to 27 April 2013 £m
<b>Profit/(loss) for the financial period</b>		(3.6)	(6.6)
Items that will not be classified to the income statement:			
Re-measurement of defined benefit plans	22	1.1	(1.6)
Tax on items that will not be reclassified to the income statement	7	(0.5)	0.1
<b>Total items that will not be reclassified to the income statement</b>		0.6	(1.5)
Items that will be classified to the income statement:			
Exchange gain/(loss) in respect of hedged equity investments		(1.6)	1.9
Tax on items that will be reclassified to the income statement		–	–
<b>Total items that will be reclassified to the income statement</b>		(1.6)	1.9
<b>Other comprehensive income/(expense) for the period</b>		(1.0)	0.4
<b>Total comprehensive income/(expense) for the period attributable to equity shareholders of the Company</b>		(4.6)	(6.2)

# Statements of changes in equity

for 52 weeks ended 26 April 2014

Group	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 29 April 2012	0.7	16.3	(0.3)	0.1	5.1	48.8	70.7
Loss for the period	-	-	-	-	-	(6.6)	(6.6)
Other comprehensive income/(expense) for the financial period	-	-	-	-	1.9	(1.5)	0.4
Total comprehensive income/(expense) for the financial period	-	-	-	-	1.9	(8.1)	(6.2)
Issue of new shares	-	0.3	-	-	-	-	0.3
Share based payments and related tax	-	-	-	-	-	0.5	0.5
<b>At 27 April 2013</b>	<b>0.7</b>	<b>16.6</b>	<b>(0.3)</b>	<b>0.1</b>	<b>7.0</b>	<b>41.2</b>	<b>65.3</b>
Loss for the period	-	-	-	-	-	(3.6)	(3.6)
Other comprehensive income/(expense) for the financial period	-	-	-	-	(1.6)	0.6	(1.0)
Total comprehensive income/(expense) for the financial period	-	-	-	-	(1.6)	(3.0)	(4.6)
Issue of new shares	-	0.6	-	-	-	-	0.6
Share based payments and related tax	-	-	-	-	-	(0.2)	(0.2)
<b>At 26 April 2014</b>	<b>0.7</b>	<b>17.2</b>	<b>(0.3)</b>	<b>0.1</b>	<b>5.4</b>	<b>38.0</b>	<b>61.1</b>

Company	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 29 April 2012	0.7	16.3	(0.3)	0.1	(0.2)	34.7	51.3
Loss for the period	-	-	-	-	-	(7.8)	(7.8)
Other comprehensive income/(expense) for the financial period	-	-	-	-	(0.2)	(1.5)	(1.7)
Total comprehensive income/(expense) for the financial period	-	-	-	-	(0.2)	(9.3)	(9.5)
Issue of new shares	-	0.3	-	-	-	-	0.3
Share based payments and related tax	-	-	-	-	-	0.5	0.5
<b>At 27 April 2013</b>	<b>0.7</b>	<b>16.6</b>	<b>(0.3)</b>	<b>0.1</b>	<b>(0.4)</b>	<b>25.9</b>	<b>42.6</b>
Profit for the period	-	-	-	-	-	0.3	0.3
Other comprehensive income/(expense) for the financial period	-	-	-	-	(0.3)	0.6	0.3
Total comprehensive income/(expense) for the financial period	-	-	-	-	(0.3)	0.9	0.6
Issue of new shares	-	0.6	-	-	-	-	0.6
Share based payments and related tax	-	-	-	-	-	(0.2)	(0.2)
<b>At 26 April 2014</b>	<b>0.7</b>	<b>17.2</b>	<b>(0.3)</b>	<b>0.1</b>	<b>(0.7)</b>	<b>26.6</b>	<b>43.6</b>

## Financial statements continued

**Balance sheets**

as at 26 April 2014

	Notes	Group 2014 £m	Group 2013 restated £m	Company 2014 £m	Company 2013 restated £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	10	58.6	60.8	29.7	31.4
Property, plant and equipment	11	103.6	108.6	70.1	70.4
Investment property	12	19.6	20.2	7.3	7.4
Investment in subsidiary undertakings	13	–	–	16.1	16.1
Deferred tax assets	21	2.9	2.6	–	–
Trade and other receivables	15	0.7	0.8	47.2	48.3
<b>Total non-current assets</b>		<b>185.4</b>	<b>193.0</b>	<b>170.4</b>	<b>173.6</b>
<b>Current assets</b>					
Inventories	14	33.9	37.6	27.4	30.4
Trade and other receivables	15	19.8	19.8	14.6	14.0
Cash and cash equivalents	16	6.3	7.9	4.3	6.4
<b>Total current assets</b>		<b>60.0</b>	<b>65.3</b>	<b>46.3</b>	<b>50.8</b>
<b>Total assets</b>	2	<b>245.4</b>	<b>258.3</b>	<b>216.7</b>	<b>224.4</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	17	(89.3)	(94.3)	(77.9)	(82.2)
Obligations under finance leases	18	(0.1)	(0.1)	(0.1)	(0.1)
Borrowings and overdrafts	19	(11.1)	(12.2)	(8.6)	(8.0)
Current tax liabilities		(4.2)	(0.3)	(3.8)	(0.3)
<b>Total current liabilities</b>		<b>(104.7)</b>	<b>(106.9)</b>	<b>(90.4)</b>	<b>(90.6)</b>
<b>Non-current liabilities</b>					
Trade and other payables	17	(38.6)	(40.2)	(48.2)	(52.1)
Obligations under finance leases	18	(2.4)	(2.5)	(1.3)	(1.4)
Borrowings	19	(3.8)	(3.3)	(3.8)	(3.3)
Provisions for liabilities and charges	20	(14.9)	(11.1)	(13.8)	(11.1)
Deferred tax liabilities	21	(16.6)	(23.9)	(12.3)	(18.2)
Retirement benefit obligations	22	(3.3)	(5.1)	(3.3)	(5.1)
<b>Total non-current liabilities</b>		<b>(79.6)</b>	<b>(86.1)</b>	<b>(82.7)</b>	<b>(91.2)</b>
<b>Total liabilities</b>	2	<b>(184.3)</b>	<b>(193.0)</b>	<b>(173.1)</b>	<b>(181.8)</b>
<b>Net assets</b>		<b>61.1</b>	<b>65.3</b>	<b>43.6</b>	<b>42.6</b>
<b>Equity</b>					
Share capital	24	0.7	0.7	0.7	0.7
Share premium	24	17.2	16.6	17.2	16.6
Treasury shares	24	(0.3)	(0.3)	(0.3)	(0.3)
Other reserves		43.5	48.3	26.0	25.6
<b>Total equity attributable to equity shareholders of the Company</b>		<b>61.1</b>	<b>65.3</b>	<b>43.6</b>	<b>42.6</b>

These financial statements from pages 48 to 82 were approved by the Board of Directors on 23 June 2014 and were signed on its behalf by:

**Lord Harris of Peckham**  
Directors

**Neil Page**



# Statements of cash flow

for 52 weeks ended 26 April 2014

	Notes	Group 52 weeks to 26 April 2014 £m	Group 52 weeks to 27 April 2013 £m	Company 52 weeks to 26 April 2014 £m	Company 52 weeks to 27 April 2013 £m
<b>Cash flows from operating activities</b>					
Profit/(loss) before tax		(7.2)	(5.1)	(1.6)	(6.4)
Adjusted for:					
Depreciation and amortisation	2,3	13.9	14.1	11.4	11.5
Loss on property disposals		1.6	1.2	1.6	1.1
Exceptional non-cash items		10.1	13.6	6.1	12.3
Share based compensation and other non-cash items		0.1	0.5	0.1	0.5
Net finance costs	6	2.3	1.7	2.1	1.5
Operating cash flows before movements in working capital		20.8	26.0	19.7	20.5
(Increase)/decrease in inventories		3.5	1.0	2.8	0.4
(Increase)/decrease in trade and other receivables		(0.3)	3.5	(1.3)	3.6
Increase/(decrease) in trade and other payables		(7.8)	(9.7)	(7.7)	(5.7)
Provisions paid		(4.9)	(3.4)	(4.8)	(3.0)
Cash generated by operations		11.3	17.4	8.7	15.8
Interest paid		(1.4)	(1.4)	(1.4)	(1.5)
Corporation taxes paid		(0.7)	(1.4)	(1.5)	(0.3)
<b>Net cash generated from operating activities</b>		<b>9.2</b>	<b>14.6</b>	<b>5.8</b>	<b>14.0</b>
<b>Cash flows from investing activities</b>					
Purchases of intangible assets		(0.2)	(0.6)	(0.2)	(0.5)
Purchases of property, plant and equipment and investment property		(10.6)	(10.6)	(9.1)	(8.8)
Proceeds on disposal of property, plant and equipment and investment property		0.6	4.6	0.2	4.6
Interest received		-	-	0.2	0.3
<b>Net cash generated from/(used) in investing activities</b>		<b>(10.2)</b>	<b>(6.6)</b>	<b>(8.9)</b>	<b>(4.4)</b>
<b>Cash flows from financing activities</b>					
Issue of new shares		0.6	0.3	0.6	0.3
Movement in borrowings	29	0.1	(13.9)	0.1	(13.9)
<b>Net cash used in financing activities</b>		<b>0.7</b>	<b>(13.6)</b>	<b>0.7</b>	<b>(13.6)</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>	29	<b>(0.3)</b>	<b>(5.6)</b>	<b>(2.4)</b>	<b>(4.0)</b>
Cash and cash equivalents at the beginning of the period		(4.1)	1.5	(1.4)	2.1
Exchange differences		(0.1)	-	(0.2)	0.5
<b>Cash and cash equivalents at the end of the period</b>	16	<b>(4.5)</b>	<b>(4.1)</b>	<b>(4.0)</b>	<b>(1.4)</b>

For the purposes of the cash flow statement, cash and cash equivalents are reported net of overdrafts repayable on demand. Overdrafts are excluded from the definition of cash and cash equivalents disclosed in the balance sheet.

Financial statements continued

## Notes to the Financial statements

### 1. Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

#### General information

Carpetright plc ('the Company') and its subsidiaries (together, 'the Group') are retailers of floor coverings and beds. The Company is listed on the London Stock Exchange and incorporated in England and Wales and domiciled in the United Kingdom. The address of its registered office is Harris House, Purfleet Bypass, Purfleet, Essex, RM19 1TT.

The nature of the Group's operations and its principal activities are set out on pages 4 to 7 of the Annual Report.

#### Basis of preparation

The financial statements of the Group are drawn up to within seven days of the accounting record date, being 30 April of each year. The financial year for 2014 represents the 52 weeks ended 26 April 2014. The comparative financial year for 2013 was 52 weeks ended 27 April 2013.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRS IC) interpretations as adopted by the European Union, together with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The Directors, after reviewing the Group's operating budgets, forecasts and financing arrangements, consider that the Group has, at the date of this report, sufficient financing available for the estimated requirements for the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate for these financial statements to be prepared on a going concern basis.

The consolidated financial statements have been prepared on the historical cost basis except for pension assets and liabilities and share based payments which are measured at fair value.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present its income statement and statement of comprehensive income. The profit for the Company for the period was £0.3m (2013: loss of £7.8m).

