carpetright.

annual report & accounts 2016

we are carpetright.

inside this **report.**

Strategic report

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we are carpetright.

Our vision is to be the trusted choice for flooring, for life.

We will achieve this through our strong business fundamentals and by putting our customers at the heart of everything we do.

We differentiate ourselves with our clear and focused strategy through **choice**, **value**, **making it easy** and **our own expertise**.

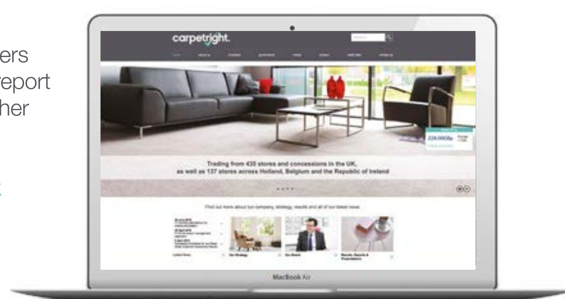
Because we're the market leader in flooring, we can offer our customers the biggest and most inspiring choice to suit every stage of their life.

Details of our strategy, including a strategic update, can be found on pages 8 to 12 of this report.

This Strategic Report was approved by the Board of Directors on 27 June 2016 and was signed on its behalf by Jeremy Sampson – Company Secretary and Legal Director.

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: carpetright.plc.uk



Strategic report

at a glance.

Financial highlights

	52 weeks ending 30 April 2016	Pro forma 52 weeks ending 25 April 2015[2]	52 weeks Change	53 weeks ending 2 May 2015
Revenue	**£456.8m**	£462.6m	(1.3%)	£469.8m
Underlying profit before tax[1]	**£17.3m**	£13.0m	33.1%	£14.2m
Profit before tax	**£12.8m**	£5.4m	137.0%	£6.6m
Underlying earnings per share[1]	**19.3p**	13.7p	up 5.6p	15.5p
Basic earnings per share	**14.9p**	5.0p	up 9.9p	6.7p
Dividend per share	**Nil**	Nil	–	Nil
Operating cash flow	**£13.3m**	–	–	£25.1m

Group highlights

Over
3,000
people

4
countries

572
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 2016 accounting period represents trading for the 52 weeks to 30 April 2016 (the year). The comparative period 2015 represents trading for the 53 weeks to 2 May 2015 (the prior year). Where this report 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. All figures in this report are shown before exceptional items unless otherwise stated.

chairman's **statement.**

Bob Ivell
Chairman

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

Overview

Following my appointment in November 2014, this has been my first full financial year as Chairman of Carpetright. I am pleased to be able to report the Group continued its positive like-for-like sales performance and grew profits significantly during the period. Alongside this, we have made good progress both with extensive customer trials of a wide-ranging programme of initiatives to extend the appeal of the Carpetright brand and with our plans to address the significant legacy property issues within the business.

Our strategy has a clear focus and is based on putting the customer at the heart of everything we do, with an integrated multi-channel proposition centred on Choice, Value, Making it Easy and our own Expertise. We know we must innovate and change to differentiate ourselves from the competition. The strategic update on page 9 provides more details on this plan.

Earnings and dividend

Like-for-like sales increased by 2.8% in the year in the UK and 4.8% in the Rest of Europe. However, total revenue for the year ended 30 April 2016 decreased by 2.8% to £456.8m (2015: £469.8m), reflecting store closures, as we continued work to remove overlapping catchments and improved the overall quality of our store estate, along with the prior year period having one additional weeks trading. Underlying profit before tax increased by 21.8% to £17.3m (2015: £14.2m). After the impact of exceptional items, profit before tax was £12.8m (2015: £6.6m). Underlying earnings per share increased to 19.3p (2015: 15.5p) and basic earnings per share was 14.9p (2015: 6.7p). 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 Group's fixed occupancy costs and to invest in our stores to broaden the appeal of the Carpetright brand. The Board would look favourably on restoring the dividend in due course, once we are comfortable of our ability to sustain this without increasing our borrowings.

The Board

We have a stable and experienced Board and the CEO, Wilf Walsh, is supported by a strong operational team. They are continuing the hard work of repositioning the business to better capitalise on its market leading position, to deliver the performance our shareholders expect and deserve.

Further details of the Board's work can be found in the Directors' report starting on page 28 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

It is pleasing to report the second year of much improved results, with growth in profits and like-for-like sales growth in both the UK and the Rest of Europe.

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

we are
carpetright.

Our vision is to be the trusted choice for flooring, **for life.**

We will achieve this through our strong business fundamentals and by putting our customers at the heart of everything we do, knowing that by evolving we can make a difference.

We differentiate ourselves with our clear and focused **strategy:**

Choice

Value

Making it easy

Expertise

36% growth in hard flooring in concept stores

Choice

The widest range of flooring under one roof.

p9

Make flooring inspirational

New "Exclusive at Carpetright" brands

Value

We'll always provide value for money and easy ways to pay.

p10

Compelling promotions

Making it easy

We'll make it easy and hassle-free.

p10

Improved communication

Inspiring customers to shop with Carpetright

Focus on our customer

Expertise

We have experts who will create a great experience every step of the way.

p11

Investing in our people

our **markets** and **trends.**

"We expect trading patterns to remain volatile as economic and political uncertainty continues to impact consumer confidence across our markets."

The period of sustained economic uncertainty has been especially challenging for the floorcoverings' sector in the UK, with fragile consumer confidence and shoppers deferring big ticket purchases. These factors combined have had a significant negative impact in this market over the past five years.

Our market is highly fragmented, with approximately 4,000 floorcoverings' businesses. Current estimates place the UK market at £2.1bn per annum for the calendar year to December 2015, placing ourselves as the market leader with a share of around 21%[1].

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 floorcovering. 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.

Whilst macroeconomic indicators in Belgium remained fragile, the Netherlands and the Republic of Ireland experienced a recovery in market conditions with an increase in reported consumer confidence and encouraging economic benchmarks.

In our UK business, beds provide an important complementary revenue stream to our core floorcoverings 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.

We expect trading patterns to remain volatile as economic and political uncertainty continues to impact consumer confidence across our markets.

1. Source: Verdict floorcoverings sector forecast published April 2016.

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.

Operationally, our products and services are 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 we trade. 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 floorcovering 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 **strategy.**

Our 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 putting customers at the heart of everything we do in our vision to be the first choice for flooring, for life.

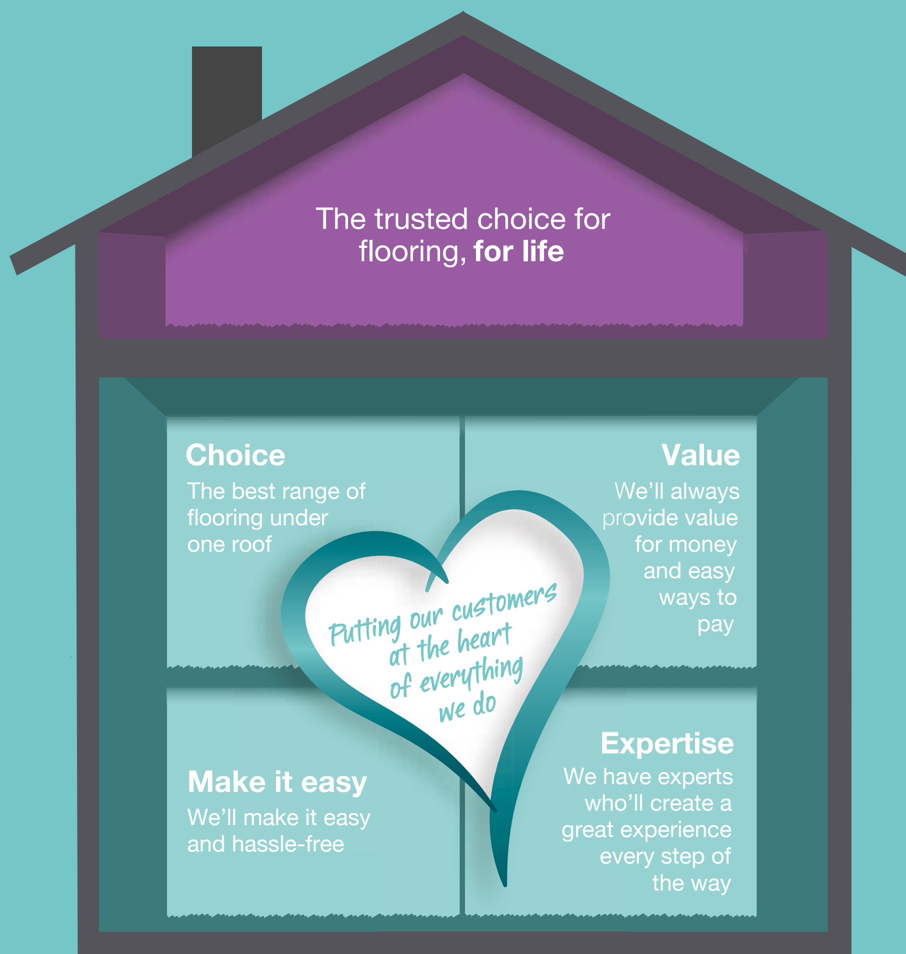
We help customers to transform their homes with an integrated multi-channel proposition centred around Choice, Value, Making it Easy and our own Expertise.

It is supported both internally and externally by our values that make up the essence of our company:

We're **honest and straightforward.**

We **care about customers and colleagues.**

We **make it easy.**



strategic **update.**

"We are clear about the opportunity to grow market share profitably and make Carpetright the first choice for customers, for life."

Overview

Our strategic plan identifies clear areas of focus to support the updating and revitalising of the Carpetright retail proposition.

Our vision is to ensure we connect better with today's customer, so that future generations will continue to shop with Carpetright wherever they are in their particular stage of life.

Whilst we are pleased to report a second year of strong profit growth and ten consecutive quarters of like-for-like growth – the past twelve months have not been without their challenges. In turning the business round we are re-engineering every aspect of it, specifically:

- **Who we are** – The brand, culture, values and corporate identity
- **What we sell** – Broadening our total floorcovering range to meet consumer demand
- **How we sell it** – Embedding product training, customer service, Interest Free Credit and a host of other initiatives within the business
- **Where we sell it** – Reducing and re-sizing our property portfolio

In implementing the plan we will maintain the momentum we have already generated and which is centred around putting the customer at the heart of everything we do, specifically:

1. Revitalising the Carpetright brand

2. Offering the Best Choice in Floorcoverings

3. Unbeatable Value

4. Making it Easy

5. Expertise

6. Outstanding Customer Service

7. Managing the Store Portfolio

1. Revitalising the Carpetright brand

Customer research has told us quite clearly that, while Carpetright has a very high prompted brand awareness amongst consumers, only 50% of those surveyed would actually consider shopping with us. As we reported last year, we have been testing a new brand identity. After trialling this across a number of different store formats and locations, we have developed a new look which has researched extremely well. This new identity for our brand, and accompanying tone of voice, is more in tune with the contemporary retail customer, without taking us away from the concept of value, which, as market leader, remains vitally important to our offer.

The new identity will be rolled out progressively across the UK estate from 1 July 2016, whenever we refresh or refurbish our stores. The new identity will also feature in all our advertising and communications from the same date.

We trialled four new concept stores in and around London, beginning in August 2015. As a group, they have delivered like-for-like sales growth of 9.1% in the period January-April 2016. The results were encouraging and we are rolling out elements of the new design across the chain. We plan to focus this refurbishment on our highest turnover stores, our smaller High Street stores and those locations where we are most obviously at a competitive disadvantage, for example where we face competition from a new local market entrant. Within twelve months, we expect to have around 100 stores trading under the new brand identity at a capital cost of around £10m. Whilst some of this investment can be viewed as maintenance capital, our experience from the stores converted to date gives us confidence that we can achieve a payback within 18 months.

From 1 September 2016 all UK store staff will be adopting a new uniform, selected by colleagues themselves. This programme will give sales colleagues in-store a more contemporary service-oriented identity to support our strategic initiatives and has been well received by store teams.

To support the rebrand, in August 2016 we are starting a TV sponsorship package across UKTV's lifestyle and entertainment channels (Home, Really, Alibi, Gold and W), sponsoring specific programmes (examples being Escape to the Country; DIY SOS; Homes Under the Hammer) to help drive recognition of the new brand, as well as increased consideration from potential customers.

Whilst the focus has been on the UK, we have begun a similar journey in the Netherlands. At the beginning of June 2016, we refurbished a store in Utrecht, which takes much of the learning from the UK, whilst adapting it for the Dutch consumer. Although it is too early to draw firm conclusions, we are encouraged by the initial customer response.

2. Offering the Best Choice in Floorcoverings

Our ability to offer customers a vast range of choice in floorcoverings is critical to our market leadership position and for many years we have offered the widest range and selection of carpet available. We have been repositioning our carpet range and, just as importantly, substantially extending our offer in the hard flooring area as consumer tastes adapt and change through the various life stages.

A number of initiatives have been developed, in part through our concept stores and a variety of other trials around the country:

- Having achieved 36% growth in hard flooring in concept stores since January 2016, we are introducing new in store sections with a new and improved range of laminate, vinyl and engineered wood as part of the refurbishment programme. We will also roll-out a new and comprehensive display of Luxury Vinyl Tile stands, all supplier funded, which is testimony to their belief in our growth potential in this area. This initiative will include a range from Tarkett that allows us to compete head-to-head with established brands such as Amtico and Karndean. The introduction of recognised brands such as Balterio, Kronospan and Quickstep to our range has delivered encouraging growth as consumer tastes continue to evolve in this segment. The roll-out has to be controlled and managed effectively – we need to ensure that all our staff are adequately trained and that we have sufficient fitting capacity wherever we introduce the product extensions. Preparation, ahead of fitting a hard floor, is key and it is a different process that is also more expensive than fitting a carpet.
- We enjoyed double digit percentage growth in underlay sales in the year as we demonstrated to customers that proper underlay should not be considered an optional extra but as an essential ingredient that shapes how a new carpet feels, wears and looks. We have invested in staff training to promote underlay as well as rolling out new underlay display stands across the estate.
- We successfully developed a new range of products with 'House Beautiful' magazine, which launched in Autumn 2015, and we are very encouraged by the results thus far. We are extending the range from 150 stores into all Carpetright locations from August 2016 and will be launching some new additions to the 'House Beautiful' range at the same time. We will also trial a premium range of Luxury Vinyl Tile products under the brand.
- We will launch some new brands that will be 'Exclusive at Carpetright' in time for the Autumn season. These include carpet under the famous 'Kosset' brand, and some innovative and eye catching designs that will only be available from us. Keeping the range fresh, interesting and exclusive to Carpetright will give us a clear edge as seasons change and customers look for home inspiration.
- In the Netherlands and Belgium we have re-introduced a range of curtains and blinds. This category was previously sold by these businesses prior to their acquisition by Carpetright in 2001. Comments from customers and our own teams identified it as an opportunity and it is now ranged in 72 stores and represents 6% of the total sales mix by the end of financial year.

3. Unbeatable Value

Unbeatable value will always be important to Carpetright – as market leader we expect to negotiate the very best terms with suppliers and to pass those benefits on to our customers with the very best prices in the marketplace. There are three main anchors to our value proposition:

- Interest Free Credit (IFC) – Launched successfully in December 2014, IFC has grown to a sales penetration level of 16% of all transactions. We increased the value of the IFC offer at Christmas 2015, extending the deal to 0% over a four year period. IFC allows customers to get the product they love for a reasonable monthly fee, over a prescribed period, and allows for prudent customer budgeting and affordability. Our average transaction value in the past year was £331, yet our average IFC transaction was £1,216 and it is a major value differentiator for us in the floorcoverings sector.
- Never Beaten On Price – Our customer promise is clear: if you provide us with a quote from an alternative retailer for exactly the same product, we will match it. Customers want reassurance that they are getting the best deal available and this rock solid guarantee differentiates us from the majority of our competitors.
- Promotions – Consumer appetite for a deal has been sharpened by an extended period of austerity in the UK. Carpetright will always have a good selection of products on promotion at any one time and will ensure that it operates ethically, promoting its products in accordance with the law.

We have rebranded our entire range of roll stock and remnant products under the 'Essential Value' brand which covers a wide range of budget lines that can be taken away immediately for self-fitting or fitted for the customer within days. With new carpet available from as little as £2.99 a square metre, 'Essential Value' demonstrates to all customers, not just those on a budget, that Carpetright should be their first choice for value. Additionally, we will use our 'Price Checker' on beds to highlight our value on comparable lines against specialist bed retailers.

4. Making it Easy

Giving great service and making the purchase an enjoyable, hassle free experience is really important on the floorcovering journey. Unlike other relatively straightforward big ticket sales such as beds or sofas, ordering new flooring presents a number of potentially daunting obstacles to the customer – with the need to get someone round to complete accurate measurements and give an estimate of what they need and how much it will cost being the most significant. Once ordered it's then the job of our recommended fitters to come to the home and complete the task.

Our research tells us that there are a number of pinch points in the process – from consideration online right through to the "Ta Da" moment when the fitter presents the beautifully finished product to the customer – where we could do much better, specifically:

- Improved communications and a checklist on purchasing to ensure customers understand exactly what happens once an order is taken and what happens on fitting day.
- Regular updates by e-mail and text so that the customer's mind is always at ease on the progress of their order.
- We aim to ensure that all fitters are now equipped with card readers for electronic payment rather than cash.
- We are pleased to be working with 'Which? Trusted Traders'. Following their rigorous process of assessment over the next few months, our recommended floor and carpet fitting services will be endorsed by 'Which? Trusted Traders' to give potential customers additional peace of mind when choosing our service.

Creating a contemporary and compelling digital offer is central to improving customer consideration of Carpetright when they are researching their new flooring options. The business has focused on improving the look and feel of the Carpetright website to ensure there is inspiration for the customer as well as improved navigation. While transacting online is not a key consideration for the vast majority of customers, the opportunity to showcase the product and the store portfolio online in the research stage of the customer journey remains the key opportunity. Initiatives for this upcoming year include:

– A complete rebrand of the website with the new brand identity
– "Where's my stuff?" – customer order tracker and "My Account" section
– Online estimator diary booking
– Improved site search
– Interest Free Credit Online
– Room Visualiser tool

From inspiring customers to shop with Carpetright online through brand advertising, consultation and advice, ordering, preparing the room, fitting, tidy up and disposal – our objective is to make a flooring purchase from Carpetright a seamless, hassle free experience that will encourage recommendation of the brand.

