Carpetright plc

Transforming **homes**

Annual report and accounts 2015

Transforming homes

We are the destination brand for carpets, floors and beds. Because we're the market leader in flooring, we can offer our customers the biggest and most inspiring choice to suit every stage of their life.

We make quality affordable for everyone, with interest free credit, a price promise, transparent pricing and great deals. Shopping with us is easy, enjoyable and convenient. Our friendly team of experts are on hand to help at every step, from measuring up to delivery day and beyond. We can help every customer get the floor they want and transform their home.

Financial highlights

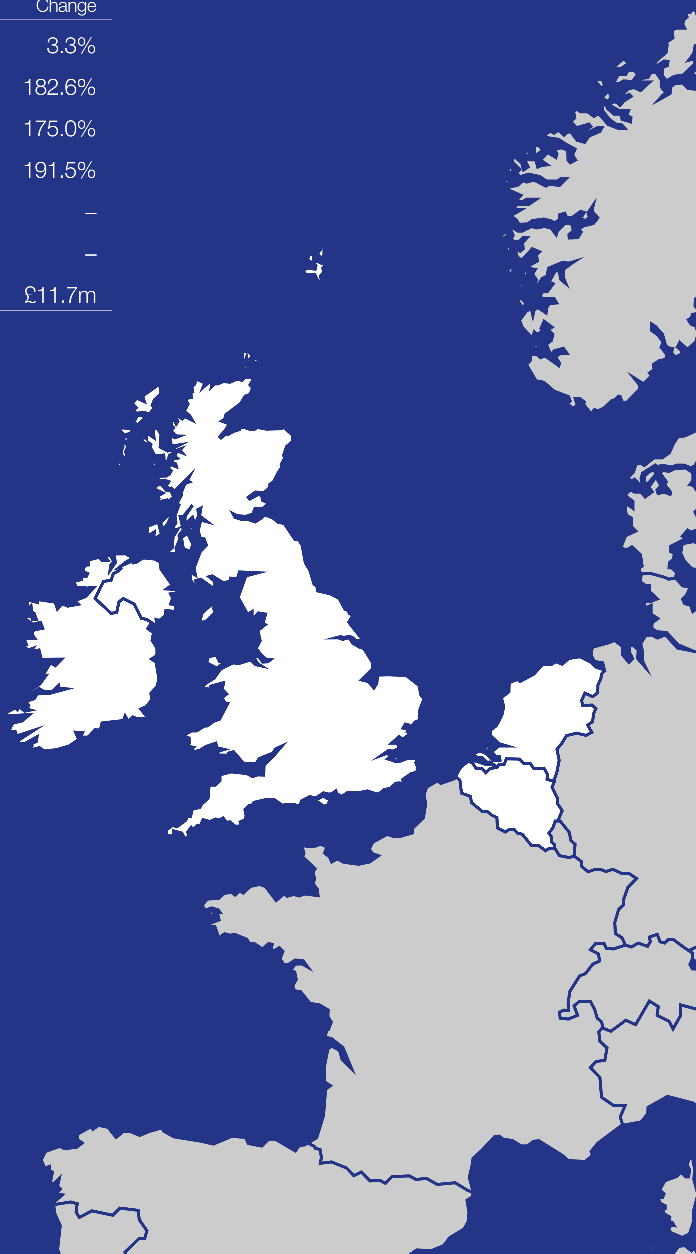
	53 weeks ending 2 May 2015	Pro forma 52 weeks ending 25 April 2015[2]	52 weeks ending 26 April 2014	Pro forma 52 weeks Change
Revenue	**£469.8m**	£462.6m	£447.7m	3.3%
Underlying profit before tax[1]	**£14.2m**	£13.0m	£4.6m	182.6%
Profit/(loss) before tax	**£6.6m**	£5.4m	(£7.2m)	175.0%
Underlying earnings per share[1]	**15.5p**	13.7p	4.7p	191.5%
Basic earnings/(loss) per share	**6.7p**	5.0p	(5.3p)	–
Dividend per share	**Nil**	Nil	Nil	–
Operating cash flow	**£23.0m**	–	£11.3m	£11.7m

Group highlights

Over
3,000
people

4
Countries

597
stores



Carpetright plc operates through two reportable business segments: the UK and the Rest of Europe (comprising the Netherlands, Belgium and the Republic of Ireland). All references to Group represent the consolidation of these two segments.

1. Where this report makes reference to 'Underlying', these relate to profit/earnings before exceptional items.
2. For the UK and Republic of Ireland the 2015 accounting period represents trading for the 53 weeks to 2 May 2015 (the year). The comparative period 2014 represents trading for the 52 weeks to 26 April 2014 (the prior year). Where this reports makes reference to a 52 week basis 2015 it is the 52 weeks to 25 April 2015. This does not affect the Netherlands and Belgium which report on a calendar year basis with the 2015 accounting period ending 30 April 2015, the comparative period being the calendar year to 30 April 2014. All figures in this report are shown before exceptional items unless otherwise stated.

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Chief Executive's Q&A

Carpetright's CEO has been with the business almost twelve months and discusses his thoughts on the business.

See page 5 for more detail >

Strategic update

Read about our strategic plans for the business.

See page 9 for more detail >

Financial review

Neil Page, Group Finance Director, outlines the financial achievements of the year.

See page 12 for more detail >

More online

Increasing numbers of our shareholders are choosing to receive their annual report online. This report, along with our other announcements and stakeholder information, can be found on our corporate website www.carpetright.plc.uk.

www.carpetright.plc.uk

Chairman's statement

"We believe that the strategic plan we are implementing will reshape Carpetright to ensure the business better capitalises on its market leading position."

Overview

This is my first Annual Report since being appointed Chairman of Carpetright in November 2014. I am pleased to be able to report on a year of significant progress under the leadership of Wilf Walsh, following his appointment as Chief Executive Officer in July 2014.

The opportunity to revitalise Carpetright after a period of sustained economic turbulence is significant. Wilf, with the support of his team, has begun to implement a strategy focused on broadening the appeal of the brand by placing greater emphasis on the unrivalled breadth and quality of our product range; the expertise of our colleagues; and the role floor coverings play in transforming our customers' homes; while also retaining our well-established value heritage.

The strategic update on page 9 provides more details on this plan.

Earnings and dividend

Total revenue for the year ended 2 May 2015 increased by 4.9% (2014: £447.7m). Underlying profit before tax increased by 208.7% to £14.2m (2014: £4.6m). After the impact of exceptional items, profit before tax was £6.6m (2014: loss of £7.2m). Underlying earnings per share increased to 15.5p (2014: 4.7p) and basic earnings per share was 6.7p (2014: loss of 5.3p).

The Board has decided not to pay a final dividend. In taking this decision, the Board has considered that whilst there has been an improvement in profitability during the year, the priority for the use of cash is to accelerate activity to reduce the fixed occupancy costs and to invest in the remaining stores to broaden the appeal of the brand. That said, if we maintain our current progress the Board would look favourably on restoring the dividend in due course.

The Board

There have been a number of changes to the Board during the year. The management team is led by the new CEO, Wilf Walsh, supported by an excellent team. They have begun the hard work of repositioning the business to better capitalise on its market leading position, to deliver the performance our shareholders expect and deserve.

During the year, Andrew Page took on the role of Senior Independent Director and Sandra Turner became the Chairman of the Remuneration Committee. David Clifford remains as Chairman of the Audit Committee and, together, these three Board colleagues provide a strong team of Non-Executive Directors. Further details of the Board's work can be found in the Directors' report starting on page 22 of this Annual Report.

Our people

The Group is undergoing a period of significant change as we reposition the business. On behalf of the Board, I would like to thank everyone who has worked for Carpetright over the past year. Working in our stores, distribution centre or support offices presents many challenges every day and we are grateful for the outstanding dedication and commitment of them all.

Summary and outlook

After a difficult few years, it is pleasing to report these much improved results for the year, with growth in profits, strong and consistent like-for-like sales growth in the UK, a return to profit in the Rest of Europe and a net cash position at the end of the period.

We believe that the strategic plan we are implementing will reshape Carpetright to ensure the business better capitalises on its market leading position. These changes will take time to take full effect but the initial signs are encouraging. We are absolutely focused on building on the recent improvement in the Group performance, as well as devoting our energies to revitalising our brand and operations.

Bob Ivell
Chairman

Our business model

Delivering **value**

Our business model

As a retailer, we generate 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 websites. The size of our operation means that we leverage advantages of scale and spread the cost of our back office functions.

Sales

Sales are driven through a combination of our reputation in the market; advertising; the use of promotional activity; and maximising market penetration through our national networks of stores.

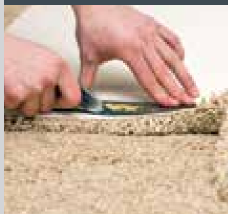
Our websites give customers the opportunity to conduct pre-purchase research on our ranges and prices; and request samples and estimator visits.

Sourcing

Our buying leverage creates value. The majority of our flooring products are sourced direct from suppliers from mainland Europe and the UK. Our branded beds are sourced from well known and respected UK-based suppliers.

We work in coordination with our suppliers to design and engineer product ranges that provide customers with a comprehensive product choice at the keenest of prices, whilst ensuring that suppliers adhere to strict ethical trading practices, such as sourcing wood flooring products from sustainable sources.

Service



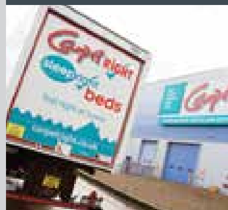
We employ over 3,000 colleagues in stores, depots and offices across the countries in which it trades. We seek to employ and retain ambitious, skilled individuals who are focused on delivering great customer service.

We train our colleagues in both product knowledge and the skills required to carry out their jobs.

We offer a free estimating service, allowing customers to buy with confidence that the floor covering will fit the relevant room.

Carpetright approved fitters are all required to be independently assessed by the Flooring Industry Trade Association (FITA) before we will recommend them.

Supply chain



We operate a state of the art cutting and distribution facility, where a significant proportion of customers' orders are cut-to-measure and despatched to stores. These orders are generally delivered and fitted using one of our recommended independent fitters. The majority of the remaining orders are either purchased from stock in store, or ordered and delivered directly to customers' homes by the manufacturer.

The majority of beds are delivered directly by the manufacturer, minimising handling and freight costs whilst maximising speed of delivery and quality of service.

Value creation

Our markets and trends

"Our markets appear to be stabilising following a period of significant economic turbulence."

The period of sustained economic uncertainty has 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 spending in this market contracting almost 30% over the past five years.

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 2014, placing ourselves as the market leader with a share of around 25%.

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 since 2007 has been severe and well documented.

It is, however, encouraging to see early signs that our markets appear to be stabilising following a period of significant economic turbulence.

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.

Chief Executive's Q&A

Transforming homes

"We have been working hard on re-engineering all aspects of the customer offer and really ensuring that the journey from researching us online to having the product fitted in your home is better than the competition every step of the way."

Wilf Walsh
Chief Executive

Q. You've now been CEO for almost a year – has what you've seen on the inside of the business matched your original expectations?

A. Yes. The quality and enthusiasm of the people who work here primarily and the fact that the business has an opportunity to build on our popularity with customers much more effectively.

Q. What have you changed in the period you have been in post?

A. It's a team effort but apart from who we are, what we sell, how we sell it and where we sell it – not much actually! We have been working hard on re-engineering all aspects of the customer offer and really ensuring that the journey from researching us online to having the product fitted in your home is better than the competition every step of the way.

Q. What can you tell us about your first 100 days?

A. Like being at a new school really, but mainly listening and learning about how this business works. The key is trying to look at it from a customer's point of view which, given my lack of relative experience in this market, was fairly easy for me. On the positive side, I have been able to come into the job with no previous baggage and a completely open mind.

Q. What were your initial priorities when you came on board last July?

A. To inject some stability into the business after a fairly fraught few years littered with profit warnings and senior management changes. To restore confidence and to develop a clear, unequivocal strategy that colleagues could identify with and that customers would respond to positively.

Chief Executive's Q&A continued

Q. The Group's performance improved significantly last year – which factors contributed to the turnaround?

A. Sheer hard work and we have only scratched the surface. We identified a clear strategy based around Choice, Experience, Value and Convenience and all our activities have been geared around this – giving the customer the right ranges, at the best prices with great customer service. People often try to make shop keeping complicated which is a big mistake.

Q. What will the business do this year to build on this momentum?

A. There is a lot going on but the biggest areas for change will be around our total floor covering offering – we are testing a whole new range of products especially in the non-carpet area as we drive to be the customer's number one flooring destination of choice. We are also opening our four new test stores over the summer – we are testing a new logo, new ranges, fixtures and fittings, which is all very exciting.

Q. Looking at operating performance in 2015, what stands out for you?

A. Well, ultimately it's all down to the numbers and you hope that like-for-like sales growth in the UK of 7.3% and a Group profit increase of 208.7% speaks for itself. Importantly, the reaction of our colleagues, some of them very long serving, to the changes we have introduced has been very positive. We have also enjoyed a stellar performance in our beds category, which is driving both footfall and profit.

Q. You conducted a strategic review of the business – what were the key conclusions and what are the implications for Carpetright's future direction?

A. The business wasn't broken and still had a leading market share. The issue was that customer expectations had moved on and overtaken where Carpetright was and we are now addressing this. For instance Value is a key pillar of our offer, but we had been running too many heavily discounted deals in the 60% and 70% range which was devaluing our brand and switching off customers who are motivated by other criteria such as service or availability of the highest quality ranges.

We introduced interest free credit very successfully and this, along with our "Price Promise" (never beaten on price), and the promotion of the day should ensure we have a clear proposition for the consumer when it comes to Value.

Q. There's a sense that Carpetright needs to modernise its stores – what needs to be done?

A. A store modernisation programme has been underway for some time – over 300 stores have been refitted – but this needs to be bolder far-reaching, rather than incremental. Our aim is to broaden the appeal of the brand and attract new customers that would not have previously considered shopping with us, without alienating our loyal existing customer base.

Our stores need revitalising, with a new more contemporary feel that's more in-tune with today's retail market and we need to make buying floor coverings a hassle-free experience, eliminating those elements of the process that customers tell us they find confusing or irritating. We're trialling some new ideas in four stores in and around London and the lessons learnt from this programme will used to shape the development of a new store format which will be rolled out across our UK estate.

We also need to look at the size and shape of our store portfolio to make sure it's appropriate for the current market. Given today's customer does their research online and will drive a longer distance for the right deal, the need to have two or three Carpetright's in a single town, as we still do in some places, is clearly redundant and we're addressing that. We also have a small number of loss-makers and a number of stores that only make a small contribution and we need to tackle those with greater urgency. On the flip side, there are still parts of the UK where we are under-represented which present the opportunity for new store openings.

Shopping habits have changed significantly over the last decade and Carpetright needs to make sure its stores have moved with them.

Q. You've talked about plans to extend the appeal of the Carpetright brand – how will you achieve that?

A. Anybody who has seen our recent press and television advertising will have noted a "softening" of the message away from just price and an extended focus on home transformation without losing the Value message. We want to extend our appeal to all kinds of customers and we have previously under-indexed on higher

spend customers. Nonetheless, the message is clear – Carpetright is for all customers with a broad appeal and Value will always be central to our offer.

Q. What is your main strategic agenda as CEO?

A. To reinforce our position as the market leader in floor coverings across all our territories.

Q. How will strategic success be defined in the next five years?

A. Increased market share, substantially increased profits and stronger brand approval ratings.

Q. What are the opportunities or catalysts for earnings growth?

A. Redressing our estate portfolio will be key – reducing the number of stores and getting our rent and rates bill down is essential. Other than that, it is doing the customer facing stuff extremely well.

Q. How about operations outside the UK?

A. Because of the economy and the legacy property portfolio, the Republic of Ireland is a challenge from a profit perspective. Nonetheless, recent significant double digit growth in LFL sales will go a long way to mitigating the problem.

As for the Netherlands and Belgium, Nick Worthington and the team in Utrecht have done a great job managing costs and margin and have turned around a €4.4m loss last year into a €0.4m profit this year. We have also seen two consecutive quarters of LFL growth for the first time in a long time and we are extending a curtains and blinds trial in the Netherlands which looks like a sustainable profit opportunity.

Q. The Company's performance has suffered in recent years, are you optimistic for the future?

A. Extremely positive – I have a team of people around me who are absolutely focused and aligned on what we have to do. We need to get on the front foot and build on our popularity with customers. Nobody should be able to match our website, our comprehensive store coverage, our range, our prices or our customer service. It's a compelling offer, which when executed properly should be unbeatable – that's the plan.

Wilf Walsh
Chief Executive

Q. The business is implementing change across a broad front, how quickly can you roll out these multiple initiatives and when will the results begin to become apparent?

A. It's started and we're getting results now. For instance, customer service is absolutely central to the whole experience. Unlike other big ticket retailers, buying floor coverings has a whole raft of moving parts – someone comes into your home to measure up for instance and another one comes in to do the fitting. Making the whole process as painless as possible is key to our success.

I want to get more letters like this –

Dear Mr. Walsh,
We recently visited your Erdington store and my expectations sank from the moment my wife saw the tartan carpet priced at over £50 a square metre. I used reason and the fact that neither of us is Scottish. So we, naturally, ordered the Stewart carpet.

The chap who took our order was very polite and helpful but not in deterring my wife from spending over two thousand pounds on a sitting room carpet.

Your estimator came along to the house and was very professional and supportive but did not try very hard to put my wife off the tartan carpet.

The carpet was fitted today by two very professional and helpful chaps that kept telling us what a wise choice we had made which was annoying as they could have said, it didn't fit or something.

Tonight, we have a very beautiful carpet that my wife loves and has been complemented by both our daughters, friends, neighbours, etc. In truth I like it but I'm not yet prepared to admit it.

In honesty, at £50 plus a square metre it is an expensive carpet but it looks great and is worth every penny. My wife will, hopefully, feel guilty enough to agree to me spending a couple of days fly-fishing in Hampshire.

Thank you, your company who have delivered in every way possible and provided excellent value for money.

I wish you and your company every success in the future and please pass on my compliments to your Erdington staff.

Richard Hornsby
Birmingham

Obviously, I have received a few letters and emails pointing out some instances where the service has not been so glowing but I have chosen not to publish them here!

We have successfully rolled out the 'Do We Measure Up?' programme across the estate since the start of 2015. Since the start of this programme we have received over 70,000 emails from customers detailing their experience – it's essential information that allows us to tackle specific service issues as well as to continue our improvements in this area. Our overall scores are continuing to improve and it keeps colleagues focused on providing great service.

We have rolled out numerous initiatives successfully over the past few months, including Interest Free Credit, a completely refreshed Carpetright website, revised product ranges – the list goes on, but these are all things that both customer research and colleague feedback have told us we need to do.

A good example is Rugs – when I first looked at our choice and range and compared it to the competition it made me realise very quickly that on design and pricing we had some significant work to do. We have resolved that with a range that covers all price points and is creatively worthy of the market leader.

Our strategy

Our objective

The Group's primary business objective is to maximise value for our shareholders by delivering long-term sustainable growth in earnings per share and cash flow. We do this by focusing on our mission to help customers transform their homes by offering a comprehensive range of products at great value, supported by excellent customer service, accessed through an integrated multi-channel proposition.

Our strategy

Choice
Bringing inspiration and breadth of choice to our range architecture.

Value
Delivering a "crystal clear" price proposition that is easy for both staff and customers to understand.

Experience
Promoting both online and in-store the quality of our services as a key added value benefit in "making it easy to transform your home".

Convenience
Making it easy for customers to buy flooring and beds through an integrated multi-channel proposition.

Strategic update

"The management team is fully galvanised behind a clear strategy to revitalise the brand and create value for all stakeholders."

Overview

The opportunity to revitalise Carpetright after a period of sustained economic turbulence is significant.

At the time of the interim results in December 2014, we outlined the key themes of our strategic plan to update and reposition the business to extend Carpetright's consumer appeal and to ensure that it is better able to capitalise on its market leadership position.

Our focus during the second half has been on transferring this strategic intent into a broad-based operational plan, which translates each element into action. We are pleased to report we have made strong progress across a range of initiatives, while simultaneously continuing to drive forward the trading performance of the Group.

At the heart of our strategic thinking is an opportunity to broaden the appeal of the brand by placing a greater emphasis on the unrivalled breadth and quality of our product range, the expertise of our colleagues, and the role floor coverings play in transforming our customers' homes, while retaining our well-established value heritage. Furthermore, in today's retail environment, where customers place a high value on convenience and speed, we need to make buying floor coverings a hassle-free experience, eliminating those elements of the process that can confuse or irritate the customer.

The strategic plan identified clear areas of focus which, together, will be critical in enhancing Carpetright's competitive position and delivering the turnaround of the business. An update on progress to date with each element of the plan is provided below.

The key areas of focus are:

1. Revitalising the Carpetright brand
2. Unrivalled choice of floor coverings
3. Providing an outstanding customer experience
4. Unbeatable value
5. Multi-channel convenience
6. Managing the store portfolio

1. Revitalising the Carpetright brand

While Carpetright enjoys high brand awareness and a strong reputation for value within its core customer base, encouraging potential new customers to consider us when they shop for floor coverings requires a repositioning and updating of the brand.