#### New and amended accounting standards

The following new standards and amendments to standards, which are mandatory for the first time in the financial year beginning 28 April 2013, are relevant for the Group but have not had a material impact in the current financial year:

- IFRS 13 'Fair value measurement' (effective for periods beginning on or after 1 January 2013). The Group has included the new disclosures required by the standard. The application of the standard has not had a material impact.
- IAS 1 (amendment) 'Presentation of financial statements' (effective for periods beginning on or after 1 July 2012). The amendment requires items presented in the statement of other comprehensive income to be grouped into those items that may be reclassified subsequently to the income statement and those items that will not be reclassified. In accordance with the standard, the amendment has been applied retrospectively and the presentation of the statement of other comprehensive income has been adjusted.
- IAS 19 'Employee benefits', amends the accounting for employment benefits. The Group has applied the standard retrospectively in accordance with the transition provisions of the standard. The impact on the Group has been:
  - The standard replaces the interest costs on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit liability and the discount rate measured at the beginning of the year. In the period, there is a charge of £0.2m to the income statement.
  - There is a new term, "remeasurements". This is made up of actuarial gains and losses and the difference between actual investment returns and the return implied by the net interest costs.
  - The impact of IAS 19 (revised) is immaterial and has not required a restatement of reserves or the plan deficit.

At 26 April 2014, the following new standards and interpretations and amendments to existing standards, which are expected to be relevant to the Group and have an immaterial impact on the financial statements, were issued but not yet effective:

- IFRS 9 (reissued) 'Financial instruments' (effective for periods beginning on or after 1 January 2018). The standard sets out how an entity should classify and measure financial assets, as well as the de-recognition of financial instruments. The Group will apply IFRS 9 when it becomes effective and is endorsed by the EU.
- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after 1 January 2014 for EU adopters).
- IFRS 12 'Disclosures of interest in other entities' (effective for periods beginning on or after 1 January 2014 for EU adopters).

- IAS 27 (revised) 'Consolidated and separate financial statements' (effective for periods beginning on or after 1 January 2014 for EU adopters).
- IAS 28 (revised) 'Investment in associates' (effective for periods beginning on or after 1 January 2014 for EU adopters).
- IAS 32 (amendment) 'Financial instruments: presentation' (effective for periods beginning on or after 1 January 2014).
- IAS 36 (amendment) 'Impairment of assets' (effective for periods beginning on or after 1 January 2014).
- The '2012 and 2013 Improvement projects' (effective from 1 January 2014).

### Basis of consolidation

The consolidated financial statements include the Company and its subsidiary undertakings. Subsidiaries are all entities over which the Company has control. Control is achieved where the Company has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefit from its activities. The acquisition of subsidiaries is accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets acquired, the liabilities incurred and the equity interest issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition costs are recognised in the income statement.

The results of subsidiaries acquired or disposed of in the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal respectively.

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Exchange differences

The consolidated financial statements are presented in pounds Sterling, which is the Company's functional and presentation currency. Transactions in foreign currencies, which are those other than the functional currency of an entity, are recorded at the opening rate for the month in which the transaction occurs which is used as a reasonable approximation to the rate at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet date. Resulting exchange gains or losses are recognised in the income statement for the period, except where they are part of a net foreign investment hedge, when they are recognised in equity.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the rate of exchange ruling at the balance sheet date. Income and expenses of foreign operations are translated at the average rate during the period. Differences on translation are recognised as a separate component of equity. On disposal of a foreign operation, the cumulative exchange differences for that operation are recognised in the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of that operation and are translated at the rate ruling at the balance sheet date.

### Segment reporting

Segmental information is presented using a 'management approach' on the same basis as that used for internal reporting to the Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the Board of Directors.

### Revenue

Revenue is measured at the fair value of the consideration received or receivable for the provision of goods and services to customers outside the Group, net of returns, sales allowances and value added and other sales based taxes. Revenue from goods and services is recognised at the point the Group fulfils its commercial obligations to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured.

## Financial statements continued

# Notes to the Financial statements continued

### 1. Principal accounting policies continued

#### Share based payments

The Group issues equity-settled share based payments to certain employees. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The value of the charge is adjusted to reflect expected and actual levels of options vesting. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and performance conditions that are included in the assumptions about the number of options which are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the vesting period.

#### Other operating income

Rental income earned on investment property is recognised in other operating income, in accordance with the substance of the relevant rental agreements.

Profits or losses on the disposal of property, plant and equipment represent the difference between the net proceeds and the net carrying value at the date of sale. Disposals are accounted for when there has been an unconditional exchange of contracts except where payment or completion is expected to occur significantly after exchange.

#### Exceptional items

Profits/losses on property disposals and non-recurring transactions which are material by virtue of their size or incidence, such as major reorganisation costs, onerous leases and impairments, are disclosed as exceptional items.

#### Tax

Current tax liabilities are measured at the amount expected to be paid, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income.

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is calculated at the rates of tax that are expected to apply when the asset or liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date, and is not discounted.

Tax is charged or credited directly to equity if it relates to items that are credited or charged to equity; otherwise, it is recognised in the income statement.

#### Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of interim dividends, paid.

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity. For the purposes of impairment, goodwill is allocated to each cash-generating unit (or groups of cash-generating units) that is expected to benefit from the business combination. Goodwill is not amortised, but is reviewed for impairment at least annually or when there is an indication of impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Impairment

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested at least annually for impairment or when there is an indication of impairment. Assets that are subject to amortisation and depreciation are reviewed for indications of impairment at each balance sheet date. If there is an indication of impairment, the recoverable amount of either the asset or the cash-generating unit to which it belongs is estimated. Cash-generating units are used where an individual asset does not generate cash flows which are independent of other assets. The recoverable amount of a non-financial asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of impairment at each reporting date.

### Other intangible assets

Purchased brand names and other intangible assets are capitalised at cost. Acquired software licences and software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation of intangible assets is calculated to write off the cost of the asset, on a straight line basis, over its expected useful life. The expected useful lives generally applicable are:

Brands	20 years
Computer software	5 to 10 years

### Property, plant and equipment

Property, plant and equipment is shown at cost less accumulated depreciation and any provisions for impairment in value.

Depreciation is provided to write down the cost of property, plant and equipment, on a straight line basis, to their estimated residual values over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives and residual values of assets are reviewed annually.

The estimated useful lives by asset category that are generally applicable are:

Freehold and long leasehold buildings	50 years
Short leasehold buildings	The shorter of the period of the lease and the estimated useful life
Fixtures and fittings	7 to 15 years
Computers	5 to 7 years
Motor vehicles	4 years
Other plant and machinery	7 to 10 years

### Borrowing costs

Gross interest costs incurred on the financing of major projects are capitalised until the time that they are available for use. Unless a specific borrowing is taken out to finance the asset, interest is capitalised using the weighted average interest rate of all non-specific borrowings. Where a specific borrowing is taken out to finance the asset, interest is capitalised at the rate applicable to that borrowing.

### Investment property

Property that is held to earn rental income and capital appreciation is separately disclosed as investment property. Investment property is carried at depreciated historical cost. Depreciation rates and useful lives of investment property are the same as those for property, plant and equipment.

### Leasing commitments

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets used by the Group which have been funded through finance leases are capitalised in property, plant and equipment and the resulting lease obligations are included in payables. The assets are depreciated over the shorter of their useful lives and the period of the lease. The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to income on a straight line basis over the period of the lease. Premiums payable, rent free periods and contributions receivable on entering an operating lease are charged or credited to income on a straight line basis over the lease term.

### Investment in subsidiaries

The Company's investment in subsidiary undertakings is recognised at cost and is accounted for net of impairment losses. Income from investments is recognised in the income statement to the extent that post acquisition profits are received. Distributions of pre-acquisition profits reduce the cost of the investment.

## Financial statements continued

# Notes to the Financial statements continued

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### 1. Principal accounting policies continued

#### Inventories

Inventories are valued at the lower of weighted average cost and net realisable value. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal. Provisions are made for obsolescence, mark down and shrinkage based on actual losses, ageing of inventories and sales trends.

#### Rebates receivable from suppliers

Volume related rebates receivable from suppliers are credited to the carrying value of the inventory to which they relate. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

#### Trade receivables and payables

Trade receivables and payables are initially recognised at fair value and subsequently adjusted to the amount receivable or payable. Receivables are stated net of a provision for impairment.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank, deposits repayable on demand and highly liquid investments. For the purposes of the cash flow statement, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings and overdrafts in current liabilities on the balance sheet.

#### Bank loans and overdrafts

Bank loans and overdrafts are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate model.

#### Provisions

A provision is recognised where the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis when appropriate.

#### Retirement benefit obligation

The Group operates defined benefit and defined contribution schemes and also participates in a multi-employer pension scheme in respect of its employees in the Netherlands. The assets and liabilities of all schemes are held separately from those of the Group. The Group is unable to identify its share of the assets and liabilities of the multi-employer scheme and, therefore, accounts for this scheme as a defined contribution scheme.

The cost of providing benefits under the defined benefit schemes is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The net retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of the scheme assets at the balance sheet date.

Actuarial gains and losses are recognised in full, directly in equity in the period in which they occur and are presented in other comprehensive income. Other income and expenses associated with the defined benefit scheme are recognised in the income statement. The pension cost of defined contribution schemes is charged in the income statement as incurred.

#### Financial instruments

##### Hedge accounting

The Group hedges net investments in foreign entities through currency borrowings. The gains or losses on the retranslation of the borrowings are recognised in equity.



## Critical estimates and judgements

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

### Impairment of goodwill

The Group is required to test whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value in use calculations. The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash-generating unit and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates.

### Impairment of assets

Property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or cash-generating unit is determined based on the higher of fair value, less costs to sell, and value in use calculations prepared on the basis of management's assumptions and estimates.

### Onerous leases

The Group carries an onerous lease provision which recognises the liabilities associated to lease contracts of closed stores and those that are projected to close. The provision is based on a review of the lease contracts and management's estimate of the timings to exit the lease.

### Retirement benefits

The present value of the defined benefit liabilities recognised in the balance sheet is dependent on the interest rates of high quality corporate bonds. The net financing charge is dependent on both the interest rates of high quality corporate bonds and the assumed investment returns on scheme assets. Other key assumptions for pension obligations, including mortality rates, are based in part on current market conditions.

### Income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### Restatement

The prior period balance sheet for the Group and Company has been restated to reflect a reclassification of £8.6m contractual rent uplifts from trade and other payables within current liabilities to non-current liabilities. This does not have a material effect on the opening balance sheet of the prior period.

## Financial statements continued

## Notes to the Financial statements continued

**2. Segmental analysis**

The reportable operating segments derive their revenue primarily from the retailing of floor coverings and beds. Central costs of the Group are incurred principally in the UK. As such, these costs are included within the UK segment. Sales between segments are carried out at arm's length.