5. Expertise

Training and development within Carpetright had previously been sporadic. Whilst we have a lot of incredibly knowledgeable people with many years of loyal service and experience within the Group, we needed a more co-ordinated approach to ensuring our colleagues are the best in the business when it comes to product authority and recommendation.

We are developing an online Academy portal for training Carpetright staff in 2016. This will focus initially on induction for new starters as well as comprehensively covering all product areas in depth so that we can continuously add to our colleague knowledge and build confidence, especially as we reach into new areas of the floorcoverings market. The portal will also develop specific skills not only in-store but also in delivering the managers and leaders of tomorrow. A new team of experienced training professionals will build the platform this year.

6. Outstanding Customer Service

Putting the customer at the heart of everything we do is central to our strategy and we have had a busy year making this come to life in our stores.

Back in July 2014 our score on the independent retail review website 'Trustpilot' was 1.7 out of 10. While many colleagues were focusing on providing the best service, the culture of the business was about taking orders, making sales and earning commission.

Power has transferred from the retailer to the customer in the last decade. Customers expect whatever they want, whenever they want with swift, efficient delivery. Customers are all very quick to tell the world on various social media platforms how it went. The default position is rapidly becoming excellent service, with consumers sharing only their bad experiences, which can quickly go viral severely impacting brand reputation.

We are aware through our research that compared to competitors our brand scores well on key areas such as 'Value' and 'Range'. People know they can get a good deal at Carpetright and know that we have a broad product portfolio. We have tended to under index on key measures such as 'Trust' and 'Reputation' and we can only address this by devoting ourselves to changing our service culture, which has to evolve as we improve customer perceptions.

In January 2015, we introduced our internal Customer Service Programme, 'Do We Measure Up?'. This is a scheme where customers are e-mailed about their experience with Carpetright at three stages in the Customer Journey – 'Measuring & Estimating'; 'In-store experience'; and 'Fitting'. Customers are incentivised to complete the feedback with the opportunity of winning their carpet, or the value of their order, for free in a monthly draw. The top four drivers of Highly Satisfied customers are:

– Colleague friendliness
– Time spent understanding customer needs
– Speed of placing the order
– Colleague product knowledge

Research indicates that customers are more than twice as likely to recommend when they are 'Highly Satisfied' and customers in this zone of satisfaction will spend 12% more on average. Since launching the scheme we have moved the overall satisfaction rating from 71% to 76% and believe that an 80% plus score is well within our reach in the next twelve months.

Whilst this is our own internal measure, we are also able to track a Net Promoter Score, allowing us to benchmark ourselves against other retailers in similar sectors. This has moved along a similar trajectory and now stands at 71%. We are confident of continuing this improvement.

Additionally, we will be adjusting our reward and compensation packages away from commission payment on order taking and re-targeting them to successful completion of the job and 'Do We Measure Up?' ratings. An identical customer service programme has been launched in the Netherlands and Belgium in April 2016. We expect to be able to make similar improvements in these businesses.

For the record, our 'Trustpilot' score in June 2016 was up to 8.7 out of 10 – a significant improvement.

7. Managing the Store Portfolio

Last year, we said we anticipated being able to show positive results from our accelerated programme of property activity in 2015/16. We have been aggressively targeting that part of our legacy portfolio which is over-rented and made it our number one priority outside of our customer facing activity. In parallel, we are continuing to open new stores on a selective basis, where we see good opportunities to bring the Carpetright brand closer to consumers in local markets.

We are managing the estate to reduce square footage, to eliminate store catchment overlap, improve the quality of our store base by moving to better locations on realistic rent deals and by ensuring customers can access a Carpetright store wherever they live in the UK.

At 30 April 2016 we had 435 stores trading in the UK. During the year we opened six new stores, relocated four and closed 31 giving a net reduction of 25 stores. We continue to eliminate overlap in towns where we have more than one unit – this allows us to upgrade and refurbish the remaining store and to capture the benefit of sales transferred from the store closure. We have, in addition, negotiated exits from two locations where we had onerous leases, removing us from all future liabilities associated with those properties.

The trial of our small high street concept store in Reigate has been a huge success and we have opened similar locations in affluent towns such as Bromley and Gerrards Cross, the latter post the year end. We believe the lower rent high street format offers an exciting opportunity especially in and around the M25.

We continue to take a robust view at lease renewal, which provides the opportunity to secure lower rents for future years. Within the next five years 40% of the UK estate has a lease renewal scheduled, providing further opportunity to reduce the fixed store operating costs or to exit underperforming stores. At period-end, the average length of lease had fallen to 6.1 years (2015: 7.1 years).

In the Rest of Europe we had 137 stores, opening eight stores 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 2.6 years (2015: 3.1 years) in the Netherlands and 2.3 years (2015: 1.9 years) in Belgium. In the Republic of Ireland this period is 9.1 years (2015: 10.1 years) reflecting the agreement of long-term deals during the expansion into this market in the period from 2001 to 2008.

We will close the Storeys brand effective 1 September 2016 with the exception of one store in Stockton-on-Tees. This largely North East based chain has struggled for a number of years due to underinvestment and the fact it has inevitably been competing with a nearby Carpetright store. Any stores that do not transfer to the Carpetright brand will become a new sub-brand, 'Carpetright Clearance', which will provide a budget option that will be sufficiently differentiated from the main estate. Both formats will benefit, unlike Storeys, from the Carpetright brand's marketing spend and digital presence.

This activity is delivering an improvement in profitability. Over the past two financial years, we have reduced the number of loss making stores in the UK to 38 locations from 67. While this activity incurs a cash cost to exit leases, with net expenditure totalling £2.2m in the year, either by assigning to new tenants or returning the property to landlords, by taking this robust approach we are confident we are getting an acceptable financial return.

Summary

We are now confident that we have a new store format that is well suited to taking on the competition and increasing our appeal to all types of consumers on all sorts of budgets. The transformation of Carpetright into a modern, sustainable market leader will not happen overnight, but we are positive that we have momentum and we are on the right path.

We were lapping our own strong like-for-like sales performance in the previous year and in addition we had a consumer backdrop which was not brim full of confidence. We have also faced increased competition from a new specialist on a number of our UK sites. We are convinced that we can retain our market share in these locations by focusing on doing the right things outlined above.

Through updating our brand identity and making it easy for the customer we believe that we can increase consideration of Carpetright and build average transaction values by focusing our staff on the following initiatives:

- Introducing Interest Free Credit
- Understanding customer needs and selling the right product
- Selling appropriate underlay and high margin accessories
- Providing a seamless, hassle free experience that will build our trust and reputation

We are embarking on a complete turnaround of the Carpetright business. We have not rushed into the changes, as we want to carry the majority of our staff with us and there is much to do. We need to ensure that we can execute the change successfully within our resource capacity and that we can carry out the customer promise effectively so that we become a recommended retailer more consistently.

Building consistency of performance across the chain will be key to our success, as those stores that score above 75% on 'Do We Measure Up?', deliver 15% IFC penetration and 50% underlay penetration enjoy double the like-for-like sales growth of the rest of the portfolio.

My personal thanks go to our Board of Directors who are as rightfully challenging as they are constructive and supportive, as well as to my Operating Committee and support office and warehouse staff in both Purfleet and Utrecht for their outstanding efforts. We recently completed a set of regional roadshows meeting all our store managers and the real praise goes to our frontline staff in retail all across our operations for doing the most important job in the organisation – putting the customer at the heart of everything we do.

Wilf Walsh
Chief Executive Officer

chief executive's **Q&A.**

Wilf Walsh
Chief Executive Officer

"What should we expect of Carpetright over the next twelve months?"

we are carpetright.

Q. How do you rate the Group's trading performance in the financial year?

A. On target. We are pleased with our progress in turning the business around. During the year we have successfully trialled a number of initiatives and are now in a place where we are able to roll them out across the estate. However, we recognise we are in a market where the competition has intensified and the consumer environment is uncertain.

Q. What were the most important achievements of the year?

A. Hitting the numbers. I am pleased with the progress of the concept stores, our growth in hard flooring, which is strategically important, as well as initiatives such as Interest Free Credit.

Q. What progress was made with the plans to revitalise the brand?

A. We are launching the new brand look effective from 1 July 2016. This has been extensively researched and we have trialled a number of options across the country this year. We believe it delivers a more contemporary look and is now suitable for roll out.

Q. Are you moving fast enough to keep pace with the competition?

A. As fast as we can, given all our other strategic imperatives and the "day job". Our objective is to tackle competition with a number of initiatives, including ensuring we have the best team to deal with it, refurbishment/refreshment of the physical environment and a competitive offer.

Q. How did customers respond to the changes made in the trial of the new store format?

A. Positively – some areas have worked especially well, particularly sales of hard flooring and premium branded products. Customer research has been hugely positive on the uncluttered, more contemporary, store environment.

Q. What changes will you be adopting as you move to refurbish the UK estate?

A. We intend to prioritise the refit to our highest turnover stores, our smaller high street stores and areas where we are most obviously at a competitive disadvantage. Within twelve months we expect around 100 stores to be trading under the updated brand.

Q. What gives you the confidence that you are on the right track with these plans?

A. Sales numbers and customer research feedback, as well as what our store staff are saying.

Q. How long will it take for the changes you are planning to be rolled out across the UK estate?

A. This is a long-term repositioning and revitalising of the brand, and the estate – it is not an affordable overnight transformation. We are doing this from a position of market leadership and believe that our actions are sustainable as we tackle our legacy property issues and educate the consumer on the revitalised Carpetright brand.

Q. How have hard flooring sales progressed over the year?

A. Progress has been excellent – this has been led by fitted laminate up 21.4% and luxury vinyl tiles up 18.9%. While carpet retains mass popularity, there is a lifestyle shift of spend to this category and our early tests on engineered wood have also been encouraging.

Q. How have you changed your approach to promotions?

A. Gone are the days of 70% off "Madness" sales. Our limit is 50% and we are more focused on total package value for the customer, including the product, underlay, accessories and fitting. Promotions will always be important for big ticket retailers but price compliance, integrity and managing promotions responsibly is also important in building our trust and reputation.

Q. What progress did you make with reducing store occupancy costs during the year?

A. Excellent – we closed 43 stores under pre agreed pay back criteria. We still have a legacy of too many over-rented stores but we have made significant progress. We will be gradually running the Storeys brand down during the next twelve months – turning these stores into Carpetright or "Carpetright Clearance" units. We are opening a number of smaller high street stores and the early results look very promising.

Q. Raising service standards is a key element of your plans – how is that initiative going?

A. Positive. Our Trust Pilot score in July 2014 was 1.7 out of 10. It's now up to 8.7, which is excellent progress but still leaves room for further improvement. Our 'Do We Measure Up' programme goes from strength to strength in understanding and acting on customer feedback. We want to raise our Net Promoter Score from the current level of 71% and that is a major strategic priority.

Q. How did the competitive environment change in the year?

A. Competition intensified across the year, largely as the result of a new market entrant which went head to head with our established stores on a number of retail parks. We also saw more aggressive pricing from other competitors on a local basis but this has always been a periodic feature of the market – we just have to respond on a local level and it's very granular.

Q. Will we see some of the changes being made in the UK being adopted in your Rest of Europe business?

A. It's a very different business in Belgium and the Netherlands but the principles are still the same. We are opening some new concept stores suited to their local market and the results have been very encouraging indeed.

Q. Where do you see the biggest opportunity in the year ahead?

A. The rebranding is an exciting multi-year project. In the short term, the biggest sales opportunities are in Hard Flooring and Beds. Resizing the property portfolio and delivering more efficient service under our 'Making It Easy' project, will deliver like-for-like growth and the all-important customer recommendations.

Q. What should we expect of Carpetright over the next twelve months?

A. Significant progress against all the strategic areas driven by 'Putting customers at the heart of everything we do'. We anticipate a further improved performance if the external environment and economy stay reasonably solid.

Q. What are the key risks to your growth plans?

A. The general economy and customer confidence.

Q. Where do you see Carpetright in five years?

A. A vibrant revitalised business with a much more rational property portfolio and a lower fixed cost base. A refreshed brand and workforce delivering consistently excellent customer service.

Wilf Walsh
Chief Executive Officer

financial **review.**

"Improvement in profitability supported by substantial savings in property costs and a strengthening performance in our Rest of Europe business."

Summary

The 2016 financial year represents the 52 week trading period to 30 April 2016. The comparative period of financial year 2015 represents the 53 weeks to 2 May 2015. We believe that a comparison to the pro forma 52 week result for the 2015 financial year better reflects the underlying performance of the business. On this basis, all commentary included in this report is based on the 52 week period in the prior year to 25 April 2015 unless otherwise stated.

Overview

Total Group revenue for the year decreased by 1.3% to £456.8m, consisting of a decline in the UK business of 1.3% and a decline of 1.2% in the Rest of Europe. Our continued focus on rationalising and repositioning the store portfolio saw the Group open 18 stores and close 43, giving a net decrease of 25 stores and a total store base of 572. The rate of revenue decline was significantly less than the fall in total store space, which declined by 5.4% to 5.1 million square feet, reflecting our success in exiting under-performing locations in the UK.

Group underlying operating profit increased by 32.2% to £19.3m, supported by the substantial reduction in property costs resulting from the repositioning of the UK store portfolio and a strengthening performance in our Rest of Europe business. Underlying net finance charges were £0.4m higher at £2.0m. These factors combined to generate an underlying profit before tax of £17.3m, a 33.1% increase on the prior year.

Exceptional charges totalled £4.5m (2015: £7.6m), primarily costs associated with exiting under-performing stores.

As a result, Group profit before tax was £12.8m (2015: £5.4m). Basic earnings per share were 14.9p (2015: 5.0p).

The Group ended the year with net debt of £1.1m, an adverse movement of £1.6m from the £0.5m net cash in 2015.

	52 week 2016 £m	Pro forma 52 week 2015 £m	52 week change	53 week 2015 £m
Revenue	**456.8**	462.6	(1.3%)	469.8
Underlying operating profit	**19.3**	14.6	32.2%	15.8
Net finance charges	**(2.0)**	(1.6)	(25.%)	(1.6)
Underlying profit before tax	**17.3**	13.0	33.1%	14.2
Exceptional items	**(4.5)**	(7.6)	40.8%	(7.6)
Profit before tax	**12.8**	5.4	137.0%	6.6
Earnings per share				
– underlying	**19.3p**	13.7p	40.9%	15.5p
– basic	**14.9p**	5.0p	198.0%	6.7p
Net (debt)/cash	**(1.1)**	–	–	0.5

UK – Performance review

The key financial results for the UK were:	**52 week 2016 £m**	Pro forma 52 week 2015 £m	52 week change	53 week 2015 £m
Revenue	**391.0**	396.0	(1.3%)	403.2
Like-for-like sales	**2.8%**	7.3%	–	–
Gross profit	**237.3**	243.4	(2.5%)	247.6
Gross profit %	**60.7%**	61.4%	(0.7ppts)	61.4%
Costs	**(220.5)**	(229.1)	3.8%	(232.1)
Costs %	**56.4%**	57.9%	1.5ppts	57.6%
Underlying operating profit	**16.8**	14.3	17.5%	15.5
Underlying operating profit %	**4.3%**	3.6%	0.7ppts	3.8%

The UK portfolio is now as follows:

	Store numbers				Sq ft ('000)	
	2 May 2015	Openings	Closures	**30 April 2016**	2 May 2015	**30 April 2016**
Standalone	448	5	(33)	**420**	3,963	**3,734**
Concessions	12	5	(2)	**15**	16	**29**
Total	**460**	**10**	**(35)**	**435**	**3,979**	**3,763**

In a market characterised by economic uncertainty and volatile consumer confidence, revenue decreased by 1.3% to £391.0m. We opened 10 stores and closed 35 stores in the year, which translated into a net space decline of 216,000 sq ft, a decrease of 5.4%. After taking into account the movement in number of stores, like-for-like sales grew by 2.8% across the year as a whole, with the first half performance being stronger at 3.8%, followed by 1.9% growth in the second half. At the close of the year there were 246 stores trading with a bed department (2015: 265). Sales within the beds category now represent 9.0% of the sales mix (2015: 8.7%).

Gross profit decreased by £6.1m to £237.3m, representing 60.7% of sales, a decrease of 70 basis points. The decline in margin rate was primarily the result of:

- implementing market beating promotions to drive footfall and top line sales volumes; and
- an increase in product lines which have lower gross margins such as wood flooring and beds, resulting in an adverse mix impact.

The total UK cost base decreased by 3.8% compared with the prior year to £220.5m (2015: £229.1m). Costs as a percentage of sales were 56.4%, which compared favourably to 57.9% in the prior year. The movement in costs was a combination of:

- a 1.3% increase in store payroll costs to £61.4m (2015: £60.6m), reflecting commission payments associated with stronger sales growth;
- a 7.1% reduction in occupancy costs to £116.4m (2015: £125.3m), primarily the impact of the net reduction of 25 stores during the year along with the full year impact of the net reduction of twelve stores in the prior year; and
- marketing and central support costs decreased by 1.2% to £42.7m (2015: £43.2m), primarily the result of one-off costs in the prior year associated with brand repositioning, partially offset by higher advertising costs.

The culmination of the above factors led to underlying operating profit increasing by 17.5% to £16.8m (2015: £14.3m).

Rest of Europe – Performance review

The key financial results for the Rest of Europe were:	2016 £m	2015 £m	Change (Reported currency)	Change (Local currency)
Revenue	**65.8**	66.6	(1.2%)	4.9%
Like-for-like sales	**4.8%**	0.3%		
Gross profit	**36.9**	39.6	(6.8%)	(0.8%)
Gross profit %	**56.1%**	59.5%	(3.4ppts)	
Costs	**(34.4)**	(39.3)	12.5%	6.5%
Costs %	**52.3%**	59.0%	6.7ppts	
Underlying operating profit	**2.5**	0.3	733.3%	664.1%
Underlying operating profit %	**3.8%**	0.5%	3.3ppts	

The Rest of Europe portfolio is now as follows:

	Store numbers				Sq ft ('000)	
	2 May 2015	Openings	Closures	**30 April 2016**	2 May 2015	**30 April 2016**
Netherlands	93	4	(4)	**93**	1,046	**985**
Belgium	22	4	(3)	**23**	257	**245**
Republic of Ireland	22	0	(1)	**21**	162	**157**
Total	**137**	**8**	**(8)**	**137**	**1,465**	**1,387**

Whilst macroeconomic conditions in Belgium remained fragile, the Netherlands and Republic of Ireland experienced a recovery, with an increase in reported consumer confidence and more encouraging economic data.