Having completed a comprehensive review of our brand, sub brands, tone of voice and identity, work is well-progressed on the development of an updated brand positioning that is more in tune with the contemporary retail market.

Key elements of this work include:

- the introduction of new promotional messaging in 2015, with revised point-of-sale and advertising campaigns, which are dramatically different in style and message from the predominantly price-led theme adopted historically. The early signs, evidenced by like-for-like sales growth, indicate that these changes have been embraced positively by customers and colleagues alike;
- a trial of new retail concepts in four stores in and around London, beginning in July 2015. Each store will trial an experimental shop fit that is a significant departure from existing stores, with new elements to inspire customers and encourage experimentation, sampling and discovery. The emphasis is on a smooth, dedicated service to customers that takes the pressure out of selection and purchase. Lessons learnt from this trial will be used to shape the development of a new store format which will be rolled out in full, or in part, across our estate in due course; and
- as part of the store trial we will be testing a new identity for the Carpetright brand. A new logo has been developed to give a more contemporary feel that will attract customer groups in which the business has previously under-indexed, without alienating our loyal existing customer base.

Strategic update continued

2. Unrivalled choice of floor coverings

As market leader, we have has long offered the broadest range of carpets in the marketplace, including premium and specialist lines, but this capability to offer a full range of floor covering options is not universally recognised by our potential customer base.

To address this, we are repositioning our ranges and adapting our sales process to move from a simple functional carpet sale to a more consultative approach which recognises our important role in helping customers transform their homes.

Key initiatives include:

– strengthening our in-house design/new product development teams, with a number of key appointments, to bring a more innovative, contemporary and inspiring approach to our range selection;

– introducing competitive offers on premium, branded carpets, such as Brintons, Ulster and Westex, to broaden our customer appeal, and drive average transaction values and cash margins;

– repositioning our hard flooring selection in the UK, building on our extensive knowledge and success in continental Europe, where this product category makes up a much greater proportion of the sales mix. A decision to lower price points in March 2015 generated incremental sales and profit, and we are introducing the market leading brands of Balterio, Kronospan and Quickstep to our range in Summer 2015, as well as testing re-engineered wood;

– the introduction of an entirely new rug range, which is both contemporary in look and at a lower entry price point, has strengthened our competitive position in this market significantly, with very encouraging initial results; and

– the development of a new carpet range in conjunction with House Beautiful Magazine, which is due to launch in Autumn 2015. We believe this kind of high profile brand collaboration has an important role to play in enhancing the design and home transformation credentials of the Carpetright brand.

3. Providing an outstanding customer experience

Customers' expectations of service standards have risen significantly over the past decade and while independent data identified a significant improvement in our service performance in recent years, it also identified a need for greater consistency in this area. The strategic plan puts the customer's needs at the heart of everything we do and the business is committed to making customer service a genuine point of sustained competitive advantage.

Key initiatives undertaken to date include:

– the introduction of 'Do We Measure Up?' a new web-based customer service programme, across the entire UK store network in January 2015. We are now receiving an average of 2,500 reviews per week which enables each store to receive direct customer feedback on their shopping experience. This important initiative is driving service standards higher and helping to improve our online customer ratings. In the six months since the launch of the initiative in January 2015 we have received over 70,000 individual customer reviews;

– people form the essential element in the customer journey and feedback tells us that friendly, engaged and knowledgeable staff are key factors when customers make their purchasing decisions. We are investing in training programmes with a medium term plan to develop a Carpetright 'Academy' where all retail team members will receive the appropriate training in service and product knowledge to reinforce our position as the authoritative market leader;

– the business is investing £4.5m in a complete systems upgrade at store level to ensure quick, efficient order processing to make buying from us a smoother, hassle-free experience;

– the completion of plans to implement a web-based home appointment booking system for our estimators has made the service much more efficient for customers. This service will be further enhanced by the introduction of a tablet PC-based solution for the production of cutting plans during the next year; and

– we have completed the development of a new debit/credit card-based payment system for use by our approved fitters in the UK, replacing the current outdated cash payment process.

4. Unbeatable value

While we have a long-established and well-deserved reputation for value among our core customer base, the main customer proposition, with an absolute focus on price, has been unchanged for many years and the strategic review identified an opportunity to introduce some important changes to this. However, 'value' is an important part of our brand's heritage and will remain a key strategic pillar now and into the future.

Key initiatives include:

– a Group-wide review of discount levels, which resulted in a clearer and more consistent approach for customers;

– the adoption of a more rounded execution of our value proposition, which recognised the importance of factors other than price in the consumers' decision to purchase. This includes a focus on range authority and customer service;

– the introduction of Interest Free Credit ("IFC"), which is a common feature across the home retail sector but which Carpetright had not offered historically. IFC was rolled-out across our UK store base from Boxing Day 2014 and has been received very positively by our customers, enabling them to purchase the carpet, floor or bed they really love. This has translated through to both higher sales and higher average transaction values; and

– our now well established "Price Promise", where customers can be confident that we will price match competitor deals on the same product.

5. Multi-channel convenience

While physical stores remain crucial in the flooring market, with almost all customers visiting a store at some point in their purchase journey, the additional convenience that digital technology can bring to the process is of growing importance.

While the ability to visit a store to touch and view the product and to obtain specialist advice prior to making a purchase remain critical, the internet has become a vital research tool for many customers and the rapid growth in the use of mobile devices has made an integrated multi-channel proposition a necessity. With our extensive geographic coverage, we see an opportunity to leverage the accessibility of our store estate, combined with the strength of our marketing reach and supported by an inspirational website, as a key advantage when compared to the competition.

Key areas of progress include:

- an average of over 111,000 unique weekly visitors to our consumer website, a 27.6% increase on the prior year, with a corresponding rise in appointment leads and sample requests;
- a further improvement in 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 year and are equivalent in turnover to one of our top ten retail stores;
- investment in an updated and more inspirational website, launched at the end of April 2015, which reflects the new brand messaging discussed above and which has been successful in driving more customers from the website to our stores. The site has also been adapted for compatibility with mobile devices, which is crucial in a channel that continues to evolve at a rapid pace; and
- inspirational, quirky and entertaining campaigns on Social Media that are topical and engage customers on all aspects of home design and improvement.

6. Managing the store portfolio

While we have been implementing measures to optimise the size of its store estate for a number of years, these are being accelerated under the new strategic plan. We are actively managing our store portfolio to reduce total square footage (but not necessarily store numbers); to eliminate store catchment overlap; improve the quality of the estate by relocating to better sites; and to reduce property costs, to ensure the retail base is better aligned with the needs of today's customers.

Key initiatives include:

- at year-end 2015 we had 460 stores trading in the UK, opening 12 stores and closing 24 during the year. This net reduction is primarily the result of completing the initial phase of the previously announced plan to eliminate stores with overlapping catchments. We will continue to take advantage of similar opportunities. In addition, we have negotiated exits from eight locations where we had onerous leases, removing us from all future liabilities associated with those properties;
- we continue to take a robust view at lease renewal, which provides an opportunity to secure lower rents for future years. Within the next five years 27% of the UK estate has a lease renewal scheduled, providing further opportunity to reduce the fixed store operating costs. By year-end 2015 the average length of lease had fallen to 7.1 years (2014: 7.7 years);
- in the Rest of Europe we had 137 stores, opening three and closing eight during the year. In line with the UK activity, discussions are being held with landlords in respect of lease renewals and this process is delivering rental reductions. The potential to secure reductions is generally dictated by the average length of lease remaining, with this being 3.1 years (2014: 3.2 years) in the Netherlands and 1.9 years (2014: 1.6 years) in Belgium. In the Republic of Ireland this period is 10.1 years (2014: 11.2 years), reflecting the agreement of long term deals during the expansion into this market in the period from 2001 to 2008;
- following the strategic review and based on recent evidence, we have made a revised assessment for the unavoidable onerous lease costs for loss making stores, resulting in a £7.0m charge. This has been treated as an exceptional item; and
- by this time next year we anticipate being able to show the positive results of our accelerated property activity during 2015/16. Our target is a combination of a geographic store portfolio and a digital offer that provides a streamlined, cost effective solution to enable all customers to access the Carpetright brand. This will also include new store openings in locations where we are under-represented.

Outlook

Carpetright has endured a difficult period in the years since the onset of the financial crisis but retains the fundamentals of a leading retail business – high brand recognition, critical mass and a market leadership position. Our task is to build on these strong foundations and modernise the Group to ensure it exploits these advantages to the full in the retail market of today.

We have made an encouraging start, establishing a real momentum for change within the business which is invigorating. While this is just the beginning of the journey to transform Carpetright, we have a clear direction and are already seeing positive results from a number of our initial activities which gives us confidence that we are on the right path.

To that end I want to thank a number of people who have been invaluable in supporting me personally since July 2014. The newly constituted Board have been outstanding in backing the changes we have been making and my Operating Committee have worked long hours making the new strategy come to life – it is just beginning to bear fruit and while, inevitably, there will be a few bumps in the road, we believe that we can ensure sustainability in our collective performance over the short and medium term.

My thanks go to all the support staff in Purfleet and Utrecht and to the people who really make it happen – our retail teams across the UK, Republic of Ireland, the Netherlands and Belgium. I'd also like to thank our investors, particularly our long term shareholders, who have shown a remarkable patience and fortitude over the past few years.

Thank you.

Wilf Walsh
Chief Executive

Financial review

"Our significantly improved performance in 2015 reflects solid like-for-like sales growth in the UK and a return to profit in our Rest of Europe business."

Neil Page
Group Finance Director

Summary

The 2015 financial year represents the trading period for 53 weeks to 2 May 2015. The comparative period for financial year 2014 represents the 52 weeks to 26 April 2014. We believe that the pro forma 52 week result for the 2015 financial year better reflects the underlying performance of the business when compared to the prior year. On this basis, all commentary included in this report is based on the 52 week period to 25 April 2015 unless otherwise stated.

Overview

Total Group sales for the year increased by 3.3% to £462.6m, with the UK business up 5.4% and a decline of 7.4% in the Rest of Europe. Our continued focus on rationalising and repositioning the store portfolio saw the Group open 15 stores and close 32, giving a net decrease of 17 stores and a total store base of 597. Total store space declined by 3.3% to 5.4 million square feet.

Group underlying operating profit increased by 111.6% to £14.6m, supported by solid like-for-like sales growth in the UK and a return to profit in our Rest of Europe business. Underlying net finance charges were £0.7m lower at £1.6m. These factors combined to generate an underlying profit before tax of £13.0m, a 182.6% increase on the prior year.

Exceptional charges totalled £7.6m (2014: £11.8m), primarily costs associated with onerous leases and exiting stores.

As a result, all of the above combine to produce Group profit before tax of £5.4m (2014: £7.2m loss). Basic earnings per share were 5.0p (2014: 5.3p loss).

In the UK business, the 53rd week contributed a further £7.2m to revenue and £1.2m to Group profit before tax. Our businesses in the Netherlands and Belgium report on a calendar month basis and, as a result, there was no impact from the 53rd week in these operations. Whilst our business in the Republic of Ireland operates on a similar calendar to the UK, the impact of the 53rd week is not material. As a consequence, the Group underlying profit before tax for the 2015 financial period was £14.2m, profit before tax was £6.6m and basic earnings per share were 6.7p.

The combination of stronger cash flow from the growth in underlying profitability and control of capital expenditure, negated in part by the impact of the 53rd week and the introduction of interest free credit, enabled the Group to end the year with net cash of £0.5m, a favourable movement of £11.6m from the £11.1m net debt reported at the 2014 year-end.

	53 week 2015 £m	**Pro forma 52 week 2015 £m**	52 week 2014 £m	52 week Change
Revenue	469.8	**462.6**	447.7	3.3%
Underlying operating profit	15.8	**14.6**	6.9	111.6%
Net finance charges	(1.6)	**(1.6)**	(2.3)	
Underlying profit before tax	14.2	**13.0**	4.6	182.6%
Exceptional items	(7.6)	**(7.6)**	(11.8)	35.6%
Profit/(loss) before tax	6.6	**5.4**	(7.2)	175.0%
Earnings/(loss) per share (pence)				
– underlying	15.5p	**13.7p**	4.7p	191.5%
– basic	6.7p	**5.0p**	(5.3p)	–
Dividends per share	Nil	**–**	Nil	–
Net cash/(debt)	0.5	**–**	(11.1)	£11.6m

UK – Performance review

The key financial results for the UK were:

	53 week 2015 £m	**Pro forma 52 week 2015 £m**	52 week 2014 £m	52 week Change
Revenue	403.2	**396.0**	375.8	5.4%
Like-for-like sales	–	**7.3%**	(0.2%)	
Gross profit	247.6	**243.4**	235.1	3.5%
Gross profit %	61.4%	**61.4%**	62.5%	(1.1ppts)
Costs	(232.1)	**(229.1)**	(224.4)	(2.1%)
Costs to sales %	57.6%	**57.9%**	59.7%	1.8ppts
Underlying operating profit	15.5	**14.3**	10.7	33.6%
Underlying operating profit %	3.8%	**3.6%**	2.8%	0.8ppts

The UK portfolio is now as follows:

	Store numbers				Sq ft ('000)	
	26 April 2014	Openings	Closures	**2 May 2015**	26 April 2014	**2 May 2015**
Standalone	457	10	(19)	**448**	4,039	**3,963**
Concessions	15	2	(5)	**12**	27	**16**
Total	**472**	**12**	**(24)**	**460**	**4,066**	**3,979**

In an improving trading environment revenue increased by 5.4% to £396.0m. We opened 12 stores and closed 24 stores in the year, which translated into a net space decline of 87,000 sq ft, a decrease of 2.1%. After taking into account the movement in number of stores, like-for-like sales grew by 7.3% across the year as a whole, the second half performance was stronger at 8.1%, following 6.5% growth in the first half. At the close of the year there were 265 stores trading with a bed department (2014: 260). Sales within the beds category now represent 8.7% of the sales mix (2014: 7.6%).

Gross profit increased by £8.3m to £243.4m, representing 61.4% of sales, a decrease of 110 basis points. The decline in margin rate was a result of:

- implementing market beating promotions to drive footfall and top line sales volumes; and
- an increase in bed sales, which have a lower gross margin, resulting in an adverse mix impact.

The total UK cost base increased by 2.1% compared with the prior year to £229.1m (2014: £224.4m). Costs as a percentage of sales were 57.9%, which compared very favourably to 59.7% in the prior year, reflecting the operational gearing of the business. The movement in costs was a combination of:

- a 3.1% increase in store payroll costs to £60.6m (2014: £58.8m), reflecting commission payments associated with stronger sales growth;
- a reduction in occupancy costs to £125.3m (2014: £125.7m). This masked inflationary cost increases being offset by reductions resulting from the net decrease in the number of stores and successful rent negotiations. The underlying rent in like-for-like stores held broadly level with the prior year, with the majority of rent reviews being settled at or near zero; and
- marketing and central support costs increased by 8.3% to £43.2m (2014: £39.9m), primarily the result of employee profit share costs increasing by £2.1m, due to targets across the business being exceeded as a result of the strong business performance, along with £1.2m of costs incurred as part of the initiatives to revitalise the brand.

The culmination of the above factors led to underlying operating profit increasing by 33.6% to £14.3m (2014: £10.7m). The 53rd week contributed an additional £1.2m to this figure, increasing it to £15.5m for the 2015 financial period.

Rest of Europe – Performance review

The key financial results for the Rest of Europe were:	2015 £m	2014 £m	Change (Reported currency)	Change (Local currency)
Revenue	**66.6**	71.9	(7.4%)	Level
Like-for-like sales	**0.3%**	(8.6%)		
Gross profit	**39.6**	40.8	(2.9%)	4.5%
Gross profit %	**59.5%**	56.7%	2.8ppts	
Costs	**(39.3)**	(44.6)	11.9%	5.2%
Costs to sales %	**59.0%**	62.0%	3.0ppts	
Underlying operating profit/(loss)	**0.3**	(3.8)		
Underlying operating profit/(loss) %	**0.5%**	(5.3%)	5.8ppts	

The Rest of Europe portfolio is now as follows:

	Store numbers				Sq ft ('000)	
	26 April 2014	Openings	Closures	**2 May 2015**	26 April 2014	**2 May 2015**
Netherlands	95	3	(5)	**93**	1,104	**1,046**
Belgium	25	–	(3)	**22**	298	**257**
Republic of Ireland	22	–	–	**22**	162	**162**
Total	**142**	**3**	**(8)**	**137**	**1,564**	**1,465**

The flooring market in the Netherlands and Belgium remained weak, impacted by government austerity measures which reduced customers' disposable income and lowered consumer confidence. That said, improvements in a number of economic indicators, such as rising housing transactions in the Netherlands, give grounds for cautious optimism for the future. The level of consumer confidence has also increased in the Republic of Ireland on the back of an improvement in economic conditions. Sales across the Rest of Europe business units have shown signs of improvement, with a return to growth in the second half in local currency terms, after 18 consecutive quarters of decline.

Our Rest of Europe portfolio reduced by a net five stores during the year, a result of exiting four poor performing sites, relocating three stores in the Netherlands and one temporary closure due to fire. The estate is now trading from 137 stores. In local currency terms, the three businesses combined to produce total sales that were level with the prior year, with like-for-like sales increasing by 0.3%. After exchange rate movements, total sales fell by 7.4% in reported currency.

Gross profit percentage increased by 280 basis points to 59.5% (2014: 56.7%) resulting principally from improved sourcing and operational disciplines curtailing local discounting. The improvement in margin rate was sufficient to offset the impact of lower sales volumes, resulting in an increase in gross profit of 4.5%. However, after taking account of exchange rate movements this resulted in a decline of 2.9% in reported currency.

Operating costs in local currency reduced by 5.2%. The majority of the savings were driven by the consolidation of our offices in Continental Europe and a reduction in advertising spend. This was reflected in the decline in the costs as a percentage of sales to 59.0%, a reduction on the prior year figure of 62.0%. In reported currency, this was a reduction in costs of 11.9% to £39.3m.

The net result was an improvement in underlying operating profit of £4.1m to £0.3m, reversing the losses experienced in the prior year.

Net finance costs and taxation

Underlying net finance charges were £1.6m (2014: £2.3m). The decrease was principally driven by our lower level of average net debt over the period.

The taxation charge on profit for the year was £2.1m (2014: £3.6m credit). The weighted average annual effective tax rate for the period is a charge of 31.3% (2014: credit of 52.0%). The increase is due to current period profitability, mix of tax rates in different countries, and one off credits recognised in the prior period not repeated.

Exceptional items

The Group recorded a net charge of £7.6m (2014: £11.8m charge) in the year.

	(Charge)	
	2015 £m	2014 £m
Property profits/(losses)	**(0.4)**	(1.6)
Onerous lease provision	**(7.0)**	(6.6)
Impairment charge:		
– store assets	**(0.2)**	(0.5)
– freehold properties	**–**	(1.9)
European office restructuring	**–**	(1.2)
Pre tax exceptional items	**(7.6)**	(11.8)

A net loss of £0.4m was made on property disposals in the year (2014: £1.6m loss). This was principally the result of surrender premiums being paid to exit loss-making stores.

At 26 April 2014 there were 22 vacant properties in the UK and three in the Republic of Ireland classed as onerous leases, against which we carried a provision. During the year we disposed of eight stores, relieving us from all future liabilities associated with these properties. The charge associated with exiting these stores equalled the provisions carried for the named locations. There were no additions or re-openings of onerous stores during the period therefore there were 17 onerous stores remaining at the end of the financial period.

Following the strategic review, we have made a revised assessment of the unavoidable onerous lease costs for loss-making stores, resulting in a charge of £7.0m. There was no charge against other property related provisions (2014: £6.6m charge).

We have reviewed the carrying value of the store assets in our balance sheet, consistent with the approach in previous years. These tests have led to a net charge of £0.2m (2014: £0.5m).

As with previous years, we have reviewed the carrying value of the Group's freehold properties. As part of this review we commissioned an independent valuation of the Group's freehold assets. The review concluded that the carrying values of our freehold assets are appropriate and therefore there is no change to the impairment provisions held (2014: £1.9m).

Earnings per share

Underlying earnings per share, for 52 week period to 25 April 2015, was 13.7 pence (2014: 4.7 pence), an increase of 191.5%. Underlying earnings per share, for the 53 week period to 2 May 2015, was 15.5 pence.

Basic earnings per share, for the 52 week period, was 5.0 pence (2014: loss of 5.3 pence) and for the 53 week period, 6.7 pence.

Dividend

The Board has decided not to pay a final dividend (2014: nil). In taking this decision, the Board has considered that whilst there has been an improvement in profitability during the year, the priority for the use of cash is to accelerate activity to reduce the fixed occupancy costs and to invest in the remaining stores to broaden the appeal of the brand. That said, if we maintain our current progress the Board would look favourably on restoring the dividend in due course.

Balance sheet

The Group had net assets of £59.5m at the end of the year (2014: £61.1m), a year-on-year decrease of £1.6m.