The segment information provided to the Board of Directors for the reportable segments for the 52 weeks ended 26 April 2014 is as follows:

	52 weeks to 26 April 2014			52 weeks to 27 April 2013		
	UK £m	Europe £m	Group £m	UK £m	Europe £m	Group £m
Gross revenue	379.5	71.9	451.4	385.7	76.0	461.7
Inter-segment revenue	(3.7)	–	(3.7)	(4.1)	–	(4.1)
<b>Revenues from external customers</b>	<b>375.8</b>	<b>71.9</b>	<b>447.7</b>	<b>381.6</b>	<b>76.0</b>	<b>457.6</b>
Gross profit	235.1	40.8	275.9	234.8	43.5	278.3
Underlying operating profit/(loss)	10.7	(3.8)	6.9	10.9	0.5	11.4
Exceptional items	(7.5)	(4.3)	(11.8)	(14.3)	(0.5)	(14.8)
<b>Operating profit/(loss)</b>	<b>3.2</b>	<b>(8.1)</b>	<b>(4.9)</b>	<b>(3.4)</b>	<b>–</b>	<b>(3.4)</b>
Finance income	–	–	–	1.0	–	1.0
Intercompany interest	(0.1)	0.1	–	(0.1)	0.1	–
Finance costs	(2.2)	(0.1)	(2.3)	(2.7)	–	(2.7)
<b>Profit/(loss) before tax</b>	<b>0.9</b>	<b>(8.1)</b>	<b>(7.2)</b>	<b>(5.2)</b>	<b>0.1</b>	<b>(5.1)</b>
Tax	1.8	1.8	3.6	(1.1)	(0.4)	(1.5)
<b>Profit/(loss) for the financial period</b>	<b>2.7</b>	<b>(6.3)</b>	<b>(3.6)</b>	<b>(6.3)</b>	<b>(0.3)</b>	<b>(6.6)</b>
<b>Segment assets:</b>						
Segment assets	197.3	91.0	288.3	204.3	99.3	303.6
Inter-segment balances	(24.0)	(18.9)	(42.9)	(24.1)	(21.2)	(45.3)
Balance sheet total assets	173.3	72.1	245.4	180.2	78.1	258.3
<b>Segment liabilities:</b>						
Segment liabilities	(180.4)	(46.8)	(227.2)	(188.6)	(49.7)	(238.3)
Inter-segment balances	18.9	24.0	42.9	21.2	24.1	45.3
Balance sheet total liabilities	(161.5)	(22.8)	(184.3)	(167.4)	(25.6)	(193.0)
<b>Other segmental items:</b>						
Depreciation and amortisation	11.6	2.3	13.9	11.7	2.4	14.1
Additions to non-current assets	9.1	1.6	10.7	8.7	1.6	10.3

Carpentry plc is domiciled in the UK. The Group's revenue from external customers in the UK is £375.8m (2013: £381.6m) and the total revenue from external customers from other countries is £71.9m (2013: £76.0m). The total of non-current assets (other than financial instruments and deferred tax assets) located in the UK is £151.8m (2013: £154.6m) and the total of those located in other countries is £73.6m (2013: £81.1m).

Carpentry's trade has historically shown no distinct pattern of seasonality, with trade cycles more closely following economic indicators such as consumer confidence and mortgage approvals.

### 3. Operating profit/(loss), analysis of costs by nature

Operating profit/(loss) is stated after charging/(crediting):

	Notes	Group 2014 £m	Group 2013 £m
Rental income earned on investment property		(1.7)	(1.9)
Cost of inventories recognised as an expense in cost of sales		150.2	158.6
Operating lease rentals:			
Lease payments in respect of land and buildings		88.4	90.0
Lease payments in respect of plant and machinery		1.5	1.6
Sublease rental income		(1.3)	(1.8)
Auditors' remuneration – for the audit of the Company's annual financial statements		0.2	0.2
Staff costs	4	99.1	98.7
Impairment of non-current assets	5	2.4	5.5
Amortisation of intangible assets	10	1.8	1.9
Depreciation of property, plant and equipment:			
Owned assets	11	11.7	11.8
Under finance leases	11	0.1	0.1
Depreciation of investment property	12	0.3	0.3

### 4. Staff costs

The average number of persons (full-time equivalents) employed by the Group (including Directors) was as follows:

	Group 2014 Number	Group 2013 Number	Company 2014 Number	Company 2013 Number
Stores	2,630	2,674	2,175	2,184
Store support office and distribution centre	389	387	336	335
	3,019	3,061	2,511	2,519

The aggregate employment costs of employees and Directors were as follows:

	Notes	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Wages and salaries (including short-term employee benefits)		87.3	86.5	71.1	70.6
Social security costs		9.7	9.6	6.8	6.7
Post-employment benefits – Defined contribution	22	2.3	2.1	1.1	0.9
Share based payments	25	(0.2)	0.5	(0.2)	0.5
		99.1	98.7	78.8	78.7

Wages and salaries include short-term employee benefits as defined in IAS 19, with the exception of costs associated with the Group's pension schemes. Post-employment benefits include costs associated with the Group's pension schemes (with the exception of net interest costs and the actuarial gain on the defined benefit pension schemes) and are included in administration expenses. Share based payments comprise the cost of awards in respect of employee share schemes in accordance with IFRS 2. These costs are explained in note 25.

## Financial statements continued

## Notes to the Financial statements continued

## 4. Staff costs continued

The employment costs of key management<sup>1</sup> were as follows:

	Group 2014 £m	Group 2013 £m
Short-term employee benefits (including salary and social security)	4.5	5.2
Termination payments	0.3	–
Post employment benefits	0.5	0.4
Share based payments	(0.4)	0.3
	<b>4.9</b>	<b>5.9</b>

1. Key management comprises Group Directors and those senior officers of the Group responsible for planning, directing or controlling Group activities.

During the year, the Executive Directors realised no gains (2013: no gains) on the vesting of long-term incentive plans. Details of these plans, share options and other Directors' remuneration are disclosed in the Directors' remuneration report on pages 38 to 40.

## 5. Exceptional items

	Notes	Group 2014 £m	Group 2013 £m
Property profits/(losses)		(1.6)	(1.2)
Onerous lease provisions	20	(6.6)	(8.1)
Impairment charge:			
Store assets	11	(0.5)	(0.3)
Freehold properties	11,12	(1.9)	(5.2)
European office restructuring		(1.2)	–
<b>Pre tax exceptional items</b>		<b>(11.8)</b>	<b>(14.8)</b>

In accordance with IAS 36, assets are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable. The Group commissioned an external valuation of freehold properties. These valuations, along with value in use calculations, have resulted in an impairment provision of £2.6m for freehold properties in the Netherlands and a release of £0.7m in the UK.

The Group has undertaken a review of the onerous lease provisions recognised in prior periods. Management has re-assessed the costs and ability to exit the lease contracts. This has resulted in an additional provision of £6.6m. Further details of these exceptional items are disclosed on page 12 of the Strategic report.

## 6. Finance costs

	Notes	Group 2014 £m	Group 2013 £m
Interest on borrowings and overdrafts		(1.1)	(1.1)
Fees amortisation		(0.7)	(0.5)
Interest on obligations under finance leases		(0.1)	(0.1)
Net interest on pension scheme obligations	22	(0.2)	–
Other interest payable		(0.2)	–
<b>Finance costs</b>		<b>(2.3)</b>	<b>(1.7)</b>

## 7. Tax

### (i) Analysis of the charge in the period

	Notes	Group 2014 £m	Group 2013 £m
UK current tax		1.3	0.5
Overseas current tax		(0.2)	0.2
<b>Total current tax</b>		<b>1.1</b>	<b>0.7</b>
UK deferred tax		(3.1)	0.6
Overseas deferred tax		(1.6)	0.2
<b>Total deferred tax</b>	21	<b>(4.7)</b>	<b>0.8</b>
<b>Total tax charge/(credit) in the income statement</b>		<b>(3.6)</b>	<b>1.5</b>

The tax charge for the year includes a credit of £2.3m in respect of exceptional items (2013: £0.9m credit).

As a result of changes to the main corporation tax rates, which were substantively enacted in July 2013, the corporation tax rate has decreased from 23% to 21% from 1 April 2014 and then 20% from 1 April 2015 and this has been reflected in the financial statements. The deferred tax balances have been re-measured using the tax rates in effect in the period in which the deferred tax balances are expected to reverse. The impact of the change in tax rates on deferred tax liability has resulted in an exceptional tax credit of £2.7m (2013: £0.8m credit).

### (ii) Reconciliation of profit/(loss) before tax to total tax

	Group 2014 £m	Group 2013 £m
<b>Loss before tax</b>	<b>(7.2)</b>	<b>(5.1)</b>
Tax charge/(credit) at UK corporation tax rate of 23% (2013: 24%)	(1.6)	(1.2)
Adjusted for the effects of:		
Overseas tax rates	(0.2)	–
Deferred tax impact of fall in UK tax rates	(2.7)	(0.8)
Non-qualifying depreciation	0.5	0.6
Other permanent differences	0.2	1.1
Capital gains	–	1.8
Adjustments in respect of prior periods	0.2	–
<b>Total tax charge/(credit) in the income statement</b>	<b>(3.6)</b>	<b>1.5</b>

The weighted average annual effective tax rate for the period is credit of 52.0% (2013: charge of 29.3%). The decrease arises from a combination of the impact of changes in the UK tax rate and losses incurred overseas generating a one off tax credit.

### (iii) Tax on items taken directly to or transferred from equity

	Group 2014 £m	Group 2013 £m
Deferred tax on actuarial losses recognised in other comprehensive income	(0.5)	(0.1)
Deferred tax on share based payments	–	0.1
<b>Total tax recognised in equity</b>	<b>(0.5)</b>	<b>–</b>

## Financial statements continued

## Notes to the Financial statements continued

**8. Dividends**

The Directors decided that no final dividend will be paid (2013: No final dividend paid). This results in no dividend in the year to 26 April 2014 (2013: No dividend paid).

**9. Earnings per share**

Basic earnings per share is calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding those held by Equity Trust (Jersey) Limited (see note 25) which are treated as cancelled.

In order to compute diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. Those share options granted to employees and Executive Directors where the exercise price is less than the average market price of the Company's ordinary shares during the period represent potentially dilutive ordinary shares.

	52 weeks to 26 April 2014			52 weeks to 27 April 2013		
	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
<b>Basic earnings/(losses) per share</b>	(3.6)	67.6	(5.3)	(6.6)	67.5	(9.8)
Effect of dilutive share options	–	0.4	–	–	0.3	–
<b>Diluted earnings/(losses) per share</b>	(3.6)	68.0	(5.3)	(6.6)	67.8	(9.8)

**Reconciliation of earnings per share excluding post tax profit on exceptional items**

	52 weeks to 26 April 2014			52 weeks to 27 April 2013		
	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
<b>Basic earnings/(losses) per share</b>	(3.6)	67.6	(5.3)	(6.6)	67.5	(9.8)
Adjusted for the effect of exceptional items:						
Exceptional items	11.8	–	17.4	14.8	–	21.9
Tax thereon	(2.3)	–	(3.4)	(0.9)	–	(1.3)
Exceptional tax benefit from tax rate change	(2.7)	–	(4.0)	(0.8)	–	(1.2)
<b>Underlying earnings/(losses) per share</b>	3.2	67.6	4.7	6.5	67.5	9.6

The Directors have presented an additional measure of earnings per share based on underlying earnings. This is in accordance with the practice adopted by most major retailers. Underlying earnings is defined as profit excluding exceptional items and related tax.



## 10. Intangible assets

Group	Goodwill £m	Computer software £m	Brands £m	Total £m
<i>Cost:</i>				
At 29 April 2012	53.3	24.2	0.1	77.6
Exchange differences	0.6	–	–	0.6
Additions	–	0.6	–	0.6
<b>At 27 April 2013</b>	<b>53.9</b>	<b>24.8</b>	<b>0.1</b>	<b>78.8</b>
Exchange differences	(0.3)	(0.2)	–	(0.5)
Additions	–	0.2	–	0.2
Disposals	–	(0.4)	–	(0.4)
<b>At 26 April 2014</b>	<b>53.6</b>	<b>24.4</b>	<b>0.1</b>	<b>78.1</b>
<i>Accumulated amortisation and impairment:</i>				
At 29 April 2012	0.5	15.6	0.1	16.2
Exchange differences	–	(0.1)	–	(0.1)
Amortisation	–	1.9	–	1.9
<b>At 27 April 2013</b>	<b>0.5</b>	<b>17.4</b>	<b>0.1</b>	<b>18.0</b>
Exchange differences	–	0.1	–	0.1
Amortisation	–	1.8	–	1.8
Disposals	–	(0.4)	–	(0.4)
<b>At 26 April 2014</b>	<b>0.5</b>	<b>18.9</b>	<b>0.1</b>	<b>19.5</b>
<i>Net book value:</i>				
<b>At 26 April 2014</b>	<b>53.1</b>	<b>5.5</b>	<b>–</b>	<b>58.6</b>
At 27 April 2013	53.4	7.4	–	60.8

Goodwill is not amortised. Instead it is subject to an impairment review at each reporting date or more frequently if there is an indication that it may be impaired. Other intangibles are amortised and also tested for impairment when there is an indication that the asset may be impaired. Impairments and amortisation charges are recognised in full in administration expenses in the income statement during the period in which they are identified.