In local currency terms, the three businesses combined to produce a total revenue 4.9% ahead of the prior year, with like-for-like sales increasing by 4.8%. There has been a sustained improvement, with six successive quarters of like-for-like growth. After exchange rate movements, total revenue fell by 1.2% in reported currency.

Our Rest of Europe store portfolio remained level on last year with 137 stores, having opened eight and closed eight during the period.

Gross profit percentage decreased by 340 basis points to 56.1% resulting principally from stronger promotions to drive top line sales volumes, adverse sales mix variance associated with the introduction of a new product category (curtains and blinds) and clearance activity implemented to tackle legacy stock issues and rationalise the range. The improvement in volume was insufficient to offset the impact of a lower margin rate, resulting in a decrease in cash gross profit of 0.8%. After taking into account exchange rate movements, this resulted in a decline of 6.8% in reported currency.

Operating costs in local currency reduced by 6.5%. The majority of the savings were driven by a focused cost reduction programme initiated in the previous financial year and a reduction in advertising spend. This was reflected in the decline in costs as a percentage of sales to 52.3%, a reduction on the prior year figure of 59.0%. In reported currency, this was a reduction in costs of 12.5% to £34.4m.

The net result was an underlying operating profit of £2.5m, a £2.2m improvement on the £0.3m profit generated in the prior year.

Net finance costs and taxation

Underlying net finance charges were £2.0m (2015: £1.6m). The increase was principally driven by a marginally higher level of average net debt over the period and amortisation of arrangement fees.

The taxation charge on profit for the year was £2.7m (2015: £2.1m). The weighted average annual effective tax rate for the period is 21.3% (2015: 31.3%). The decrease in the effective tax rate is the outcome from improved profitability while non-deductible items have remained stable, along with a deferred tax credit in the year from the fall in the main UK rate to 18%.

Exceptional items

The Group recorded a net charge of £4.5m (2015: £7.6m) in the year.

	(Charge)	
	2016 £m	2015 £m
Losses on disposal of properties	**(3.6)**	(0.4)
Onerous lease provision	**(0.6)**	(7.0)
Impairment release/(charge):		
– store assets	**0.1**	(0.2)
– freehold properties	**(0.4)**	–
Pre tax exceptional items	**(4.5)**	(7.6)

A net loss of £3.6m was made on property disposals in the year (2015: £0.4m loss). This was principally the result of surrender premiums being paid to exit loss-making stores and associated asset write-offs.

At 2 May 2015 there were 14 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 four of these stores, relieving us from all future liabilities associated with these properties. The charge associated with exiting these stores equalled the provisions carried. There were no additions or re-openings of onerous stores during the period, leaving ten onerous stores remaining at the end of the financial period.

A detailed review of provisions held for unavoidable onerous lease costs for loss-making stores resulted in a charge of £0.6m (2015: £7.0m).

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 credit of £0.1m (2015: £0.2m charge). The Group has entered into sale agreements for two freehold properties at below carrying value, offset by impairment adjustments at other locations, this combination led to a net charge of £0.4m in the period (2015: Nil).

Earnings per share

Underlying earnings per share of 19.3 pence (2015: 13.7 pence), an increase of 40.9%. Basic earnings per share was 14.9 pence (2015: 5.0 pence).

Dividend

The Board has decided not to pay a final dividend (2015: 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 Group's fixed occupancy costs and to invest in the remaining stores to broaden the appeal of the brand. Based on our current outlook, we do not expect this position to change in the current financial year.

Balance sheet

The Group had net assets of £74.0m at the end of the year (2015: £59.5m), a year-on-year increase of £14.5m.

	30 April 2016 £m	2 May 2015 £m
Freehold & long leasehold property	**61.5**	64.9
Other non-current assets	**107.5**	106.5
Stock	**41.6**	34.1
Trade & other current assets	**20.0**	25.2
Creditors < 1 year	**(91.1)**	(97.9)
Creditors > 1 year	**(62.2)**	(69.8)
Net (debt)/cash	**(1.1)**	0.5
Pension deficit	**(2.2)**	(4.0)
Net assets	**74.0**	59.5

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.

As a consequence of managing the estate to reduce square footage, eliminate store catchment overlap and improve the quality of our store base on realistic rent deals, the level of operating lease liabilities has reduced significantly to £599.3m (2015: £679.1m).

Cash flow

Group net debt at 30 April 2016 was £1.1m, an adverse movement of £1.6m on the prior year end position of £0.5m net cash. The increase was driven by the improvement in underlying operating profit being offset by a £7.0m increase in stock to reduce order fulfilment lead times and the listing of higher value ranges, a £5.1m cash outflow related to provisions paid, £0.9m contributions to closed defined benefit pension schemes and a £4.3m increase in working capital. This increase in working capital was attributable to a combination of amortisation of lease incentives, the timing impact from the 53rd week in the prior year being partially offset by a negotiated quicker payment cycle from the third party provider of consumer credit facilities.

The resulting net inflow of cash generated by operations of £13.3m was offset by net capital expenditure, interest and tax net outflows totalling £14.7m.

The Group's average net debt was £7.1m over the period (2015: £4.9m).

	2016 £m	2015 £m
Underlying operating profit	**19.3**	15.8
Depreciation & other non-cash items	**13.5**	14.0
(Increase)/Decrease in stock	**(7.0)**	(1.0)
(Increase)/Decrease in working capital	**(4.3)**	0.8
Net (expenditure)/proceeds on exit of operating leases	**(2.2)**	1.0
Contributions to pension schemes	**(0.9)**	(0.9)
Provisions paid	**(5.1)**	(4.6)
Operating cash flows	**13.3**	25.1
Net interest paid	**(2.0)**	(1.6)
Corporation tax paid	**(3.0)**	(4.4)
Net capital expenditure	**(9.7)**	(7.6)
Free cash flows	**(1.4)**	11.5
Other	**(0.2)**	0.1
Movement in net debt	**(1.6)**	11.6
Opening net debt	**0.5**	(11.1)
Closing net debt	**(1.1)**	0.5

Net capital expenditure was £9.7m (2015: £7.6m). This can be analysed between the following principal categories:

	2016 £m	2015 £m
Capital expenditure	**(11.9)**	(8.8)
Proceeds from freehold property disposals	**2.2**	1.2
Net capital expenditure	**(9.7)**	(7.6)

The majority of the capital expenditure was focused on new stores and refurbishing existing stores, along with investing in store IT systems in the UK.

Current liquidity

At the year end the Group held cash balances of £8.3m (2015: £7.3m), principally a combination of Sterling and Euros. Gross bank borrowings at the balance sheet date were £7.1m (2015: £4.4m), all of which were drawn down from overdraft facilities. The Group had further undrawn facilities of £47.3m 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. In December 2015 the Group elected not to renew its €5.0m multi-option facility in Belgium due to a lack of requirement. This action reduced the Group's total facilities in GBP terms to £54.4m. The facilities contain financial covenants which are believed to be appropriate in the current economic climate and which are tested on a quarterly basis, against which the Group monitors compliance.

Pensions

At 30 April 2016 the IAS 19 net retirement benefit deficit was £2.2m (2015: £4.0m). This reduction of £1.8m reflects a combination of the movement in financial assumptions and pension deficit contributions made by the Company. 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
Chief Financial Officer

measuring our **performance.**

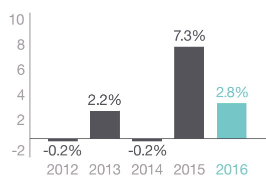
The Board of Directors and executive management receive a wide range of management information delivered in a timely manner. Listed below are the principal measures that are reviewed on a regular basis to monitor the performance of the Group.

Like-for-like sales % growth

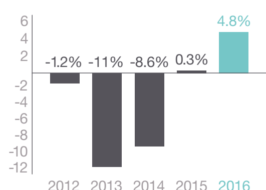
Definition
Calculated as this year's net sales divided by last year's net sales for all stores that are at least twelve months old at the beginning of the financial year. Stores closed during the year are excluded from both years (calculated in local currency).

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 (%)

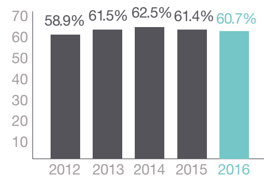


Gross profit percentage

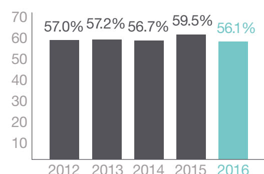
Definition
Gross profit as a percentage of net sales (calculated in local currency).

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 (%)



Net Promoter Score (NPS)

Definition
Net Promoter Score (NPS) is a measure of a customer's willingness to recommend our service to others in terms of Satisfaction and Loyalty calculated by subtracting the percentage of Detractors from the percentage of Promoters.

Rationale
Customer Satisfaction and Loyalty are important indicators of the success, or not, of the Customer Journey, our colleague interaction and our range of products and services.

Performance UK

This is the first year of adopting Net Promoter Score as a KPI; in doing so it allows us to benchmark ourselves against other retailers in similar sectors.

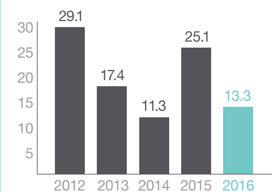
Total	71%

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 (£m)



corporate **responsibility.**

Corporate responsibility starts with our relationship with customers

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.

Our customers

Corporate responsibility starts with our relationship with customers and we continued 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. The Executive Directors' remuneration for the period was directly linked to this measure, further details of which can be found in the Remuneration Report on page 48.

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 30 April 2016 is set out below.

	Male	Female
Directors	5	1
Senior managers	6	1
Other employees	2,575	651
Total	**2,586**	**653**

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, Interest Free Credit, 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. Over 550 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 35.

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. During the financial year, issues were identified concerning manual handling risks relating to certain products and, following a review, those risks were addressed through amending how products are delivered to store. There have not been any fatalities this year (2015: nil).

We have rolled out additional training in the UK and Republic of Ireland this year to reinforce safe working practices and encourage reporting of accidents, irrespective of their seriousness. We believe that this explains the increase in reported accidents in the period to 179 (2015: 117).

Human rights and modern slavery

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 statement on modern slavery is on our website www.carpetright.plc.uk.

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. This code has been updated in order to make it clearer that modern slavery is unacceptable.

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.

We continue to benefit from the introduction of Automatic Meter Readers for electricity and gas, which enable us to identify high-use locations and take corrective action where necessary, together with proactive management preventing us heating stores overnight.

Emissions data in respect of the financial year ended 2016 is as follows:

Emission type	**CO_2e (Carbon Dioxide equivalent) 2016**	CO_2e (Carbon Dioxide equivalent) 2015	Change
Scope 1: Operation of facilities	8,793	9,389	(6%)
Scope 1: Combustion	**5,623**	**5,681**	**(1%)**
Scope 1 Emissions	14,417	15,070	(4%)
Scope 2: Purchased energy	19,743	20,684	(5%)
Scope 2 Emissions	**19,743**	**20,684**	**(5%)**
Total emissions	**34,165**	**35,754**	**(4%)**

Greenhouse gas emissions intensity ratio:

	2016	2015	Change
Total footprint (Scope 1 and Scope 2)	**34,162**	35,754	(4%)
Turnover (£m)	**456.8**	469.8	(3%)
Intensity ratio (tCO_2/turnover £000)	**0.075**	0.076	(2%)

Notes:

1. Our methodology has been based on the principles of the Greenhouse Gas Protocol.
2. Consumption is based on utility bills.
3. 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 2015 to 30 April 2016.
4. 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.
5. Refrigerant fugitive emissions have been excluded as the impact was immaterial.

risk **management.**

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

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, more details of which can be found on page 31. It also has overall responsibility for the 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 33 to 36.

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 the Guidance on Risk Management, Internal Control and Related Financial and Business Control, issued by the Financial Reporting Council in September 2014.

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 Chief Financial Officer 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 pages 26 to 27.

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 35 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.

Viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the Board has assessed the prospects of the Company over a longer period than the twelve months that has in practice been the focus of the 'Going Concern' provision. The Board conducted the review for a five-year period, corresponding with the period covered by its current medium term financial plans. These plans are updated annually and reflect the Group's established strategy, its existing investment commitments, available financial resources and long-term financing arrangements. The plans consider profits, cash flows, funding requirements and other key financial ratios over the period, as well as the headroom in the financial covenants contained in our banking arrangements. Important assumptions underlying the plans include:

- funding for capital expenditure in the form of capital markets debt or bank debt will be available in all plausible market conditions; and
- in the event that the UK votes to leave the European Union, the terms of exit are such that Carpetright would be able to continue to operate competitively in the same European markets as it presently does.

The principal risks are set out on pages 26 to 27 and the most relevant potential impact of these risks on viability was considered to be:

- customer proposition and changing customer preferences whereby a failure to anticipate and plan for changes in consumer tastes could have a material effect on future operations and financial performance; and
- changing economic conditions which in the event of a significant reduction in house prices, housing transactions or consumer confidence, the Group would expect an adverse impact on its performance

The Board overlaid the potential impact of the principal risks which could affect solvency or liquidity in "severe but plausible" scenarios onto the five-year plans and concluded that the business would remain viable. As part of this, they performed sensitivity analyses that flexed inputs to the forecasts including reduced income, profitability and liquidity, both individually and in unison, to reflect these severe but plausible scenarios. Based on the results of the procedures outlined above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Going concern

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of preparation paragraph in note 1 to the accounts on page 63.

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 twelve months and modelled this performance against the covenants that have been set. In addition, the Directors have considered the trading performance necessary to breach the banking covenants as well as mitigating factors that would be available and actionable in the event that the adverse trading performance became reality.

The Directors have also considered the net current liability position of the Group and, given the supplier payment terms and the expected cash generation, the Directors confirm that the Group is forecast to be able to meet its liabilities as they fall due.

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 a minimum of twelve months following the signing of these accounts. 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 20.

principal risks **and uncertainties.**

Description	Possible impacts	Risk management actions
Customer proposition and changing customer preferences		1 2 3 4 5 6
Failure to anticipate and plan for changes in consumer tastes could have a material effect on future operations and financial performance.	– Fail to deliver our business objectives – Loss of revenue – Diminished reputation – Reduction in market share – A reduction in customer service levels	– Established and communicated a clear strategy – Prioritise investment in both our existing estate and online platforms – Strengthen customer feedback processes to help improve our offering – Refreshed our brand, marketing and promotional activity – Introduced new product ranges – Trialled new store designs – Provided clarity to our pricing structure
Economic uncertainty		1 2 3 4 5 6
Consumers need to feel confident to invest money in their homes. In the event of a significant reduction in house prices, housing transactions or consumer confidence, the Group would expect this to adversely impact on its performance.	– Fail to deliver our business objectives – Loss of revenue – Reduced long-term growth and profit	– Provide a broad range of products and price points in our categories to make it easy for our customers to trade up or down – Maintained a robust approach to our cost base to ensure we remain competitive – Refreshed our brand, marketing and promotional activity
Property portfolio		4 7
Property costs form a significant part of our fixed cost base and as such all decisions in this area have an impact on the long-term value of the business.	– Reduced long-term growth, profit and cash flow	– Active management of the property portfolio – Improved the quality of the estate – Invested in a detailed location planning model which aids our understanding of store catchments and customer demographics – Consult external advisers, where appropriate, to provide expert advice and inform decision making
Brand, reputation and product		1 2 5 6
The Carpetright name is a key asset of the business and, as the largest operator in its markets, expectations of the Group are high.	– Fail to deliver our business objectives – Diminished reputation – Loss of revenue – Loss of consumer trust and confidence – Inability to recruit the best 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 – Invested in marketing designed to communicate our credentials on range, choice and value – We are investing in an online training academy to ensure our colleagues have the appropriate skills and knowledge – The performance of our bed delivery partner is continuously monitored – We regularly engage with our customers and act upon their feedback

Description	Possible impacts	Risk management actions
Competition		1 2 3 6
The Group competes with a wide variety of retailers across multiple channels and across a broad spectrum of price-points.	– Fail to deliver our business objectives – Loss of revenue – Reduced long-term growth and profit	– Invested in marketing designed to communicate our credentials on range, choice and value – Continuous monitoring of customer service, product and advertising performance and competitor activity
IT performance and security		1
Carpetright is dependent on the reliability, availability and capability of key information systems and technology.	– Diminished reputation – Loss of revenue – Loss of consumer trust and confidence – A reduction in customer service levels	– Active management of our systems – Reviewed and tested continuity plans – Developed separate disaster recovery facilities – Regular systems' testing by third parties to provide assurance as to their security
People		1 5 6
The Group relies upon attracting and retaining talented and appropriately qualified people in order to deliver its long-term objectives.	– Reduced long-term growth and profit – A reduction in customer service levels – Inadequate succession planning	– Recruit, train and develop a suitably skilled and qualified team – Monitor remuneration packages within our markets – Identify high fliers for accelerated promotion
Legal, regulatory and compliance		1 3
The Group risks incurring penalties, damages, claims and reputational damage arising from failure to comply with legislative or regulatory requirements across many areas including, but not limited to, trading, health and safety, employment law, data protection, Bribery Act, advertising, human rights and the environment.	– Diminished reputation – Reduced long-term growth and profit	– Operate a number of policies and codes of practice outlining mandatory requirements – Management is also responsible for liaising with the Company Secretary and external advisers to ensure that potential issues from new legislation are identified and managed – We have a whistle-blowing procedure and external helpline which enables colleagues to raise concerns in confidence
Cash management		1
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.	– Fail to deliver our business objectives – Reduced long-term growth and profit	– Active management of our financial position to ensure that funding requirements are being met. – Bank covenant tests are regularly monitored – Produced weekly rolling cash flow forecasts

Link to Strategy

1 Brand 2 Choice 3 Value 4 Making it easy 5 Expertise 6 Customer Service 7 Property

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 Non-Executive Director at Charles Wells Ltd. He was previously Chairman of David Lloyd Leisure Limited, Park Resorts Group Limited, Next Generation Clubs Pacific, the Senior Independent Director of Britvic plc and AGA Rangemaster Group plc 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 Officer

Wilf was appointed to the Board as Chief Executive in 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
Chief Financial Officer

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. In his role as Chief Financial Officer he also has responsibility for property and supply chain activities.