	2 May 2015 £m	26 April 2014 £m
Freehold & long leasehold property	**64.9**	71.0
Other non-current assets	**106.5**	114.4
Stock	**34.1**	33.9
Trade & other current assets	**25.2**	19.8
Creditors < 1 year	**(97.9)**	(93.5)
Creditors > 1 year	**(69.8)**	(70.1)
Net debt	**0.5**	(11.1)
Pension deficit	**(4.0)**	(3.3)
Net assets	**59.5**	61.1

During the period, two freehold property disposals were 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.

Financial review continued

Cash flow

Group net cash at 2 May 2015 was £0.5m, a favourable movement of £11.6m on the prior year end position of £11.1m net debt. The reduction in debt was driven by the underlying operating profit performance being offset in part by a £4.6m cash outflow related to provisions, £0.9m contributions to closed defined benefit pension schemes and a £1.2m increase in working capital. This increase in working capital was attributable to a combination of higher merchandise creditors (a consequence of higher sales), offset by the amortisation of property lease incentives, the timing impact of the 53rd week and the introduction of interest free credit.

The resulting net inflow of cash generated by operations of £23.0m was partially negated by net capital expenditure, interest and tax net outflows totalling £11.7m.

The Group's average net debt was £4.9m over the period (2014: £16.4m).

	2015 £m	2014 £m
Underlying operating profit	**15.8**	6.9
Depreciation & other non-cash items	**14.0**	13.9
(Increase)/Decrease in stock	**(1.0)**	3.5
Increase in working capital	**(1.2)**	(8.1)
Provisions paid	**(4.6)**	(4.9)
Operating cash flows	**23.0**	11.3
Net interest paid	**(1.6)**	(1.4)
Corporation tax paid	**(4.4)**	(0.7)
Net capital expenditure	**(5.7)**	(10.2)
Free cash flows	**11.3**	(1.0)
Other	**0.3**	0.1
Movement in net debt	**11.6**	(0.9)
Opening net debt	**(11.1)**	(10.2)
Closing net debt	**0.5**	(11.1)

Net capital expenditure was £5.7m (2014: £10.2m). This can be broken down into the following principal categories:

	2015 £m	2014 £m
Capital expenditure	**(8.8)**	(10.8)
Proceeds from freehold property disposals	**1.2**	0.4
Proceeds from leasehold property disposals	**1.9**	0.2
Net capital expenditure	**(5.7)**	(10.2)

The majority of the capital expenditure was focused on new stores and refurbishing existing stores, along with a £0.9m cost of re-platforming the UK website. The latter to provide an updated and more inspirational online customer experience.

Current liquidity

At the year end the Group held cash balances of £7.3m (2014: £6.3m), principally a combination of Sterling and Euros. Gross bank borrowings at the balance sheet date were £4.4m (2014: £14.9m), all of which were drawn down from overdraft facilities. The Group had further undrawn facilities of £53.6m at the balance sheet date.

In April 2015, the Group completed a refinancing arrangement of its principal facilities, providing approximately £58m of debt capacity split between revolving credit facilities and overdrafts in a mixture of Sterling and Euro currencies. The revolving credit facility matures in July 2019. Arrangement fees and legal costs will be amortised over the life of the facility, although paid in cash at the outset. The facilities contain financial covenants which are believed to be appropriate in the current economic climate and tested on a quarterly basis, against which the Group monitors compliance.

Pensions

At 2 May 2015 the IAS 19 net retirement benefit deficit was £4.0m (2014: £3.3m). The discount rate was 3.4% (2014: 4.2%), reflecting prevailing corporate bond rates. The higher market value of plan assets and additional Company contributions have been more than offset by increases in scheme liabilities during the period, a result of the lower discount rate. 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 2015 and this will be reviewed following the completion of the next triennial valuation, which will be performed as at 5 April 2017.

Neil Page
Group Finance Director

Measuring our performance

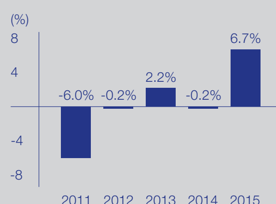
The Board of Directors and executive management receive a wide range of management information delivered in a timely manner. Listed below are the principal measures that are reviewed on a regular basis to monitor the performance of the Group.

Like-for-like sales % growth

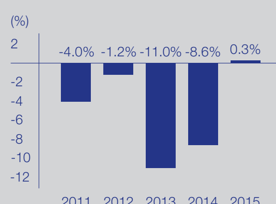
Definition
Calculated as this year's net sales divided by last year's net sales for all stores that are at least 12 months old at the beginning of the financial year. Stores closed during the year are excluded from both years (calculated in local currency).

Rationale
Maximising 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.

Performance
UK



Rest of Europe

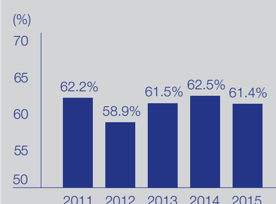


Gross profit percentage

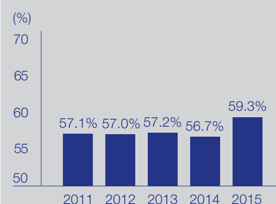
Definition
Gross profit as a percentage of net sales (calculated in local currency).

Rationale
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.

Performance
UK



Rest of Europe

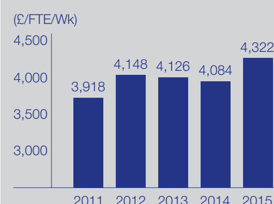


Store colleague productivity

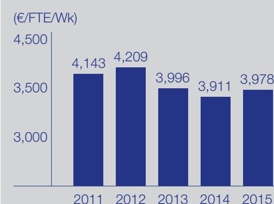
Definition
Productivity is calculated as gross turnover per colleague, per store, per week.

Rationale
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.

Performance
UK



Rest of Europe

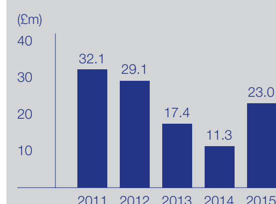


Operating cash flow

Definition
This measure is determined by taking underlying operating profit and adding back non-cash items and any movements in working capital.

Rationale
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.

Group



Risk management

Our approach to risk management

Carpetright recognises that effective business management requires regular review of business risks. 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 27 to 30.

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 Group's principal risks are individually sponsored by a member of the ERC. The ERC met quarterly during the year reported.

The ERC identifies and assesses risks to the Group's medium-term strategy and 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 ERC also considers new and emerging risks as a standing agenda item, including those identified by the Board of Directors. The Committee has also reviewed the ranking of the business' key strategic risks during the year, to ensure that this remains an appropriate reflection of their relative standing.

The principal risks and uncertainties affecting the business are set out on page 19.

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.

We use our risk management process as described on page 18 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.

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.

Principal risks and uncertainties

	Risk description	Mitigation & controls
Strategic	**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.	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 employ this feedback to improve our products and services.
Strategic	**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.	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.
Strategic	**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.	Throughout the year we monitor the effectiveness of our pricing, promotional and marketing strategies across our businesses, tailoring our consumer offering where appropriate.
Strategic	**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.	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.
Operational	**People** 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.	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.
Operational	**IT performance and security** 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.	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.
Financial	**Cash management** 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.	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.

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; and
- Our environment – the impacts we have on the wider environment and how we are seeking to reduce this.

Wilf Walsh is the director responsible for CR. The previous role of the Customer and Corporate Responsibility Committee was taken over by executive management in September 2014.

Our customers

Corporate responsibility starts with our relationship with customers and during the year we introduced a programme known as 'Do we measure up?', whereby customers are invited to rate and provide feedback on the three stages of their experience – in-store ordering, estimating and fitting. The ratings and feedback are immediately available to our Store and Support Office colleagues, where they are used to monitor and improve our levels of service to our customers.

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 Group, 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 add 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 2 May 2015, is set out below.

	Male	Female
Directors	5	1
Senior managers	6	1
Other employees	2,633	653
Total	**2,644**	**655**

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, briefings 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 through a Savings Related Share Option Scheme. Approximately 850 colleagues participate in this scheme.

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. Further details can be found in the Audit Committee report on page 29.

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 militate against potential risks. Regular updates on health and safety are given at Board meetings. There have not been any fatalities this year (2014: nil). Regrettably, the total number of accidents has increased to 110 (2014: 97) in the UK and the number of serious accidents that are reportable to the Health and Safety Executive also slightly increased in the period to 11 (2014: 10). There were 13 accidents in the Rest of Europe, of which 4 (2014: 7) accidents 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.

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_2 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.

Much of the reduction in our carbon footprint (Scope 1, operation of facilities) is attributable to a warmer winter, with less heating required by stores. Some of the reduction is attributable to better use of Automatic Meter Readers for electricity and gas, which enabled us to identify high-use locations and take corrective action where necessary, together with pro-active management preventing us heating stores overnight. By way of example, the use of AMR meters has contributed to a 21% reduction in our consumption of natural gas.

We have also invested in a fleet of more energy efficient delivery vehicles this year in the UK, which has resulted in greater fuel efficiency in delivering carpet and other flooring products to our stores. Although overall fuel consumption has increased, this has been driven by additional deliveries to reflect the higher volumes of carpet and laminate being distributed, together with new routes in order to ensure products are available for our customers in a timely fashion.

Emissions data in respect of the financial year ended 2015 is as follows:

Emission type	CO_2e (Carbon Dioxide equivalent) 2015	CO_2e (Carbon Dioxide equivalent) 2014	Change
Scope 1: Operation of facilities	9,389	11,915	(21%)
Scope 1: Combustion	5,681	5,360	6%
Scope 1 Emissions	**15,070**	**17,275**	(13%)
Scope 2: Purchased energy	20,684	21,590	(4%)
Scope 2 Emissions	**20,684**	**21,590**	(4%)
Total emissions	**35,754**	**38,865**	(8%)

Greenhouse gas emissions intensity ratio:

	2015	2014	Change
Total footprint (Scope 1 and Scope 2)	**35,754**	38,865	(8%)
Turnover (£m)	**469.8**	447.7	5%
Intensity ratio (tCO_2/turnover £000)	**0.076**	0.087	(13%)

Notes:

1. The 2014 figures have been restated in accordance with updated methodology produced by DEFRA.
2. Our methodology has been based on the principles of the Greenhouse Gas Protocol.
3. Consumption is based on utility bills. Data for the Netherlands and Belgium has been collected on a calendar year basis.
4. Several stores are heated using fuel oil and one using propane gas. The consumption data for these stores is calculated from delivery invoices.
5. 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.
6. Conversion factors for electricity, gas and other emissions are those published by the Department for Environment, Food and Rural Affairs in 2014 – GHG Conversion Factors for Company Reporting.
7. Refrigerant fugitive emissions have been excluded as the impact was immaterial.

Board of Directors

Bob Ivell

Non-Executive Chairman

Bob joined the Board as Chairman on 1 November 2014. He is currently Non-Executive Chairman of Mitchells & Butlers plc and senior independent director of Britvic plc and AGA Rangemaster Group plc. He was previously chairman of David Lloyd Leisure Limited, Park Resorts Group Limited, Next Generation Clubs Pacific and a Non-Executive Director of The Restaurant Group plc. He has over 30 years' experience in the food and beverage industry, holding executive roles with Regent Inns plc, Scottish & Newcastle plc and Whitbread plc, each of which involved the management of large consumer-facing estates. Bob chairs the Nomination Committee.

Wilf Walsh

Chief Executive

Wilf was appointed to the Board as Chief Executive on 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.

Neil Page

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.

Sandra Turner

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 the Senior Independent Director of Greggs plc and a Non-executive director of McBride plc, and Huhtamäki Oyj and was previously a Non-Executive Director of Northern Foods plc and Countrywide plc. She chairs the Remuneration Committee.

David Clifford

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 and a Non-Executive Director of AmicusHorizon, a housing association. He chairs the Audit Committee.

Andrew Page

Senior Independent Director

Andrew joined the Board in July 2013. He is the Senior Independent Director of Northgate plc, Non-Executive Director of JP Morgan Emerging Markets Investment Trust plc, Schroder UK Mid Cap Fund plc and RPS Group plc. Andrew retired as Chief Executive of The Restaurant Group plc ("TRG") in September 2014 after thirteen years with TRG. Prior to joining TRG, he held a number of senior positions in the leisure and hospitality industry including Senior Vice President with InterContinental Hotels. Andrew trained and qualified as a Chartered Accountant with KPMG.

Corporate governance

Introduction

One of the Board's key responsibilities is to ensure that the Company is run in the 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 2014 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 2 May 2015, 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. Lord Harris fulfilled the roles of Chairman and Chief Executive, as Executive Chairman, until Wilf Walsh joined as Chief Executive on 21 July 2014 and on this date the roles were separated.

Between Baroness Noakes stepping down from the Board at the AGM on 4 September 2014 and 16 April 2015, the Board had not appointed a Senior Independent Director. There had been significant changes to the Board and it was happy for this to continue until a reconstituted Board had been established. Andrew Page was appointed as the Senior Independent Director on 16 April 2015.

Governance structure

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

The Board

There have been significant changes to the Board in the year ended 2 May 2015, with three Executive Directors and two Non-Executive Directors stepping down and a new Chairman and a new Chief Executive joining the Board.

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

Number of meetings: **11**

Executive Directors	Attendance	Meetings eligible to attend
Wilf Walsh[1]	6	6
Neil Page	11	11
Lord Harris[2]	8	8
Martin Harris[3]	5	6
Graham Harris[4]	2	3

Notes:

1. Wilf Walsh joined the Board as Chief Executive on 21 July 2014.
2. Lord Harris was Chairman until 31 October 2014 when he stepped down from the Board.
3. Martin Harris stepped down from the Board on 4 September 2014.
4. Graham Harris stepped down from the Board on 20 May 2014.

Non-Executive Directors	Attendance	Meetings eligible to attend
Bob Ivell[1]	4	4
Andrew Page	9	11
David Clifford	11	11
Sandra Turner	11	11
Baroness Noakes[2]	6	6
Alan Dickinson[3]	5	6

Notes:

1. Bob Ivell joined the Board as Chairman on 1 November 2014.
2. Baroness Noakes was Deputy Chairman and Senior Independent Director until 4 September 2014 when she stepped down from the Board.
3. Alan Dickinson stepped down from the Board on 4 September 2014.

The Board views that it is appropriately balanced and currently consists of the Chairman, two Executive and three Non-Executive Directors, brief biographies of whom can be found on pages 22 and 23. Bob Ivell joined the Board on 1 November 2014 as Chairman and was independent on appointment. 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 25.

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

As reported last year, Wilf Walsh joined the Board as Chief Executive on 21 July 2014 and Graham Harris stepped down from the Board on 20 May 2014 following the decision to appoint a Chief Executive. Lord Harris remained on the Board until a new Chairman had been identified, and stepped down from the Board on 31 October 2014.

Following an externally facilitated search, Bob Ivell was appointed as Chairman on 1 November 2014.

Baroness Noakes, Martin Harris and Alan Dickinson all stepped down from the Board on 4 September 2014.

Whilst not required by the Code, as the Company is outside the FTSE 350, all Directors 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.

An annual process of evaluation of the Board and its Audit, Nomination and Remuneration Committees has been undertaken. This was led by Bob Ivell with the assistance of the Company Secretary. The results have been considered by the Board and confirmed the strength of leadership within the business and a sound governance framework.

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.

Board committees

The Board has three Committees, each of which has written terms of reference which are available on the Company's corporate website (www.carpetright.plc.uk). During the period the responsibilities of the Corporate and Social Responsibility Committee were taken over by executive management.

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 27 to 30.

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 31 to 48.

The *Nomination Committee* was chaired by Baroness Noakes until 4 September 2014. Andrew Page took over as Committee Chairman between Baroness Noakes stepping down from the Board and the first meeting of the Committee following Bob Ivell's appointment to the Board when Bob was appointed as the Committee Chairman. Details of its membership and attendance are set out below:

Number of meetings: **4**

Members	Attendance	Meetings eligible to attend
Bob Ivell[1] Committee Chairman	1	1
Andrew Page[2]	3	4
Sandra Turner[3]	3	3
David Clifford[4]	3	3
Baroness Noakes[5]	1	1
Lord Harris[6]	3	3
Alan Dickinson[7]	1	1

Notes:

1. Bob Ivell became Committee Chairman on 16 April 2015.
2. Andrew Page became the Committee Chairman on 4 September 2014 and stepped down as Chairman on 16 April 2015. He remains a member of the Committee.
3. Sandra Turner joined the Committee on 4 September 2014.
4. David Clifford joined the Committee on 4 September 2014.
5. Baroness Noakes stepped down from the Committee on 4 September 2014.
6. Lord Harris stepped down from the Committee on 31 October 2014.
7. Alan Dickinson stepped down from the Committee on 4 September 2014.

Corporate governance continued

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 Executives; 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.

The Nomination Committee initiated the search for a new Chairman 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 and Lord Harris were involved in the appointment of Bob Ivell as Chairman.

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 and individual training was also provided by New Bridge Street to some of the members of the Remuneration Committee.

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.

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 page 50.

Audit Committee report

I am pleased to introduce the report of the Audit Committee for 2015.

The Committee plays an important part in the governance of the Group, with its principal activities focused on the integrity of financial reporting, quality and effectiveness of internal and external audit, risk management and the system of internal control.

I have set out below the main matters considered by the Committee during the year and the conclusions drawn. We meet formally at key times within our reporting calendar and the agendas are designed to cover significant areas of risk over the course of the year and to provide oversight and challenge to the key financial judgments, controls and processes that operate within the Company.

The Committee will continue to keep its activities under review in the light of regulatory developments and the emergence of best practice. In particular, the 2014 UK Corporate Governance Code will take effect for the first time in our financial year ended 2016. Further, we will be re-tendering the appointment of our statutory auditors during 2016.

Overall, I am satisfied that the activities of the Committee during the year enable it to gain a good understanding of the key matters impacting the Company along with the oversight of the governance and operation of its key controls.

David Clifford
Chairman of the Audit Committee

29 June 2015

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, recommending 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 discussed these with the executives responsible for the relevant area;
- considered all matters reported via the whistleblowing line and a report relating to frauds; and
- reviewed its terms of reference and effectiveness.

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, 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 at www.carpetright.plc.uk.

The Audit Committee is chaired by David Clifford. The Board has determined that David Clifford has recent and relevant financial experience. Baroness Noakes stepped down from the Committee on 23 June 2014 and Andrew Page was appointed in her place. Alan Dickinson stepped down from the Committee on 4 September 2014 and Sandra Turner was appointed in his place. The biographies of the members of the Committee can be found on pages 22 and 23. Details of membership and attendance are set out below:

Number of meetings: **4**

Members	Attendance	Meetings eligible to attend
David Clifford Committee Chairman	4	4
Andrew Page	2	3
Sandra Turner	2	3
Alan Dickinson	1	1
Baroness Noakes	1	1

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 Group's internal audit function and managed the Group'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 2015 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 achievement of the long-term business plan and macroeconomic assumptions underlying the valuation process. The Committee addressed these matters through receiving reports from management and discussing the assumptions used. The Committee noted that the weighted average cost of capital used was outside the range used by PwC in its assessment. The Committee agreed that no impairment was necessary.

Impairment of the valuation of property

The Committee has carried out a further review of the property valuations. The Committee noted that the weighted average cost of capital used in the Directors' valuation was outside the range used by PwC in its assessment. Following discussions with both management and PwC, the Committee is satisfied that no further impairment of the property valuations is necessary.

Onerous lease provision

The practice is to treat a lease as being onerous if the store relative to the lease is closed or if the expected benefits of using the leased property are less than the unavoidable costs. Management makes an assessment as to the cost of exiting the lease based on available information and knowledge of the property market. Following the strategic review, provision has been made in respect of certain loss-making stores. The Committee has discussed with management the judgments and assumptions made in determining the provision and agreed with management that an increase in the onerous lease provision of £7m would be appropriate. Further details can be found in note 5 to the financial statements on page 66.

Rebates and supplier income

In the year ended 2 May 2015 the Group received income from suppliers by way of both a discount, irrespective of the volume of products purchased, which are pre-negotiated and deducted from the value of each invoice from a supplier, and volume-driven rebates. Given the well-publicised accounting issues at other retail businesses, the Committee carried out a review of the Group's practice in this area. In the period the Group received around £85m by way of rebates and supplier income. Judgments are made in respect of the latter where volume-driven rebate arrangements span the end of a reporting period. Rebates are accrued based upon management judgment as to the extent to which turnover targets will be met which determine rebates to be earned on those deals. The Committee addressed these matters through receiving reports from management and asking the external auditors to ensure that this is an area of focus for them. The Committee satisfied itself that the accounting treatment in respect of rebates and supplier income is appropriate.

Inventory

Details of inventory are held in three systems, the store system, the warehouse system and the principal accounting system. Manual intervention is required to check consistency between the systems and to ensure that the correct stock value is used for accounting purposes. During the year management started a programme of work to analyse and reconcile the data in the various systems and to better understand the process flows. PwC were engaged to review the inventory data transfer between the store system and the principal accounting system. The Committee considered the detailed review and findings to date of the programme and is comfortable with the reported stock valuation.

Internal audit

The Committee considered and approved the Annual Internal Audit plan and at each meeting reviewed reports from the Director of Group 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.