Group goodwill comprises purchased goodwill in respect of the following business acquisitions:

Subsidiary	Acquisition date	2014 £m	2013 £m
Carpetland BV	October 2002	18.7	19.0
Mays Holdings Ltd	June 2005	4.7	4.7
Storey Carpets Ltd	May 2007	15.3	15.3
Melford Commercial Properties Ltd	March 2008	6.9	6.9
Ben de Graaff	July 2008	4.6	4.6
Sleepright UK Ltd	December 2008	2.9	2.9
<b>Total goodwill</b>		<b>53.1</b>	<b>53.4</b>

The movement in the value of goodwill in the year is solely a result of movement in exchange rates.

## Financial statements continued

## Notes to the Financial statements continued

**10. Intangible assets continued**

Goodwill is impaired if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. In the absence of a recent market transaction, the recoverable amount of the goodwill held by the Group is determined from value in use calculations.

Management has identified two cash-generating units (CGUs) supporting goodwill which are the UK and Europe, defined as the Netherlands and Belgium. The value in use calculations are based on five year profit projection models and plans approved by the Board, adjusted for non-cash items and capital expenditure.

The key assumptions used in the cash flow model when assessing the UK and European goodwill balances are:

- Modest like-for-like sales growth in the UK, stable gross margin percentage and anticipated cost inflation;
- the return to profitability in the Europe CGU, delivered through a cost reduction programme, margin improvement and a modest increase in sales volumes;
- the pre-tax discount rate of 8.0% (2013: 7.7%) as applied to the cash flows, is based on the Group's weighted average cost of capital adjusted to reflect the risks of the businesses acquired; and
- the long-term growth rate used in the calculation of the perpetuity model which is based on the long-term forecast growth rates of the countries within which the Group operates.

In Europe, the recoverable amount calculated based on value in use exceeded carrying value by £27.2m. A fall in long-term growth rate to -0.4% from +2.5%, or a rise in the discount rate to 10.8% from 8.0% would remove the remaining headroom.

Company	Goodwill £m	Computer software £m	Brands £m	Total £m
<i>Cost:</i>				
At 29 April 2012	24.1	24.2	0.1	48.4
Additions	–	0.6	–	0.6
<b>At 27 April 2013</b>	<b>24.1</b>	<b>24.8</b>	<b>0.1</b>	<b>49.0</b>
Exchange difference	–	(0.1)	–	(0.1)
Additions	–	0.2	–	0.2
Disposals	–	(0.4)	–	(0.4)
<b>At 26 April 2014</b>	<b>24.1</b>	<b>24.5</b>	<b>0.1</b>	<b>48.7</b>
<i>Accumulated amortisation and impairment:</i>				
At 29 April 2012	–	15.6	0.1	15.7
Amortisation	–	1.9	–	1.9
<b>At 27 April 2013</b>	<b>–</b>	<b>17.5</b>	<b>0.1</b>	<b>17.6</b>
Amortisation	–	1.8	–	1.8
Disposals	–	(0.4)	–	(0.4)
<b>At 26 April 2014</b>	<b>–</b>	<b>18.9</b>	<b>0.1</b>	<b>19.0</b>
<i>Net book value:</i>				
<b>At 26 April 2014</b>	<b>24.1</b>	<b>5.6</b>	<b>–</b>	<b>29.7</b>
At 27 April 2013	24.1	7.3	–	31.4

Company goodwill comprises purchased goodwill arising on the transfer of businesses from subsidiaries to the parent company in respect of Mays Carpets Ltd – £4.7m; Storey Carpets Ltd – £15.7m; Carpetworld (Manchester) Ltd – £0.8m; and Sleepright UK Ltd – £2.9m.

## 11. Property, plant and equipment

Group	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
<i>Cost:</i>						
At 29 April 2012	54.3	17.4	18.7	91.5	39.6	221.5
Exchange differences	0.8	–	0.1	0.4	0.9	2.2
Additions	1.6	–	0.4	6.0	1.7	9.7
Disposals	(4.2)	–	(0.3)	(2.7)	(0.5)	(7.7)
<b>At 27 April 2013</b>	<b>52.5</b>	<b>17.4</b>	<b>18.9</b>	<b>95.2</b>	<b>41.7</b>	<b>225.7</b>
Exchange differences	(0.5)	–	(0.1)	(0.4)	(0.4)	(1.4)
Additions	–	–	0.3	8.3	1.9	10.5
Transfer to/from subsidiary	–	–	–	(0.2)	0.2	–
Disposals	(1.0)	(0.1)	(0.6)	(6.7)	(0.4)	(8.8)
<b>At 26 April 2014</b>	<b>51.0</b>	<b>17.3</b>	<b>18.5</b>	<b>96.2</b>	<b>43.0</b>	<b>226.0</b>
<i>Accumulated depreciation and impairment:</i>						
At 29 April 2012	6.0	3.1	10.5	49.6	32.7	101.9
Exchange differences	–	0.1	–	0.6	0.5	1.2
Impairment	3.5	1.2	–	0.3	–	5.0
Depreciation	0.8	0.5	0.9	7.5	2.2	11.9
Disposals	(0.1)	–	(0.2)	(2.2)	(0.4)	(2.9)
<b>At 27 April 2013</b>	<b>10.2</b>	<b>4.9</b>	<b>11.2</b>	<b>55.8</b>	<b>35.0</b>	<b>117.1</b>
Exchange differences	(0.6)	–	0.1	(0.4)	–	(0.9)
Impairment	1.9	–	–	0.1	0.4	2.4
Depreciation	0.8	0.3	0.8	7.8	2.1	11.8
Disposals	(0.5)	(0.1)	(0.5)	(6.4)	(0.5)	(8.0)
<b>At 26 April 2014</b>	<b>11.8</b>	<b>5.1</b>	<b>11.6</b>	<b>56.9</b>	<b>37.0</b>	<b>122.4</b>
<i>Net book value:</i>						
<b>At 26 April 2014</b>	<b>39.2</b>	<b>12.2</b>	<b>6.9</b>	<b>39.3</b>	<b>6.0</b>	<b>103.6</b>
At 27 April 2013	42.3	12.5	7.7	39.4	6.7	108.6

In accordance with IAS 36, assets are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable (see note 5).

### Assets held under finance leases have the following net book value:

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Cost	9.1	9.1	2.3	2.3
Accumulated depreciation and impairment	(2.9)	(2.2)	(1.6)	(1.4)
<b>Net book value</b>	<b>6.2</b>	<b>6.9</b>	<b>0.7</b>	<b>0.9</b>

The assets held under finance leases comprise buildings.

## Financial statements continued

## Notes to the Financial statements continued

## 11. Property, plant and equipment continued

Company	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
<i>Cost:</i>						
At 29 April 2012	22.6	10.0	18.7	80.5	14.1	145.9
Exchange differences	–	–	0.1	0.1	–	0.2
Additions	1.6	–	0.4	5.9	0.2	8.1
Disposals	(4.2)	–	(0.3)	(2.2)	(0.4)	(7.1)
<b>At 27 April 2013</b>	<b>20.0</b>	<b>10.0</b>	<b>18.9</b>	<b>84.3</b>	<b>13.9</b>	<b>147.1</b>
Exchange differences	–	–	(0.1)	(0.1)	–	(0.2)
Additions	–	–	0.3	8.3	0.3	8.9
Disposals	–	(0.1)	(0.6)	(6.5)	(0.4)	(7.6)
<b>At 26 April 2014</b>	<b>20.0</b>	<b>9.9</b>	<b>18.5</b>	<b>86.0</b>	<b>13.8</b>	<b>148.2</b>
<i>Accumulated depreciation and impairment:</i>						
At 29 April 2012	1.6	2.2	10.5	40.1	11.4	65.8
Exchange differences	–	–	0.1	0.1	–	0.2
Impairment	2.4	0.8	–	0.3	–	3.5
Depreciation	0.2	0.3	0.9	7.1	1.1	9.6
Disposals	(0.1)	–	(0.1)	(1.8)	(0.4)	(2.4)
<b>At 27 April 2013</b>	<b>4.1</b>	<b>3.3</b>	<b>11.4</b>	<b>45.8</b>	<b>12.1</b>	<b>76.7</b>
Exchange differences	–	–	(0.1)	(0.1)	–	(0.2)
Impairment	(0.7)	–	–	0.1	–	(0.6)
Depreciation	0.3	0.2	0.8	7.4	0.9	9.6
Disposals	–	(0.1)	(0.6)	(6.3)	(0.4)	(7.4)
<b>At 26 April 2014</b>	<b>3.7</b>	<b>3.4</b>	<b>11.5</b>	<b>46.9</b>	<b>12.6</b>	<b>78.1</b>
<i>Net book value:</i>						
<b>At 26 April 2014</b>	<b>16.3</b>	<b>6.5</b>	<b>7.0</b>	<b>39.1</b>	<b>1.2</b>	<b>70.1</b>
At 27 April 2013	15.9	6.7	7.5	38.5	1.8	70.4

## 12. Investment property

Investment property has been independently valued at the year end. Investment property is reviewed for impairment when there is an indication of impairment. Operating expenses attributable to investment properties are incurred directly by tenants under tenant-repairing leases.

	Group £m	Company £m
<i>Cost:</i>		
At 29 April 2012	22.3	7.8
Exchange differences	0.5	–
<b>At 27 April 2013</b>	<b>22.8</b>	<b>7.8</b>
Exchange differences	(0.4)	–
<b>At 28 April 2014</b>	<b>22.4</b>	<b>7.8</b>
<i>Accumulated depreciation and impairment:</i>		
At 29 April 2012	1.6	0.4
Exchange differences	0.2	–
Impairment	0.5	–
Depreciation	0.3	–
<b>At 27 April 2013</b>	<b>2.6</b>	<b>0.4</b>
Exchange differences	(0.1)	0.1
Impairment	–	–
Depreciation	0.3	–
<b>At 26 April 2014</b>	<b>2.8</b>	<b>0.5</b>
<i>Net book value:</i>		
<b>At 26 April 2014</b>	<b>19.6</b>	<b>7.3</b>
At 27 April 2013	20.2	7.4

## Financial statements continued

## Notes to the Financial statements continued

**13. Investment in subsidiary undertakings**

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The Directors have taken advantage of Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affect the financial statements. A full list of all subsidiary undertakings will be annexed to the next Annual Return of Carpetright plc to be filed at Companies House. All of the Group's subsidiary undertakings are included in the consolidated accounts.