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, a Trustee of the Varkey Foundation, an educational charity, and a Non-Executive Director of AmicusHorizon, a housing association. He chairs the Audit Committee.

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.

Andrew Page
Senior Independent Director

Andrew joined the Board in July 2013 and was appointed as the Senior Independent Director in April 2015. He is the Chairman of Northgate plc and a Non-Executive Director of JP Morgan Emerging Markets Investment Trust plc and Schroder UK Mid Cap Fund plc. He was previously a Non-Executive Director of 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.**

Bob Ivell
Non-Executive Chairman

"The Group is committed to operating within an effective corporate governance framework."

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 30 April 2016, the Company complied with the provisions set out in the UK Corporate Governance Code.

Governance structure

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

The Board

There have not been any changes to the Board this year.

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

Number of meetings: 9

Executive Directors	Attendance	Meetings eligible to attend
Wilf Walsh	9	9
Neil Page	9	9

Non-Executive Directors	Attendance	Meetings eligible to attend
Bob Ivell (Chairman)	9	9
Andrew Page	9	9
David Clifford	9	9
Sandra Turner	9	9

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 28 and 29. 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 pages 31 and 32.

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

Whilst not required by the Code, as the Company is outside the FTSE 350, all Directors will offer themselves for re-election at the Annual General Meeting.

Highlights

During the year the Board:

- remained appropriately balanced and stable
- determined its risk appetite and reviewed the current assessment of the principal risks compared to the desired level of risk
- reviewed the terms of reference of its Committees
- assessed and decided upon the Corporate strategy
- reviewed and approved all trading announcements and the interim and final results
- visited the Group's operations in the Netherlands, meeting with local management and store colleagues.

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, identifying only minor changes necessary to improve the Board's effectiveness.

The Non-Executive Directors meet, with no Executive Directors present, at least once each year. Andrew Page, the Senior Independent Director, led the review of the Chairman's performance by meeting with each Director and the Company Secretary separately and met with the Chairman to provide feedback.

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.

The Board is responsible for determining its risk appetite and did so in the year. It has regularly reviewed the current assessment of the principal risks compared to the desired level of risk. Further details of the principal risks affecting the Group can be found on pages 26 and 27.

Directors receive weekly sales updates, 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.

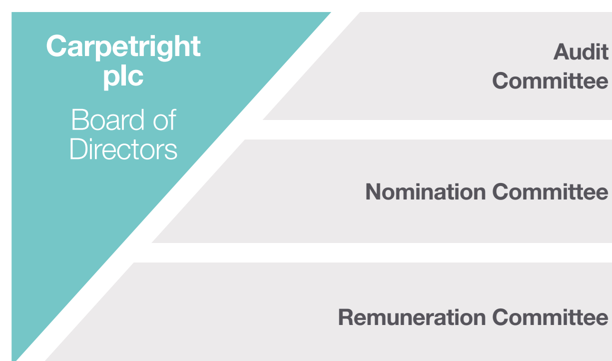
Board Committees

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).

The Board periodically reviews the membership of its Committees to ensure that it is refreshed. All Non-Executive Directors (other than the Chairman) are members of each of the Committees. 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 33 to 36.

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 37 to 54.



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

Number of meetings:		1
Members	Attendance	Meetings eligible to attend
Bob Ivell (Committee Chairman)	1	1
Andrew Page	1	1
Sandra Turner	1	1
David Clifford	1	1

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

Continuing professional development

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

The performance of individual Directors is considered as part of the annual Board appraisal process. The individual development needs of Executive Directors are overseen by the Nomination Committee.

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 56.

audit committee **report.**

David Clifford
Chairman of the Audit Committee

"The Committee plays an important part in the governance of the Group."

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 their independence, objectivity and effectiveness;
- reviewed the external auditors' plan for the audit of the Group's accounts, approved the terms of engagement for the audit and reviewed their findings;
- 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;
- led the process of retendering the external audit;
- 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 reports relating to frauds;
- reviewed the viability statement; and
- reviewed its terms of reference and effectiveness.

I am pleased to introduce the report of the Audit Committee for 2016.

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.

This year the Company produced its first viability statement, which can be found on page 25, which was reviewed by the Committee and approved by the Board.

Significantly, the appointment of the auditors was retendered during the year, starting in April 2016, and the Committee recommended to the Board that PriceWaterhouseCoopers LLP be reappointed as the auditors.

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

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 Group along with the oversight of its key controls.

David Clifford
Chairman of the Audit Committee

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 Chief Financial Officer, 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 reviewed annually 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. There have not been any changes to the composition of the Committee in the period. The biographies of the members of the Committee can be found on pages 29. 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	4	4
Sandra Turner	4	4

Main activities of the Committee during the year

The Committee assisted the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal controls and has an agenda linked to events in the Group's financial calendar. It also reviewed the effectiveness of the 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.

A new requirement for the Company's reporting this year, arising from the FRC's September 2014 Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, is the inclusion of a Viability Statement. This is designed to be a longer-term view of the sustainability of the Company's strategy and business model and related resourcing, in the light of projected wider economic and market developments. The Committee oversaw the introduction of processes designed to enable the Board to make this statement. The statement appears on page 25 together with details of the processes, assumptions, and testing which underpin it.

Significantly, the appointment of the auditors was retendered during the year. The process commenced in April 2016 and was concluded at the Board meeting in June 2016. Details of the tender process can be found on page 36. As a result of the process PwC was successful and will be proposed for re-appointment at the Annual General Meeting in September 2016.

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 Chief Financial Officer 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 2016 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 just outside the range used by PwC in its assessment. The Committee agreed that no impairment was necessary.

Impairment of the valuation of freehold and long-leasehold 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 just outside the range used by PwC in its assessment. Following discussions with both management and PwC the Committee agreed with management that a further £0.4m 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. The Committee has discussed with management the judgments and assumptions made in determining the provision and agreed with management that as a result of the leases of six further stores being identified as onerous, and four stores no longer being regarded as onerous, a further net provision of £0.6m should be made. Further details can be found in note 5 to the financial statements on page 71.

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. The Committee considered the detailed review of the process it had previously received 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 Chief Financial Officer on the Group's risk evaluation process and reviewed changes to significant risks identified. It also discussed emerging and potential risks.

The Committee reviewed, in detail, the assessment and controls for the principal risks and uncertainties as set out on pages 24, 26 and 27. 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 finance and treasury, customer preferences, property portfolio, reputation, economic uncertainty and marketing strategy.

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 2016 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 95 to 100.

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 2016 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.

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.

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 second 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. A retendering process was followed this year.

All three firms invited to submit a proposal did so. The firms were provided with a pack of information and met with various members of the management, finance, IT and Internal Audit teams prior to submitting their proposal. They were advised as to the criteria against which their proposal would be assessed.

The proposals were reviewed by all members of the Committee, and presentations made to two Committee members and the Chief Financial Officer.

Following a review of the proposals and the presentations, each firm was assessed as to the extent to which it:

– demonstrated experience in the retail sector and is thoughtful and insightful about the retail markets in which the Group operates;
– demonstrated a good understanding of the issues facing the Group;
– presented an audit approach which addresses these issues and provides a high degree of assurance;
– put forward a team with an acceptable degree of chemistry; and
– offered a competitive fee for the work proposed.

A recommendation was made to the Committee which, in turn, made a recommendation to the Board which was adopted, namely that PriceWaterhouseCoopers LLP be re-appointed as the auditors. 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 the auditors from providing certain services such as valuation work or the provision of accounting services and also sets a presumption that the auditors should only be engaged for non-audit services where the appointment of an 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, or the Committee's approval, depending upon the financial expenditure, 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 35, at a cost of £53k.

Audit and non-audit fees

Details of the auditors' remuneration for audit work and non-audit fees for the period ended 30 April 2016 are disclosed in note 3 to the financial statements on page 70 and disclosed above. The Committee approved the fees for audit services for 2016 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 31. No significant matters were identified which needed to be addressed.

directors' remuneration **report.**

Sandra Turner
Chairman of the Remuneration Committee

"Executives are rewarded for delivering the Company's growth plans."

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.

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", 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 the financial year ended 2016 and explains how the policy referred to above will be applied in the financial year ending 2017 – 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

There have been no changes to the Board in the last year, which has meant that it has not had to consider new individuals either leaving or joining the Board.

The Committee set the bonus targets for the financial year ending 2017 and reviewed and approved the proposed award levels and targets for the awards under the Carpetright Long-Term Incentive Plan 2013 which were made in July 2015. It also reviewed the likely outcome of awards which had previously been made. It is anticipated that awards will normally be made following the announcement of the Company's annual results. The Committee approved that the awards should be made deeper within the organisation in order to improve alignment between senior management and divisional and regional managers.

Consequently, the aggregate value of shares over which awards were made is greater than in previous years, although the value of awards made to the Executive Directors is in line with previous awards.

The Committee reviewed the salaries of the Executive Directors in April 2016 and determined that no increases would be made this year.

The Committee reviewed its own performance in the year, and also the performance of the remuneration advisers to the Committee. Both were found to be effective, with a high level of satisfaction. The process is as set out on page 31.

Incentive payments

As described in the Financial Review section of the Annual Report the Group has delivered a 32.2% increase in underlying profit to £17.3m, and the Executive Directors achieved their strategic target in relation to property. I am pleased to report that, consequently, the Executive Directors will receive a bonus equal to 52% of their respective base salaries.

Annual incentive arrangements for the financial year ending 2017 for Executive Directors will be again based upon the achievement of underlying profit targets and strategic objectives. Subject to commercial confidentiality, performance against these targets will be disclosed in next year's report.

As a result of financial performance in the year ended on 30 April 2016, none of the long-term incentive awards granted in January 2014 will vest.

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

Sandra Turner
Chairman of the Remuneration Committee

Part 2 – Directors' Remuneration Policy

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. 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

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

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.

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 2017 is set out in the Annual Report on Remuneration from page 52.
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 and 2015, 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 100% of base salary. Until such a holding is achieved, an Executive Director is obliged to retain shares with a minimum value equal to 50% of the net of tax gain arising from any vesting or exercise under the Company's share incentive plans. Details of the extent to which the Executive Directors had complied with this policy as at 30 April 2016 are set out on page 51.

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.

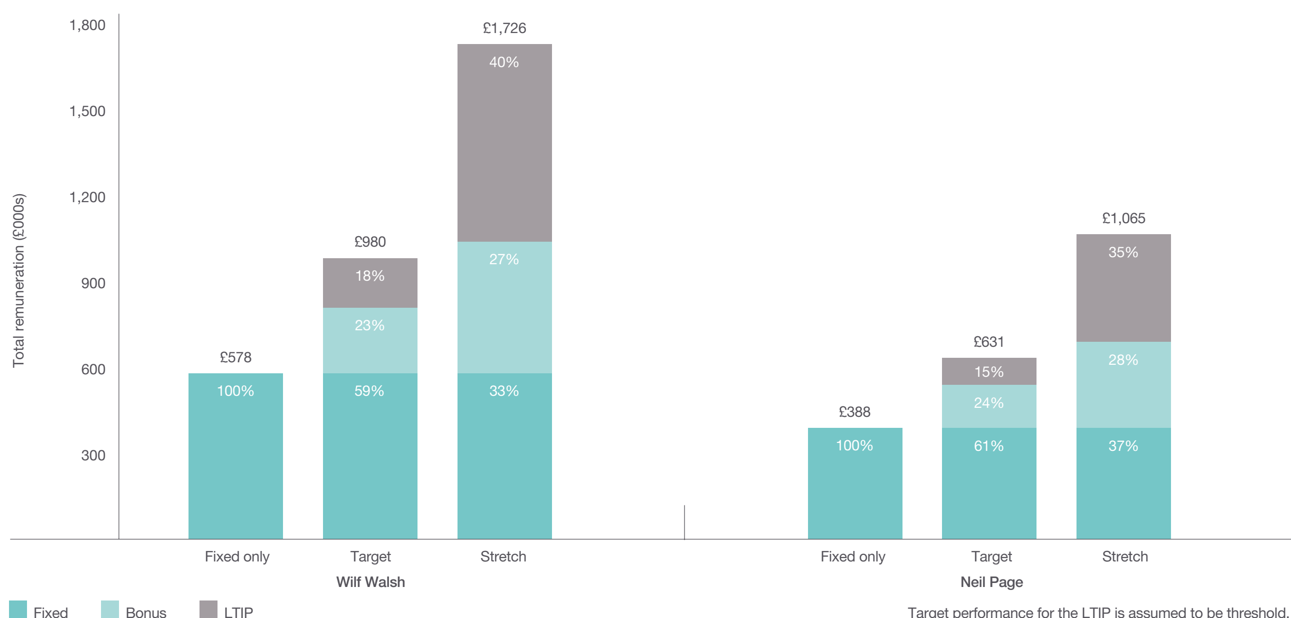
Legacy arrangements

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.

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, pension allowance and benefits as disclosed in the single figure table on page 47.
- On-target – fixed pay, plus 50% of salary annual bonus, plus 37.5% of salary LTIP vesting (Wilf Walsh) / 31.25% of salary LTIP vesting (Neil Page).
- Maximum – fixed pay, plus 100% of salary annual bonus, plus 150% of salary LTIP vesting (Wilf Walsh) / 125% of salary LTIP vesting (Neil Page).

Service agreements and policy on termination

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

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

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

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

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

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

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

Long-term incentive awards lapse on cessation of employment other than in certain 'good leaver' circumstances (including death, retirement with the agreement of the Committee, redundancy, ill-health, or because the individual's employing company or part of the business in which they are employed 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 outlined below.

Outside appointments of the Executive Directors

Executive Directors retain remuneration from outside non-executive directorships. Wilf Walsh is a non-executive director of Gala Coral and retained his fees from this directorship (£80,000).

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.

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 30 April 2016. It also summarises how the policy contained within the Directors' Remuneration Policy Report on pages 38 to 44 will be applied in the financial year ending 29 April 2017.

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 7 September 2016.

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 2016

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

Number of meetings:		3
Members	Attendance	Meetings eligible to attend
Sandra Turner (Committee Chairman)	3	3
Andrew Page	3	3
David Clifford	3	3

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 page 29. The Company Secretary (Jeremy Sampson) acts as secretary to the Committee.

At the invitation of the Committee, the Chairman (Bob Ivell), the Chief Executive (Wilf Walsh), Chief Financial Officer (Neil Page), and the Director of Human Resources (Lyn Rutherford) 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).

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 £25k (2015: £44k). 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.

In addition, it also considered the following:

– the level of executive and all employee salary increases;
– performance against the targets for the 2015 annual bonus (and following the year end, the 2016 annual bonus);
– the content of the Directors' remuneration report;
– the launch of an annual invitation under the SAYE scheme; and
– its own performance.

Statement of shareholder voting at the 2015 AGM

The table below shows the voting outcome at the 10 September 2015 AGM for the 2015 Directors' remuneration report.

	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	39,530,676	6,805,398	46,336,074	176,612	46,512,686
% votes cast	85.3%	14.7%	100%	–	–

Note:

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

Single total figure table for the 2016 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									
Wilf Walsh		459	28	92	579	240	–	240	819
Neil Page		300	28	60	388	157	–	157	545
Total		759	56	152	967	397	–	397	1,364
Non-Executive Directors									
Bob Ivell		150	–	–	150	–	–	–	150
Sandra Turner		44	–	–	44	–	–	–	44
David Clifford		44	–	–	44	–	–	–	44
Andrew Page		44	–	–	44	–	–	–	44
Total		282	–	–	282	–	–	–	282

The remuneration of the Directors for the 2015 financial 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	5	353	23	71	447	302	–	302	749
Neil Page		280	29	56	365	199	–	199	564
Graham Harris	5	180	15	36	231	–	–	–	231
Martin Harris	5	98	11	20	129	–	–	–	129
Total		1,071	88	183	1,342	501	–	501	1,843
Non-Executive Directors									
Bob Ivell	5	75	–	–	75	–	–	–	75
Sandra Turner		44	–	–	44	–	–	–	44
David Clifford		44	–	–	44	–	–	–	44
Andrew Page		42	–	–	42	–	–	–	42
Baroness Noakes	5	21	–	–	21	–	–	–	21
Alan Dickinson	5	15	–	–	15	–	–	–	15
Total		241	–	–	241	–	–	–	241

Notes:

1. The main benefits available to the Executive Directors during 2016 were a car allowance, life assurance and private medical cover.
2. The pension provision is by way of a salary supplement to the Executive's base salary.
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 2016 is provided on page 48.
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 September 2012 awards (included in the 2016 Single Figure) are provided on page 49. The LTIP award granted on 20 September 2011 was based on EPS performance over the three years ended 2 May 2015 (included in the 2015 Single Figure); the condition was not met so no awards vested. Further details of the LTIP's operation during the year ended 2016 are provided on pages 49 and 50.
5. Part year only.

Payments to past directors (audited)

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

In respect of Graham Harris, who stepped down from the Board in May 2014, all payments following him stepping down from the Board are reflected in the single total figure table for the 2015 financial year, above.

Pensions (audited)

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 and Neil Page both received their allowance as a salary supplement.

Annual incentives – 2016 structure and outcome (audited)

In respect of the financial year ended 2016, Executive Directors were eligible to receive an annual performance bonus based on the achievement of performance targets relating to Group underlying profit (80% of the total opportunity) and strategic metrics linked to property and customer service in store (20% of the total opportunity). Payment in respect of the achievement of strategic objectives was subject to an underpin based upon the Group's financial performance.