Whistleblowing

The Company operates a whistleblowing telephone line in the UK and an email whistleblowing facility in Europe. Both are operated by independent companies and reports are received by the Director of Group Internal Audit, the Company Secretary or the HR Director. Matters reported related to individual treatment by line managers or colleagues, dishonesty, substance abuse and breach of Company policy. In each case the issues were investigated, a judgment was made and action taken where appropriate. The outcome of all matters was reported to the Audit Committee.

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 page 19. 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 senior executive. The Committee considered in-depth reviews into reputation and marketing strategy and pricing.

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 2015 financial year the primary risks identified and how the scope of the audit addressed the area of focus are set out in the Auditors' report on pages 90 to 95.

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 2015 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.

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.

Audit Committee report continued

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 audit of this Report and Accounts is the first to be carried out of the Group by the current audit partner.

Re-tendering of audit services

PwC have been auditors to the Company since 2005 when they were appointed following a competitive tender. The Company intends to re-tender the audit in spring 2016 in compliance with current regulations, with a resolution being put to shareholders at the AGM in September 2016. 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 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 the appointment of alternative supplier would be either impractical or inefficient, 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.

During the year the only non-audit services work undertaken by PwC related to the review of the inventory referred to on page 29, at a cost of £30k.

Audit and non-audit fees

Details of the auditors' remuneration for audit work and non-audit fees for the period ended 2 May 2015 are disclosed in note 3 to the financial statements on page 65 and disclosed above. The Committee approved the fees for audit services for 2015 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 review of Board effectiveness performed in the year. Details of this process can be found on page 25. No significant matters were identified which needed to be addressed.

Directors' remuneration report

Part 1 – Annual Statement from the Chair of the Committee

Dear Shareholder,

Introduction

I am pleased to present the Directors' Remuneration Report on behalf of the Board, my first report following my appointment as Chair in September 2014.

Our remuneration policy was approved by shareholders at our AGM on 4 September 2014 and became effective for three years. We have set out our policy again to allow cross-reference against its operation during the year.

This year's report is 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 became binding with effect from the AGM 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 2015 and explains how the policy referred to above will be applied in financial year 2016 – this final part of the report will be subject to an advisory vote at the forthcoming AGM.

Business strategy and link to remuneration policy

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 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 stretching short- and long-term goals without encouraging inappropriate behaviours. The remuneration strategy ensures that a significant element of Executives' remuneration remains 'at risk'.

Activities of the Committee

During the year the Remuneration Committee made a number of key decisions relating to the departure of Graham Harris, the appointment of Wilf Walsh as Chief Executive and the appointment of Bob Ivell as Chairman. Details of the decisions concerning Graham Harris and Wilf Walsh were disclosed in last year's Remuneration Report.

The Committee reviewed Lord Harris' remuneration as a result of changes to his responsibilities during the year, and agreed that his salary should remain at £400,000 until the AGM in September 2014 to reflect the substantial time commitment to facilitate a successful handover to Wilf Walsh as the incoming Chief Executive, reducing to £125,000 until he left the Board on 31 October 2015,

Bob Ivell was appointed as Chairman with effect from 1 November 2014. The Committee determined that his fees will be £150,000 per annum.

The Committee also reviewed the proposed award levels and targets for the awards under the Carpetright Long-Term Incentive Plan 2013 which were made in July 2014. It is anticipated that awards will normally be made following the announcement of the Company's annual results. The value of shares over which the first awards were made under the plan was consistent with awards made in January 2014, which were delayed from 2013.

The Committee reviewed the salaries of the Executive Directors in April 2015 and determined that Wilf's basic salary would increase by 2%, in line with a general increase in basic salaries in the UK business, and Neil's salary would increase to £300,000 to reflect additional responsibilities he has taken on for the Group's property portfolio and increased involvement and responsibility for overall strategy and operational activity since Wilf joined the business in July 2014.

Incentive payments

I am pleased to report that financial performance for Executive Directors relating to the 2015 annual bonus results in a bonus between target and maximum. Additionally, Wilf Walsh achieved the strategic and operational objectives which were set for his bonus in his introductory year. The achievement of these targets gives rise to a payment of 85.6% of salary earned in the year to Wilf Walsh and 71.2% of salary earned in the year to Neil Page.

Annual incentive arrangements for the financial year ending 2016 for Executive Directors will be based upon the achievement of underlying profit targets and strategic objectives. Further details of the metrics and targets are provided in the Annual Report on Remuneration. Subject to commercial confidentiality, performance against these targets will be disclosed in next year's report.

As a result of financial performance in the year ended on 2 May 2015, none of the long-term incentive awards granted in 2012 will vest.

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.

Sandra Turner
Chairman of the Remuneration Committee

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 that has applied to the Directors of the Company since 27 April 2014 and was adopted following a binding vote at the AGM held on 4 September 2014. The policy report has been reproduced for information and updated to reflect the passage of time, such as change in tense and page references and the Executive Directors' current remuneration packages for the purposes of the chart illustrating the application of the policy in the coming year.

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
Base salary	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: – an increase in the scope and responsibility of the individual's role; or – the individual's development and performance in the role following appointment.	Not applicable
Benefits	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
Pension	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
Annual bonus	Rewards the achievement of annual KPIs and/or other objectives linked to the Company's strategic goals.	Bonuses are awarded by reference to performance against specific targets measured over a single financial year. 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. Bonuses do not form part of the Executive Directors' pensionable earnings. 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.	Maximum (as a percentage of salary): 100% Minimum bonus that can be paid: 0% 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.	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. All or a significant majority of the bonus opportunity will normally be determined by reference to performance against a demanding Group underlying profit target. 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.

Directors' remuneration report continued

Remuneration element	Purpose and link to strategy	Operation	Maximum	Performance measurement
Long Term Incentive Plan ('LTIP')	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.	The current LTIP was approved at the 2013 AGM (Carpetright Long Term Incentive Plan 2013). 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. 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.	Awards made in the 2014 and 2015 financial years: – the rules permit a maximum of 250% of salary, although only approximately 150% of salary was, or will be, awarded. Awards from 2016 financial year onwards: – normal maximum of 150% of salary; and – exceptional circumstances maximum 250% of salary.	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. Awards made in the 2014 and 2015 financial years are subject to performance conditions measuring growth in the Company's underlying profit before tax. For awards made in the 2014 and 2015 financial years, 25% will vest at threshold. The Committee has discretion to set different targets for future awards.
All employee share schemes, including a Sharesave Plan and Share Incentive Plan ('SIP')	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:

1. A description of how the Company intends to implement the policy set out in the table for the financial year ended 2016 is set out in the Annual Report on Remuneration from page 39.
2. 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.
3. 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.
4. 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.
5. 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.
6. For the LTIP awards 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.
7. The Company has a share ownership policy that requires the Executive Directors to build up and maintain a target holding equal to the same multiple of base salary as awards are made under the LTIP. 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 2 May 2015 are set out on pages 45 and 46.

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

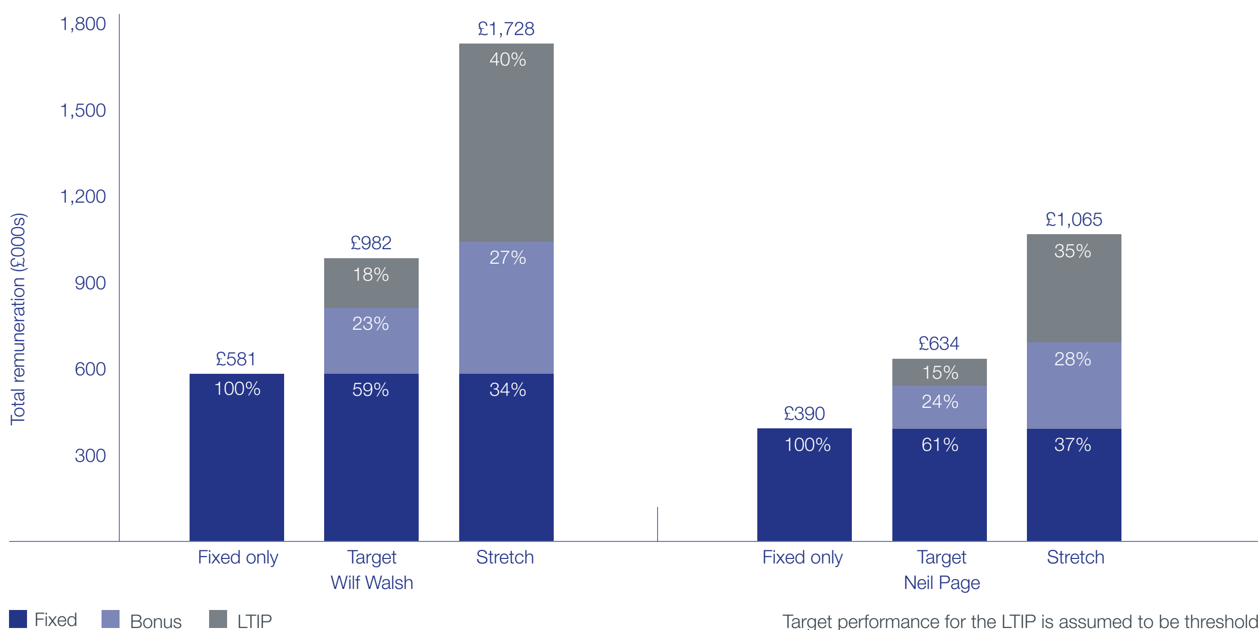
In approving the Policy Report, authority was given to the Company to honour any commitments entered into with current or former Directors that have been disclosed previously to shareholders. It is also part of this policy that we will honour payments or awards crystallising after the effective date 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' 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. It has been updated from last year's policy report to reflect how the approved policy will be implemented in the next financial year.

Assumptions:

- Fixed only – fixed pay only, including base salary (at current rates), 20% pension allowance (based on current base salary) and benefits as disclosed in the single figure table on page 41;
- 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); and
- 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.

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 on page 38.

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 retained his fees from this directorship (£60,000).

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
Non-Executive Directors' fees	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 Policy and Annual Report on Remuneration, 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 2 May 2015. It also summarises how the policy contained within the Directors' Remuneration Policy Report on pages 32 to 38 will be applied in the financial year ending 30 April 2016.

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 10 September 2015.

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 year ended 2015

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

Number of meetings:		4
Members	Attendance	Meetings eligible to attend
Sandra Turner[1] Committee Chairman	4	4
Andrew Page	3	4
David Clifford[2]	2	2
Alan Dickinson[3]	2	2
Baroness Noakes[4]	2	2

Notes:

1. Chairman from 4 September 2014.
2. From 4 September 2014.
3. Chairman and Committee member until 4 September 2014.
4. Committee member until 23 June 2014.

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 current Committee members is shown on pages 22 and 23. The Company Secretary (Jeremy Sampson) acts as secretary to the Committee.

At the invitation of the Committee, the Chairman (Lord Harris until 31 October 2014 and Bob Ivell since), the Chief Executive (Wilf Walsh), Group Finance Director (Neil Page), and the Director of Human Resources regularly attend Committee meetings. 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).

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). New Bridge Street was appointed as advisers in 2010 following a competitive tender. The Committee's advisers attended two of the four 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 £44k (2014: £51k). 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 at a Committee meeting on an annual basis.

As outlined in the Annual Statement, during the year the Remuneration Committee needed to make a number of key decisions relating to the departure of Graham Harris, the appointment of Wilf Walsh as Chief Executive and the appointment of Bob Ivell as Chairman. The Committee reviewed Lord Harris' remuneration as a result of changes to his responsibilities during the year, and agreed his salary remained at £400,000 until the AGM in September 2014 to reflect the substantial time commitment to facilitate a successful handover to Wilf Walsh as the incoming Chief Executive, and reduced to £125,000 until he left the Board on 31 October 2014.

On appointment of Bob Ivell as Chairman with effect from 1 November 2014, the Committee has determined that his fees will be £150,000 per annum.

In addition, it also considered the following:

- the level of executive and all employee salary increases;
- performance against the targets for the 2014 annual bonus (and following the year end, the 2015 annual bonus);
- the content of the Directors' remuneration report; and
- the launch of an annual invitation under the SAYE scheme.

Statement of shareholder voting at the 2014 AGM

The table below shows the voting outcome at the 4 September 2014 AGM for the 2014 Directors' remuneration report and approval of the remuneration policy:

	For (including discretionary votes)	Against	Total votes cast (for and against excluding votes withheld)	Votes withheld[1]	Total votes cast (including withheld votes)
To approve the Remuneration Report	49,452,647	37,284	49,489,931	194,535	49,684,466
% votes cast	99.92%	0.08%	100%	–	–
To approve the Remuneration Policy	43,087,903	6,407,766	49,495,669	188,797	49,684,466
% votes cast	87.05%	12.95%	100%	–	–

Note:

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

Single total figure table for the 2015 financial year (audited)

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

	Notes	Salary and fees £000	Benefits[1] £000	Pension[2] £000	Subtotal fixed remuneration £000	Bonus[3] £000	Long-term incentives[4] £000	Subtotal variable remuneration £000	Single figure for total remuneration £000
Executive Directors									
Lord Harris	5	160	10	–	170	–	–	–	170
Wilf Walsh	6	353	23	71	447	302	–	302	749
Neil Page		280	29	56	365	199	–	199	564
Graham Harris	7	180	15	36	231	–	–	–	231
Martin Harris	8	98	11	20	129	–	–	–	129
Total		1,071	88	183	1,342	501	–	501	1,843
Non-Executive									
Bob Ivell	9	75	–	–	75	–	–	–	75
Sandra Turner		44	–	–	44	–	–	–	44
David Clifford		44	–	–	44	–	–	–	44
Andrew Page		42	–	–	42	–	–	–	42
Baroness Noakes		21	–	–	21	–	–	–	21
Alan Dickinson		15	–	–	15	–	–	–	15
Total		241	–	–	241	–	–	–	241

The remuneration of the Directors for the 2014 financial year was as follows:

	Notes	Salary and fees £000	Benefits £000	Pension £000	Subtotal fixed remuneration £000	Bonus £000	Long-term incentives £000	Subtotal variable remuneration £000	Single figure for total remuneration £000
Executive Directors									
Lord Harris		332	33	–	365	–	–	–	365
Neil Page		280	29	56	365	–	–	–	365
Graham Harris	10	187	16	38	241	–	–	–	241
Martin Harris		280	32	56	368	–	–	–	368
Darren Shapland	10	191	12	38	241	–	–	–	241
Total		1,270	122	188	1,580	–	–	–	1,580
Non-Executive									
Sandra Turner		44	–	–	44	–	–	–	44
David Clifford		44	–	–	44	–	–	–	44
Andrew Page		33	–	–	33	–	–	–	33
Baroness Noakes		60	–	–	60	–	–	–	60
Alan Dickinson		44	–	–	44	–	–	–	44
Total		225		–	225	–	–	–	225

Notes:

1. The main benefits available to the Executive Directors during 2015 were a car allowance, life assurance (4 times salary) and private medical cover.
2. Additional disclosures relating to the pension provision for the Executive Directors during 2015 are set out on page 42.
3. 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 2015 is provided on pages 42 and 43.
4. 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 2012 awards (included in the 2015 Single Figure) are provided on page 43. The LTIP award granted on 20 September 2011 was based on EPS performance over the three years ended 26 April 2014 (included in the 2014 Single Figure); the condition was not met so no awards vested. Further details of the LTIP's operation during 2015 are provided on page 44.
5. Payments were made to 31 October 2014, when Lord Harris retired from the Board. No post-termination payments were made.
6. From 21 July 2014.
7. Graham Harris's salary and benefits include payments made since Graham stepped down from the Board on 20 May 2014. As part of his termination arrangements he continued to receive phased payments for the balance of his six month notice period whilst on garden leave. If the outstanding long-term incentive awards vest, there will be a pro-rata reduction in the number of shares on a time basis.
8. Payments were made to 4 September 2014 when Martin Harris stepped down from the Board. No post-termination payments were made.
9. Fees of £150,000 p.a. were agreed. Payment of the full amount has not been made, pending adoption of new Articles of Association at the forthcoming AGM.
10. Part year only.

Directors' remuneration report continued

Payments to past directors (audited)

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. As disclosed last year, as part of his termination arrangements Darren received phased payments for the balance of his 12 month notice period. In respect of the period since 30 April 2014 Darren received payment of £143,090 representing his loss of salary, benefits and pension allowance to 3 October 2014. The maximum amount that would have been payable (£248,325) was reduced by fee income received by Darren from other non-executive directorships acquired since he left the Board.

No payment following termination was made to Lord Harris or Martin Harris.

In respect of Graham Harris, all payments following him stepping down from the Board are reflected in the single total figure table above.

Pensions (audited)

As explained in the Directors' remuneration policy report set out on page 33, 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.

Wilf Walsh, Neil Page, Martin Harris and Graham Harris received their allowance as a salary supplement. Lord Harris was in receipt of a pension and did 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					
	Pension accrued at 26 April 2014 £000 pa	**Pension accrued at 2 May 2015 £000pa**	Increase in accrued pension during the year £000 pa	Increase in pension during the year net of inflation[1] £000	Normal retirement age	Transfer value increase in year[2] £000
Lord Harris[3]	32.0	**32.9**	0.9	–	Retired	0.1
Martin Harris	18.2	**18.5**	0.3	–	60	0.1

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.

Annual incentives – 2015 structure and outcome (audited)

In respect of the financial year ended 2015, Executive Directors were eligible to receive an annual performance bonus based on the achievement of the annual budgeted underlying profit and, for Wilf Walsh, the achievement of strategic and operational objectives.

The financial targets for the 2015 bonus were determined based on the budget for the 2015 financial year and were agreed before Wilf joined. Therefore, the Committee determined that 50% of Wilf Walsh's maximum bonus entitlement should be based upon financial targets (set by reference to the budget), and 50% based on non-financial strategic and operational objectives. Neil Page's bonus was 100% based upon financial targets set by reference to the budget.

The strategic and operational objectives for Wilf were as follows:

Strategic objectives
- To develop a clear, comprehensive Brand strategy and proposition based on customer insight and data analysis;
- To initiate and execute a process driven marketing, digital, buying and promotional plan;
- To review the existing store development strategy and reshape/test a clear store format plan that is appropriate for medium/long term; and
- To deliver a five year retail space strategy.

Operational objectives
- To assess and add value to the existing recovery plan for Europe and ensure its sustainability; and
- To assess the capability of the leadership team and reshape/upgrade as necessary.

The maximum bonus opportunity for Executive Directors for the 2015 financial year was 100% (2014: 100%) of basic salary earned in the financial year. In 2015, 40% (2014: 40%) of the financial element was payable for on-target performance.

The Committee considered the extent to which Wilf had achieved the Strategic and Operational objectives, and agreed that they had been met in full, as set out in the table below.

				Actual performance	Wilf Walsh		Neil Page	
Metric	Threshold (10% payout)	Target (40% payout)	Maximum (100% payout)		Maximum percentage of bonus	Actual percentage of bonus	Maximum percentage of bonus	Actual percentage of bonus
Underlying profit before tax (£m)	5.0	10.1	18.0	14.2	50%	35.6%	100%	71.2%
Strategic objectives					35%	35.0%		
Operational objectives					15%	15.0%		
Bonus payout					100%	85.6%	100%	71.2%

Long-term incentives (audited)

LTIP granted 20 September 2012 (included in 2015 column in Single Figure Table above)
The LTIP awards granted on 20 September 2012 were based on performance to the year ended 2 May 2015. There was a single EPS performance condition relating to these awards:

Underlying EPS for the financial year ended 2 May 2015	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 underlying EPS for the full year ended 2 May 2015 was 15.5p. As a result, none of the awards will vest.

Directors' remuneration report continued

Grants made under the 2013 LTIP in financial year ended 2015

The grants made under the LTIP in July 2014, which will vest in July 2017 based on performance over the three financial years beginning 27 April 2014, are shown in the table below:

						Performance condition		
	Type of award	Basis of grant	Share price at date of grant (31 July 2014)	Number of shares over which award was granted	Face value of award[1]	Threshold vesting	Maximum vesting	Performance measure
Wilf Walsh	Nil cost option	150% of salary	525.5p	128,449	£674,999	25%	100%	Cumulative underlying profit before tax to the financial year ended 2017
Neil Page	Nil cost option	125% of salary	525.5p	66,603	£349,999	25%	100%	

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 2015
Less than £35.2m	Nil	0%	<55%pa
£35.2m	Threshold	25%	55%pa
£51.2m	Maximum	100%	81.8%pa

All-employee share plans

Sharesave

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
Wilf Walsh	5,187	347	Apr 18	Oct 18
Neil Page	2,593	347	Apr 18	Oct 18

Share Incentive Plan

Carpetright operated a SIP under which employees could contribute up to £125 per month from pre-tax salary to purchase Carpetright shares. The SIP was closed on 12 January 2015 as there were fewer than 50 active participants. Prior to leaving the business, or closure of the plan, Lord Harris, Martin Harris and Neil Page participated in the SIP, each contributing £125 per month.

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

Set out below is a summary of all share awards as at 2 May 2015.