	Country of incorporation and operation	Principal activity	Percentage of ordinary shares held directly by Company	Percentage of ordinary shares held indirectly by Company
Carpetright of London Limited	England and Wales	Holding	100%	
Melford Commercial Properties Limited	England and Wales	Property	100%	
Carpetright (Torquay) Limited	England and Wales	Property	100%	
Pluto Sp. Z.o.o.	Poland	Property	100%	
Carpetland NV	Belgium	Retail		100%
Carpetland BV	Netherlands	Retail		100%
Fontainebleau Vastgoed BV	Netherlands	Property		100%

Company	2014 £m	2013 £m
<i>Cost:</i>		
At the beginning of the period	16.1	16.8
Impairment of investment in Pluto Sp. Z.o.o.	–	(0.7)
<b>At the end of the period</b>	<b>16.1</b>	<b>16.1</b>

The cost of investments before impairments is £16.8m. In April 2013 an impairment of £0.7m was recognised and related to our investment in Pluto Sp. Z.o.o.

**14. Inventories**

Group and Company inventories are held in the form of finished goods for resale. Write downs of stock values to net realisable value during the year amounted to £0.2m (2013: £1.0m).

The Group reversed £0.7m of the write down provision made in 2013 as it has sold the majority of these items at or above original cost. The reversal has been included in cost of sales.



## 15. Trade and other receivables

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<i>Non-current:</i>				
Receivables from subsidiaries	–	–	46.5	47.5
Prepayments and accrued income	0.7	0.8	0.7	0.8
	0.7	0.8	47.2	48.3
<i>Current:</i>				
Trade receivables	4.8	5.4	1.7	1.6
Less: provision for impairment	(0.4)	(0.4)	(0.4)	(0.4)
	4.4	5.0	1.3	1.2
Other receivables	3.5	2.7	3.0	2.2
Prepayments and accrued income	11.9	12.1	10.3	10.6
	19.8	19.8	14.6	14.0
<b>Total trade and other receivables</b>	<b>20.5</b>	<b>20.6</b>	<b>61.8</b>	<b>62.3</b>

The Directors consider that the carrying amounts of trade and other receivables approximate to their fair values.

### Provision for impairment

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
At the beginning of the period	(0.4)	(0.6)	(0.4)	(0.4)
Receivables written off against the provision in the period	–	0.2	–	–
At the end of the period	(0.4)	(0.4)	(0.4)	(0.4)

The table below shows the financial assets included in trade and other receivables at the balance sheet date:

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Major insurance companies	2.6	1.4	2.1	0.8
Property rent receivables	0.8	1.1	0.8	1.2
Other receivables	0.1	0.2	0.1	0.2
Retail customers	4.4	5.0	1.3	1.2
Trade and other receivables	7.9	7.7	4.3	3.4

Balances from retail customers principally relate to products awaiting collection, but are considered to have little credit risk as they are primarily settled by cash or major credit card and must be settled prior to the goods being collected from/delivered by the store.

The age profile of balances other than those with retail customers is set out below:

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Neither past due nor impaired	2.5	1.4	2.0	0.9
30 to 60 days	0.3	0.3	0.3	0.3
60 to 90 days	–	–	–	–
Over 90 days	0.7	1.0	0.7	1.0
Non-retail trade and other receivables	3.5	2.7	3.0	2.2

## Financial statements continued

## Notes to the Financial statements continued

## 16. Cash and cash equivalents

	Notes	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Cash at bank and in hand		6.3	7.9	4.3	6.4
Bank overdrafts	19	(10.8)	(12.0)	(8.3)	(7.8)
<b>Cash and cash equivalents in the cash flow statements</b>		<b>(4.5)</b>	<b>(4.1)</b>	<b>(4.0)</b>	<b>(1.4)</b>

## 17. Trade and other payables

	Group 2014 £m	Group 2013 restated £m	Company 2014 £m	Company 2013 restated £m
<i>Current:</i>				
Trade payables	49.7	55.9	42.6	48.3
Other taxes and social security	11.8	13.3	9.4	10.8
Accruals and deferred income	27.8	25.1	25.9	25.1
	89.3	94.3	77.9	82.2
<i>Non-current:</i>				
Accruals and deferred income	38.6	40.2	38.6	40.2
Payable to subsidiaries	–	–	9.6	11.9
	38.6	40.2	48.2	52.1
<b>Total trade and other payables</b>	<b>127.9</b>	<b>134.5</b>	<b>126.1</b>	<b>134.3</b>

Trade payables comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider that the carrying amounts of trade and other payables approximate to their fair values.

## 18. Obligations under finance leases

	Minimum lease payments				Present value of minimum lease payments			
	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Amounts payable within one year	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Amounts payable between one and five years	1.2	1.2	0.8	0.8	0.5	0.5	0.4	0.4
Amounts payable after five years	4.5	4.8	1.2	1.4	1.9	2.0	0.9	1.0
	6.0	6.3	2.2	2.4	2.5	2.6	1.4	1.5
Less: future finance charges	(3.5)	(3.7)	(0.8)	(0.9)				
<b>Present value of obligations under finance leases</b>	<b>2.5</b>	<b>2.6</b>	<b>1.4</b>	<b>1.5</b>				
<b>Current</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>				
<b>Non-current</b>	<b>2.4</b>	<b>2.5</b>	<b>1.3</b>	<b>1.4</b>				

The Group leases certain properties under finance leases. The average lease term is 17 years (2013: 18 years) for properties. Minimum lease payments are discounted at the rate inherent in the leases. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

## 19. Borrowings

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<i>Current:</i>				
Bank overdraft	10.8	12.0	8.3	7.8
Bank loans	0.3	0.2	0.3	0.2
	11.1	12.2	8.6	8.0
<i>Non-current:</i>				
Bank loans	3.8	3.3	3.8	3.3
	14.9	15.5	12.4	11.3

All bank loans are denominated in Sterling and Euros of which £12.4m (2013: £11.3m) are secured on certain Group assets.

The effective interest rates at the year end are as follows:

	Group 2014 %	Group 2013 %	Company 2014 %	Company 2013 %
Overdrafts	2.6	2.7	2.8	3.0
Borrowings	2.8	3.0	2.8	3.0

The maturity profiles of borrowings are as follows:

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Amounts payable within one year	11.1	12.2	8.6	8.0
Amounts payable between one and two years	3.8	0.3	3.8	0.3
Amounts payable between two and five years	–	3.0	–	3.0
	14.9	15.5	12.4	11.3

The maturity analysis is grouped by when the debt is contracted to mature rather than by re-pricing dates.

## 20. Provisions for liabilities and charges

Group and Company	Group 2014 £m			Company 2014 £m		
	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m
At the beginning of the period	11.1	–	11.1	11.1	–	11.1
Added during the period	6.6	2.3	8.9	6.6	1.1	7.7
Released during the period	–	(0.1)	(0.1)	–	(0.1)	(0.1)
Utilised during the period	(4.3)	(0.7)	(5.0)	(4.3)	(0.6)	(4.9)
<b>At the end of the period</b>	<b>13.4</b>	<b>1.5</b>	<b>14.9</b>	<b>13.4</b>	<b>0.4</b>	<b>13.8</b>

Onerous lease provisions are expected to be used over periods of up to 15 years and relate to properties in the UK and the Republic of Ireland that are not trading and are either empty or leased at below the passing rent. We anticipate that the reorganisation provisions, predominantly relating to the consolidation of our offices in Europe, will be utilised over the next 12 months.

## Financial statements continued

## Notes to the Financial statements continued

## 21. Deferred tax assets and liabilities

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Deferred tax assets	(2.9)	(2.6)	–	–
Deferred tax liabilities	16.6	23.9	12.3	18.2
<b>Net deferred tax liabilities</b>	<b>13.7</b>	<b>21.3</b>	<b>12.3</b>	<b>18.2</b>

Deferred tax assets and liabilities are offset against each other where there is a legally enforceable right to offset.

The movement in deferred tax assets and liabilities recognised by the Group during the current and prior period is:

Group	Accelerated tax depreciation	Fair value adjustments	Deferred capital gains	Short-term timing differences	Tax losses	Share based payments	Retirement benefit obligations	Total
At 29 April 2012	6.9	1.5	17.7	(1.0)	(3.5)	(0.2)	(0.9)	20.5
Exchange differences	0.1	–	–	–	(0.1)	–	–	–
Charge/(credit) to the income statement	(0.2)	–	0.9	–	0.1	–	–	0.8
Charge/(credit) to other comprehensive income	–	–	–	–	–	–	(0.1)	(0.1)
Tax charge/(credit) to equity	–	–	–	–	–	0.1	–	0.1
<b>At 27 April 2013</b>	<b>6.8</b>	<b>1.5</b>	<b>18.6</b>	<b>(1.0)</b>	<b>(3.5)</b>	<b>(0.1)</b>	<b>(1.0)</b>	<b>21.3</b>
Charge/(credit) to the income statement	(1.0)	–	(2.4)	–	(1.3)	–	–	(4.7)
Charge/(credit) to other comprehensive income	–	–	–	–	–	–	0.5	0.5
Transferred to current tax	–	–	(3.4)	–	–	–	–	(3.4)
<b>At 26 April 2014</b>	<b>5.8</b>	<b>1.5</b>	<b>12.8</b>	<b>(1.0)</b>	<b>(4.8)</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>13.7</b>

Company	Accelerated tax depreciation	Fair value adjustments	Deferred capital gains	Short-term timing differences	Tax losses	Share based payments	Retirement benefit obligations	Total
At 29 April 2012	4.3	–	16.3	(1.3)	(0.8)	(0.2)	(0.9)	17.4
Charge/(credit) to the income statement	(0.5)	–	1.1	0.1	0.1	–	–	0.8
Charge/(credit) to other comprehensive income	–	–	–	–	–	–	(0.1)	(0.1)
Tax charge/(credit) to equity	–	–	–	–	–	0.1	–	0.1
<b>At 27 April 2013</b>	<b>3.8</b>	<b>–</b>	<b>17.4</b>	<b>(1.2)</b>	<b>(0.7)</b>	<b>(0.1)</b>	<b>(1.0)</b>	<b>18.2</b>
Charge/(credit) to the income statement	(1.0)	–	(2.3)	0.2	0.1	–	–	(3.0)
Charge/(credit) to other comprehensive income	–	–	–	–	–	–	0.5	0.5
Transferred to current tax	–	–	(3.4)	–	–	–	–	(3.4)
<b>At 26 April 2014</b>	<b>2.8</b>	<b>–</b>	<b>11.7</b>	<b>(1.0)</b>	<b>(0.6)</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>12.3</b>

At the reporting date, the Group had unused tax losses of £12.4m (2013: £11.8m) which can be carried forward indefinitely and are available for offset against future profits. A deferred tax asset of £4.8m (2013: £3.5m) has been recognised in respect of these losses.

Deferred tax assets of £2.5m (2013: £3.3m) were available for offset against deferred tax liabilities of £19.1m (2013: £27.2m), hence the Group's deferred tax liabilities as at 26 April 2014 are £16.6m (2013: £23.9m).

## 22. Retirement benefit obligations

The Group operates a variety of pension schemes, principally in the UK, the Netherlands and Belgium. They comprise defined benefit schemes where benefits are based on employees' length of service and average final salary, and defined contribution schemes where the employer company pays a set contribution to the scheme. The UK defined benefit schemes referred to in note 22 (i) (a) and the first two defined contribution schemes referred to in note 22 (ii) are accounted for by the Company.