The strategic objectives were as follows:

- A property-related objective. As disclosed in the Strategic Report on page 12, we are managing the portfolio to reduce square footage, eliminate store catchment overlap and relocating to better locations on realistic rent deals. During the year we opened six new stores and closed 31, giving a net reduction of 25 stores. We continue to eliminate stores from towns where we have more than one unit. Due to the ongoing activity in relation to the property portfolio the precise targets are commercially sensitive, but were met in full. The precise targets will be disclosed once they are no longer commercially sensitive.
- Improvement in customer service relating to the proportion of "highly satisfied" customers providing feedback averaged over the last three months of the financial year ended 2016. Overall satisfaction is also measured, but the more challenging target for bonus purposes of customers being highly satisfied was thought appropriate for the reasons set out in the Strategic Report on page 11.

The maximum bonus opportunity for Executive Directors for the 2016 financial year was 100% (2015: 100%) of basic salary earned in the financial year. In 2016, 50% (2015: 40%) of the financial element was payable for on-target performance.

The Committee considered the extent to which the Executive Directors had achieved the financial and strategic objectives, and agreed that they had been met to the extent as set out in the table below.

Metric	Threshold	Target	Maximum	Actual performance	Maximum percentage of bonus	Actual percentage of bonus
Financial	20% payout	50% payout	100% payout			
Underlying profit before tax (£m)	13.7	17.1	20.5	17.3	80%	42%
Property	Commercially sensitive			Achieved in full	10%	10%
Customer Service		50% payout	100% payout			
Proportion of highly satisfied customers		75%	77%	73%	10%	0%
Bonus payout					100%	52%

Long-term incentives (audited)

LTIP granted September 2012 (included in 2016 column in Single Figure Table above)

The LTIP awards granted in September 2012, which lapsed in September 2015, 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 vested.

LTIP granted in January 2014

The LTIP awards granted in January 2014, which will lapse in January 2017, were based on performance to the year ended 30 April 2016. There was a single underlying cumulative profit performance condition relating to these awards:

Underlying cumulative profit before tax over the performance period	Vesting level
Below £44m	0%
£44m	25%
Between £44m and £60m	25% – 100% pro rata
£60m	100%

Actual cumulative profit measured over the three financial years ended 30 April 2016 was £36.1m. As a result, none of the awards will vest.

LTIP granted in July 2014

The LTIP awards granted in July 2014, which will vest in July 2017, are based on performance over the three financial years beginning 27 April 2014. There was a single underlying cumulative profit performance condition relating to these awards:

Underlying cumulative profit before tax over the performance period	Vesting level
Below £35.2m	0%
£35.2m	25%
Between £35.2m and £51.2m	25% – 100% pro rata
£51.2m	100%

LTIP granted July 2015

The LTIP awards granted in July 2015, which will vest in July 2018, based on performance over the three financial years beginning 3 May 2015, are shown in the table below:

						Performance condition		
	Type of award	Basis of grant	Average share price in 5 working days preceding date of grant	Number of shares over which award was granted	Face value of award	Threshold vesting	Maximum vesting	Performance measure
Wilf Walsh	Nil cost option	150% of salary	577p	119,324	£688,499	25%	100%	Cumulative underlying earnings per share to the financial year ended 2018
Neil Page	Nil cost option	125% of salary	577p	64,991	£374,998	25%	100%	

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

Cumulative underlying earnings per share over the performance period	Vesting level	% of award that vests (on a straight line basis between points)	Compound profit growth from 2015
Less than 65.6p	Nil	0%	<18.1%
65.6p	Threshold	25%	18.1%
80.2p	Maximum	100%	28.6%

All-employee share plans

Sharesave

There were no sharesave options granted to the Executive Directors in the year.

Share Incentive Plan

Carpetright operated a SIP until January 2015, when it was closed as there were fewer than 50 participants. Neil Page participated in the plan, but since closure shares are being transferred out of the trust to Neil as and when they are able to be transferred to him on a tax-free basis.

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 30 April 2016.

	Date granted	Balance at 2 May 2015	Granted during year	Vested/ exercised during year	Lapsed during year	Balance at 30 April 2016	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
	Jul 15	–	119,324	–	–	119,324	577	nil				Jul 18	Jul 28	LTIP
		133,636	119,324	–	–	252,960								
Neil Page	Sep 12[1]	42,200	–	–	42,200	–	664	nil	–	–	–	Sep 15	Mar 16	LTIP
	Jan 14[2]	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	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
	Jul 15		64,991	–	–	64,991	577	nil	–	–	–	Jul 18	Jul 28	LTIP
		182,792	64,991	–	42,200	205,583								

Notes:

1. The performance condition was not met and the awards lapsed in September 2015.
2. The performance condition was not met and the awards will lapse in January 2017.

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 30 April 2016 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 208,890 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 30 April 2016[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	41,278	–	41,278	27%	5,187	247,773	294,238
Neil Page	27,771	1,011	28,782	29%	4,820	200,763	234,365
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 50.
2. Share price used is the price as at 30 April 2016: 302p.
3. None of these options are subject to a performance condition. Details of the Sharesave interests can be found on page 50.
4. This column shows all unvested and outstanding awards under the LTIP that were held by the Executive Director concerned as at 30 April 2016 (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 50.

Application of the remuneration policy for the financial years ending 2016 and 2017

Basic salary

Executive Directors' basic salaries have been reviewed and no increase has been made. The current salaries of the Executive Directors are as follows:

	Base salary as at 2 May 2015	**Current base salary**	Percentage change
Wilf Walsh	£459,000	**£459,000**	0%
Neil Page	£300,000	**£300,000**	0%

Benefits and pension

Benefits and pension will operate in the financial year ended 2017 as per their respective policies set out in the Policy Report on pages 38 to 39.

Annual bonus plan performance targets

The annual bonus plan for the financial year ended 2017 will operate consistently with the policy detailed in the Policy Report on page 39.

Performance targets for the Executive Directors for the financial year ended 2017 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, unless they remain commercially sensitive, be disclosed retrospectively in the 2017 Annual Report and Accounts.

Long-term incentive awards in the financial year ended 2017

The Committee intends to make the next awards under the LTIP during the summer of 2016. 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.

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

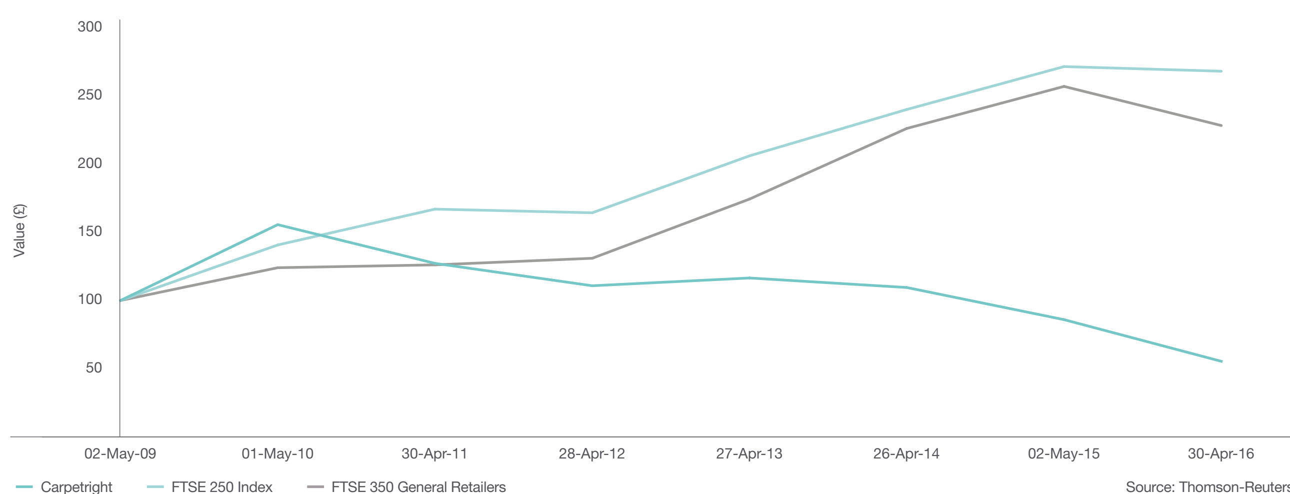
Non-Executive Directors' fees have been reviewed and no changes were made. The current fees are as follows:

	Base fee	Base fee for SID	Chairman fee (including base fee and chairing the Nomination Committee)	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 30 April 2016, 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.



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 seven 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)
2016	**Wilf Walsh**	**819**	52%	0%
2015	**Combined remuneration**	**842**		
2015	Wilf Walsh (21 July 2014 to 30 April 2015)	749	86%	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 47.

directors' remuneration report continued

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

	2016 £'000	2015 £'000	% change
Chief Executive Officer			
– salary	**459**	441	4%
– benefits	**28**	26	8%
– bonus / payments as a result of performance	**240**	302	(21)%
Average per employee			
– salary	**21**	21	0%
– benefits	**1**	1	0%
– bonus / payments as a result of performance	**8**	7	14%

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 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 2 May 2015 to the financial year ending 30 April 2016.

	2016 £m	2015 £m	Percentage change
Overall expenditure on pay	**101.1**	102.0	(1)%
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 pages 70 and 71.

By order of the Board

Sandra Turner
Chairman of the Remuneration Committee
27 June 2016

Directors' report continued

other **information.**

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

- the Strategic Report, including an indication of likely future developments in the business, appears from the Inside Front Cover to page 27;
- the Directors' Remuneration Report appears on pages 37 to 54;
- the Going concern statement appears on page 25;
- the Viability statement appears on page 25;
- a list of the subsidiary and associated undertakings, including branches outside the UK, appears on page 79;
- changes in asset values are set out in the consolidated balance sheet on page 61 and in the notes to the financial statements on pages 63 to 93;
- the Group's profit before taxation and the profit after taxation and minority interests appear in the consolidated income statement on page 59;
- a detailed statement of the Group's treasury management and funding is set out in note 23 to the financial statements on pages 87 to 89;
- matters concerning the employment etc. of disabled persons appear on page 22;
- details of employee involvement appear on page 22;
- disclosures concerning Greenhouse Gas Emissions appear on page 23;
- 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 30; and
- in accordance with Listing Rule 9.8.4, details of dividend waivers appear on page 56.

Directors' interests

Directors' share interests are disclosed in the Directors' report on remuneration on page 51. 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. Some Directors made purchases of the Company's products in the period, on normal commercial terms available to all employees.

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 2016. The Company has also purchased and maintained Directors' and Officers' liability insurance throughout the financial year ended 2016.

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.

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 89 to 91.

Substantial shareholdings

As at 27 June 2016, the Company has been notified of the following substantial shareholdings in accordance with the Disclosure and Transparency Rules, other than those of the Directors, in the issued share capital of the Company:

	Shares held as a percentage of the issued share capital
Franklin Templeton Institutional, LLC	20%
The Olayan Group	13%
Neptune Investment Management	11%
FIL Limited	9%
Cascade Investments LLP	6%
Aberforth	5%

Donations

No political donations were made (2015: £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 2016 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 2015 Annual General Meeting, shareholders gave the Company renewed authority to purchase a maximum of 6,778,237 shares of one penny each. This resolution remains valid until the date of this year's Annual General Meeting. As at 30 April 2016, 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 28 and 29 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.

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 Chief Financial Officer 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.

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 2016 Annual General Meeting of the Company will be held on 7 September 2016 at Carpetright plc, 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 Directors' Report was
approved and signed
by order of the Board

Jeremy Sampson
Company Secretary and Legal Director
27 June 2016

financial **statements.**

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Financial statements

Consolidated income statement

for 52 weeks ended 30 April 2016

	Notes	Group 52 weeks to 30 April 2016			Group 53 weeks to 2 May 2015		
		Before exceptional items £m	Exceptional items (Note 5) £m	Total £m	Before exceptional items £m	Exceptional items (Note 5) £m	Total £m
Revenue	2	**456.8**	**–**	**456.8**	469.8	–	469.8
Cost of sales		**(182.6)**	**–**	**(182.6)**	(182.6)	–	(182.6)
Gross profit	2	**274.2**	**–**	**274.2**	287.2	–	287.2
Administration expenses		**(256.8)**	**(0.9)**	**(257.7)**	(273.5)	(7.2)	(280.7)
Other operating income/(loss)		**1.9**	**(3.6)**	**(1.7)**	2.1	(0.4)	1.7
Operating profit/(loss)	2,3	**19.3**	**(4.5)**	**14.8**	15.8	(7.6)	8.2
Finance costs	6	**(2.0)**	**–**	**(2.0)**	(1.6)	–	(1.6)
Profit/(loss) before tax		**17.3**	**(4.5)**	**12.8**	14.2	(7.6)	6.6
Tax	7	**(4.2)**	**1.5**	**(2.7)**	(3.7)	1.6	(2.1)
Profit/(loss) for the financial period attributable to equity shareholders of the Company		**13.1**	**(3.0)**	**10.1**	10.5	(6.0)	4.5
Basic earnings/(losses) per share (pence)	9	**19.3**	**(4.4)**	**14.9**	15.5	(8.8)	6.7
Diluted earnings/(losses) per share (pence)	9			**14.9**			6.7

Consolidated statement of comprehensive income

for 52 weeks ended 30 April 2016

	Notes	Group 52 weeks to 30 April 2016 £m	Group 53 weeks to 2 May 2015 £m
Profit for the financial period		**10.1**	4.5
Items that may not be reclassified to the income statement:			
Re-measurement of defined benefit plans	22	**1.1**	(1.4)
Tax on items that may not be reclassified to the income statement	7	**(0.4)**	0.1
Total items that may not be reclassified to the income statement		**0.7**	(1.3)
Items that may be reclassified to the income statement:			
Exchange gains/(losses)		**3.2**	(5.3)
Tax on items that may be reclassified to the income statement		**–**	–
Total items that may be reclassified to the income statement		**3.2**	(5.3)
Other comprehensive income/(expense) for the period		**3.9**	(6.6)
Total comprehensive income/(expense) for the period attributable to equity shareholders of the Company		**14.0**	(2.1)

Statements of changes in equity

for 52 weeks ended 30 April 2016

Group	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
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 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**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**10.1**	**10.1**
Other comprehensive income for the financial period	**–**	**–**	**–**	**–**	**3.2**	**0.7**	**3.9**
Total comprehensive income for the financial period	**–**	**–**	**–**	**–**	**3.2**	**10.8**	**14.0**
Issue of new shares	**–**	**0.4**	**–**	**–**	**–**	**–**	**0.4**
Purchase of own shares by employee benefit trust	**–**	**–**	**(0.9)**	**–**	**–**	**–**	**(0.9)**
Share based payments and related tax	**–**	**–**	**–**	**–**	**–**	**1.0**	**1.0**
At 30 April 2016	**0.7**	**17.8**	**(1.3)**	**0.1**	**3.3**	**53.4**	**74.0**

Company	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
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 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**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**7.2**	**7.2**
Other comprehensive income for the financial period	**–**	**–**	**–**	**–**	**0.1**	**0.7**	**0.8**
Total comprehensive income for the financial period	**–**	**–**	**–**	**–**	**0.1**	**7.9**	**8.0**
Issue of new shares	**–**	**0.4**	**–**	**–**	**–**	**–**	**0.4**
Purchase of own shares by employee benefit trust	**–**	**–**	**(0.9)**	**–**	**–**	**–**	**(0.9)**
Share based payments and related tax	**–**	**–**	**–**	**–**	**–**	**1.0**	**1.0**
At 30 April 2016	**0.7**	**17.8**	**(1.3)**	**0.1**	**(0.3)**	**38.2**	**55.2**

Balance sheets

as at 30 April 2016

	Notes	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Assets					
Non-current assets					
Intangible assets	10	**57.1**	56.1	**29.2**	29.4
Property, plant and equipment	11	**95.0**	94.6	**63.4**	63.4
Investment property	12	**14.5**	17.9	**4.9**	8.5
Investment in subsidiary undertakings	13	**–**	–	**15.7**	15.7
Deferred tax assets	21	**1.9**	2.2	**–**	–
Trade and other receivables	15	**0.5**	0.6	**43.4**	45.7
Total non-current assets		**169.0**	171.4	**156.6**	162.7
Current assets					
Inventories	14	**41.6**	34.1	**35.7**	28.4
Trade and other receivables	15	**20.0**	25.2	**14.2**	20.7
Cash and cash equivalents	16	**8.3**	7.3	**5.5**	5.2
Total current assets		**69.9**	66.6	**55.4**	54.3
Total assets	2	**238.9**	238.0	**212.0**	217.0
Liabilities					
Current liabilities					
Trade and other payables	17	**(88.8)**	(95.6)	**(77.6)**	(84.2)
Obligations under finance leases	18	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Borrowings and overdrafts	19	**(7.1)**	(4.4)	**(7.1)**	(4.4)
Current tax liabilities		**(2.3)**	(2.3)	**(2.4)**	(2.4)
Total current liabilities		**(98.3)**	(102.4)	**(87.2)**	(91.1)
Non-current liabilities					
Trade and other payables	17	**(34.3)**	(37.7)	**(43.4)**	(46.4)
Obligations under finance leases	18	**(2.2)**	(2.3)	**(1.1)**	(1.2)
Provisions for liabilities and charges	20	**(12.6)**	(16.9)	**(12.3)**	(16.4)
Deferred tax liabilities	21	**(15.3)**	(15.2)	**(10.6)**	(11.2)
Retirement benefit obligations	22	**(2.2)**	(4.0)	**(2.2)**	(4.0)
Total non-current liabilities		**(66.6)**	(76.1)	**(69.6)**	(79.2)
Total liabilities	2	**(164.9)**	(178.5)	**(156.8)**	(170.3)
Net assets		**74.0**	59.5	**55.2**	46.7
Equity					
Share capital	24	**0.7**	0.7	**0.7**	0.7
Share premium	24	**17.8**	17.4	**17.8**	17.4
Treasury shares	24	**(1.3)**	(0.4)	**(1.3)**	(0.4)
Other reserves		**56.8**	41.8	**38.0**	29.0
Total equity attributable to equity shareholders of the Company		**74.0**	59.5	**55.2**	46.7

These financial statements from pages 59 to 93 were approved by the Board of Directors on 27 June 2016 and were signed on its behalf by:

Wilf Walsh **Neil Page**
Directors

Statements of cash flow

for 52 weeks ended 30 April 2016

	Notes	**Group 52 weeks to 30 April 2016 £m**	* Group 53 weeks to 2 May 2015 £m	**Company 52 weeks to 30 April 2016 £m**	* Company 53 weeks to 2 May 2015 £m
Cash flows from operating activities					
Profit before tax		**12.8**	6.6	**9.0**	4.9
Adjusted for:					
Depreciation and amortisation	2,3	**12.5**	13.6	**10.3**	11.3
Loss/(gain) on property disposals		**3.6**	0.4	**3.5**	(0.5)
Exceptional non-cash items		**0.9**	7.2	**1.1**	7.2
Share based compensation and other non-cash items		**1.0**	0.4	**1.0**	0.4
Net finance costs	6	**2.0**	1.6	**1.7**	1.4
Operating cash flows before movements in working capital		**32.8**	29.8	**26.6**	24.7
(Increase)/decrease in inventories		**(7.0)**	(1.0)	**(7.2)**	(1.0)
Decrease/(Increase) in trade and other receivables		**6.2**	(5.7)	**10.0**	(4.5)
(Decrease)/increase in trade and other payables		**(10.5)**	6.5	**(10.2)**	6.1
Net (expenditure)/proceeds on exit of operating leases		**(2.2)**	1.0	**(2.2)**	1.0
Contributions to pension schemes		**(0.9)**	(0.9)	**(0.9)**	(0.9)
Provisions paid		**(5.1)**	(4.6)	**(4.9)**	(3.9)
Cash generated by operations		**13.3**	25.1	**11.2**	21.5
Interest paid		**(2.0)**	(1.6)	**(2.1)**	(1.6)
Corporation taxes paid		**(3.0)**	(4.4)	**(3.1)**	(4.4)
Net cash generated from operating activities		**8.3**	19.1	**6.0**	15.5
Cash flows from investing activities					
Purchases of intangible assets		**(1.8)**	(1.7)	**(1.8)**	(1.7)
Purchases of property, plant and equipment and investment property		**(10.1)**	(7.1)	**(8.0)**	(5.8)
Proceeds on disposal of property, plant, equipment & investment property		**2.2**	1.2	**1.4**	0.7
Interest received		**–**	–	**0.2**	0.2
Net cash generated used in investing activities		**(9.7)**	(7.6)	**(8.2)**	(6.6)
Cash flows from financing activities					
Issue of new shares		**0.4**	0.2	**0.4**	0.2
Purchase of treasury shares by employee benefit trust		**(0.9)**	(0.1)	**(0.9)**	(0.1)
Repayment of finance lease obligations		**(0.2)**	(0.2)	**(0.1)**	(0.2)
Movement in borrowings	29	**–**	(4.1)	**–**	(4.1)
Net cash used in financing activities		**(0.7)**	(4.2)	**(0.6)**	(4.2)
Net (decrease)/increase in cash and cash equivalents in the period	29	**(2.1)**	7.3	**(2.8)**	4.7
Cash and cash equivalents at the beginning of the period		**2.9**	(4.5)	**0.8**	(4.0)
Exchange differences	29	**0.4**	0.1	**0.4**	0.1
Cash and cash equivalents at the end of the period	29,16	**1.2**	2.9	**(1.6)**	0.8

* Certain prior year amounts have been reclassified for consistency with the current period presentation. This has no impact in the Group's reported opening or closing net cash position.

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 floorcoverings 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 Carpetright plc, Purfleet Bypass, Purfleet, Essex, RM19 1TT.

The nature of the Group's operations and its principal activities are set out on pages 6 to 7 of the Annual Report.

Basis of preparation

The financial statements of the Group are drawn up to within seven days of the accounting record date, being 30 April of each year. The financial period for 2016 represents the 52 weeks ended 30 April 2016. The comparative financial period for 2015 was 53 weeks ended 2 May 2015.

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 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 £7.2m (2015: profit of £3.6m).

Going concern

The Group meets its day to day working capital requirements through its bank facilities. 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 twelve months and modelled this performance against the covenants that have been set. In addition, the Directors have considered the trading performance necessary to breach the banking covenants as well as mitigating factors that would be available and actionable in the event that the adverse trading performance became reality.

The Directors have also considered the net current liability position of the Group and given the supplier payment terms and the expected cash generation, the Directors confirm that the Group is forecast to be able to meet its liabilities as they fall due.

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 a minimum of twelve months following the signing of these accounts. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Further information on the Group's borrowings is given in note 19.

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 3 May 2015, are relevant for the Group but have not had a material impact on the financial statements:

- 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 '2010-2012 Improvement projects' (effective from 1 February 2015).

At 30 April 2016, a number of new standards and interpretations and amendments to existing standards were issued but not yet effective nor adopted by the EU, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a material impact to the Group, except for the following:

- IAS 1 (amendment) 'Presentation of financial statements' – disclosure initiative (effective for periods beginning on or after 1 January 2016);
- IFRS 15 'Revenue from contracts with customers' (effective for periods beginning on or after 1 January 2018);
- IFRS 16 'Leases' (effective for periods beginning on or after 1 January 2019);

The Group is in the process of assessing the full impact of these standards.

1. Principal accounting policies continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of a subsidiary so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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.

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.

Exceptional items
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. 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.

1. Principal accounting policies continued

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 judgments

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 judgments 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.

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 a number of jurisdictions. Significant judgment is required in determining the provision for income taxes.

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.

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 floorcoverings and beds. Central costs of the Group are incurred principally in the UK. As such, these costs are included within the UK segment. Sales between segments are carried out at arm's length.

The segment information provided to the Board of Directors for the reportable segments for the 52 weeks ended 30 April 2016 is as follows:

	52 weeks to 30 April 2016			53 weeks to 2 May 2015		
	UK £m	**Europe £m**	**Group £m**	UK £m	Europe £m	Group £m
Gross revenue	**396.0**	**65.8**	**461.8**	409.1	66.6	475.7
Inter-segment revenue	**(5.0)**	**–**	**(5.0)**	(5.9)	–	(5.9)
Revenues from external customers	**391.0**	**65.8**	**456.8**	403.2	66.6	469.8
Gross profit	**237.3**	**36.9**	**274.2**	247.6	39.6	287.2
Underlying operating profit	**16.8**	**2.5**	**19.3**	15.5	0.3	15.8
Exceptional items	**(4.1)**	**(0.4)**	**(4.5)**	(4.9)	(2.7)	(7.6)
Operating profit/(loss)	**12.7**	**2.1**	**14.8**	10.6	(2.4)	8.2
Intercompany interest	**0.1**	**(0.1)**	**–**	(0.1)	0.1	–
Finance costs	**(2.1)**	**0.1**	**(2.0)**	(1.5)	(0.1)	(1.6)
Profit/(loss) before tax	**10.7**	**2.1**	**12.8**	9.0	(2.4)	6.6
Tax	**(1.9)**	**(0.8)**	**(2.7)**	(2.4)	0.3	(2.1)
Profit/(loss) for the financial period	**8.8**	**1.3**	**10.1**	6.6	(2.1)	4.5
Segment assets:						
Segment assets	**196.4**	**87.0**	**283.4**	200.2	80.6	280.8
Inter-segment balances	**(26.6)**	**(17.9)**	**(44.5)**	(25.8)	(17.0)	(42.8)
Balance sheet total assets	**169.8**	**69.1**	**238.9**	174.4	63.6	238.0
Segment liabilities:						
Segment liabilities	**(163.1)**	**(46.3)**	**(209.4)**	(175.6)	(45.7)	(221.3)
Inter-segment balances	**17.9**	**26.6**	**44.5**	17.0	25.8	42.8
Balance sheet total liabilities	**(145.2)**	**(19.7)**	**(164.9)**	(158.6)	(19.9)	(178.5)
Other segmental items:						
Depreciation and amortisation	**10.6**	**1.9**	**12.5**	11.5	2.1	13.6
Additions to non-current assets	**10.2**	**1.9**	**12.1**	7.1	1.4	8.5

Carpetright plc is domiciled in the UK. The Group's revenue from external customers in the UK is £391.0m (2015: £403.2m) and the total revenue from external customers from other countries is £65.8m (2015: £66.6m). The total of non-current assets (other than financial instruments and deferred tax assets) located in the UK is £141.7m (2015: £147.4m) and the total of those located in other countries is £69.9m (2015: £64.6m).

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 2016 £m**	Group 2015 £m
Rental income earned on investment property		**(2.0)**	(2.0)
Cost of inventories recognised as an expense in cost of sales		**145.2**	157.2
Operating lease rentals:			
Lease payments in respect of land and buildings		**80.7**	89.0
Lease payments in respect of plant and machinery		**1.4**	1.5
Other lease items (lease incentives and rent free credits)		**(3.3)**	(3.5)
Sublease rental income		**(1.0)**	(1.1)
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		**0.1**	–
Staff costs	4	**101.1**	102.0
Impairment of assets	5	**0.3**	0.2
Amortisation of intangible assets	10	**1.9**	1.9
Depreciation of property, plant and equipment:			
Owned assets	11	**10.2**	11.3
Under finance leases	11	**0.1**	0.1
Depreciation of investment property	12	**0.3**	0.3

Non audit fees in the period were £54k (2015: £30k); these fees are explained on page 36 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 2016 Number	Group 2015 Number	**Company 2016 Number**	Company 2015 Number
Stores	**2,609**	2,603	**2,184**	2,172
Store support office and distribution centre	**401**	389	**350**	343
	3,010	2,992	**2,534**	2,515

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

	Notes	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Wages and salaries (including short-term employee benefits)		**88.6**	89.3	**74.9**	75.2
Social security costs		**9.4**	10.0	**7.1**	7.2
Post-employment benefits – defined contribution		**2.1**	2.3	**1.2**	1.3
Share based payments	25	**1.0**	0.4	**1.0**	0.4
		101.1	102.0	**84.2**	84.1

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.

4. Staff costs continued

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

	Group 2016 £m	Group 2015 £m
Short-term employee benefits (including salary and social security)	**3.6**	3.5
Post employment benefits	**0.3**	0.3
Share based payments	**0.6**	0.3
	4.5	4.1

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

During the period, the Executive Directors did not realise any gains (2015: 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 37 to 54.

5. Exceptional items

	Notes	Group 2016 £m	Group 2015 £m
Property losses		**(3.6)**	(0.4)
Onerous lease provision	20	**(0.6)**	(7.0)
Impairment release/(charge):			
Store assets	11	**0.1**	(0.2)
Freehold properties	11,12	**(0.4)**	–
Pre tax exceptional items		**(4.5)**	(7.6)

A net loss of £3.6m was made on property disposals in the year (2015: £0.4m). This was principally the result of surrender premiums being paid to exit loss-making stores and asset write offs.

The Group has undertaken a review of the onerous lease provisions recognised for stores that have ceased to trade and the unavoidable onerous lease costs for loss-making stores, resulting in a net charge of £0.6m in the period (2015: £7.0m 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 resulted in an impairment in the current period of £0.4m (2015: Nil). In determining whether impairment triggers existed at the period end, the Directors treated each store as a separate cash-generating unit (CGU) and valued it at the higher of the value in use calculations or the market value of the properties and their assets.

The tax impact of exceptional items is a credit of £0.2m and the Group has also recognised an exceptional tax credit of £1.3m for the fall in the UK main rate of tax from 20% to 18% (see note 7).

6. Finance costs

	Notes	Group 2016 £m	Group 2015 £m
Interest on borrowings and overdrafts		**(1.1)**	(0.9)
Fees amortisation		**(0.6)**	(0.4)
Interest on obligations under finance leases		**(0.2)**	(0.1)
Net interest on pension scheme obligations	22	**(0.1)**	(0.2)
Finance costs		**(2.0)**	(1.6)

7. Tax

(i) Analysis of the charge in the period	Notes	Group 2016 £m	Group 2015 £m
UK current tax		**3.6**	2.1
Adjustment in respect of prior years		**(0.6)**	0.1
Overseas current tax		**–**	–
Total current tax		**3.0**	2.2
UK deferred tax		**(1.1)**	(0.7)
Overseas deferred tax		**0.8**	0.6
Total deferred tax	21	**(0.3)**	(0.1)
Total tax charge in the income statement		**2.7**	2.1

A change to the UK corporation tax rate was announced in the Chancellor's April 2015 Budget which reduced the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. This was substantively enacted on 26 October 2015. The financial statements include the impact of the reduction of the main rate of tax to 18% on the Group's deferred tax liability. This has resulted in an exceptional tax credit of £1.3m.

A change to the UK corporation tax rate was further announced in the Chancellor's Budget on 16 March 2016, and this reduces the main rate to 17% from 1 April 2020. The reduction had not been substantively enacted at the balance sheet date and its effects are not included in these financial statements. The overall effect of this change, if it had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by an additional £0.7m and credit the tax expense for the period by £0.7m.

(ii) Reconciliation of profit before tax to total tax	Group 2016 £m	Group 2015 £m
Profit before tax	**12.8**	6.6
Tax charge at UK corporation tax rate of 20% (2015: 21%)	**2.6**	1.4
Adjusted for the effects of:		
Overseas tax rates	**0.3**	0.2
Deferred tax impact of fall in UK tax rates	**(1.3)**	–
Non-qualifying depreciation	**0.4**	0.5
Other permanent differences	**0.9**	(0.1)
Impact of gains crystallising	**(0.2)**	0.1
Total tax charge in the income statement	**2.7**	2.1

The weighted average annual effective tax rate for the period is a charge of 21.3% (2015: 31.3%). The decrease in the effective tax rate is a result of the improved profitability while permanent differences remained fairly stable, along with a deferred tax credit in the year from the fall in the main rate to 18%.

(iii) Tax on items taken directly to or transferred from equity	Group 2016 £m	Group 2015 £m
Deferred tax on actuarial losses recognised in other comprehensive income	**(0.4)**	0.1
Deferred tax on share based payments	**–**	(0.1)
Total tax recognised in equity	**(0.4)**	–

8. Dividends

The Directors decided that no final dividend will be paid (2015: No final dividend paid). This results in no dividend in the period to 30 April 2016 (2015: No dividend paid).

9. Earnings per share

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

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

	52 weeks to 30 April 2016			53 weeks to 2 May 2015		
	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 per share	**10.1**	**67.7**	**14.9**	4.5	67.7	6.7
Effect of dilutive share options	**–**	**0.2**	**–**	–	0.4	–
Diluted earnings per share	**10.1**	**67.9**	**14.9**	4.5	68.1	6.7

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

	52 weeks to 30 April 2016			53 weeks to 2 May 2015		
	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 per share	**10.1**	**67.7**	**14.9**	4.5	67.7	6.7
Adjusted for the effect of exceptional items:						
Exceptional items	**4.5**	**–**	**6.7**	7.6	–	11.1
Tax thereon	**(0.2)**	**–**	**(0.3)**	(1.6)	–	(2.3)
Exceptional tax benefit from tax rate change	**(1.3)**	**–**	**(2.0)**	–	–	–
Underlying earnings per share	**13.1**	**67.7**	**19.3**	10.5	67.7	15.5

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 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**
Exchange differences	**1.1**	**0.1**	**–**	**1.2**
Additions	**–**	**1.8**	**–**	**1.8**
Disposals	**–**	**(0.2)**	**–**	**(0.2)**
At 30 April 2016	**52.4**	**22.5**	**0.1**	**75.0**
Accumulated amortisation and impairment:				
At 26 April 2014	0.5	18.9	0.1	19.5
Amortisation	–	1.9	–	1.9
Disposals	–	(5.3)	–	(5.3)
At 2 May 2015	**0.5**	**15.5**	**0.1**	**16.1**
Exchange differences	**–**	**0.1**	**–**	**0.1**
Amortisation	**–**	**1.9**	**–**	**1.9**
Disposals	**–**	**(0.2)**	**–**	**(0.2)**
At 30 April 2016	**0.5**	**17.3**	**0.1**	**17.9**
Net book value:				
At 30 April 2016	**51.9**	**5.2**	**–**	**57.1**
At 2 May 2015	50.8	5.3	–	56.1

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.

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 (2015: £29.8m) to UK and £22.1m (2015: £21.0m) to Europe.

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% (2015: 7.8%) 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 the UK, the recoverable amount calculated based on value in use exceeded carrying value by £425.8m.

In Europe, the recoverable amount calculated based on value in use exceeded carrying value by £82.3m. A fall in long-term growth rate to -10.3% from 2.0% or a rise in the discount rate to 16.2% from 7.8% would remove the remaining headroom.

10. Intangible assets continued

Company	Goodwill £m	Computer software £m	Brands £m	Total £m
Cost:				
At 26 April 2014	**24.1**	**24.5**	**0.1**	**48.7**
Additions	–	1.6	–	1.6
Disposals	–	(5.3)	–	(5.3)
At 2 May 2015	**24.1**	**20.8**	**0.1**	**45.0**
Additions	**–**	**1.8**	**–**	**1.8**
Disposals	**–**	**(0.2)**	**–**	**(0.2)**
At 30 April 2016	**24.1**	**22.4**	**0.1**	**46.6**
Accumulated amortisation and impairment:				
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**
Amortisation	**–**	**1.9**	**–**	**1.9**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 30 April 2016	**–**	**17.3**	**0.1**	**17.4**
Net book value:				
At 30 April 2016	**24.1**	**5.1**	**–**	**29.2**
At 2 May 2015	24.1	5.3	–	29.4

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

11. Property, plant and equipment

Group	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
Cost:						
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**
Exchange differences	**1.2**	**–**	**0.1**	**0.6**	**1.6**	**3.5**
Additions	**0.1**	**–**	**0.2**	**5.5**	**4.5**	**10.3**
Transfer between asset classes	**–**	**–**	**–**	**2.2**	**(2.2)**	**–**
Disposals	**(1.5)**	**–**	**(1.9)**	**(8.2)**	**(7.7)**	**(19.3)**
At 30 April 2016	**43.8**	**17.6**	**16.6**	**93.5**	**33.9**	**205.4**
Accumulated depreciation and impairment:						
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**
Exchange differences	**0.4**	**–**	**0.1**	**0.4**	**1.3**	**2.2**
Impairment	**0.3**	**–**	**–**	**(0.1)**	**–**	**0.2**
Depreciation	**0.7**	**0.4**	**0.8**	**6.9**	**1.5**	**10.3**
Transfer between asset classes	**–**	**–**	**–**	**2.1**	**(2.1)**	**–**
Transfer to investment property	**(1.8)**	**–**	**–**	**–**	**–**	**(1.8)**
Disposals	**(0.2)**	**–**	**(1.6)**	**(7.4)**	**(7.6)**	**(16.8)**
At 30 April 2016	**8.3**	**6.1**	**11.1**	**59.2**	**25.7**	**110.4**
Transfer between asset classes						
Net book value:						
At 30 April 2016	**35.5**	**11.5**	**5.5**	**34.3**	**8.2**	**95.0**
At 2 May 2015	35.1	11.9	6.4	36.1	5.1	94.6

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).