	Date granted	Balance at 26 April 2014	Granted during year	Vested/exercised during year	Lapsed during year	Balance at 2 May 2015	Share price at grant/invitation (p)	Exercise price (p)	Market price at date of vesting	Market price at date of exercise	Amount realised on vesting £000	Date from which exercisable	Expiry date	Scheme
Wilf Walsh	Jul 14	–	128,449	–	–	128,449	525.5	nil	–	–	–	Jul 17	Jul 27	LTIP
	Apr 15	–	5,187	–	–	5,187	433	347	–	–	–	Apr 18	Oct 18	SAYE
		–	133,636	–	–	133,636					–			
Neil Page	Sep 11[1]	57,601	–	–	57,601	–	486	nil	–	–	–	Sep 14	Mar 15	LTIP
	Sep 12[2]	42,200	–	–	–	42,200	664	nil	–	–	–	Sep 15	Mar 16	LTIP
	Jan 14[3]	69,169	–	–	–	69,169	506	nil	–	–	–	Jan 17	Jan 27	LTIP
	Apr 14	2,227	–	–	–	2,227	505	404	–	–	–	Apr 17	Oct 17	SAYE
	Jul 14[4]	–	66,603	–	–	66,603	525.5	nil	–	–	–	Jul 17	Jul 27	LTIP
	Apr 15	–	2,593	–	–	2,593	433	347	–	–	–	Apr 18	Oct 18	SAYE
		171,197	69,169	–	57,601	182,792					–			
Lord Harris	Apr 14	3,712	–	–	3,712	–	505	404	–	–	–	Apr 19	Oct 19	SAYE
		3,712	–		3,712	–					–			
Martin Harris	Sep 11[1]	57,601	–	–	57,601	–	486	nil	–	–	–	Sep 14	Mar 15	LTIP
	Sep 12[2]	42,200	–	–	42,200	–	664	nil	–	–	–	Sep 15	Mar 16	LTIP
	Jan 14[3]	55,335	–	–	55,335	–	506	nil	–	–	–	Jan 17	Jan 27	LTIP
		155,136	–	–	155,136	–	–	–	–	–	–	–		
Graham Harris	Jan 14[4,5]	97,826	–	–	–	97,826	506	nil	–	–	–	Jan 17	Jan 27	LTIP
	Apr 14	3,712	–	556	3,156	–	505	404	–	483	3	Apr 19	Oct 19	SAYE
		101,538	–	556	3,156	97,826					3			

Notes:

1. The 2011 awards were measured by reference to percentage growth in underlying EPS. The performance condition was not met and the awards lapsed in September 2014.
2. None of the 2012 awards vest if underlying EPS is less than 21.1p in the financial year ended 2015. 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 performance condition was not met and the awards will lapse in September 2015 (see page 43).
3. None of the awards made in January 2014 will vest if underlying cumulative profit in the three financial years ended 2016 is less than £44m. If cumulative underlying profit is £44m, 25% of the award vests and if cumulative underlying profit is £60m all the award vests. For growth between the two points between 25% and 100% vests on a sliding scale. The performance condition is unlikely to be met and it is anticipated that the awards will lapse.
4. The performance conditions relative to the awards are described on page 44. The awards, which are expressed as options, are subject to an exercise price of £nil.
5. 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. The maximum number that could vest is 10,869 shares.

Directors' remuneration report continued

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 the same multiple of base salary as awards are made under the LTIP (150% for Wilf Walsh, 125% for Neil Page). 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 Wilf Walsh and Neil Page were below the target holding of base salary.

The beneficial interests of those individuals who were Directors as at 2 May 2015 and their immediate families in the ordinary shares of the Company are set out in the table below. Additionally, the Executive Directors have an indirect interest in 51,440 shares held in trust to satisfy awards made under the LTIP.

	Ordinary shares	Ordinary shares held in the SIP[1]	Total holding of ordinary shares	Value of holding as a % of salary on 2 May 2015[2]	Ordinary shares under option under the Sharesave Plan[3]	Ordinary shares subject to outstanding unvested awards under the LTIP[4]	Total interest In ordinary shares
Executive							
Wilf Walsh	–	–	–	–	5,187	128,449	133,636
Neil Page[5]	14,816	1,216	16,032	25%	4,820	177,972	198,549
Non-Executive							
Bob Ivell	–	–	–	–	–	–	–
Sandra Turner	–	–	–	–	–	–	–
David Clifford	5,000	–	5,000	–	–	–	5,000
Andrew Page	–	–	–	–	–	–	–

Notes:

1. 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. The shares held in the SIP will reduce over time as the SIP has closed. Please see page 44.
2. Share price used is the price as at 2 May 2015: 469p.
3. None of these options are subject to a performance condition. Details of the Sharesave interests can be found on page 45.
4. This column shows all unvested and outstanding awards under the LTIP that were held by the Executive Director concerned as at 2 May 2015 (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 45.
5. The salary used for determining the value of the holding is £300k p.a.

To the best of the Director's knowledge, the beneficial interests as at 2 May 2015 of those individuals who ceased to be Directors during the year are set out below:

	Ordinary shares	Ordinary shares held in the SIP	Total holding of ordinary shares	Ordinary shares under option under the Sharesave Plan[1]	Ordinary shares subject to outstanding unvested awards under the LTIP	Total interest In ordinary shares
Director						
Lord Harris	15,556	–	15,556	–	–	15,556
Martin Harris	2,093	–	2,093	–	–	2,093
Baroness Noakes	33,225	–	33,225	–	–	33,225
Alan Dickinson	–	–	–	–	–	–
Graham Harris[2]	556	–	556	–	97,826	97,826

Notes:

1. All shares under option under the Sharesave Plan have subsequently either been exercised or lapsed, as shown in the table on page 45.
2. 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. The maximum number that could vest is 10,869 shares.

Application of the remuneration policy for the financial years ending 2015 and 2016

Basic salary

Executive Directors' basic salaries have been reviewed and Wilf Walsh's salary has been increased from 1 May 2015 by 2%, in line with a general increase in respect of the UK business. The Remuneration Committee recognised the additional responsibilities taken on by Neil Page, particularly taking on responsibility for the property portfolio, and agreed to increase his salary to £300,000 from 1 May 2015. The current salaries of the Executive Directors are as follows:

	Base salary as at 26 April 2014	**Current base salary**	Percentage change
Wilf Walsh	£450,000[1]	**£459,000**	2%
Neil Page	£280,000	**£300,000**	7%

Note:

1. Salary on appointment.

Benefits and pension

Benefits and pension will operate in the financial year ended 2016 as per their respective policies set out in the Policy Report on pages 32 to 38.

Annual bonus plan performance targets

The annual bonus plan for the financial year ended 2016 will operate consistently with the policy detailed in the Policy Report on page 33.

Performance targets for the Executive Directors in 2015/16 will be based on a combination of Group underlying profit (80% of the total opportunity) and strategic metrics linked to property and customer service (20% of the total opportunity). Payment in respect of the achievement of strategic objectives will also be subject to an underpin based on the Group's financial performance. Consistent with our policy and the Group's practice over a number of years, the Committee has set the percentage of bonus payable for on-target performance in light of the degree of stretch in the targets and the affordability of the payouts to the Group. The range will be to pay 0% unless a threshold level of performance has been achieved, 20% of maximum at threshold and 50% of maximum for achieving target. Further details of the targets are currently commercially sensitive and the Company will not be disclosing them at the start of the year. However, they will be disclosed retrospectively in the 2016 Annual Report and Accounts.

Long-term incentive awards in the financial year ended 2016

The Committee intends to make the next awards under the LTIP during the summer of 2015. The terms of these awards have not yet been determined. However, it is currently intended that these would be based upon growth in underlying earnings per share measured on a cumulative basis. This is considered a better measure as it takes account of changes in share capital and tax, thereby creating better alignment with shareholders.

It is anticipated that the awards for the Executive Directors will be at 150% of base salary for Wilf Walsh and 125% for Neil Page. The performance targets will be set taking account of quantum of the awards.

Non-Executive Directors' fees

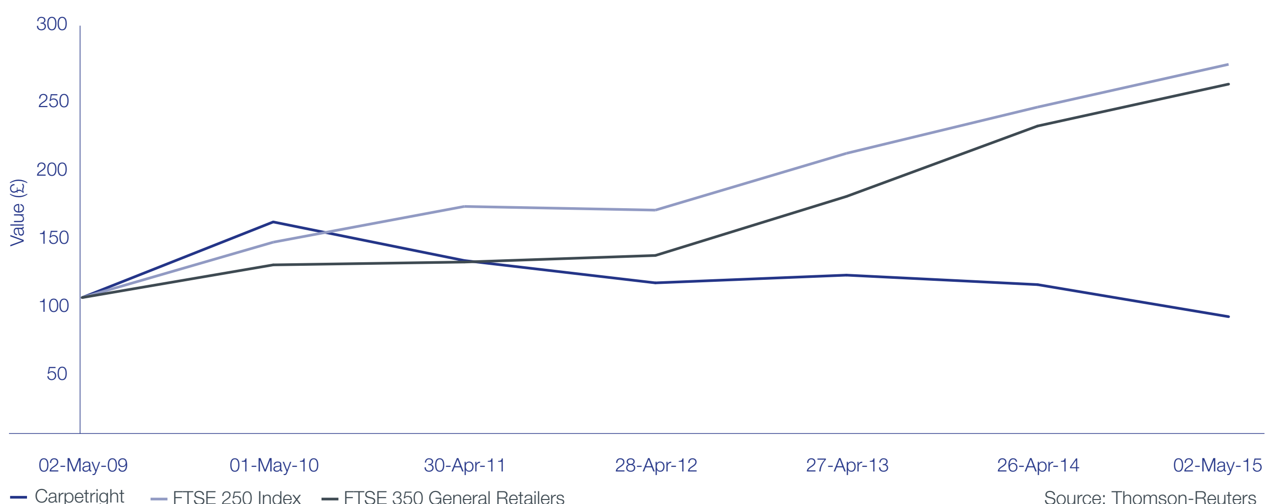
Non-Executive Directors' fees have been reviewed. Andrew Page's base fee was increased from £39,000 to £44,000 upon being appointed as the Senior Independent Director. The Chairman is not paid an additional fee for chairing the Nomination Committee. No increase has been made to the other fees. The current fees are as follows:

	Base fee	Base fee for SID	Chairman fee (including base fee)	Additional fee for Committee Chairman
Current fees	£39,000	£44,000	£150,000	£5,000

Other information

Performance graph

The graph below shows the value, at 2 May 2015, 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.



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[1]	Total remuneration of Chief Executive[2] £'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)
2015	**Combined remuneration**	**842**		
2015	Wilf Walsh (21 July 2014 to 30 April 2015)	749	85.6%	0%
2015	Lord Harris (1 May 2014 to 20 July 2014)	93	0%	0%
2014	**Combined remuneration**	**490**		
2014	Lord Harris (3 October 2013 to 30 April 2014)	249	0%	0%
2014	Darren Shapland (1 May 2013 to 3 October 2013)	241	0%	0%
2013	**Combined remuneration**	**1,025**		
2013	Darren Shapland (14 May 2012 to 30 April 2013)	1,007	29%	0%
2013	Lord Harris (1 May 2012 to 14 May 2012)	18	0%	0%
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. Wilf Walsh joined as Chief Executive on 21 June 2014, at which point Lord Harris ceased to fulfil that role.
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 41.

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

	2015 £'000	2014 £'000	% change
Chief Executive Officer			
– salary	**441**	421	4.7
– benefits	**26**	31	(13)
– bonus / payments as a result of performance	**302**	–	–
Average per employee			
– salary	**21**	21	0%
– benefits	**1**	1	0%
– bonus / payments as a result of performance	**7**	6	17%

Note: the average per employee for 2014 has been amended to accurately reflect the elements of remuneration in that year.

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 between Wilf Walsh and Lord Harris for 2015. 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 26 April 2014 to the financial year ending 2 May 2015.

	2015 £million	2014 £million	Percentage change
Overall expenditure on pay	**102.0**	99.1	2.8%
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 65.

By order of the Board

Sandra Turner
Chairman of the Remuneration Committee

29 June 2015

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 appears from the Inside Front Cover to page 21;
- the Directors' Remuneration Report appears on pages 31 to 48;
- reporting on the Company's carbon footprint appears on page 21;
- 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 74;
- changes in asset values are set out in the consolidated balance sheet on page 56 and in the notes to the financial statements on pages 58 to 88;
- the Group's profit before taxation and the profit after taxation and minority interests appear in the consolidated income statement on page 54;
- a detailed statement of the Group's treasury management and funding is set out in note 23 to the financial statements on pages 82 to 84;
- 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 24; and
- in accordance with Listing Rule 9.8.4, details of dividend waivers appears on page 50.

Directors' interests

Directors' share interests are disclosed in the Directors' report on remuneration on page 46. 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	
	2015 £000	2014 £000
Edinburgh Retail LLP	**150**	301
Greenock Retail Ltd	**48**	256
Harris Ventures Ltd	**31**	63
Hull Unit Trust	**193**	388

As at 2 May 2015, the Group owed related parties £nil (2014: £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 2015. The Company has also purchased and maintained Directors' and Officers' liability insurance throughout the financial year ended 2015.

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 29 April 2015. 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 and an uncommitted overdraft of £7.5m. 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.

Other information continued

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 84 to 86.

Substantial shareholdings

As at 29 June 2015, the Company has been notified of the following substantial shareholdings, other than those of the Directors, in the issued share capital of the Company:

	Percentage of shares held
Franklin Templeton Institutional, LLC	20%
Neptune Investment Management	16%
The Olayan Group	13%
FIL Limited	9%
Phoenix Asset Management Partners Limited	9%
Cascade Investments LLP	6%

Donations

No political donations were made (2014: £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 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.

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 2015 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 2014 Annual General Meeting, shareholders gave the Company renewed authority to purchase a maximum of 6,778,160 shares of one penny each. This resolution remains valid until the date of this year's Annual General Meeting. As at 2 May 2015, 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.

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 pages 22 and 23 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.

Other information continued

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 2019. 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, 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 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 16.

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 2015 Annual General Meeting of the Company will be held on 10 September 2015 at Harris House, Purfleet Bypass, Purfleet, Essex RM19 1TT at 12:00 p.m.. A full description of the business to be conducted at the meeting is set out in the separate Notice of Annual General Meeting.

The Strategic Report and the Directors' Report were each approved by the Board and authorised for issue on 29 June 2015

By order of the Board

Jeremy Sampson
Company Secretary and Legal Director

29 June 2015

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Consolidated income statement
for 53 weeks ended 2 May 2015

		Group 53 weeks to 2 May 2015			Group 52 weeks to 26 April 2014		
	Notes	Before exceptional items £m	Exceptional items (Note 5) £m	Total £m	Before exceptional items £m	Exceptional items (Note 5) £m	Total £m
Revenue	2	**469.8**	**–**	**469.8**	447.7	–	447.7
Cost of sales		**(182.6)**	**–**	**(182.6)**	(171.8)	–	(171.8)
Gross profit	2	**287.2**	**–**	**287.2**	275.9	–	275.9
Administration expenses		**(273.5)**	**(7.2)**	**(280.7)**	(271.1)	(10.2)	(281.3)
Other operating income/(loss)		**2.1**	**(0.4)**	**1.7**	2.1	(1.6)	0.5
Operating profit/(loss)	2,3	**15.8**	**(7.6)**	**8.2**	6.9	(11.8)	(4.9)
Finance costs	6	**(1.6)**	**–**	**(1.6)**	(2.3)	–	(2.3)
Profit/(loss) before tax		**14.2**	**(7.6)**	**6.6**	4.6	(11.8)	(7.2)
Tax	7	**(3.7)**	**1.6**	**(2.1)**	(1.4)	5.0	3.6
Profit/(loss) for the financial period attributable to equity shareholders of the Company		**10.5**	**(6.0)**	**4.5**	3.2	(6.8)	(3.6)
Basic earnings/(losses) per share (pence)	9	**15.5**	**(8.8)**	**6.7**	4.7	(10.0)	(5.3)
Diluted earnings/(losses) per share (pence)	9			**6.7**			(5.3)

Consolidated statement of comprehensive income
for 53 weeks ended 2 May 2015

	Notes	Group 53 weeks to 2 May 2015 £m	Group 52 weeks to 26 April 2014 £m
Profit/(loss) for the financial period		**4.5**	(3.6)
Items that may not be classified to the income statement:			
Re-measurement of defined benefit plans	22	**(1.4)**	1.1
Tax on items that may not be reclassified to the income statement	7	**0.1**	(0.5)
Total items that may not be reclassified to the income statement		**(1.3)**	0.6
Items that may be reclassified to the income statement:			
Exchange gains/(losses)		**(5.3)**	(1.6)
Tax on items that may be reclassified to the income statement		**–**	–
Total items that may be reclassified to the income statement		**(5.3)**	(1.6)
Other comprehensive income/(expense) for the period		**(6.6)**	(1.0)
Total comprehensive income/(expense) for the period attributable to equity shareholders of the Company		**(2.1)**	(4.6)

Statements of changes in equity
for 53 weeks ended 2 May 2015

Group	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 27 April 2013	0.7	16.6	(0.3)	0.1	7.0	41.2	65.3
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)
At 26 April 2014	**0.7**	**17.2**	**(0.3)**	**0.1**	**5.4**	**38.0**	**61.1**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**4.5**	**4.5**
Other comprehensive income/(expense) for the financial period	**–**	**–**	**–**	**–**	**(5.3)**	**(1.3)**	**(6.6)**
Total comprehensive income/(expense) for the financial period	**–**	**–**	**–**	**–**	**(5.3)**	**3.2**	**(2.1)**
Issue of new shares	**–**	**0.2**	**–**	**–**	**–**	**–**	**0.2**
Purchase of own shares by employee benefit trust	**–**	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Share based payments and related tax	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
At 2 May 2015	**0.7**	**17.4**	**(0.4)**	**0.1**	**0.1**	**41.6**	**59.5**

Company	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 27 April 2013	0.7	16.6	(0.3)	0.1	(0.4)	25.9	42.6
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)
At 26 April 2014	**0.7**	**17.2**	**(0.3)**	**0.1**	**(0.7)**	**26.6**	**43.6**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**3.6**	**3.6**
Other comprehensive income/(expense) for the financial period	**–**	**–**	**–**	**–**	**0.3**	**(1.3)**	**(1.0)**
Total comprehensive income/(expense) for the financial period	**–**	**–**	**–**	**–**	**0.3**	**2.3**	**2.6**
Issue of new shares	**–**	**0.2**	**–**	**–**	**–**	**–**	**0.2**
Purchase of own shares by employee benefit trust	**–**	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Share based payments and related tax	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
At 2 May 2015	**0.7**	**17.4**	**(0.4)**	**0.1**	**(0.4)**	**29.3**	**46.7**

Balance sheets
as at 2 May 2015

	Notes	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Assets					
Non-current assets					
Intangible assets	10	**56.1**	58.6	**29.4**	29.7
Property, plant and equipment	11	**94.6**	103.6	**63.4**	70.1
Investment property	12	**17.9**	19.6	**8.5**	7.3
Investment in subsidiary undertakings	13	**–**	–	**15.7**	16.1
Deferred tax assets	21	**2.2**	2.9	**–**	–
Trade and other receivables	15	**0.6**	0.7	**45.7**	47.2
Total non-current assets		**171.4**	185.4	**162.7**	170.4
Current assets					
Inventories	14	**34.1**	33.9	**28.4**	27.4
Trade and other receivables	15	**25.2**	19.8	**20.7**	14.6
Cash and cash equivalents	16	**7.3**	6.3	**5.2**	4.3
Total current assets		**66.6**	60.0	**54.3**	46.3
Total assets	2	**238.0**	245.4	**217.0**	216.7
Liabilities					
Current liabilities					
Trade and other payables	17	**(95.6)**	(89.3)	**(84.2)**	(77.9)
Obligations under finance leases	18	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Borrowings and overdrafts	19	**(4.4)**	(11.1)	**(4.4)**	(8.6)
Current tax liabilities		**(2.3)**	(4.2)	**(2.4)**	(3.8)
Total current liabilities		**(102.4)**	(104.7)	**(91.1)**	(90.4)
Non-current liabilities					
Trade and other payables	17	**(37.7)**	(38.6)	**(46.4)**	(48.2)
Obligations under finance leases	18	**(2.3)**	(2.4)	**(1.2)**	(1.3)
Borrowings	19	**–**	(3.8)	**–**	(3.8)
Provisions for liabilities and charges	20	**(16.9)**	(14.9)	**(16.4)**	(13.8)
Deferred tax liabilities	21	**(15.2)**	(16.6)	**(11.2)**	(12.3)
Retirement benefit obligations	22	**(4.0)**	(3.3)	**(4.0)**	(3.3)
Total non-current liabilities		**(76.1)**	(79.6)	**(79.2)**	(82.7)
Total liabilities	2	**(178.5)**	(184.3)	**(170.3)**	(173.1)
Net assets		**59.5**	61.1	**46.7**	43.6
Equity					
Share capital	24	**0.7**	0.7	**0.7**	0.7
Share premium	24	**17.4**	17.2	**17.4**	17.2
Treasury shares	24	**(0.4)**	(0.3)	**(0.4)**	(0.3)
Other reserves		**41.8**	43.5	**29.0**	26.0
Total equity attributable to equity shareholders of the Company		**59.5**	61.1	**46.7**	43.6