### (i) Defined benefit schemes

#### (a) UK defined benefit schemes

The Company operated a funded defined benefit pension scheme providing benefits based on final pensionable pay for its employees and has assumed the liability for the scheme previously operated by Storey Carpets Ltd (Storeys). The Company scheme was closed to defined benefit service accrual on 30 April 2010 and has been closed to new members since 31 March 2006. The scheme previously operated by Storeys is also closed to new members and has no active members. The assets of the schemes are held separately from those of the Company. The assets of the Company scheme are invested in a Managed Fund operated by a fund management company. Contributions are determined by a qualified actuary using the projected unit method. The most recent actuarial review was at 6 April 2011 when the actuarial value of the assets represented 77% of the benefits accrued to members after allowing for expected future increases in earnings. A deficit reduction plan has been agreed with the Trustees under which £0.6m was paid in the year (2013: £0.6m).

The assets of the Storeys scheme are held in independently managed funds. The most recent actuarial review of the Storeys scheme was at 1 March 2011 when the actuarial value of the assets represented 90% of the benefits accrued to members. A deficit reduction plan has been agreed with the Trustees under which £0.3m was paid in the year (2013: £0.2m).

#### Risks

The Group schemes are exposed to actuarial risks and investment risks. Some of the risks can be reduced by adjusting the funding strategy with the help of the Trustees, for example investment matching risk. Other risks cannot so easily be removed, for example longevity risk. The Trustees of the plan regularly review such risks and mitigating controls and a risk register is approved annually to mitigate such risks.

Employer contributions of £0.9m are expected to be paid into these pension schemes during the financial year 2015.

The assets and liabilities of the schemes were valued on an IAS 19 basis at 26 April 2014 by a qualified actuary. The numbers set out below are the aggregate of the two schemes.

1) The table below outlines amounts included in the financial statements arising from the Group's and Company's obligations in respect of the defined benefit scheme:

		2014 £m	2013 £m
Present value of pension schemes' obligations		(26.3)	(26.8)
Fair value of pension schemes' assets		23.0	21.7
<b>Total recognised in the balance sheet</b>		<b>(3.3)</b>	<b>(5.1)</b>
	Notes	2014 £m	2013 £m
Net interest cost on pension schemes	6	0.2	–
<b>Total recognised in the income statement</b>		<b>0.2</b>	<b>–</b>
		2014 £m	2013 £m
Actuarial gain/(loss) on plan assets		1.1	2.0
Change in assumptions underlying present value of liabilities		–	(3.6)
<b>Total recognised in the other comprehensive income</b>		<b>1.1</b>	<b>(1.6)</b>

## Financial statements continued

## Notes to the Financial statements continued

**22. Retirement benefit obligations continued**

2) Reconciliation of movement in net pension deficit:

	Defined benefit obligations		Fair value of assets		Net defined benefit obligations	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
At 27 April 2013	(26.8)	(22.6)	21.7	18.3	(5.1)	(4.3)
Interest expense/(income)	(1.1)	(1.0)	0.9	1.0	(0.2)	-
<b>Re-measurements:</b>						
Actuarial gains and losses from:						
Financial assumptions	0.7	(3.6)	-	-	0.7	(3.6)
Experience adjustments	0.1	-	-	-	0.1	-
Return on plan assets excluding interest	-	-	0.3	2.0	0.3	2.0
<b>Contributions:</b>						
Employers	-	-	0.9	0.8	0.9	0.8
<b>Payments from plan:</b>						
Benefits paid	0.8	0.4	(0.8)	(0.4)	-	-
<b>As at 26 April 2014</b>	<b>(26.3)</b>	<b>(26.8)</b>	<b>23.0</b>	<b>21.7</b>	<b>(3.3)</b>	<b>(5.1)</b>

3) Fair value of scheme assets:

	2014 £m	2013 £m
Cash and cash equivalents	0.2	0.1
Equities	11.4	10.1
Government bonds	2.8	3.0
Property	0.3	0.2
Investment funds	8.3	8.3
<b>Total</b>	<b>23.0</b>	<b>21.7</b>

## 4) Key assumptions used:

	2014 %	2013 %
RPI inflation	3.4	3.4
Discount rate	4.2	4.2
CPI inflation	2.6	2.8

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The assumptions used for future life expectancy of members of the scheme are derived from industry dates and standard tables. Specifically, the S1NMA table (2013: S1NMA table) with medium cohort improvement has been used for male pensioners and the S1NFA table (2013: S1NFA table) with medium cohort improvement for female pensioners projected by year of birth.

The most significant assumptions are the discount rate, retail and consumer price index and mortality rates, of which the most sensitive assumption is the discount rate. The impact of an increase or decrease in the assumptions by 0.1% is shown below:

		2014 £	2013 £
Increase/(decrease) by 0.1%	Discount rate	0.5	0.5
Increase/(decrease) by 0.1%	RPI inflation or CPI inflation	0.3	0.3
Increase/(decrease) by 1 year	Life expectancy	1.1	1.1

**(b) Multi-employer scheme**

The Group's Dutch subsidiary participates in a multi-employer run industry pension scheme which has arrangements similar to those of a defined benefit scheme. It is not possible to identify the Group's share of the underlying assets and liabilities of the scheme, and therefore, in accordance with IAS 19, the Group has taken the exemption for multi-employer pension schemes not to disclose pension scheme assets and liabilities. Accordingly, although this scheme is a defined benefit scheme it is treated as a defined contribution scheme, recognising the contributions payable in each period in the income statement. Under the terms of the scheme the scheme deficit is recovered through increased contributions from participating members. At the period end, the Group was unable to obtain a valuation of the industry scheme's full surplus or deficit. Contributions charged to the income statement amounted to £1.1m (2013: £1.1m).

**(ii) Defined contribution schemes**

The Company launched a Group Personal Pension Plan in April 2006. Contributions made by employees are matched by the Company to an upper limit. The assets of the scheme are held separately from those of the Company and are invested by Scottish Life. Contributions for the period amounted to £1.1m (2013: £0.9m).

In addition, the Group operates defined contribution pension schemes for subsidiary companies in Belgium and the Netherlands. The Group makes contributions into the schemes, the assets of which are held separately from those of the Group and are invested by local insurance companies. The contributions by the Group into individual company schemes for the period were a net charge of £0.1m (2013: £nil) and contributions to industry collective schemes were £0.1m (2013: £0.1m).



## Financial statements continued

## Notes to the Financial statements continued

**23. Financial instruments****(i) Financial risk management objectives and policies****Risk management**

The Group's principal financial instruments comprise borrowings and overdrafts, cash and cash equivalents. These financial instruments are used to manage funding and liquidity requirements. Other financial instruments which arise directly from the Group's operations include trade receivables and payables.

Exposure to credit, liquidity, foreign currency exchange and interest rate risks arise in the normal course of the Group's business operations and each of these risks is managed in accordance with the Group's treasury risk management strategy, which is also discussed in the Business Review in the section Current liquidity.

*(a) Credit risk*

The Group does not have significant concentrations of credit risk as exposure is spread over a number of counterparties and customers.

The Group is exposed to a small amount of credit risk that is primarily attributable to its trade and other receivables, the majority of which relates to retail customer products held ready for collection (see note 15). Retail customers are required to settle outstanding balances in cash or using a major credit card prior to goods being collected from/delivered by the store.

The credit risk on liquid funds is limited because the counterparties are banks with a minimum A- credit rating. The maximum amount of credit risk is represented by the carrying amounts of financial assets.

*(b) Liquidity risk*

The Group finances its operations from a mix of retained profits and bank borrowings achieved through term loans, revolving credit agreements and overdraft facilities. Daily cash balances are forecast and surplus cash is placed on treasury deposit with the Group's bankers.

*The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest:*

<b>Group</b>	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
<b>At 26 April 2014</b>					
Interest bearing loans and borrowings	0.5	6.3	–	–	6.8
Finance leases	0.3	0.3	0.9	4.5	6.0
Trade and other payables	79.3	–	–	–	79.3
	<b>80.1</b>	<b>6.6</b>	<b>0.9</b>	<b>4.5</b>	<b>92.1</b>
<b>At 27 April 2013</b>					
Interest bearing loans and borrowings	12.5	0.6	3.2	–	16.3
Finance leases	0.3	0.3	0.9	4.8	6.3
Trade and other payables	80.7	–	–	–	80.7
	93.5	0.9	4.1	4.8	103.3
<b>Company</b>					
<b>At 26 April 2014</b>					
Interest bearing loans and borrowings	0.5	3.8	–	–	4.3
Finance leases	0.2	0.2	0.6	1.2	2.2
Trade and other payables	81.5	–	–	–	81.5
	<b>82.2</b>	<b>4.0</b>	<b>0.6</b>	<b>1.2</b>	<b>88.0</b>
<b>At 27 April 2013</b>					
Interest bearing loans and borrowings	8.3	0.6	3.2	–	12.1
Finance leases	0.2	0.2	0.6	1.4	2.4
Trade and other payables	84.8	–	–	–	84.8
	93.3	0.8	3.8	1.4	99.3

The Group has committed facilities to July 2015 comprising a €0.7m amortising term loan and a £45.0m revolving credit facility. The Group also has a committed overdraft facility of £10.0m which is renewable annually in June. The undrawn amounts on the committed facilities were £43.5m and £1.7m (2013: £42.5m and £2.2m). Repayments on the term loans cannot be redrawn. There are a number of covenants which commit the Group to maintaining certain rates of leverage and fixed charge cover. The Group has and is expected to remain in compliance with these covenants, further details on this can be found on page 13 of the Strategic report. The Group has further uncommitted facilities of €7.4m, of which €3.0m has been drawn.

*(c) Foreign exchange risk*

Outside the UK, the Group operates in the Republic of Ireland, the Netherlands, Belgium and has an investment property in Poland. Revenues and expenses of these operations are denominated in Euros or Zlotys. The Group's investment in Poland is not sufficiently material to require the risk to be hedged. The Group mitigates currency risk in respect of the net investment in European operations by designating Euro denominated borrowings as hedging instruments of Euro denominated investments in foreign operations.

If the closing Sterling Euro rate had been 0.01 points lower in the period, the exchange difference reported in the statement of comprehensive income would have been £0.6m lower (2013: £0.6m lower). At 26 April 2014, if Sterling had weakened/strengthened by 10% against the Euro, profit after tax for the year would have been £0.6m higher/lower as a result of the translation of the Euro denominated businesses.

*Financial assets and liabilities and foreign operations are translated at the following rates of exchange:*

	Euro 2014	Euro 2013	Zloty 2014	Zloty 2013
Average rate	1.18	1.23	5.00	5.12
Closing rate	1.21	1.19	5.10	4.93

*(d) Interest rate risk*

The Group has various borrowings bearing interest at a margin over LIBOR or EURIBOR rates.

In accordance with IFRS 7, the Group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt and a constant ratio of fixed to floating interest rates as at 26 April 2014 and 27 April 2013 respectively. Consequently, analysis relates to the situation at those dates and is not representative of the years then ended.

Based on the Group's net debt position at the year end, a 1% change in interest rates would affect the Group's profit before tax by approximately £0.1m (2013: £0.1m).

*The interest rate profile of the financial assets and liabilities of the Group is as follows:*

	2014					2013				
	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m
Sterling	–	4.1	–	2.6	6.7	–	3.9	–	3.1	7.0
Euro	–	1.9	–	3.8	5.7	0.4	3.7	–	4.5	8.2
Zloty	–	0.3	–	–	0.3	–	0.3	–	–	0.3
<b>Total financial assets</b>	–	6.3	–	6.4	12.7	–	7.9	–	7.6	15.5
Sterling	1.2	(11.9)	(2.3)	(69.9)	(84.1)	1.0	(9.8)	(2.4)	(70.8)	(83.0)
Euro	0.7	(3.0)	(0.2)	(9.4)	(12.6)	0.8	(5.7)	(0.2)	(9.9)	(15.8)
<b>Total financial liabilities</b>		(14.9)	(2.5)	(79.3)	(96.7)		(15.5)	(2.6)	(80.7)	(98.8)

**Capital management**

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and retain financial flexibility in order to continue to provide returns for shareholders and benefits for other stakeholders. The Group considers capital to be equity and net debt. Net debt is disclosed in note 29.