At the balance sheet date the Group was in advanced negotiations for the disposal of a freehold property. This property has been impaired down to its likely net realisable value of £0.6m during the period.

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

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Cost	**9.1**	9.1	**2.3**	2.3
Accumulated depreciation and impairment	**(3.2)**	(3.1)	**(1.7)**	(1.6)
Net book value	**5.9**	6.0	**0.6**	0.7

The assets held under finance leases comprise buildings.

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 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**
Exchange differences	**–**	**–**	**0.1**	**–**	**–**	**0.1**
Additions	**–**	**–**	**0.2**	**5.3**	**2.8**	**8.3**
Disposals	**–**	**–**	**(1.9)**	**(7.5)**	**(7.1)**	**(16.5)**
At 30 April 2016	**17.8**	**9.9**	**16.6**	**81.2**	**8.7**	**134.2**
Accumulated depreciation and impairment:						
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
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**
Exchange differences	**–**	**–**	**0.1**	**0.2**	**–**	**0.3**
Impairment	**0.6**	**–**	**–**	**(0.1)**	**–**	**0.5**
Depreciation	**0.2**	**0.2**	**0.8**	**6.7**	**0.4**	**8.3**
Transfer to investment property	**(1.8)**	**–**	**–**	**–**	**–**	**(1.8)**
Disposals	**–**	**–**	**(1.6)**	**(6.7)**	**(7.1)**	**(15.4)**
At 30 April 2016	**2.9**	**3.8**	**11.1**	**47.7**	**5.3**	**70.8**
Net book value:						
At 30 April 2016	**14.9**	**6.1**	**5.5**	**33.5**	**3.4**	**63.4**
At 2 May 2015	13.9	6.3	6.4	35.8	1.0	63.4

12. Investment property

Investment property is carried at depreciated historical cost and 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.

In the period following the balance sheet date the Group disposed of a freehold investment property. This property was impaired down to net realisable value of £2.9m during the period.

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

	Group £m	Company £m
Cost:		
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**
Exchange differences	**0.7**	**–**
Disposals	**(2.3)**	**(2.3)**
At 30 April 2016	**21.2**	**6.8**
Accumulated depreciation and impairment:		
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**
Exchange differences	**0.2**	**–**
Impairment	**0.1**	**–**
Depreciation	**0.3**	**0.1**
Transfer from property, plant and equipment	**1.8**	**1.8**
Disposals	**(0.6)**	**(0.6)**
At 30 April 2016	**6.7**	**1.9**
Net book value:		
At 30 April 2016	**14.5**	**4.9**
At 2 May 2015	17.9	8.5

13. Investment in subsidiary undertakings

All of the Group's subsidiary undertakings are included in the consolidated accounts. The Group has the following subsidiaries as at 30 April 2016.

	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%
Carpetworld Manchester Limited	England and Wales	Property	–	100%
Carpet Express Limited	England and Wales	Dormant	100%	–
Carpet Depot Ltd	England and Wales	Dormant	100%	–
Carpetright Purfleet Limited	England and Wales	Dormant	100%	–
Carpetright Purfleet Holdings Limited	England and Wales	Dormant	100%	–
Carpetworld Ltd	England and Wales	Dormant	100%	–
Carpetright at Home Limited	England and Wales	Dormant	100%	–
Carpetright Card Services Limited	England and Wales	Dormant	100%	–
Harris Beds Limited	England and Wales	Dormant	100%	–
Harris Carpet Limited	England and Wales	Dormant	100%	–
Harris Carpets at Home Limited	England and Wales	Dormant	100%	–
Harris Carpets Direct Limited	England and Wales	Dormant	100%	–
Harris Carpets Direct.com Limited	England and Wales	Dormant	100%	–
Harris Furnishing Limited	England and Wales	Dormant	100%	–
In-House Carpets Limited	England and Wales	Dormant	100%	–
Mays Holdings Limited	England and Wales	Dormant	100%	–
Mays Carpets Limited	England and Wales	Dormant	100%	–
New Carpet Express Limited	England and Wales	Dormant	100%	–
Premier Carpets Limited	England and Wales	Dormant	100%	–
Rugright (EU) Limited	England and Wales	Dormant	100%	–
Storey Carpets Limited	England and Wales	Dormant	100%	–
Sleepright (UK) Limited	England and Wales	Dormant	100%	–
Sleepright (EU) Limited	England and Wales	Dormant	100%	–
Woodright Limited	England and Wales	Dormant	100%	–

The Group operates in the Republic of Ireland where it trades as a branch of Carpetright plc.

Company	2016 £m	2015 £m
Cost:		
At the beginning of the period	**15.7**	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**	15.7

The cost of investments before impairments is £16.7m. As at 30 April 2016 accumulated impairments of £1.0m have 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 £0.4m (2015: £0.6m), resulting in a stock provision of £0.2m (2015: £0.6m).

15. Trade and other receivables

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Non-current:				
Receivables from subsidiaries	**–**	–	**42.9**	45.1
Prepayments and accrued income	**0.5**	0.6	**0.5**	0.6
	0.5	0.6	**43.4**	45.7
Current:				
Trade receivables	**8.6**	11.1	**4.2**	8.1
Less: provision for impairment	**(0.4)**	(0.4)	**(0.4)**	(0.4)
	8.2	10.7	**3.8**	7.7
Other receivables	**1.2**	1.6	**0.7**	1.1
Prepayments and accrued income	**10.6**	12.9	**9.7**	11.9
	20.0	25.2	**14.2**	20.7
Total trade and other receivables	**20.5**	25.8	**57.6**	66.4

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

Provision for impairment

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £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 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Major insurance companies	**0.9**	1.3	**0.4**	0.8
Property rent receivables	**0.3**	0.3	**0.3**	0.3
Receivables from retail credit finance	**1.2**	5.9	**1.1**	5.9
Retail customers	**7.0**	4.8	**2.7**	1.8
Trade and other receivables	**9.4**	12.3	**4.5**	8.8

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 retail finance arrangements.

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

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Neither past due nor impaired	**1.1**	1.1	**0.6**	0.6
30 to 60 days	**0.1**	0.3	**0.1**	0.3
60 to 90 days	**–**	–	**–**	–
Over 90 days	**–**	0.2	**–**	0.2
Non-retail trade and other receivables	**1.2**	1.6	**0.7**	1.1

16. Cash and cash equivalents

	Notes	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash at bank and in hand		**8.3**	7.3	**5.5**	5.2
Bank overdrafts	19	**(7.1)**	(4.4)	**(7.1)**	(4.4)
Cash and cash equivalents in the cash flow statements		**1.2**	2.9	**(1.6)**	0.8

Included in the £8.3m cash at bank are £1.4m of cash balances generated from the sale of freehold properties previously provided as security against borrowings. These funds are restricted in use for either the acquisition of new freehold properties which will in turn be offered as security against borrowings or for the reduction of banking facilities.

17. Trade and other payables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Current:				
Trade payables	**52.8**	55.7	**46.0**	49.4
Other taxes and social security	**11.5**	13.5	**9.5**	11.6
Accruals and deferred income	**24.5**	26.4	**22.1**	23.2
	88.8	95.6	**77.6**	84.2
Non-current:				
Accruals and deferred income	**34.3**	37.7	**34.3**	37.7
Payable to subsidiaries	**–**	–	**9.1**	8.7
	34.3	37.7	**43.4**	46.4
Total trade and other payables	**123.1**	133.3	**121.0**	130.6

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 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £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**	1.1	**0.8**	0.8	**0.6**	0.5	**0.5**	0.5
Amounts payable after five years	**4.0**	4.2	**0.7**	0.9	**1.6**	1.8	**0.6**	0.7
	5.4	5.6	**1.7**	1.9	**–**	–	**–**	–
Less: future finance charges	**(3.1)**	(3.2)	**(0.5)**	(0.6)	**–**	–	**–**	–
Present value of obligations under finance leases	**2.3**	2.4	**1.2**	1.3	**2.3**	2.4	**1.2**	1.3
Current	**0.1**	0.1	**0.1**	0.1				
Non-current	**2.2**	2.3	**1.1**	1.2				

The Group leases certain properties under finance leases. The average lease term remaining is 13 years (2015: 15 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 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Current:				
Bank overdraft	**7.1**	4.4	**7.1**	4.4
Bank loans	**–**	–	**–**	–
	7.1	4.4	**7.1**	4.4
Non-current:				
Bank loans	**–**	–	**–**	–
	7.1	4.4	**7.1**	4.4

Borrowings and overdrafts are denominated in Sterling and Euro of which £7.1m (2015: £4.4m) are secured on certain Group freehold properties.

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

	Group 2016 %	Group 2015 %	Company 2016 %	Company 2015 %
Overdrafts	**4.0**	4.0	**4.0**	4.0
Revolving credit facility	**3.5**	3.5	**3.5**	3.5

The maturity profiles of borrowings are as follows:

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Amounts payable within one year	**7.1**	4.4	**7.1**	4.4
Amounts payable between one and two years	**–**	–	**–**	–
Amounts payable between two and five years	**–**	–	**–**	–
	7.1	4.4	**7.1**	4.4

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 2016 £m			Company 2016 £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	**16.6**	**0.3**	**16.9**	**16.4**	**–**	**16.4**
Exchange differences	**0.2**	**–**	**0.2**	**0.2**	**–**	**0.2**
Added during the period	**2.5**	**–**	**2.5**	**2.5**	**–**	**2.5**
Released during the period	**(1.9)**	**–**	**(1.9)**	**(1.9)**	**–**	**(1.9)**
Utilised during the period	**(4.9)**	**(0.2)**	**(5.1)**	**(4.9)**	**–**	**(4.9)**
At the end of the period	**12.5**	**0.1**	**12.6**	**12.3**	**–**	**12.3**

The onerous lease provisions relate 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 12.6 years. Further detail can be found in note 5.

The residual cost of £0.1m for the reorganisation provision recognised in the prior period is expected to be utilised over the next twelve months.

21. Deferred tax assets and liabilities

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Deferred tax assets	**(1.9)**	(2.2)	**–**	–
Deferred tax liabilities	**15.3**	15.2	**10.6**	11.2
Net deferred tax liabilities	**13.4**	13.0	**10.6**	11.2

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 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**
Exchange difference	**0.1**	**(0.1)**	**–**	**0.2**	**–**	**–**	**–**	**0.2**
Charge/(credit) to the income statement	**(0.4)**	**–**	**(1.3)**	**0.2**	**1.3**	**–**	**–**	**(0.2)**
Charge/(credit) to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
At 30 April 2016	**4.9**	**1.2**	**10.9**	**(0.6)**	**(2.7)**	**(0.1)**	**(0.2)**	**13.4**

Company	Accelerated tax depreciation	Fair value adjustments	Deferred capital gains	Short-term timing differences	Tax losses	Share based payments	Retirement benefit obligations	Total
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**
Charge/(credit) to the income statement	**(0.4)**	**–**	**(1.2)**	**–**	**0.6**	**–**	**–**	**(1.0)**
Charge/(credit) to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
At 30 April 2016	**1.9**	**–**	**10.0**	**(1.0)**	**–**	**(0.1)**	**(0.2)**	**10.6**

At the reporting date, the Group had unused tax losses of £9.5m (2015: £14.1m) which can be carried forward indefinitely and are available for offset against future profits. A deferred tax asset of £2.9m (2015: £4.0m) has been recognised in respect of these losses.

Deferred tax assets of £2.1m (2015: £2.6m) were available for offset against deferred tax liabilities of £17.4m (2015: £17.8m), hence the Group's deferred tax liabilities as at 30 April 2016 are £15.3m (2015: £15.2m).

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 (2015: £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 (2015: £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 2017.

The assets and liabilities of the schemes were valued on an IAS 19 basis at 30 April 2016 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:

	2016 £m	2015 £m
Present value of pension schemes' obligations	(28.3)	(30.8)
Fair value of pension schemes' assets	26.1	26.8
Total recognised in the balance sheet	**(2.2)**	(4.0)

	Notes	2016 £m	2015 £m
Net interest cost on pension schemes	6	0.1	0.2
Total recognised in the income statement		**0.1**	0.2

	2016 £m	2015 £m
Actuarial gains/(losses) on plan assets	(0.6)	2.7
Change in assumptions underlying present value of liabilities	1.7	(4.1)
Total recognised in the other comprehensive income statement	**1.1**	(1.4)

22. Retirement benefit obligations continued

2) Reconciliation of movement in net pension deficit:

	Defined benefit obligations		Fair value of assets		Net defined benefit obligations	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
As at 2 May 2015	**(30.8)**	(26.3)	**26.8**	23.0	**(4.0)**	(3.3)
Interest income/(expense)	**(1.0)**	(1.1)	**0.9**	0.9	**(0.1)**	(0.2)
Re-measurements:						
Actuarial gains and losses from:						
Demographic	**0.4**	(0.7)	**–**	–	**0.4**	(0.7)
Financial assumptions	**1.3**	(3.2)	**–**	–	**1.3**	(3.2)
Experience adjustments	**–**	(0.2)	**–**	–	**–**	(0.2)
Return on plan assets excluding interest	**–**	–	**(0.7)**	2.7	**(0.7)**	2.7
Contributions:						
Employers	**–**	–	**0.9**	0.9	**0.9**	0.9
Payments from plan:						
Benefits paid	**1.8**	0.7	**(1.8)**	(0.7)	**–**	–
As at 30 April 2016	**(28.3)**	(30.8)	**26.1**	26.8	**(2.2)**	(4.0)

3) The fair value of scheme assets split between those which have a quoted market price in an active market and those which are unquoted are as follows:

	2016 Quoted £m	**2016 Unquoted £m**	**2016 £m**	2015 Quoted £m	2015 Unquoted £m	2015 £m
Equities	**11.5**	**–**	**11.5**	12.4	–	12.4
Bonds	**7.6**	**–**	**7.6**	7.4	–	7.4
Property	**0.1**	**–**	**0.1**	0.1	–	0.1
Insurance policy – unquoted	**–**	**6.7**	**6.7**	–	6.7	6.7
Cash and cash equivalents	**0.1**	**0.1**	**0.2**	0.1	0.1	0.2
Total	**19.3**	**6.8**	**26.1**	20.0	6.8	26.8

22. Retirement benefit obligations continued

4) Key assumptions used:

	2016 %	2015 %
RPI inflation	**3.1**	3.2
Discount rate	**3.5**	3.4
CPI inflation	**2.3**	2.4

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% (2015: S2NXA table on a year of birth usage with future improvements factors and a long-term rate of improvement of 1.25% pa). This results in the following life expectancies:

- male aged 65 now has life expectancy of 23 years
- female aged 65 now has life expectancy of 25 years

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years and 18 years for the Carpetright and Storey's schemes respectively (2015: 20 years and 18 years respectively).

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:

		2016 £m	2015 £m
Increase/(decrease) by 0.1%	Discount rate	**0.5**	0.6
Increase/(decrease) by 0.1%	RPI inflation or CPI inflation	**0.3**	0.4
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 its participation level relative to the other participants. Contributions charged to the income statement amounted to £0.9m (2015: £1.0m) and expected contribution to this scheme for the financial period 2017 is £0.9m.

(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 Royal London. Contributions for the period amounted to £1.2m (2015: £1.3m).

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 (2015: £0.1m) and there were no contributions to industry collective schemes (2015: nil).

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 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 30 April 2016					
Interest bearing loans and borrowings	**7.3**	**–**	**–**	**–**	**7.3**
Finance leases	**0.3**	**0.3**	**0.8**	**4.0**	**5.4**
Trade and other payables	**73.5**	**–**	**–**	**–**	**73.5**
	81.1	**0.3**	**0.8**	**4.0**	**86.2**
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
Company					
At 30 April 2016					
Interest bearing loans and borrowings	**12.0**	**–**	**–**	**–**	**12.0**
Finance leases	**0.2**	**0.2**	**0.6**	**0.7**	**1.7**
Trade and other payables	**68.6**	**–**	**–**	**–**	**68.6**
	80.8	**0.2**	**0.6**	**0.7**	**82.3**
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

23. Financial instruments continued

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 in the UK which are renewable annually in June and €2.4m in the Rest of Europe. The undrawn amounts on the committed facilities were £45.0m (2015: £45.0m). The undrawn amounts on the uncommitted facilities were £0.4m and €2.4m (2015: £3.1m and €7.4m).

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 pages 20 and 25 of the Strategic Report.

(c) Foreign exchange risk

Outside the UK, the Group operates in the Netherlands, Belgium and the Republic of Ireland and had cash balances in Poland. Revenues and expenses of these operations are denominated in Euros or Zlotys. 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 £0.3m lower (2015: £0.2m lower). At 30 April 2016, if Sterling had weakened/strengthened by 10% against the Euro, profit after tax for the period would have been £0.2m 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 2016	Euro 2015	**Zloty 2016**	Zloty 2015
Average rate	**1.36**	1.28	**5.77**	5.38
Closing rate	**1.28**	1.36	**5.62**	5.51

(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 30 April 2016 and 2 May 2015 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 (2015: £0.1m).