These financial statements from pages 54 to 88 were approved by the Board of Directors on 29 June 2015 and were signed on its behalf by:

Wilf Walsh Neil Page
Directors

Statements of cash flow
for 53 weeks ended 2 May 2015

	Notes	Group 53 weeks to 2 May 2015 £m	Group 52 weeks to 26 April 2014 £m	Company 53 weeks to 2 May 2015 £m	Company 52 weeks to 26 April 2014 £m
Cash flows from operating activities					
Profit/(loss) before tax		**6.6**	(7.2)	**4.9**	(1.6)
Adjusted for:					
Depreciation and amortisation	2,3	**13.6**	13.9	**11.3**	11.4
Loss/(gain) on property disposals		**0.4**	1.6	**(0.5)**	1.6
Exceptional non-cash items		**7.2**	10.1	**7.2**	6.1
Share based compensation and other non-cash items		**0.4**	0.1	**0.4**	0.1
Net finance costs	6	**1.6**	2.3	**1.4**	2.1
Operating cash flows before movements in working capital		**29.8**	20.8	**24.7**	19.7
(Increase)/decrease in inventories		**(1.0)**	3.5	**(1.0)**	2.8
(Increase)/decrease in trade and other receivables		**(5.7)**	(0.3)	**(4.5)**	(1.3)
Increase/(decrease) in trade and other payables		**4.5**	(7.8)	**4.5**	(7.7)
Provisions paid		**(4.6)**	(4.9)	**(3.9)**	(4.8)
Cash generated by operations		**23.0**	11.3	**19.8**	8.7
Interest paid		**(1.6)**	(1.4)	**(1.6)**	(1.4)
Corporation taxes paid		**(4.4)**	(0.7)	**(4.4)**	(1.5)
Net cash generated from operating activities		**17.0**	9.2	**13.8**	5.8
Cash flows from investing activities					
Purchases of intangible assets		**(1.7)**	(0.2)	**(1.7)**	(0.2)
Purchases of property, plant and equipment and investment property		**(7.1)**	(10.6)	**(5.8)**	(9.1)
Proceeds on disposal of property, plant, equipment & investment property		**3.1**	0.6	**2.2**	0.2
Interest received		**–**	–	**0.2**	0.2
Net cash generated from/(used) in investing activities		**(5.7)**	(10.2)	**(5.1)**	(8.9)
Cash flows from financing activities					
Issue of new shares		**0.2**	0.6	**0.2**	0.6
Purchase of treasury shares by employee benefit trust		**(0.1)**	–	**(0.1)**	–
Movement in borrowings	29	**(4.1)**	0.1	**(4.1)**	0.1
Net cash used in financing activities		**(4.0)**	0.7	**(4.0)**	0.7
Net increase/(decrease) in cash and cash equivalents in the period	29	**7.3**	(0.3)	**4.7**	(2.4)
Cash and cash equivalents at the beginning of the period		**(4.5)**	(4.1)	**(4.0)**	(1.4)
Exchange differences		**0.1**	(0.1)	**0.1**	(0.2)
Cash and cash equivalents at the end of the period	16	**2.9**	(4.5)	**0.8**	(4.0)

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.

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 periods 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 3 to 4 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 period for 2015 represents the 53 weeks ended 2 May 2015. The comparative financial period for 2014 was 52 weeks ended 26 April 2014.

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 £3.6m (2014: profit of £0.3m).

New and amended accounting standards

The following new standards and amendments to standards, which are mandatory for the first time in the financial period beginning 27 April 2014, are relevant for the Group but have not had a material impact in the current financial period:

- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after 1 January 2014);
- IFRS 12 'Disclosures of interest in other entities' (effective for periods beginning on or after 1 January 2014);
- IFRS 10 and 12 (amendments) effective for periods beginning on or after 1 January 2014;
- IAS 27 (revised) 'Consolidated and separate financial statements' (effective for periods beginning on or after 1 January 2014);
- 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); and
- IAS 36 (amendment) 'Impairment of assets' recoverable amount disclosure of non financial assets (effective for periods beginning on or after 1 January 2014). 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.

At 2 May 2015, 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 15 'Revenue from contracts with customers' (effective for periods beginning on or after 1 January 2017);
- IAS 1 (amendment) 'Presentation of financial statements' – disclosure initiative (effective for periods beginning on or after 1 January 2016);
- IAS 16 (amendment) 'Property, plant and equipment' – pertaining to the acceptable methods of depreciation and amortisation (effective for periods beginning on or after 1 January 2016);
- IAS 19 (amendment) 'Employee benefits' – clarification for accounting of employee and third party contributions (effective for periods beginning on or after 1 February 2015); and
- The '2012 and 2013 Improvement projects' (effective from 1 February 2015).

Basis of consolidation

The consolidated financial statements include the Company and its subsidiary undertakings. Subsidiaries are all entities over which the Company has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

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 in other comprehensive income. 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 and are recognised in other comprehensive income.

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, charges for the provision of interest free credit 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.

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.

Treasury shares

Own equity instruments that are reacquired (Treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

Notes to the financial statements continued

1. Principal accounting policies continued

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and it is the intention to settle these on a net basis.

Tax is charged or credited directly to other comprehensive income 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.

1. Principal accounting policies continued

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	3 to 15 years, except for fixed racking which is depreciated over 25 years
Computers	5 to 7 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 for 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.

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

Rebates earned by the Group take the form of volume based rebates, for attaining specific purchase targets, with individual suppliers. These agreements normally cover the financial period. Agreements that cover more than one financial period are recognised in the period in which the rebate is earned and are credited to the carrying value of inventory to which they relate.

The Group also receives discounts/rebates from certain suppliers for one off, targeted marketing and promotional events. These rebates are recognised in the period in which the promotional activity is held.

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.

A provision for vacant properties and onerous leases is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment losses on the assets associated with that contract.

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 other comprehensive income.

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 period 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. 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.

Rebates

The Group receives income from suppliers by way of both a discount, irrespective of the volume of products purchased, which are pre-negotiated and deducted from the value of each invoice from the supplier, and volume-driven rebates. Judgments are made in respect of the latter where volume-driven rebate arrangements span the end of a reporting period. Rebates are accrued based upon management judgment as to the extent to which turnover targets will be met which determine rebates to be earned on those deals.

Onerous leases

The Group carries an onerous lease provision which recognises the liabilities associated with 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. The Group has further reviewed any trading loss making stores and provided for those leases considered to be onerous. These estimates are based upon available information and knowledge of the property market. The ultimate costs to be incurred in this regard may vary from the estimates.

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.

Notes to the financial statements continued

2. Segmental analysis

The Group's operating segments are determined on the basis of information provided to the Chief Operating Decision maker – the Board of Directors – to review performance and make decisions. The reporting segments are:

– UK; and

– Rest of Europe (comprising Belgium, the Netherlands and Republic of Ireland).

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 53 weeks ended 2 May 2015 is as follows:

	53 weeks to 2 May 2015			52 weeks to 26 April 2014		
	UK £m	**Europe £m**	**Group £m**	UK £m	Europe £m	Group £m
Gross revenue	**409.1**	**66.6**	**475.7**	379.5	71.9	451.4
Inter-segment revenue	**(5.9)**	**–**	**(5.9)**	(3.7)	–	(3.7)
Revenues from external customers	**403.2**	**66.6**	**469.8**	375.8	71.9	447.7
Gross profit	**247.6**	**39.6**	**287.2**	235.1	40.8	275.9
Underlying operating profit/(loss)	**15.5**	**0.3**	**15.8**	10.7	(3.8)	6.9
Exceptional items	**(4.9)**	**(2.7)**	**(7.6)**	(7.5)	(4.3)	(11.8)
Operating profit/(loss)	**10.6**	**(2.4)**	**8.2**	3.2	(8.1)	(4.9)
Intercompany interest	**(0.1)**	**0.1**	**–**	(0.1)	0.1	–
Finance costs	**(1.5)**	**(0.1)**	**(1.6)**	(2.2)	(0.1)	(2.3)
Profit/(loss) before tax	**9.0**	**(2.4)**	**6.6**	0.9	(8.1)	(7.2)
Tax	**(2.4)**	**0.3**	**(2.1)**	1.8	1.8	3.6
Profit/(loss) for the financial period	**6.6**	**(2.1)**	**4.5**	2.7	(6.3)	(3.6)
Segment assets:						
Segment assets	**200.2**	**80.6**	**280.8**	197.3	91.0	288.3
Inter-segment balances	**(25.8)**	**(17.0)**	**(42.8)**	(24.0)	(18.9)	(42.9)
Balance sheet total assets	**174.4**	**63.6**	**238.0**	173.3	72.1	245.4
Segment liabilities:						
Segment liabilities	**(175.6)**	**(45.7)**	**(221.3)**	(180.4)	(46.8)	(227.2)
Inter-segment balances	**17.0**	**25.8**	**42.8**	18.9	24.0	42.9
Balance sheet total liabilities	**(158.6)**	**(19.9)**	**(178.5)**	(161.5)	(22.8)	(184.3)
Other segmental items:						
Depreciation and amortisation	**11.5**	**2.1**	**13.6**	11.6	2.3	13.9
Additions to non-current assets	**7.1**	**1.4**	**8.5**	9.1	1.6	10.7

Carpetright plc is domiciled in the UK. The Group's revenue from external customers in the UK is £403.2m (2014: £375.8m) and the total revenue from external customers from other countries is £66.6m (2014: £71.9m). The total of non-current assets (other than financial instruments and deferred tax assets) located in the UK is £147.4m (2014: £151.8m) and the total of those located in other countries is £64.6m (2014: £73.6m).

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

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

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

	Notes	Group 2015 £m	Group 2014 £m
Rental income earned on investment property		**(2.0)**	(1.7)
Cost of inventories recognised as an expense in cost of sales		**157.2**	150.2
Operating lease rentals:			
Lease payments in respect of land and buildings		**89.0**	88.4
Lease payments in respect of plant and machinery		**1.5**	1.5
Other lease items (lease incentives and rent free credits)		**(3.5)**	(3.3)
Sublease rental income		**(1.1)**	(1.3)
Auditors' remuneration:			
Audit of the Parent Company's consolidated financial statements		**0.2**	0.2
Audit of the subsidiary companies' financial statements		**0.1**	0.1
Non audit fees		**–**	–
Staff costs	4	**102.0**	99.1
Impairment of non-current assets	5	**0.2**	2.4
Amortisation of intangible assets	10	**1.9**	1.8
Depreciation of property, plant and equipment:			
Owned assets	11	**11.3**	11.7
Under finance leases	11	**0.1**	0.1
Depreciation of investment property	12	**0.3**	0.3

Non audit fees in the period were £30k (2014: Nil) these fees are explained on page 29 of the Audit Committee report.

4. Staff costs

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

	Group 2015 Number	Group 2014 Number	Company 2015 Number	Company 2014 Number
Stores	**2,603**	2,630	**2,172**	2,175
Store support office and distribution centre	**389**	389	**343**	336
	2,992	3,019	**2,515**	2,511

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

	Notes	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Wages and salaries (including short-term employee benefits)		**89.3**	87.3	**75.2**	71.1
Social security costs		**10.0**	9.7	**7.2**	6.8
Post-employment benefits – defined contribution		**2.3**	2.3	**1.3**	1.1
Share based payments	25	**0.4**	(0.2)	**0.4**	(0.2)
		102.0	99.1	**84.1**	78.8

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.

Notes to the financial statements continued

4. Staff costs continued

The employment costs of key management[1] were as follows:

	Group 2015 £m	Group 2014 £m
Short-term employee benefits (including salary and social security)	**3.5**	2.5
Termination payments	**–**	0.3
Post employment benefits	**0.3**	0.3
Share based payments	**0.3**	(0.4)
	4.1	2.7

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

Following the strategic review, we have updated the definition of which members of senior management are considered key management and who are involved in the planning, directing or controlling Group activities. The prior year numbers have been amended accordingly so as to allow for meaningful comparison.

During the period, the Executive Directors realised no gains (2014: 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 31 to 48.

5. Exceptional items

	Notes	Group 2015 £m	Group 2014 £m
Property profits/(losses)		**(0.4)**	(1.6)
Onerous lease provision	20	**(7.0)**	(6.6)
Impairment charge:			
Store assets	11	**(0.2)**	(0.5)
Freehold properties	11,12	**–**	(1.9)
European office restructuring		**–**	(1.2)
Pre tax exceptional items		**(7.6)**	(11.8)

The Group has undertaken a review of the onerous lease provisions recognised in prior periods for stores that have ceased to trade and made a revised assessment for the unavoidable onerous lease costs for loss-making stores, resulting in a charge of £7.0m in the period (2014: £6.6m charge).

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 in November 2014. These valuations, along with value in use calculations, have not resulted in an impairment in the current period. In the prior period there was a charge of £2.6m for freehold properties in the Netherlands and a release of £0.7m in the UK was recognised. In determining whether impairment triggers existed at the period end, the Directors treated each store as a separate cash generating units (CGU) and valued it at the higher of the value in use calculations or the market value of the properties and their assets.

6. Finance costs

	Notes	Group 2015 £m	Group 2014 £m
Interest on borrowings and overdrafts		**(0.9)**	(1.1)
Fees amortisation		**(0.4)**	(0.7)
Interest on obligations under finance leases		**(0.1)**	(0.1)
Net interest on pension scheme obligations	22	**(0.2)**	(0.2)
Other interest payable		**–**	(0.2)
Finance costs		**(1.6)**	(2.3)

7. Tax

(i) Analysis of the charge in the period

	Notes	Group 2015 £m	Group 2014 £m
UK current tax		**2.1**	1.3
Adjustment for prior years		**0.1**	–
Overseas current tax		**–**	(0.2)
Total current tax		**2.2**	1.1
UK deferred tax		**(0.7)**	(3.1)
Overseas deferred tax		**0.6**	(1.6)
Total deferred tax	21	**(0.1)**	(4.7)
Total tax charge/(credit) in the income statement		**2.1**	(3.6)

The main rate of corporation tax decreased to 21% from 1 April 2014 and will further decrease to 20% from 1 April 2015. Deferred tax balances are measured using the tax rates in effect in the period in which the deferred tax balances are expected to reverse. This resulted in a tax credit of £2.7m in the prior period. There was no material impact in the current period.

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

	Group 2015 £m	Group 2014 £m
Profit/(loss) before tax	**6.6**	(7.2)
Tax charge/(credit) at UK corporation tax rate of 21% (2014: 23%)	**1.4**	(1.6)
Adjusted for the effects of:		
Overseas tax rates	**0.2**	(0.2)
Deferred tax impact of fall in UK tax rates	**–**	(2.7)
Non-qualifying depreciation	**0.5**	0.5
Other permanent differences	**(0.1)**	0.2
Adjustments in respect of prior periods	**0.1**	0.2
Total tax charge/(credit) in the income statement	**2.1**	(3.6)

The weighted average annual effective tax rate for the period is a charge of 31.3% (2014: credit of 52.0%). The increase is due to current period profitability, one off credits recognised in the prior period not repeated, as well as the constant level of permanently disallowed expenditure.

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

	Group 2015 £m	Group 2014 £m
Deferred tax on actuarial losses recognised in other comprehensive income	**0.1**	(0.5)
Deferred tax on share based payments	**(0.1)**	–
Total tax recognised in equity	**–**	(0.5)

8. Dividends

The Directors decided that no final dividend will be paid (2014: No final dividend paid). This results in no dividend in the period to 2 May 2015 (2014: 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.

	53 weeks to 2 May 2015			52 weeks to 26 April 2014		
	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
Basic earnings/(losses) per share	4.5	67.7	6.7	(3.6)	67.6	(5.3)
Effect of dilutive share options	–	0.4	–	–	0.4	–
Diluted earnings/(losses) per share	4.5	68.1	6.7	(3.6)	68.0	(5.3)

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

	53 weeks to 2 May 2015			52 weeks to 26 April 2014		
	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
Basic earnings/(losses) per share	4.5	67.7	6.7	(3.6)	67.6	(5.3)
Adjusted for the effect of exceptional items:						
Exceptional items	7.6	–	11.1	11.8	–	17.4
Tax thereon	(1.6)	–	(2.3)	(2.3)	–	(3.4)
Exceptional tax benefit from tax rate change	–	–	–	(2.7)	–	(4.0)
Underlying earnings/(losses) per share	10.5	67.7	15.5	3.2	67.6	4.7

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
Cost:				
At 27 April 2013	53.9	24.8	0.1	78.8
Exchange differences	(0.3)	(0.2)	–	(0.5)
Additions	–	0.2	–	0.2
Disposals	–	(0.4)	–	(0.4)
At 26 April 2014	**53.6**	**24.4**	**0.1**	**78.1**
Exchange differences	**(2.3)**	**0.1**	**–**	**(2.2)**
Additions	**–**	**1.6**	**–**	**1.6**
Disposals	**–**	**(5.3)**	**–**	**(5.3)**
At 2 May 2015	**51.3**	**20.8**	**0.1**	**72.2**
Accumulated amortisation and impairment:				
At 27 April 2013	0.5	17.4	0.1	18.0
Exchange differences	–	0.1	–	0.1
Amortisation	–	1.8	–	1.8
Disposals	–	(0.4)	–	(0.4)
At 26 April 2014	**0.5**	**18.9**	**0.1**	**19.5**
Exchange differences	**–**	**–**	**–**	**–**
Amortisation	**–**	**1.9**	**–**	**1.9**
Disposals	**–**	**(5.3)**	**–**	**(5.3)**
At 2 May 2015	**0.5**	**15.5**	**0.1**	**16.1**
Net book value:				
At 2 May 2015	**50.8**	**5.3**	**–**	**56.1**
At 26 April 2014	53.1	5.5	–	58.6

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	2015 £m	2014 £m
Carpetland BV	October 2002	**16.8**	18.7
Ben de Graaff	July 2008	**4.2**	4.6
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
Sleepright UK Ltd	December 2008	**2.9**	2.9
Total goodwill		**50.8**	53.1

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

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 Goodwill allocated to each CGU is £29.8m to UK and £21.0m to Europe. 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 and Europe, stable gross margin percentage and anticipated cost inflation;
- the pre-tax discount rate of 7.8% (2014: 8.0%) 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 £50.5m. A fall in long-term growth rate to -7.8% from 2.0%, or a rise in the discount rate to 14.0% from 7.8% would remove the remaining headroom.

Company	Goodwill £m	Computer software £m	Brands £m	Total £m
Cost:				
At 27 April 2013	24.1	24.8	0.1	49.0
Exchange difference	–	(0.1)	–	(0.1)
Additions	–	0.2	–	0.2
Disposals	–	(0.4)	–	(0.4)
At 26 April 2014	**24.1**	**24.5**	**0.1**	**48.7**
Exchange difference	**–**	**–**	**–**	**–**
Additions	**–**	**1.6**	**–**	**1.6**
Disposals	**–**	**(5.3)**	**–**	**(5.3)**
At 2 May 2015	**24.1**	**20.8**	**0.1**	**45.0**
Accumulated amortisation and impairment:				
At 27 April 2013	–	17.5	0.1	17.6
Amortisation	–	1.8	–	1.8
Disposals	–	(0.4)	–	(0.4)
At 26 April 2014	**–**	**18.9**	**0.1**	**19.0**
Amortisation	**–**	**1.9**	**–**	**1.9**
Disposals	**–**	**(5.3)**	**–**	**(5.3)**
At 2 May 2015	**–**	**15.5**	**0.1**	**15.6**
Net book value:				
At 2 May 2015	**24.1**	**5.3**	**–**	**29.4**
At 26 April 2014	24.1	5.6	–	29.7

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
Cost:						
At 27 April 2013	52.5	17.4	18.9	95.2	41.7	225.7
Exchange differences	(0.5)	–	(0.1)	(0.4)	(0.4)	(1.4)
Additions	–	–	0.3	8.3	1.9	10.5
Transfer between asset classes	–	–	–	(0.2)	0.2	–
Disposals	(1.0)	(0.1)	(0.6)	(6.7)	(0.4)	(8.8)
At 26 April 2014	**51.0**	**17.3**	**18.5**	**96.2**	**43.0**	**226.0**
Exchange differences	**(2.3)**	**(0.1)**	**(0.2)**	**(1.4)**	**(3.3)**	**(7.3)**
Additions	**–**	**0.3**	**0.4**	**4.8**	**1.4**	**6.9**
Transfer to investment property	**(3.0)**	**–**	**–**	**–**	**–**	**(3.0)**
Transfer between asset classes	**(0.9)**	**0.1**	**–**	**1.7**	**(1.1)**	**(0.2)**
Disposals	**(0.8)**	**–**	**(0.5)**	**(7.9)**	**(2.3)**	**(11.5)**
At 2 May 2015	**44.0**	**17.6**	**18.2**	**93.4**	**37.7**	**210.9**
Accumulated depreciation and impairment:						
At 27 April 2013	10.2	4.9	11.2	55.8	35.0	117.1
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)
At 26 April 2014	**11.8**	**5.1**	**11.6**	**56.9**	**37.0**	**122.4**
Exchange differences	**(0.9)**	**0.1**	**(0.2)**	**(1.3)**	**(2.6)**	**(4.9)**
Impairment	**–**	**–**	**–**	**0.2**	**–**	**0.2**
Depreciation	**0.8**	**0.4**	**0.9**	**7.6**	**1.7**	**11.4**
Transfer to investment property	**(2.4)**	**–**	**–**	**–**	**–**	**(2.4)**
Transfer between asset classes	**(0.3)**	**0.1**	**–**	**1.3**	**(1.3)**	**(0.2)**
Disposals	**(0.1)**	**–**	**(0.5)**	**(7.4)**	**(2.2)**	**(10.2)**
At 2 May 2015	**8.9**	**5.7**	**11.8**	**57.3**	**32.6**	**116.3**
Net book value:						
At 2 May 2015	**35.1**	**11.9**	**6.4**	**36.1**	**5.1**	**94.6**
At 26 April 2014	39.2	12.2	6.9	39.3	6.0	103.6

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 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cost	**9.1**	9.1	**2.3**	2.3
Accumulated depreciation and impairment	**(3.1)**	(2.9)	**(1.6)**	(1.6)
Net book value	**6.0**	6.2	**0.7**	0.7

The assets held under finance leases comprise buildings.