The Group manages its capital by: continued focus on free cash flow generation; setting the level of capital expenditure and dividend in the context of the current year and forecast free cash flow; and monitoring the level of the Group's financial and leasehold debt in the context of Group performance.

## Financial statements continued

## Notes to the Financial statements continued

**23. Financial instruments continued****(ii) Fair value of financial assets and liabilities**

Financial assets and liabilities are classified in accordance with IAS 39. Financial instruments have not been reclassified or derecognised in the period. There are no financial assets which have been pledged or held as collateral. None of the Group's loans is impaired. In addition, the Group does not have any financial assets or liabilities measured at fair value through the income statement. There are no available-for-sale financial assets.

The carrying values of all other financial assets and liabilities are deemed to reflect fair value.

	Group		Company	
	2014 Fair value £m	2013 Fair value £m	2014 Fair value £m	2013 Fair value £m
At cost:				
Cash and cash equivalents	6.3	7.9	4.3	6.4
Loans and receivables at amortised cost:				
Trade and other receivables	6.4	7.6	49.2	50.6
<b>Total financial assets</b>	<b>12.7</b>	<b>15.5</b>	<b>53.5</b>	<b>57.0</b>
Financial liabilities at amortised cost:				
Borrowings and overdrafts	(14.9)	(15.5)	(12.4)	(11.3)
Finance lease obligations	(2.5)	(2.6)	(1.4)	(1.5)
Financial liabilities at cost:				
Trade and other payables	(79.3)	(80.7)	(81.5)	(84.8)
<b>Total financial liabilities</b>	<b>(96.7)</b>	<b>(98.8)</b>	<b>(95.3)</b>	<b>(97.6)</b>
<b>Net financial liabilities</b>	<b>(84.0)</b>	<b>(83.3)</b>	<b>(41.8)</b>	<b>(40.6)</b>

**(iii) Hedge accounting****Net investment hedges**

Euro-denominated borrowings are designated as hedging instruments of Euro-denominated net assets of the Group's foreign operations in order to protect the Group from currency risk in respect of the Group's Euro-denominated foreign operations. Borrowing balances are carried at amortised cost which approximates fair value since borrowings bear interest at the prevailing floating rate. The carrying value of borrowings amounted to €0.7m (2013: €1.8m).

**24. Share capital**

Group and Company	Number of allotted, called up and fully paid ordinary shares Millions	Share capital £m	Share premium £m	Treasury shares £m	Total £m
At 29 April 2012	67.5	0.7	16.3	(0.3)	16.7
Issue of new shares	–	–	0.3	–	0.3
<b>At 27 April 2013</b>	<b>67.5</b>	<b>0.7</b>	<b>16.6</b>	<b>(0.3)</b>	<b>17.0</b>
Issue of new shares	0.2	–	0.6	–	0.6
<b>At 26 April 2014</b>	<b>67.7</b>	<b>0.7</b>	<b>17.2</b>	<b>(0.3)</b>	<b>17.6</b>

The Group's LTIP was established to grant contingent rights to shares. Such grants are made on recommendation by the Group's Remuneration Committee. Shares are purchased by a Trust and held until they are used to satisfy the LTIP awards. As required by IAS 32, grants of such shares are classified as Treasury shares and accordingly are deducted from total equity attributable to equity holders of the parent. The assets, liabilities, income and costs of the LTIP and Trust are included in both the Company and the consolidated financial statements. During the period, the Trust did not purchase any ordinary shares (2013: nil shares purchased). At the year end, the Trust held 27,869 (2013: 27,869) ordinary shares of 1p each with a market value of £0.2m (2013: £0.2m).

The Group also operates a share option scheme under which shares are issued to satisfy share options upon exercise.

## 25. Share based payments

Included within administration expenses is a credit of £(0.2)m (2013: £0.5m charge) in respect of equity-settled share based payments.

The Group's employee share schemes are described below and additional detail is disclosed in the Directors' remuneration report on pages 38 to 40. Scheme participants are either Directors of the Company or employees of the Group. The costs associated with the schemes are accounted for in the Company's accounts.

### (i) LTIP

Under this scheme, participants may receive annual awards in the form of contingent entitlements to Company shares. These entitlements are equity-settled through the purchase of existing shares by the administering Trust. The shares vest three years after award if participants remain with the Group during the vesting period and the Group meets targeted levels of performance. The performance conditions are fully described in the Directors' remuneration report in the section titled Long-term incentives.

During the period, contingent entitlements to 387,307 shares were awarded (2013: 327,224). The amount recognised in the income statement in respect of all LTIP awards is a credit of £(0.4m) (2013: £0.3m charge). The fair values of the awards, where there is no market condition, are valued using a Black-Scholes option pricing model. The Group's LTIP Trust is administered by the Equity Trust (Jersey) Limited and it waives its right to dividends on the shares held.

### Reconciliation of movements in the periods ended 26 April 2014

	LTIP 2014		LTIP 2012		LTIP 2011	
	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m
Outstanding at 29 April 2012	-	-	-	-	332.9	1.5
Granted	-	-	327.3	2.1	92.6	0.4
Forfeited	-	-	(13.0)	(0.1)	(20.5)	(0.1)
<b>Outstanding at 27 April 2013</b>	<b>-</b>	<b>-</b>	<b>314.3</b>	<b>2.0</b>	<b>405.0</b>	<b>1.8</b>
Granted	387.3	2.0	-	-	-	-
Forfeited	-	-	(141.6)	(0.9)	(193.7)	(0.9)
<b>Outstanding at 26 April 2014</b>	<b>387.3</b>	<b>2.0</b>	<b>172.7</b>	<b>1.1</b>	<b>211.3</b>	<b>0.9</b>
<b>Exercisable at 26 April 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Exercisable at 27 April 2013	-	-	-	-	-	-

The valuation assumptions used in the application of the Black-Scholes models applied to the relevant schemes above are as follows:

Valuation assumptions	LTIP 2014 award	LTIP 2012 award	LTIP 2011 award
Fair value per share (pence)	504	641	459
Share price at grant (pence)	505	664	486
Exercise price (pence)	0.0	1.0	1.0
Expected volatility (%) <sup>1</sup>	35.1	35.9	39.7
Vesting period (years)	3.0	3.0	3.0
Dividend yield (%)	0.0	1.1	1.8
Risk free interest rate (%)	1.0	0.4	0.8

1. Expected volatility is based on historical volatility over the three year period preceding the date of grant. The risk free interest rate is the yield on zero-coupon UK government bonds at the date of grant of the respective awards over a term consistent with the vesting period.

### (ii) Savings Related Share Option Scheme ("SAYE")

Three and five year SAYE schemes were introduced in 2004. Employees and Executive Directors are invited to subscribe for options over shares in the Company at a 20% discount. The options are ordinarily exercisable within six months from the third or fifth anniversary of the grant date. The entitlement to share options is equity-settled. Funds for the purchase of Company shares are built up through the contribution of a maximum of £250 per month from salary. Share options were valued using a Black-Scholes option-pricing model. The cost charged to the income statement in respect of this scheme is £0.2m (2013: £0.2m).

## Financial statements continued

## Notes to the Financial statements continued

## 25. Share based payments continued

## Reconciliation of movements in the periods ended 26 April 2014

	SAYE 2014		SAYE 2013		SAYE 2012		SAYE 2011		SAYE 2010		SAYE 2009		SAYE 2008	SAYE 2007
	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	5 yr	5 yr
	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s
Outstanding at 29 April 2012	-	-	-	-	262.6	42.8	44.8	15.9	15.5	6.1	28.6	245.7	16.6	3.6
Granted	-	-	101.0	17.0	-	-	-	-	-	-	-	-	-	-
Forfeited	-	-	(1.3)	-	(47.8)	(6.7)	(9.7)	(2.9)	(3.2)	(1.8)	-	(12.8)	(4.1)	3.6
Vested	-	-	-	-	-	-	-	-	-	-	(28.6)	(7.6)	-	-
<b>Outstanding at 27 April 2013</b>	-	-	99.7	17.0	214.8	36.1	35.1	13.0	12.3	4.3	-	225.3	12.5	-
Granted	267.7	80.3	-	-	-	-	-	-	-	-	-	-	-	-
Forfeited	-	-	(39.6)	(6.4)	(35.5)	-	-	(5.6)	(12.3)	(0.2)	-	(4.8)	(7.7)	-
Vested	-	-	-	-	(1.4)	-	-	-	-	-	-	(183.8)	(4.8)	-
<b>Outstanding at 26 April 2014</b>	267.7	80.3	60.1	10.6	177.9	36.1	35.1	7.4	-	4.1	-	36.7	-	-
<b>Exercisable at 26 April 2014</b>	-	-	-	-	-	-	35.1	-	-	-	-	36.7	-	-
Exercisable at 27 April 2013	-	-	-	-	-	-	-	-	12.3	-	-	-	12.5	-

The valuation assumptions used in the application of the Black-Scholes model applied to the relevant schemes above are as follows:

Valuation assumptions	SAYE 2014		SAYE 2013		SAYE 2012		SAYE 2011		SAYE 2010		SAYE 2009	
	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr
Fair value per share (pence)	165	201	248	339	179	231	264	298	333	331	95	81
Share price at grant (pence)	505	505	679	679	529	529	792	792	941	941	474	474
Exercise price (pence)	404	404	544	544	423	423	634	634	753	753	295	295
Expected volatility (%) <sup>1</sup>	33.7	34.8	34.7	39.1	40.0	44.1	41.6	39.9	47.4	38.7	42.4	35.2
Vesting period (years)	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1
Dividend yield (%)	-	-	-	-	2.3	2.3	2.3	2.3	3.1	3.1	6.8	6.8
Risk free interest rate (%)	0.3	0.8	2.9	4.9	2.9	2.9	1.6	2.4	3.1	3.1	2.2	2.6
Possibility of ceasing employment before vesting (%)	40	50	40	50	40	50	40	50	40	50	40	50

1. Expected volatility is based on historical volatility over the three or five year period respectively preceding the date of grant. The risk free interest rate is the yield on zero-coupon UK government bonds at the date of grant of the respective awards over a term consistent with the vesting period.

## (iii) All Employee Share Ownership Plan ("AESOP")

Under this scheme, employees are invited to contribute up to £125 per month from pre-tax salary to purchase Company shares. The Group does not incur a share based payment charge in respect of this scheme since the Company shares are acquired at market value and are not subject to an accumulation period.

## 26. Capital and other financial commitments

Capital commitments at 26 April 2014 relates to the acquisition of property, plant and equipment and intangible assets, and are:

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Authorised and contracted	–	2.1	–	1.7

Capital commitments include £nil (2013: £1.4m) in the Group and £nil (2013: £1.0m) in the Company, for which a provision has been made in the accounts.

## 27. Operating lease commitments

At 26 April 2014, the future minimum lease payments in respect of land and buildings and other assets under operating leases are:

Group	2014		2013	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	79.9	1.1	88.6	1.0
Amounts payable between one and five years	315.3	4.0	315.8	2.4
Amounts payable after five years	359.5	0.5	410.6	1.3
	754.7	5.6	815.0	4.7

Company	2014		2013	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	79.7	1.1	80.0	0.9
Amounts payable between one and five years	296.2	3.4	293.5	2.2
Amounts payable after five years	352.4	0.5	395.0	1.2
	728.3	5.0	768.5	4.3

Operating lease payments are negotiated for an average of 6.1 years (2013: 6.7 years). The Group enters into sublease agreements in respect of some of its operating leases for stores. At the reporting date, the Group had contracted with tenants for future minimum operating sublease receipts amounting to £4.5m (2013: £7.1m).