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

	2016					2015				
	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	**0.1**	**5.4**	**–**	**4.4**	**9.8**	–	1.9	–	2.6	4.5
Euro	**–**	**2.2**	**–**	**5.0**	**7.2**	–	4.7	–	3.6	8.3
Zloty	**–**	**0.7**	**–**	**–**	**0.7**	–	0.7	–	–	0.7
Total financial assets	**–**	**8.3**	**–**	**9.4**	**17.7**	–	7.3	–	6.2	13.5
Sterling	**0.5**	**(7.3)**	**(2.1)**	**(62.9)**	**(72.3)**	0.9	(4.4)	(2.2)	(76.1)	(82.7)
Euro	**–**	**–**	**(0.2)**	**(10.6)**	**(10.8)**	0.1	–	(0.1)	(8.4)	(8.5)
Zloty	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total financial liabilities	**–**	**(7.3)**	**(2.3)**	**(73.5)**	**(83.1)**	–	(4.4)	(2.3)	(84.5)	(91.2)

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. 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	
	2016 Fair value £m	2015 Fair value £m	**2016 Fair value £m**	2015 Fair value £m
At cost:				
Cash and cash equivalents	**8.3**	7.3	**5.5**	5.2
Loans and receivables at amortised cost:				
Trade and other receivables	**9.4**	6.2	**47.7**	48.1
Total financial assets	**17.7**	13.5	**53.2**	53.3
Financial liabilities at amortised cost:				
Borrowings and overdrafts	**(7.1)**	(4.4)	**(7.1)**	(4.4)
Finance lease obligations	**(2.3)**	(2.3)	**(1.2)**	(1.3)
Financial liabilities at cost:				
Trade and other payables	**(73.7)**	(84.5)	**(73.5)**	(85.7)
Total financial liabilities	**(83.1)**	(91.2)	**(81.8)**	(91.4)
Net financial liabilities	**(65.4)**	(77.7)	**(28.6)**	(38.1)

(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.

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 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**
Issue of new shares	**0.1**	**0**	**0.4**	**–**	**0.4**
Purchase of own shares – employee benefit trust	**–**	**–**	**–**	**(0.9)**	**(0.9)**
At 30 April 2016	**67.9**	**0.7**	**17.8**	**(1.3)**	**17.2**

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 157,450 ordinary shares (2015: 23,571 shares purchased). At the period end, the Trust held 208,890 (2015: 51,440) ordinary shares of 1p each with a market value of £0.7m (2015: £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 £1.0m (2015: charge of £0.4m) 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 49 to 50 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 488,816 shares were granted (2015: 432,953). The amount recognised in the income statement in respect of all LTIP awards is a charge of £0.8m (2015: charge of £0.3m). 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 Equity Trust (Jersey) Limited and it waives its right to dividends on the shares held.

Reconciliation of movements in the period ended 30 April 2016

	LTIP July 2015		LTIP July 2014		LTIP Jan 2014		LTIP 2012	
	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 26 April 2014	–	–	–	–	387.3	2.0	172.7	1.1
Granted	–	–	432.9	2.3	–	–	–	–
Forfeited	–	–	(34.3)	(0.2)	(84.8)	(0.9)	(141.6)	(0.4)
Outstanding at 2 May 2015	**–**	**–**	**398.6**	**2.1**	**302.5**	**1.1**	**31.1**	**0.7**
Granted	**488.8**	**2.7**	**–**	**–**	**–**	**–**	**–**	**–**
Forfeited	**(32.6)**	**(0.2)**	**(33.0)**	**(0.1)**	**(34.0)**	**(0.2)**	**–**	**–**
Expired/lapsed	**–**	**–**	**–**	**–**	**–**	**–**	**(31.1)**	**(0.7)**
Outstanding at 30 April 2016	**456.2**	**2.5**	**365.6**	**2.0**	**268.5**	**0.9**	**–**	**–**
Exercisable at 30 April 2016	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exercisable at 2 May 2015	–	–	–	–	–	–	–	–

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

Valuation assumptions	LTIP July 2015 award	LTIP July 2014 award	LTIP Jan 2014 award	LTIP 2012 award
Fair value per share (pence)	560	524	504	641
Share price at grant (pence)	577	526	506	664
Exercise price (pence)	0.0	0.0	0.0	1.0
Expected volatility (%)[1]	32.4	33.4	35.1	35.9
Vesting period (years)	3.0	3.0	3.0	3.0
Dividend yield (%)	0.0	0.0	0.0	1.1
Risk free interest rate (%)	1.0	1.5	1.0	0.4

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 (2015: £500) per month from salary. Share options were valued using a Black-Scholes option-pricing model. The cost charged to the income statement in respect of this scheme is £0.2m (2015: £0.1m).

25. Share based payments continued

Reconciliation of movements in the period ended 30 April 2016

	SAYE 2016		SAYE 2015		SAYE 2014		SAYE 2013		SAYE 2012		SAYE 2011	SAYE 2010
	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 26 April 2014	–	–	–	–	267.7	80.3	60.1	10.6	177.9	36.1	7.4	4.1
Granted	–	–	757.8	158.8	–	–	–	–	–	–	–	–
Forfeited	–	–	–	–	(139.5)	(55.5)	(26.1)	(2.0)	(43.0)	(27.8)	(1.3)	(0.4)
Vested	–	–	–	–	–	(0.1)	–	–	(26.7)	–	–	–
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**
Granted	**197.3**	**39.5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Forfeited	**–**	**–**	**(208.4)**	**(24.2)**	**(24.0)**	**(3.0)**	**(8.7)**	**(2.5)**	**(30.1)**	**(2.1)**	**(1.8)**	**(3.7)**
Vested	**–**	**–**	**(0.9)**	**–**	**–**	**–**	**–**	**–**	**(78.1)**	**–**	**–**	**–**
Outstanding at 30 April 2016	**197.3**	**39.5**	**548.5**	**134.6**	**104.2**	**21.7**	**25.3**	**6.1**	**–**	**6.2**	**4.3**	**–**
Exercisable at 30 April 2016	**–**	**–**	**–**	**–**	**–**	**–**	**25.3**	**–**	**–**	**–**	**4.3**	**–**
Exercisable at 2 May 2015	–	–	–	–	–	–	–	–	108.2	–	–	3.7

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

Valuation assumptions	**SAYE 2016 3yr**	**SAYE 2016 5yr**	SAYE 2015 3yr	SAYE 2015 5 yr	SAYE 2014 3 yr	SAYE 2014 5 yr	SAYE 2013 3 yr	SAYE 2013 5 yr	SAYE 2012 3 yr	SAYE 2012 5 yr	SAYE 2011 *3 yr*	SAYE 2011 5 yr
Fair value per share (pence)	**148**	**178**	148	184	165	201	248	339	179	231	*264*	298
Share price at grant (pence)	**446**	**446**	446	446	505	505	679	679	529	529	*792*	792
Exercise price (pence)	**356**	**356**	347	347	404	404	544	554	423	423	*634*	634
Expected volatility (%)[1]	**34.3**	**34.7**	31.5	34.8	33.7	34.8	34.7	39.1	40.0	44.1	*41.6*	39.9
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
Risk free interest rate (%)	**0.5**	**0.8**	0.7	1.0	0.3	0.8	2.9	4.9	1.6	2.9	*1.6*	2.4
Possibility of ceasing employment before vesting (%)	**40**	**50**	40	50	40	50	40	40	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 have been acquired at market value and are not subject to an accumulation period.

26. Capital and other financial commitments

Capital commitments at 30 April 2016 contracted for but not yet incurred are:

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Store equipment	**–**	0.4	**–**	0.4

27. Operating lease commitments

At 30 April 2016, the future minimum lease payments in respect of land and buildings and other assets under operating leases are:

	2016		2015	
Group	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	**81.1**	**1.4**	85.7	1.2
Amounts payable between one and five years	**281.4**	**2.5**	302.6	3.1
Amounts payable after five years	**236.8**	**–**	290.8	0.1
	599.3	**3.9**	679.1	4.4

	2016		2015	
Company	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	**74.3**	**1.1**	79.2	1.1
Amounts payable between one and five years	**266.1**	**2.1**	290.5	2.8
Amounts payable after five years	**225.5**	**–**	290.1	0.1
	565.9	**3.2**	659.8	4.0

The Group's operating leases have an average remaining length of 5.1 years (2015: 5.1 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 £8.4m (2015: £10.2m).

28. Contingent liabilities

The Group has no material contingent liabilities at 30 April 2016.

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

29. Net (debt)/cash

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Current assets:				
Cash and cash equivalents	**8.3**	7.3	**5.5**	5.2
	8.3	7.3	**5.5**	5.2
Current liabilities:				
Bank overdrafts	**(7.1)**	(4.4)	**(7.1)**	(4.4)
Obligations under finance leases	**(0.1)**	(0.1)	**(0.1)**	(0.1)
	(7.2)	(4.5)	**(7.2)**	(4.5)
Non-current liabilities:				
Obligations under finance leases	**(2.2)**	(2.3)	**(1.1)**	(1.2)
	(2.2)	(2.3)	**(1.1)**	(1.2)
Total net (debt)/cash	**(1.1)**	0.5	**(2.8)**	(0.5)

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Cash and cash equivalents	**8.3**	7.3	**5.5**	5.2
Bank overdrafts	**(7.1)**	(4.4)	**(7.1)**	(4.4)
Cash and cash equivalents in the cash flow statement	**1.2**	2.9	**(1.6)**	0.8

Reconciliation of movements in the period ended 30 April 2016

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Net (decrease)/increase in cash and cash equivalents in cash flow statement	**(2.1)**	7.3	**(2.8)**	4.7
Exchange differences	**0.4**	0.1	**0.4**	0.1
Net (decrease)/increase in cash and cash equivalents	**(1.7)**	7.4	**(2.4)**	4.8
Borrowings	**–**	4.0	**–**	4.0
Other non-cash movements	**0.1**	0.2	**0.1**	0.1
Movement in net (debt)/cash	**(1.6)**	11.6	**(2.3)**	8.9

30. Related parties

Group

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 2016 (2015: £0.2m).

Company

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

	Sales of goods £m	Provision of services £m	Total goods £m	Amounts due from related parties £m	Amounts due to related parties £m
Subsidiary undertakings					
2016	**1.5**	**0.6**	**2.1**	**42.9**	**9.1**
2015	2.6	0.5	3.1	45.1	8.7

The Company guarantees bank and other borrowings of subsidiary undertakings. At the period-end there were nil drawn borrowings (2015: nil).

Group five-year financial summary

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Summarised income statements:					
Revenue	**456.8**	469.8	447.7	457.6	471.5
Gross profit	**274.2**	287.2	275.9	278.3	276.0
Operating profit/(loss)	**14.8**	8.2	(4.9)	(3.4)	18.0
Underlying operating profit	**19.3**	15.8	6.9	11.4	8.0
Net finance costs	**(2.0)**	(1.6)	(2.3)	(1.7)	(4.0)
Underlying profit before tax	**17.3**	14.2	4.6	9.7	4.0
Exceptional items	**(4.5)**	(7.6)	(11.8)	(14.8)	9.5
Profit/(loss) before tax	**12.8**	6.6	(7.2)	(5.1)	13.5
Tax	**(2.7)**	(2.1)	3.6	(1.5)	(2.5)
Profit/(loss) for the financial period	**10.1**	4.5	(3.6)	(6.6)	11.0
Extracts from balance sheets:					
Non-current assets	**169.0**	171.4	185.4	193.0	205.2
Net assets	**74.0**	59.5	61.1	65.3	70.7
Operating cash flows	**13.3**	25.1	11.3	17.4	29.1
Net cash/(debt)	**(1.1)**	0.5	(11.1)	(10.2)	(19.1)
Ratios and statistics:					
Number of stores at period end	**572**	597	614	620	632
Total space (sq ft – gross) '000	**5,150**	5,444	5,630	5,719	5,840
Gross margin (%)	**60.0%**	61.1%	61.6%	60.8%	58.5%
Underlying operating margin (%)	**4.2%**	3.4%	1.5%	2.5%	1.7%
Operating margin (%)	**2.2%**	1.0%	(1.0%)	(0.7%)	3.8%
Underlying earnings per share (pence)	**19.3p**	15.5p	4.7p	9.6p	4.5p
Basic earnings/(losses) per share (pence)	**14.9p**	6.7p	(5.3p)	(9.8p)	16.4p

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 30 April 2016 and of the Group's profit and the Group's and the Company's cash flows for the 52 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

The financial statements, included within the Annual Report, comprise:

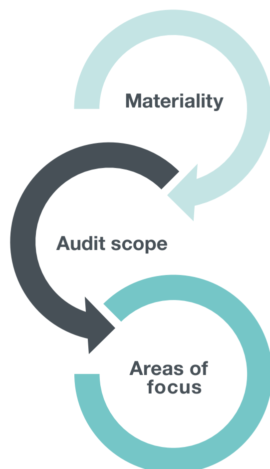
- the Group and Company Balance sheets as at 30 April 2016;
- the Consolidated income statement and Consolidated statement of comprehensive income for the period then ended;
- the Group and Company Statements of cash flow for the period then ended;
- the Group and Company Statements of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures 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.

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

Our audit approach

Overview



- Overall Group materiality: £2.3m, which represents 0.5% of Group revenues.

- We performed an audit of the complete financial information of Carpetright plc, which comprises two reporting units (the UK and the Republic of Ireland) and accounted for 87% of the Group revenues and 77% of the Group's profit, and the consolidation.

- Valuation of goodwill in Europe (the Netherlands and Belgium);
- Impairment of freehold and long-leasehold properties (Europe and UK);
- Impairment of store assets and onerous leases;
- 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 judgments, 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.

Independent auditors' report to the members of Carpetright plc continued

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 judgments), note 10 (Intangible assets) and to the Audit Committee Report on page 33. Goodwill is valued at £51.9m 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 the Directors monitor goodwill is the "UK", defined as UK and Republic of Ireland, and "Europe", defined as the Netherlands and Belgium. Therefore these have been identified as the cash-generating units ("CGUs"). The Group's goodwill in the UK is £29.8m and in Europe it is £22.1m at the period-end. We focused on valuation of goodwill in the Rest of Europe in particular because of the historical trading performance in this CGU and because of the judgment required in the impairment assessment. The Directors' review process for the UK goodwill has not identified any potential impairment. The 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 five 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 these assumptions to recent results for the Group and to third party analysts' reports, market data, the general state of the economy and anticipated growth, to assess their reasonableness. – 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. However, the use of a discount rate within our independent range would not result in a material impairment. 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 the likelihood for changes of the required magnitude in the key assumptions to result in a material impairment to be relatively low. We also considered that the disclosure made in the financial statements regarding the assumptions and the sensitivities drew appropriate attention to the more significant areas of judgment.
Impairment of freehold and long-leasehold properties (Europe and UK) Refer to note 1 (Accounting policies and Critical accounting estimates and judgments), note 11 (Property, plant and equipment) and to the Audit Committee report on page 33. 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 ten year sale and leaseback arrangement. This review resulted in an impairment charge of £0.4m in the current year. We focused on this area because of the size of the underlying assets and because of the significant judgment 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 an independent analysis performed by our property valuation experts to confirm that the main assumptions used in the estimation of the market value were still valid and updated. We 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 five 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 these assumptions to recent results for the Group and to third party analysts' reports, market data, the general state of the economy and anticipated growth, to assess their reasonableness; – 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. However, the use of a discount rate within our independent range would not result in a material impairment.

Area of focus	How our audit addressed the area of focus
	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 the likelihood for such changes in the key assumptions to be relatively low.
Impairment of store assets and onerous leases Refer to note 1 (Accounting policies and Critical accounting estimates and judgments), note 11 (Property, plant and equipment), note 20 (Provisions for liabilities and charges) and to the Audit Committee report on page 33. 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 earnings before interest, taxation, depreciation, amortisation, rents, rates and service charges ("EBITDAR") 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 provision held at the balance sheet date for loss-making leases is expected to be utilised over the remaining period of three years out of the estimated four year timeframe for negotiating to exit or restructure the onerous contract. 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 £12.5m was carried at the year-end for the onerous leases, of which £5.5m was in relation to poorly performing stores.	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 Directors' 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 judgment 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 whose assets were impaired, following the store impairment review. We tested the NPV models, including comparing the forecasts included to the latest five 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 judgmental. The provision takes into account other factors, such as potential property transactions. We assessed these judgments, including agreeing to the underlying third party draft contracts where appropriate. We considered the judgments taken by the Directors to be reasonable based on the evidence provided.
Valuation of inventory Refer to note 1 (Accounting policies), note 14 (Inventories) and to the Audit Committee Report on page 33. 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 allocated goods, recognised at the point the Group fulfils its commercial obligations to the customer; and	We tested the Directors' calculations of inventory provisions and adjustments, challenged the appropriateness of management's judgments and assumptions. In particular, we focused on the following key areas: – We agreed 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.

Independent auditors' report to the members of Carpetright plc continued

Area of focus	How our audit addressed the area of focus
– The level of judgment involved in the calculation of inventory loss and obsolescence provisions. The inventory loss calculation is mainly based on an average shrinkage identified as a result of the physical inventory counts performed on each store.	– 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 ageing of inventory and the shrinkage percentage used by the Directors 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 Rest of Europe, with the majority of trading occurring in the UK segment. The Rest of Europe segment comprises three reporting units, being Republic of Ireland, Netherlands and Belgium.

In establishing the overall approach to the Group audit, we identified that the UK segment and the Republic of Ireland reporting units required an audit of their complete financial information as they form part of Carpetright plc Company. This was performed by the Group audit team.

The Group team assessed the appropriateness, completeness and accuracy of group journals and other adjustments performed on the consolidation and obtained an understanding of the internal control environment related to the financial reporting process. For the Netherlands and Belgium reporting units, which were not individually significant to the Group, the Group audit team have performed audit procedures on a number of judgmental areas. These include testing the onerous lease provision and impairment testing of goodwill, freehold and long leasehold properties and store assets.

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 on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£2.3m (2015: £2.0m).
How we determined it	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. Revenue is also the primary measure used by the shareholders in assessing the performance of the Group and reporting to the stakeholders.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1m (2015: £0.1m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 25, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and 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 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.
– The statement given by the Directors on page 30, 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 position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report.
– The section of the Annual Report on pages 33 to 36, 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.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

– The Directors' confirmation on pages 24 and 31 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– The Directors' explanation on page 25 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Independent auditors' report to the members of Carpetright plc continued

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 this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the 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 the Directors' Responsibilities set out on page 56, 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' judgments against available evidence, forming our own judgments, 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
27 June 2016

Shareholder information

Calendar

2016

Annual General Meeting	7 September
First-half trading update	25 October
First-half ends	29 October
Interim results announcement	13 December

2017

Q3 trading update	31 January
Pre-close trading update	25 April
Year ends	29 April

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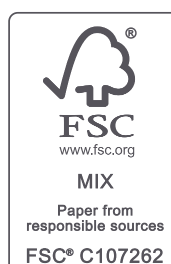

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