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
Cost:						
At 27 April 2013	20.0	10.0	18.9	84.3	13.9	147.1
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)
At 26 April 2014	**20.0**	**9.9**	**18.5**	**86.0**	**13.8**	**148.2**
Exchange differences	**–**	**–**	**(0.2)**	**(0.3)**	**–**	**(0.5)**
Additions	**–**	**–**	**0.4**	**4.7**	**0.4**	**5.5**
Transfer to investment property	**(1.3)**	**–**	**–**	**–**	**–**	**(1.3)**
Transfer to subsidiary	**(0.4)**	**–**	**–**	**–**	**–**	**(0.4)**
Disposals	**(0.5)**	**–**	**(0.5)**	**(7.0)**	**(1.2)**	**(9.2)**
At 2 May 2015	**17.8**	**9.9**	**18.2**	**83.4**	**13.0**	**142.3**
Accumulated depreciation and impairment:						
At 27 April 2013	4.1	3.3	11.4	45.8	12.1	76.7
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)
At 26 April 2014	**3.7**	**3.4**	**11.5**	**46.9**	**12.6**	**78.1**
Exchange differences	**–**	**–**	**(0.2)**	**(0.3)**	**–**	**(0.5)**
Impairment	**–**	**–**	**0.1**	**0.2**	**–**	**0.3**
Depreciation	**0.3**	**0.2**	**0.9**	**7.3**	**0.6**	**9.3**
Transfer to investment property	**–**	**–**	**–**	**–**	**–**	**–**
Transfer to subsidiary	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**(0.1)**	**–**	**(0.5)**	**(6.5)**	**(1.2)**	**(8.3)**
At 2 May 2015	**3.9**	**3.6**	**11.8**	**47.6**	**12.0**	**78.9**
Net book value:						
At 2 May 2015	**13.9**	**6.3**	**6.4**	**35.8**	**1.0**	**63.4**
At 26 April 2014	16.3	6.5	7.0	39.1	1.2	70.1

12. Investment property

Investment property is carried at depreciated historical cost. Investment property is reviewed for impairment when there is an indication of impairment. The recoverable amount is the higher of fair value less costs to sell and the value in use calculations. The value in use calculations are based on five year profit projection models and plans approved by the Board and have not resulted in a impairment in the period. Investment property was independently valued in November 2014 and would not be materially different at the period end.

Operating expenses attributable to investment properties are incurred directly by tenants under tenant-repairing leases.

	Group £m	Company £m
Cost:		
At 27 April 2013	22.8	7.8
Exchange differences	(0.4)	–
At 26 April 2014	**22.4**	**7.8**
Exchange differences	**(1.5)**	**–**
Transfer from property, plant and equipment	**3.0**	**1.3**
Disposals	**(1.1)**	**–**
At 2 May 2015	**22.8**	**9.1**
Accumulated depreciation and impairment:		
At 27 April 2013	2.6	0.4
Exchange differences	(0.1)	0.1
Impairment	–	–
Depreciation	0.3	–
At 26 April 2014	**2.8**	**0.5**
Exchange differences	**(0.1)**	**–**
Depreciation	**0.3**	**0.1**
Transfer from property, plant and equipment	**2.4**	**–**
Disposals	**(0.5)**	**–**
At 2 May 2015	**4.9**	**0.6**
Net book value:		
At 2 May 2015	**17.9**	**8.5**
At 26 April 2014	19.6	7.3

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	**2015 £m**	2014 £m
Cost:		
At the beginning of the period	**16.1**	16.1
Exchange differences	**(0.1)**	–
Impairment of investment in Pluto Sp. Z.o.o.	**(0.3)**	–
At the end of the period	**15.7**	16.1

The cost of investments before impairments is £16.7m. As at 2 May 2015 accumulated impairments of £1.0m has been recognised against the investment in Pluto Sp. Z.o.o.

14. Inventories

Group and Company Inventories are held in the form of finished goods for resale. In the period, write down of stock to net realisable value was £0.6m (2014: Nil), this has resulted in a stock provision of £0.6m, (2014: £0.2m).

The Group reversed £0.2m of the write down provision 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 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Non-current:				
Receivables from subsidiaries	–	–	45.1	46.5
Prepayments and accrued income	0.6	0.7	0.6	0.7
	0.6	0.7	45.7	47.2
Current:				
Trade receivables	11.1	4.8	8.1	1.7
Less: provision for impairment	(0.4)	(0.4)	(0.4)	(0.4)
	10.7	4.4	7.7	1.3
Other receivables	1.6	3.5	1.1	3.0
Prepayments and accrued income	12.9	11.9	11.9	10.3
	25.2	19.8	20.7	14.6
Total trade and other receivables	25.8	20.5	66.4	61.8

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

Provision for impairment

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
At the beginning of the period	(0.4)	(0.4)	(0.4)	(0.4)
Receivables written off against the provision in the period	–	–	–	–
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 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Major insurance companies	1.3	2.6	0.8	2.1
Property rent receivables	0.3	0.8	0.3	0.8
Other receivables	–	0.1	–	0.1
Receivables from retail credit finance	5.9	–	5.9	–
Retail customers	4.8	4.4	1.8	1.3
Trade and other receivables	12.3	7.9	8.8	4.3

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 Group bears no credit risk in respect of amounts due from retail customers under finance credit arrangements.

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

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Neither past due nor impaired	1.1	2.5	0.6	2.0
30 to 60 days	0.3	0.3	0.3	0.3
60 to 90 days	–	–	–	–
Over 90 days	0.2	0.7	0.2	0.7
Non-retail trade and other receivables	1.6	3.5	1.1	3.0

Notes to the financial statements continued

16. Cash and cash equivalents

	Notes	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cash at bank and in hand		**7.3**	6.3	**5.2**	4.3
Bank overdrafts	19	**(4.4)**	(10.8)	**(4.4)**	(8.3)
Cash and cash equivalents in the cash flow statements		**2.9**	(4.5)	**0.8**	(4.0)

17. Trade and other payables

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Current:				
Trade payables	**55.7**	49.7	**49.4**	42.6
Other taxes and social security	**13.5**	11.8	**11.6**	9.4
Accruals and deferred income	**26.4**	27.8	**23.2**	25.9
	95.6	89.3	**84.2**	77.9
Non-current:				
Accruals and deferred income	**37.7**	38.6	**37.7**	38.6
Payable to subsidiaries	**–**	–	**8.7**	9.6
	37.7	38.6	**46.4**	48.2
Total trade and other payables	**133.3**	127.9	**130.6**	126.1

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 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £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	**1.1**	1.2	**0.8**	0.8	**0.5**	0.5	**0.5**	0.4
Amounts payable after five years	**4.2**	4.5	**0.9**	1.2	**1.8**	1.9	**0.7**	0.9
	5.6	6.0	**1.9**	2.2	**–**	–	**–**	–
Less: future finance charges	**(3.2)**	(3.5)	**(0.6)**	(0.8)	–	–	–	–
Present value of obligations under finance leases	**2.4**	2.5	**1.3**	1.4	**2.4**	2.5	**1.3**	1.4
Current	**0.1**	0.1	**0.1**	0.1				
Non-current	**2.3**	2.4	**1.2**	1.3				

The Group leases certain properties under finance leases. The average lease term remaining is 15 years (2014: 17 years). The 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 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Current:				
Bank overdraft	**4.4**	10.8	**4.4**	8.3
Bank loans	**–**	0.3	**–**	0.3
	4.4	11.1	**4.4**	8.6
Non-current:				
Bank loans	**–**	3.8	**–**	3.8
	4.4	14.9	**4.4**	12.4

Borrowing and overdrafts are denominated in Sterling and Euros of which £4.4m (2014: £12.4m) are secured on certain Group freehold properties.

The effective interest rates at the period end are as follows:	Group 2015 %	Group 2014 %	Company 2015 %	Company 2014 %
Overdrafts	**3.0**	2.6	**3.0**	2.8
Borrowings	**–**	2.8	**–**	2.8

The maturity profiles of borrowings are as follows:	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Amounts payable within one year	**4.4**	11.1	**4.4**	8.6
Amounts payable between one and two years	**–**	3.8	**–**	3.8
Amounts payable between two and five years	**–**	–	**–**	–
	4.4	14.9	**4.4**	12.4

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 2015 £m			Company 2015 £m		
Group and Company	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	**13.4**	**1.5**	**14.9**	**13.4**	**0.4**	**13.8**
Exchange differences	**(0.3)**	**(0.1)**	**(0.4)**	**(0.3)**	**–**	**(0.3)**
Added during the period	**7.0**	**–**	**7.0**	**6.8**	**–**	**6.8**
Utilised during the period	**(3.5)**	**(1.1)**	**(4.6)**	**(3.5)**	**(0.4)**	**(3.9)**
At the end of the period	**16.6**	**0.3**	**16.9**	**16.4**	**–**	**16.4**

The onerous lease provision relates to estimated future unavoidable lease costs in respect of closed, non-trading and loss-making stores. The provision is expected to be utilised over periods of up to 15 years. Further detail can be found in note 5.

The residual cost of £0.3m for the reorganisation provision recognised in the prior period is expected to be utilised over the next 12 months.

Notes to the financial statements continued

21. Deferred tax assets and liabilities

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Deferred tax assets	**(2.2)**	(2.9)	**–**	–
Deferred tax liabilities	**15.2**	16.6	**11.2**	12.3
Net deferred tax liabilities	**13.0**	13.7	**11.2**	12.3

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 27 April 2013	6.8	1.5	18.6	(1.0)	(3.5)	(0.1)	(1.0)	21.3
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)
At 26 April 2014	**5.8**	**1.5**	**12.8**	**(1.0)**	**(4.8)**	**(0.1)**	**(0.5)**	**13.7**
Exchange difference	**(0.3)**	**(0.1)**	**(0.1)**	**(0.1)**	**0.4**	**–**	**–**	**(0.2)**
Charge/(credit) to the income statement	**(0.3)**	**(0.1)**	**(0.1)**	**0.1**	**0.4**	**(0.1)**	**–**	**(0.1)**
Charge/(credit) to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**0.1**	**(0.1)**	**–**
Transferred to current tax	**–**	**–**	**(0.4)**	**–**	**–**	**–**	**–**	**(0.4)**
At 2 May 2015	**5.2**	**1.3**	**12.2**	**(1.0)**	**(4.0)**	**(0.1)**	**(0.6)**	**13.0**

Company	Accelerated tax depreciation	Fair value adjustments	Deferred capital gains	Short-term timing differences	Tax losses	Share based payments	Retirement benefit obligations	Total
At 27 April 2013	3.8	–	17.4	(1.2)	(0.7)	(0.1)	(1.0)	18.2
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)
At 26 April 2014	**2.8**	**–**	**11.7**	**(1.0)**	**(0.6)**	**(0.1)**	**(0.5)**	**12.3**
Charge/(credit) to the income statement	**(0.5)**	**–**	**(0.1)**	**–**	**–**	**(0.1)**	**–**	**(0.7)**
Charge/(credit) to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**0.1**	**(0.1)**	**–**
Transferred to current tax	**–**	**–**	**(0.4)**	**–**	**–**	**–**	**–**	**(0.4)**
At 2 May 2015	**2.3**	**–**	**11.2**	**(1.0)**	**(0.6)**	**(0.1)**	**(0.6)**	**11.2**

At the reporting date, the Group had unused tax losses of £14.1m (2014: £16.3m) which can be carried forward indefinitely and are available for offset against future profits. A deferred tax asset of £4.0m (2014: £4.8m) has been recognised in respect of these losses.

Deferred tax assets of £2.6m (2014: £2.5m) were available for offset against deferred tax liabilities of £17.8m (2014: £19.1m), hence the Group's deferred tax liabilities as at 2 May 2015 are £15.2m (2014: £16.6m).

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 credit method. The most recent actuarial review was at 6 April 2014 when the actuarial value of the assets represented 89% 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 period (2014: £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 2014 when the actuarial value of the assets represented 88% of the benefits accrued to members. A deficit reduction plan has been agreed with the Trustees under which £0.3m was paid in the period (2014: £0.3m).

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 period 2016.

The assets and liabilities of the schemes were valued on an IAS 19 basis at 2 May 2015 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:

	2015 £m	2014 £m
Present value of pension schemes' obligations	(30.8)	(26.3)
Fair value of pension schemes' assets	26.8	23.0
Total recognised in the balance sheet	(4.0)	(3.3)

	Notes	2015 £m	2014 £m
Net interest cost on pension schemes	6	0.2	0.2
Total recognised in the income statement		0.2	0.2

	2015 £m	2014 £m
Actuarial gains/(losses) on plan assets	2.7	0.8
Change in assumptions underlying present value of liabilities	(4.1)	0.3
Total recognised in the other comprehensive income statement	(1.4)	1.1

22. Retirement benefit obligations continued

2) Reconciliation of movement in net pension deficit:

	Defined benefit obligations		Fair value of assets		Net defined benefit obligations	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
At 26 April 2014	**(26.3)**	(26.8)	**23.0**	21.7	**(3.3)**	(5.1)
Interest income/(expense)	**(1.1)**	(1.1)	**0.9**	0.9	**(0.2)**	(0.2)
Re-measurements:						
Actuarial gains and losses from:						
Demographic	**(0.7)**	–	**–**	–	**(0.7)**	–
Financial assumptions	**(3.2)**	0.7	**–**	–	**(3.2)**	0.7
Experience adjustments	**(0.2)**	0.1	**–**	–	**(0.2)**	0.1
Return on plan assets excluding interest	**–**	–	**2.7**	0.3	**2.7**	0.3
Contributions:						
Employers	**–**	–	**0.9**	0.9	**0.9**	0.9
Payments from plan:						
Benefits paid	**0.7**	0.8	**(0.7)**	(0.8)	**–**	–
As at 2 May 2015	**(30.8)**	(26.3)	**26.8**	23.0	**(4.0)**	(3.3)

3) Fair value of scheme assets:

	2015 £m	2014 £m
Cash and cash equivalents	**0.2**	0.2
Equities	**12.4**	11.4
Government bonds	**7.4**	2.8
Property	**0.1**	0.3
Investment funds	**6.7**	8.3
Total	**26.8**	23.0

4) Key assumptions used:

	2015 %	2014 %
RPI inflation	**3.2**	3.4
Discount rate	**3.4**	4.2
CPI inflation	**2.4**	2.6

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 S2NXA table on a year of birth usage with CMI_2013 future improvements factors and a long-term rate of improvement of 1.25% (2014: S1NXA table on a year of birth usage with medium cohort future improvement factors with a minimum annual rate of future improvement of 1% pa). This results in the following life expectancies:

– male aged 65 now has life expectancy of 23 years, previously 22 years; and

– female aged 65 now has life expectancy of 25 years, previously 24 years.

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% on the Group's pension scheme obligations is shown below:

		2015 £m	2014 £m
Increase/(decrease) by 0.1%	Discount rate	**0.6**	0.5
Increase/(decrease) by 0.1%	RPI inflation or CPI inflation	**0.4**	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. The Group was also unable to obtain details concerning the future funding requirements, and it's participation level relative to the other participants. Contributions charged to the income statement amounted to £1.0m (2014: £1.1m) and expected contribution to this scheme for the financial period 2016 is £1.0m.

(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 £1.3m (2014: £1.1m).

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 (2014: £0.1m) and there were no contributions to industry collective schemes (2014: £0.1m).

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 reputable banks. 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:

Group	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 2 May 2015					
Interest bearing loans and borrowings	**–**	**–**	**–**	**–**	**–**
Finance leases	**0.3**	**0.3**	**0.8**	**4.2**	**5.6**
Trade and other payables	**84.5**	**–**	**–**	**–**	**84.5**
	84.8	**0.3**	**0.8**	**4.2**	**90.1**
At 26 April 2014					
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
	80.1	6.6	0.9	4.5	92.1
Company					
At 2 May 2015					
Interest bearing loans and borrowings	**–**	**–**	**–**	**–**	**–**
Finance leases	**0.2**	**0.2**	**0.6**	**0.9**	**1.9**
Trade and other payables	**85.7**	**–**	**–**	**–**	**85.7**
	85.9	**0.2**	**0.6**	**0.9**	**87.6**
At 26 April 2014					
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
	82.2	4.0	0.6	1.2	88.0

The Group has committed facilities to July 2019 comprising a £45.0m revolving credit facility. The Group also has uncommitted overdraft facilities of £7.5m which is renewable annually in June, €7.4m in the rest of Europe. The undrawn amounts on the committed facilities were £45.0m (2014: £43.5m). The undrawn amounts on the uncommitted facilities were £3.1m and €7.4m (2014: £1.7m and €4.4m).

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 16 of the Strategic report.

(c) Foreign exchange risk
Outside the UK, the Group operates in the Republic of Ireland, the Netherlands, Belgium and had 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 £0.2m lower (2014: £0.6m lower). At 2 May 2015, if Sterling had weakened/strengthened by 10% against the Euro, profit after tax for the period would have been £0.3m 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 2015	Euro 2014	**Zloty 2015**	Zloty 2014
Average rate	**1.28**	1.18	**5.38**	5.00
Closing rate	**1.36**	1.21	**5.51**	5.10

(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 2 May 2015 and 26 April 2014 respectively. Consequently, analysis relates to the situation at those dates and is not representative of the periods then ended.

Based on the Group's net debt position at the period end, a 1% change in interest rates would affect the Group's profit before tax by approximately £0.1m (2014: £0.1m).

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

	2015					2014				
	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	**–**	**1.9**	**–**	**2.6**	**4.5**	–	4.1	–	2.6	6.7
Euro	**–**	**4.7**	**–**	**3.6**	**8.3**	–	1.9	–	3.8	5.7
Zloty	**–**	**0.7**	**–**	**–**	**0.7**	–	0.3	–	–	0.3
Total financial assets	**–**	**7.3**	**–**	**6.2**	**13.5**	–	6.3	–	6.4	12.7
Sterling	**0.9**	**(4.4)**	**(2.2)**	**(76.1)**	**(82.7)**	1.2	(11.9)	(2.3)	(69.9)	(84.1)
Euro	**0.1**	**–**	**(0.1)**	**(8.4)**	**(8.5)**	0.7	(3.0)	(0.2)	(9.4)	(12.6)
Total financial liabilities		**(4.4)**	**(2.3)**	**(84.5)**	**(91.2)**		(14.9)	(2.5)	(79.3)	(96.7)

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 period and forecast free cash flow; and monitoring the level of the Group's financial and leasehold debt in the context of Group performance.

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	
	2015 Fair value £m	2014 Fair value £m	**2015 Fair value £m**	2014 Fair value £m
At cost:				
Cash and cash equivalents	**7.3**	6.3	**5.2**	4.3
Loans and receivables at amortised cost:				
Trade and other receivables	**6.2**	6.4	**48.1**	49.2
Total financial assets	**13.5**	12.7	**53.3**	53.5
Financial liabilities at amortised cost:				
Borrowings and overdrafts	**(4.4)**	(14.9)	**(4.4)**	(12.4)
Finance lease obligations	**(2.3)**	(2.5)	**(1.3)**	(1.4)
Financial liabilities at cost:				
Trade and other payables	**(84.5)**	(79.3)	**(85.7)**	(81.5)
Total financial liabilities	**(91.2)**	(96.7)	**(91.4)**	(95.3)
Net financial liabilities	**(77.7)**	(84.0)	**(38.1)**	(41.8)

(iii) Hedge accounting

Net investment hedges

Euro-denominated facilities 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 Group repaid its borrowing in full during the period. The carrying value of borrowings in the prior period was €0.7m.