## 28. Contingent liabilities

The Group has no material contingent liabilities at 26 April 2014.

The Company's contingent liabilities derive from guarantees for subsidiaries, which are disclosed in note 30.

## Financial statements continued

## Notes to the Financial statements continued

## 29. Movement in cash and net debt

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
<i>Current assets:</i>				
Cash and cash equivalents	6.3	7.9	4.3	6.4
	6.3	7.9	4.3	6.4
<i>Current liabilities:</i>				
Bank overdrafts	(10.8)	(12.0)	(8.3)	(7.8)
Bank borrowings	(0.3)	(0.2)	(0.2)	(0.2)
Obligations under finance leases	(0.1)	(0.1)	(0.1)	(0.1)
	(11.2)	(12.3)	(8.6)	(8.1)
<i>Non-current liabilities:</i>				
Borrowings	(3.8)	(3.3)	(3.8)	(3.3)
Obligations under finance leases	(2.4)	(2.5)	(1.3)	(1.4)
	(6.2)	(5.8)	(5.1)	(4.7)
<b>Total net debt</b>	<b>(11.1)</b>	<b>(10.2)</b>	<b>(9.4)</b>	<b>(6.4)</b>

## Reconciliation of movements in the periods ended 26 April 2014

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Net increase/(decrease) in cash and cash equivalents	(0.3)	(5.6)	(2.4)	(4.0)
Net increase in borrowings	0.1	13.9	0.1	13.9
Other non cash movements	(0.7)	0.6	(0.5)	1.1
	(0.9)	8.9	(3.0)	11.0

## 30. Related parties

## Group

Related party transactions with the Directors are disclosed in the Directors' report on page 44.

Share based payment transactions which include transactions with key management are disclosed in notes 4 and 25.

Contributions to pension schemes are disclosed in note 22. Costs incurred by the Group to administer pension schemes amounted to £0.2m in 2014 (2013: £0.3m).

## Company

The following table provides the total amount of transactions and year end balances with related parties for the relevant financial year.

	Sales of goods £m	Amounts due from related parties £m	Amounts due to related parties £m
Subsidiary undertakings			
<b>2014</b>	<b>2.2</b>	<b>46.5</b>	<b>9.6</b>
2013	2.6	47.5	11.9

The Company guaranteed bank and other borrowings of subsidiary undertakings amounting to £2.5m (2013: £4.1m).



## Group five-year financial summary

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
<b>Summarised income statements:</b>					
Revenue	447.7	457.6	471.5	486.8	516.6
Gross profit	275.9	278.3	276.0	298.0	316.0
Operating profit/(loss)	(4.9)	(3.4)	18.0	10.9	28.2
Underlying operating profit	6.9	11.4	8.0	21.2	34.1
Net finance costs	(2.3)	(1.7)	(4.0)	(4.3)	(5.9)
<b>Underlying profit before tax</b>	<b>4.6</b>	<b>9.7</b>	<b>4.0</b>	<b>16.9</b>	<b>28.2</b>
Exceptional items	(11.8)	(14.8)	9.5	(10.3)	(5.9)
Profit/(loss) before tax	(7.2)	(5.1)	13.5	6.6	22.3
Tax	3.6	(1.5)	(2.5)	(2.0)	(6.5)
Profit/(loss) for the financial period	(3.6)	(6.6)	11.0	4.6	15.8
<b>Extracts from balance sheets:</b>					
Non-current assets	185.4	193.0	205.2	243.3	247.1
Net assets	61.1	65.3	70.7	67.0	71.2
Operating cash flows	11.3	17.4	29.1	32.1	58.3
Net debt	(11.1)	(10.2)	(19.1)	(65.7)	(71.3)
<b>Ratios and statistics:</b>					
Number of stores at period end	614	620	632	679	703
Total space (sq ft – gross) '000	5,630	5,719	5,840	6,072	6,206
Gross margin (%)	61.6%	60.8%	58.5%	61.2%	61.2%
Underlying operating margin (%)	1.5%	2.5%	1.7%	4.4%	6.6%
Operating margin (%)	(1.0%)	(0.7%)	3.8%	2.2%	5.5%
Underlying earnings per share (pence)	4.7p	9.6p	4.5p	18.0p	31.6p
Basic earnings/(losses) per share (pence)	(5.3p)	(9.8p)	16.4p	6.8p	23.5p
Dividends per share (pence)	–	–	–	8.0p	16.0p

Financial statements continued

## Independent auditors' report to the members of Carpetright plc

### Our Opinion

#### In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 April 2014 and of the Group's profit and the Group's and the Parent Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and as regards the Group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have audited

The Group financial statements and Parent Company financial statements (the "financial statements"), which are prepared by Carpetright plc, comprise:

- the Group and Company Balance Sheets as at 26 April 2014;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Group and Company Statements of cash flow for the year then ended;
- the Group and Company Statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of principal accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Accounts 2014 (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and identified as audited.

### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Overview of our audit approach:

#### Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £2.0m. This represents, approximately, 0.5% of Group revenues. We have used revenues as a benchmark given the high level of fixed costs in the business and because a small fluctuation in revenue can result in a significant fluctuation of profit before tax.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Overview of the scope of the audit

The Group is structured across two segments, being the UK and Europe, with the majority of trading occurring in the UK segment. The Europe segment comprises three reporting units, being Republic of Ireland, Netherlands and Belgium.

In establishing the overall approach to the group audit we identified the UK segment and the Republic of Ireland reporting unit as requiring an audit of their complete financial information, with specified audit procedures being performed for the Netherlands reporting unit by another PwC network firm operating under our instruction.

In this respect, we determined the level of involvement we needed to have in the audit work at the Netherlands reporting unit to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. The procedures described above gave us 96% coverage of revenue.

### Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 24 to 25.

#### Area of focus

#### Valuation of goodwill in Europe (the Netherlands and Belgium)

We focused on this area because the determination of whether or not goodwill in Europe was impaired involved significant judgements about future results, particularly given the recent performance of the Europe business.

#### How the scope of our audit addressed the area of focus

We evaluated management's future cash flow forecasts, relating to the Netherlands and Belgium and the process by which they were drawn up, including comparing them to the latest budgets that have been presented to the Board, and testing the underlying calculations. We challenged:

- The sales growth, cost saving and margin improvement plans set out to achieve the turnaround of the European business considering how much they were impacted by external factors, such as the economic situation in Europe;
- Management's key assumptions for long-term growth rates in the forecasts by comparing them to historical results and economic forecasts; and
- The discount rate by assessing the cost of capital for the Netherlands and Belgium cash-generating unit (CGU).

We also performed sensitivity analysis around the key drivers of the cash flow forecasts, being sales growth rates and the discounted cash flow rate. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired, we considered the likelihood of such a movement in those key assumptions arising.

#### Valuation of fixed assets in the Netherlands

We focused on this area because the determination of whether or not the fixed assets in the Netherlands were correctly valued involved significant judgements particularly concerning the property market in the Netherlands.

We read and assessed the reasonableness of the key assumptions included in the external valuation of the Dutch freehold portfolio that was commissioned by management and challenged these assumptions, including market rents, yield rates and the valuation standard applied.

Where the third party valuation has not been used, i.e. where the asset's book values are supported by a value in use calculation, we challenged key assumptions, including operating profit projections, long-term growth rate and discount factors used in the discounted cash flow calculations performed by management and tested the underlying calculations against the most recent forecast plan presented to the Board, the weighted average cost of capital and 2014 actual revenue and profit against forecasts.

## Financial statements continued

# Independent auditors' report to the members of Carpetright plc continued

### Area of focus

#### Going concern

We focused on this area because the performance of the business has been lower than budgeted, resulting in a reduction in the headroom against the debt covenants.

#### Fraud risk in revenue recognition

ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.

Revenue is the key driver for the business and as such represents a financial statement line item that is susceptible to fraud or manipulation. So, our main area of focus in considering the fraud risk in revenue recognition was over the occurrence of revenue.

#### Risk of management override of internal controls

ISAs (UK & Ireland) require that we consider this as there is a risk that senior management can potentially override controls, regardless of how strong the control environment is.

#### Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 47, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.

### How the scope of our audit addressed the area of focus

We evaluated management's going concern assessment including the latest profit forecast, projected future cash flows and projected bank covenants for the period of 13 months from June 2014.

We reviewed management's expected progress of the business and their ability to raise finance.

We tested the assumptions used in the forecasts and the covenant calculations, including challenging and performing sensitivity analyses on the key assumptions used in the profit and cash forecasts.

We also considered the likelihood of a covenant breach taking into account the effect of a change in the assumptions and available mitigating factors.

Our conclusion on going concern is set out below.

We evaluated the process and key controls underlying the recording of revenue transactions.

We tested reconciliations between the detailed account listings and the general ledger, and a sample of credit notes issued post year end.

We challenged management on their explanations over the key drivers and key trends behind the 2013/2014 revenue.

We used computerised techniques to match revenue transaction to accounts receivable and cash.

We also examined manual journal entries posted to revenue accounts to address the risk of management manipulation of revenue.

We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We tested significant balances which were judgemental and subjective in nature, for example, onerous lease provision and goodwill, and assessed whether there was evidence of bias by the senior employees in their estimates, individually and in aggregate.

We tested manual journal entries posted during the year to identify unusual or irregular items.

## Opinions on other matters prescribed by Companies Act 2006

### In our opinion:

- the information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

## Matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion we have not received:

- all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

### Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ("the Code"). We have nothing to report having performed our review.

On page 46 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Parent Company's performance, business model and strategy. On pages 24 and 25, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

### Other information in the Annual Report

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Financial statements continued

## Independent auditors' report to the members of Carpetright plc continued

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### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Parent's financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### John Ellis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

23 June 2014

## Shareholder information

## Calendar

## 2014

Q1 interim management statement	29 July
Annual General Meeting	4 September
First-half trading update	14 October
First-half ends	25 October
Interim results announcement	9 December

## 2015

Q3 interim management statement	27 January
Second-half trading update	28 April
Year ends	2 May

## Advisers

## Financial advisers

Deutsche Bank AG  
1 Great Winchester Street  
London  
EC2N 2DB

## Solicitors

Travers Smith LLP  
10 Snow Hill  
London  
EC1A 2AL

## Stockbrokers

Deutsche Bank AG  
1 Great Winchester Street  
London  
EC2N 2DB

Peel Hunt  
111 Old Broad Street  
London  
EC2N 1PH

## Independent auditors

PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
1 Embankment Place  
London  
WC2N 6RH

## Bankers

National Westminster Bank plc  
Tooting Branch  
30 Tooting High Street  
London  
SW17 0RG

## Registrars

Computershare Investor Services plc  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 6ZY

## Company secretary and registered office

Jeremy Sampson  
Carpetright plc  
Harris House  
Purfleet Bypass  
Purfleet  
Essex  
RM19 1TT  
Telephone: 01708 802000  
Registered in England & Wales  
with number 2294875



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Carpetright plc

Harris House  
Purfleet Bypass  
Purfleet, Essex RM19 1TT

Telephone +44 (0)1708 802000

[www.carpetright.co.uk](http://www.carpetright.co.uk)  
[www.carpetright.plc.uk](http://www.carpetright.plc.uk)