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 27 April 2013	67.5	0.7	16.6	(0.3)	17.0
Issue of new shares	0.2	–	0.6	–	0.6
At 26 April 2014	**67.7**	**0.7**	**17.2**	**(0.3)**	**17.6**
Issue of new shares	**0.1**	**–**	**0.2**	**–**	**0.2**
Purchase of own shares – employee benefit trust	**–**	**–**	**–**	**(0.1)**	**(0.1)**
At 2 May 2015	**67.8**	**0.7**	**17.4**	**(0.4)**	**17.7**

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. During the period, the Trust purchased 23,571 ordinary shares (2014: nil shares purchased). At the period end, the Trust held 51,440 (2014: 27,869) ordinary shares of 1p each with a market value of £0.2m (2014: £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 charge of £0.4m (2014: credit of £0.2m) 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 43 to 46 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 432,953 shares were granted (2014: 387,307). The amount recognised in the income statement in respect of all LTIP awards is a charge of £0.3m (2014: credit of £0.4m). 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 2 May

	LTIP July 2014		LTIP Jan 2014		LTIP 2012		LTIP 2011	
	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m
Outstanding at 27 April 2013	–	–	–	–	314.3	2.0	405.0	1.8
Granted	–	–	387.3	2.0	–	–	–	–
Forfeited	–	–	–	–	(141.6)	(0.9)	(193.7)	(0.9)
Outstanding at 26 April 2014	**–**	**–**	**387.3**	**2.0**	**172.7**	**1.1**	**211.3**	**0.9**
Granted	**432.9**	**2.3**	**–**	**–**	**–**	**–**	**–**	**–**
Forfeited	**(34.3)**	**(0.2)**	**(84.8)**	**(0.9)**	**(141.6)**	**(0.4)**	**–**	**–**
Expired/lapsed	**–**	**–**	**–**	**–**	**–**	**–**	**(211.3)**	**(0.9)**
Outstanding at 2 May 2015	**398.6**	**2.1**	**302.5**	**1.1**	**31.1**	**0.7**	**–**	**–**
Exercisable at 2 May 2015	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exercisable at 26 April 2014	–	–	–	–	–	–	–	–

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

Valuation assumptions	LTIP July 2014 award	LTIP Jan 2014 award	LTIP 2012 award	LTIP 2011 award
Fair value per share (pence)	524	504	641	459
Share price at grant (pence)	526	505	664	486
Exercise price (pence)	1.0	0.0	1.0	1.0
Expected volatility (%)[1]	33.4	35.1	35.9	39.7
Vesting period (years)	3.0	3.0	3.0	3.0
Dividend yield (%)	0.0	0.0	1.1	1.8
Risk free interest rate (%)	1.5	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")

The Group operates three and five year SAYE schemes. Employees and Executive Directors are invited to subscribe for options over shares in the Company at a 20% discount to market price. 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 £500 (2014: £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 £0.1m (2014: £0.2m).

25. Share based payments continued

Reconciliation of movements in the periods ended 2 May 2015

	SAYE 2015		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	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
Outstanding at 27 April 2013	–	–	–	–	99.7	17.0	214.8	36.1	35.1	13.0	4.3	225.3
Granted	–	–	267.7	80.3	–	–	–	–	–	–	–	–
Forfeited	–	–	–	–	(39.6)	(6.4)	(35.5)	–	–	(5.6)	(0.2)	(4.8)
Vested	–	–	–	–	–	–	(1.4)	–	–	–	–	(183.8)
Outstanding at 26 April 2014	–	–	267.7	80.3	60.1	10.6	177.9	36.1	35.1	7.4	4.1	36.7
Granted	757.8	158.8	–	–	–	–	–	–	–	–	–	–
Forfeited	–	–	(139.5)	(55.5)	(26.1)	(2.0)	(43.0)	(27.8)	(35.1)	(1.3)	(0.4)	(2.2)
Vested	–	–	–	(0.1)	–	–	(26.7)	–	–	–	–	(34.5)
Outstanding at 2 May 2015	757.8	158.8	128.2	24.7	34.0	8.6	108.2	8.3	–	6.1	3.7	–
Exercisable at 2 May 2015	–	–	–	–	–	–	108.2	–	–	–	3.7	–
Exercisable at 26 April 2014	–	–	–	–	–	–	–	–	35.1	–	–	36.7

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

	SAYE 2015		SAYE 2014		SAYE 2013		SAYE 2012		SAYE 2011		SAYE 2010	
Valuation assumptions	3yr	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)	148	184	165	201	248	339	179	231	264	298	333	331
Share price at grant (pence)	446	446	505	505	679	679	529	529	792	792	941	941
Exercise price (pence)	347	347	404	404	544	544	423	423	634	634	753	753
Expected volatility (%)[1]	31.5	34.8	33.7	34.8	34.7	39.1	40.0	44.1	41.6	39.9	47.4	38.7
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
Risk free interest rate (%)	0.7	1.0	0.3	0.8	2.9	4.9	2.9	2.9	1.6	2.4	3.1	3.1
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")

Carpetright operated an Employee Share Ownership Plan under which employees could contribute up to £125 per month from pre-tax salary to purchase Carpetright shares. The scheme was closed on 12 January 2015 as there were fewer than 50 active participants. 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 2 May 2015 contracted for but not yet incurred are:

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Property plant and equipment	0.4	–	0.4	–

27. Operating lease commitments

At 2 May 2015, the future minimum lease payments in respect of land and buildings and other assets under operating leases are:

	2015		2014	
Group	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	85.7	1.2	88.2	1.1
Amounts payable between one and five years	302.6	3.1	312.1	4.0
Amounts payable after five years	290.8	0.1	354.4	0.5
	679.1	4.4	754.7	5.6

	2015		2014	
Company	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	79.2	1.1	79.7	1.1
Amounts payable between one and five years	290.5	2.8	296.2	3.4
Amounts payable after five years	290.1	0.1	352.4	0.5
	659.8	4.0	728.3	5.0

Operating lease payments are negotiated for an average of 5.1 years (2014: 6.1 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 £10.2m (2014: £4.5m).

28. Contingent liabilities

The Group has no material contingent liabilities at 2 May 2015.

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

Notes to the financial statements continued

29. Movement in net cash/(debt)

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Current assets:				
Cash and cash equivalents	**7.3**	6.3	**5.2**	4.3
	7.3	6.3	**5.2**	4.3
Current liabilities:				
Bank overdrafts	**(4.4)**	(10.8)	**(4.4)**	(8.3)
Bank borrowings	**–**	(0.3)	**–**	(0.2)
Obligations under finance leases	**(0.1)**	(0.1)	**(0.1)**	(0.1)
	(4.5)	(11.2)	**(4.5)**	(8.6)
Non-current liabilities:				
Borrowings	**–**	(3.8)	**–**	(3.8)
Obligations under finance leases	**(2.3)**	(2.4)	**(1.2)**	(1.3)
	(2.3)	(6.2)	**(1.2)**	(5.1)
Total net cash/(debt)	**0.5**	(11.1)	**(0.5)**	(9.4)

Reconciliation of movements in the periods ended 2 May 2015

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Net increase/(decrease) in cash and cash equivalents	**7.4**	(0.3)	**4.8**	(2.4)
Net (increase)/decrease in borrowings	**4.1**	0.1	**4.1**	0.1
Other non cash movements	**0.1**	(0.7)	**–**	(0.5)
	11.6	(0.9)	**8.9**	(3.0)

30. Related parties

Group

Related party transactions with the Directors are disclosed in the Directors' report on page 49.

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 2015 (2014: £0.2m).

Company

The following table provides the total amount of transactions and year end balances with related parties for the relevant financial year. Further details of related party transactions can be found in the Directors' report on page 49.

	Sales of goods £m	Provision of services £m	Total goods £m	Amounts due from related parties £m	Amounts due to related parties £m
Subsidiary undertakings					
2015	**2.6**	**0.5**	**3.1**	**45.1**	**8.7**
2014	2.2	–	2.2	46.5	9.6

The Company guarantees bank and other borrowings of subsidiary undertakings. At the year end there were no drawn borrowings (2014: £2.5m).

Group five-year financial summary

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Summarised income statements:					
Revenue	**469.8**	447.7	457.6	471.5	486.8
Gross profit	**287.2**	275.9	278.3	276.0	298.0
Operating profit/(loss)	**8.2**	(4.9)	(3.4)	18.0	10.9
Underlying operating profit	**15.8**	6.9	11.4	8.0	21.2
Net finance costs	**(1.6)**	(2.3)	(1.7)	(4.0)	(4.3)
Underlying profit before tax	**14.2**	4.6	9.7	4.0	16.9
Exceptional items	**(7.6)**	(11.8)	(14.8)	9.5	(10.3)
Profit/(loss) before tax	**6.6**	(7.2)	(5.1)	13.5	6.6
Tax	**(2.1)**	3.6	(1.5)	(2.5)	(2.0)
Profit/(loss) for the financial period	**4.5**	(3.6)	(6.6)	11.0	4.6
Extracts from balance sheets:					
Non-current assets	**171.4**	185.4	193.0	205.2	243.3
Net assets	**59.5**	61.1	65.3	70.7	67.0
Operating cash flows	**23.0**	11.3	17.4	29.1	32.1
Net cash/(debt)	**0.5**	(11.1)	(10.2)	(19.1)	(65.7)
Ratios and statistics:					
Number of stores at period end	**597**	614	620	632	679
Total space (sq ft – gross) '000	**5,444**	5,630	5,719	5,840	6,072
Gross margin (%)	**61.1%**	61.6%	60.8%	58.5%	61.2%
Underlying operating margin (%)	**3.4%**	1.5%	2.5%	1.7%	4.4%
Operating margin (%)	**1.0%**	(1.0%)	(0.7%)	3.8%	2.2%
Underlying earnings per share (pence)	**15.5p**	4.7p	9.6p	4.5p	18.0p
Basic earnings/(losses) per share (pence)	**6.7p**	(5.3p)	(9.8p)	16.4p	6.8p
Dividends per share (pence)	**–**	–	–	–	8.0p

Independent auditors' report to the members of Carpetright plc

Report on the financial statements

Our opinion

In our opinion:

- Carpetright plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 2 May 2015 and of the Group's profit and the Group's and the Company's cash flows for the 53 week period (the "period") 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 Company financial statements have been properly prepared in accordance with 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.

What we have audited

Carpetright plc's financial statements comprise:

- the Group and Company Balance sheets as at 2 May 2015;
- the Consolidated income statement and the Consolidated statement of comprehensive income for the period then ended;
- the Group and Company Statements of cash flow for the period then ended;
- the Group and Company Statements of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the 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 (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our audit approach

Overview

- Overall group materiality: £2.0m which represents approximately 0.5% of Group revenues.

- We performed an audit of the complete financial information of two of the reporting units (the UK and the Republic of Ireland), which accounted for 87% of the Group revenues and, for the Netherlands, we performed specified procedures. These specified procedures in respect of revenues accounted for an additional 9% of the Group revenues.

- Valuation of goodwill in Europe (the Netherlands and Belgium);
- Impairment of freehold and long-leasehold properties;
- Impairment of store assets and onerous leases;
- Supplier rebates; and
- Valuation of inventory.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of goodwill in Europe (the Netherlands and Belgium) Refer to Note 1 (Accounting policies and Critical accounting estimates and judgements) and Note 10 (Intangible assets). Goodwill is valued at £50.8m at the period-end. No goodwill impairment charge has been recorded against this balance in the current year. We focused on the risk that the goodwill balance may be overstated and that an impairment charge may be required. The lowest level at which management monitor goodwill is the UK and the Rest of Europe ("Europe"), defined as the Netherlands and Belgium. Therefore these have been identified as the cash-generating units ("CGU's"). The Group's goodwill in the UK is £29.8m and in Europe it is £21.0m at the period-end. We focused on valuation of goodwill in Europe in particular because of the history of losses in this segment and because of the judgement required in impairment assessment. Management's review process for the UK goodwill has not identified any potential impairment. The key assumptions made by the Directors in the annual impairment review included: – the growth and operating margin within the five year plan as applied to each CGU; – the group discount rate (pre-tax 7.8%); and – the long-term sales and operating profit growth in line with the floorings markets in the UK and in Europe.	We tested the value-in-use models, including comparing the forecasts used in them to the latest 5-year plan approved by the Board, and testing the underlying calculations. No material exceptions were noted. We challenged the Directors' key assumptions, in particular: – the sales growth and margin improvement plans by comparing the assumptions to recent results for the Group; – the long-term growth rate by comparing the assumptions to the retail sector as a whole and forecasts for the wider economy; and – the discount rate used by assessing the cost of capital for the business. The discount rate used in the Directors' impairment models of 7.8 (pre-tax discount rate) is below the range that we independently estimated based on market data and analysis of comparable companies. We performed sensitivity analyses, for the assumptions specified above to identify the extent to which these needed to change to result in a material impairment charge. Based on our knowledge of the business and of the retail industry amongst other factors, we considered that the likelihood for such changes in the key assumptions to be relatively low and that the disclosure made in the financial statements regarding the assumptions and the sensitivities drew appropriate attention to the more significant areas of judgement.
Impairment of freehold and long-leasehold stores (Europe and UK) Refer to Note 1 (Accounting policies and Critical accounting estimates and judgements) and Note 11 (Property, plant and equipment). The Group owns freehold and long-leasehold stores in the UK and in Europe. We focused on the risk that the carrying value of the properties, including the fixed assets attributable to these stores, may be overstated and that an impairment charge may be required. In determining whether impairment triggers existed at the period end, the Directors treated each store as a separate CGU and valued it at the higher of the value in use calculations or the market value of the properties and their assets. The value-in-use calculations are based on a five year perpetuity model using the growth assumptions within the five year plan as applied to each store, with the resulting cash flows discounted at the group discount rate (pre-tax 7.8%). The fair values are taken from third party valuations carried out by an independent valuer in November 2014; these valuations are based on market value assuming a 10 year sale and leaseback arrangement. This review resulted in no impairment charge/release in the current year. We focused on this area because of the size of the underlying assets and because of the significant judgement required in determining the value in use of each store, particularly regarding the sales and operating margins growth rates, and discount rates.	We tested the Directors' assessment of impairment triggers and were satisfied that it appropriately took into account both internal and external impairment indicators, including the trading performance of each CGU and market conditions. We assessed the third party valuations based on our understanding of the UK and European commercial property market and found the methodology to be appropriate for fair value and the valuation to be reasonable at the year end. We tested the value-in-use models, including comparing the forecasts used in them to the latest 5-year plan approved by the Board, and tested the underlying calculations. No material exceptions were noted. We challenged the Directors' key assumptions, in particular: – the sales growth and margin improvement plans by comparing the assumptions to recent results for the Group; – the long-term growth rate by comparing the assumptions to the retail sector as a whole and forecasts of the wider economy; and – the discount rate by assessing the cost of capital for the Group. The discount rate used in the Directors' impairment models of 7.8% (pre-tax discount rate) is below the range that we independently estimated based on market data and analysis of comparable companies. We performed sensitivity analysis and noted that in order for a material impairment charge to arise, the key assumptions specified above would need to change significantly. Based on our knowledge of the business and of the retail industry amongst other factors, we considered that the likelihood for such changes in the key assumptions to be relatively low.

Independent auditors' report to the members of Carpetright plc continued

Area of focus	How our audit addressed the area of focus
Impairment of store assets and onerous leases Refer to Note 1 (Accounting policies and Critical accounting estimates and judgements), Note 11 (Property, plant and equipment) and Note 20 (Provisions for liabilities and charges). The Group operates a number of short leasehold stores. The assets relating to these stores mainly comprise leasehold improvements and fixtures and fittings. These are considered for impairment annually by reviewing loss making stores. For all stores where the loss in the year exceeded a specified threshold, the store assets were fully impaired. Furthermore, consideration was given to leases where the stores have been closed or are loss-making to the extent that they cannot cover their unavoidable property costs and are therefore classified as onerous contracts. An analysis is performed on a store-by-store basis of the excess of the Net Present Value ("NPV") of forecast unavoidable property costs (rents, rates and service charges) over the forecast EBITDAR (earnings before interest, taxation, depreciation, amortisation, rents, rates and service charges) over the shortest of the life of the lease or a four-year period. The four- year period is based on historical experience in exiting poor performing locations. The NPV is calculated using the growth assumptions within the five year plan as applied to each store, with the resulting cash flows discounted at the risk free rate. This analysis is then assessed using a threshold applied in the store impairment review on the logic that the stores are marginally loss making and the performance improvement plans are in the place. Stores with negative NPV lower than the threshold are not provided for. This analysis is then assessed for other factors such as potential property deals or closure of nearby stores which should positively impact the poorer performing store. A provision of £7.0m was recorded at the year-end for the onerous leases.	We tested the Directors' assessment of impairment triggers for the store assets. We challenged the key assumptions – namely that stores making a loss below a certain threshold are excluded from the model as management's view is that, as an improvement plan is in place and given the level of loss at these stores they are not permanently impaired. The potential impairment if all stores were included is not material and, therefore, there is minimal judgement in the impairment calculation resulting from this assumption. With respect to the provision for onerous contracts, we checked that stores assessed for onerous contracts are those that were identified, and impaired, following the store impairment review. We tested the NPV models, including comparing the forecasts included to the latest 5-year plan approved by the Board, and testing the underlying calculations. No material exceptions were noted. The provision also takes into account management's best estimate as to the timeframe required to exit each loss-making store which is clearly judgemental. The provision takes into account other factors, such as potential property transactions. We assessed these judgements, including agreeing to the underlying third party draft contracts where appropriate. We considered the judgments taken by management to be reasonable based on the evidence provided.
Supplier rebates Refer to Note 1 (Accounting policies). The Group receives income from suppliers in the form of volume related rebates. Volume related rebates are one-off deals negotiated at the time of order; the rebate negotiated is recorded and checked off against the debit note once raised which is deducted against the next payment to each supplier. At the period end there were no rebate accruals recognised as reductions against accounts payable. We focused on this area, because the process of maintaining records and calculating rebate income requires significant manual input. The scope for human error means there is an increased risk of incorrect recognition.	On a sample basis that covered all types of rebates from a range of different suppliers, we agreed the rebate income to the supplier confirmations of rebates. In particular we checked whether the rebate income had been calculated correctly and recognised in the correct period, based on the supporting documents. This testing did not identify any material exceptions. We tested management's process for ensuring the existence and accuracy of the year end accrued income for supplier rebates. We checked, on a sample basis, that rebates were retrospective, related to the purchases made within the year and were invoiced in full. We also considered whether there were any rebates revoked by the supplier or reversed after the year end and tested agreements with the largest suppliers. We did not identify any material amounts that were not recorded in the correct period. Having agreed supplier rebates percentages to the contracts and confirmations of rebates from suppliers, we compared movements in the value of rebate income by supplier to trends in revenue and gross margin and the movement in rebate percentages based on the work performed on supporting documentation above. We did not identify any unusual trends in the rebate income recognised in the year.

Area of focus

Valuation of inventory

Refer to Note 1 (Accounting policies) and Note 14 (Inventories).

Based on the Group's accounting policy, 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 dispose of the inventory.

We focused on inventory due to:

– the magnitude of manual adjustments recorded at the period end mainly for price discounts and volume rebates; and

– the level of judgement involved in the calculation of inventory loss and obsolescence provisions.

How our audit addressed the area of focus

We tested the Directors' calculations of inventory provisions and adjustments, challenged the appropriateness of management's judgements and assumptions.

In particular, we focused on the following key areas:

– we agreed price discounts and volume rebate rates to the relevant supplier agreements and recalculated the inventory cost adjustment. No material misstatements were noted as a result.

– we compared the book value of inventory at the period end to the actual selling prices post period end to identify if inventory items had been sold at less than cost. No material overstatement of inventory was noted as a result of our work.

– we assessed any other significant manual adjustment to check that inventory is valued appropriately. This testing did not identify any material exceptions.

– we tested the aging of inventory and the shrinkage percentage used by management and recalculated the provision based on the Group policy. No material exceptions were noted.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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 units as requiring an audit of their complete financial information, which was performed by the Group audit team. Specified audit procedures to address the risk of fraud in revenue recognition, the risk of management override of controls and the risks of material misstatement in valuation of inventory and cash balances were performed for the Netherlands reporting unit by another PwC network firm operating under our instruction. The Group consolidation, financial statement disclosure and a number of complex items were audited by the group engagement team at head office. These include testing the onerous lease provision and impairment testing of goodwill, freehold and long leasehold properties and store assets.

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 accounted for 96% of the Group revenues.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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 financial statements as a whole as follows:

Overall group materiality	£2.0m (2014: £2.0m).
How we determined it	Approximately 0.5% of Group revenues.
Rationale for benchmark applied	Consistent with last year, 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 (2014: £0.1m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of Carpetright plc continued

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 52, 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 the 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 the Company's ability to continue as a going concern

Other required reporting

Consistency of other information

Companies Act 2006 opinion

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.

ISAs (UK & Ireland) reporting

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 the Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
– the statement given by the Directors on page 51, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), 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 Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and the Company acquired in the course of performing our audit; and	We have no exceptions to report arising from this responsibility.
– the section of the Annual Report on page 28, as required by provision C.3.8 of the Code, 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.

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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

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 ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

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 51, 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 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.

What an audit of financial statements involves

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 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.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Julian Jenkins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2015

Calendar

2015	
Annual General Meeting	10 September
First-half trading update	27 October
First-half ends	31 October
Interim results announcement	15 December

2016	
Q3 interim management statement	26 January
Second-half trading update	26 April
Year ends	30 April

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