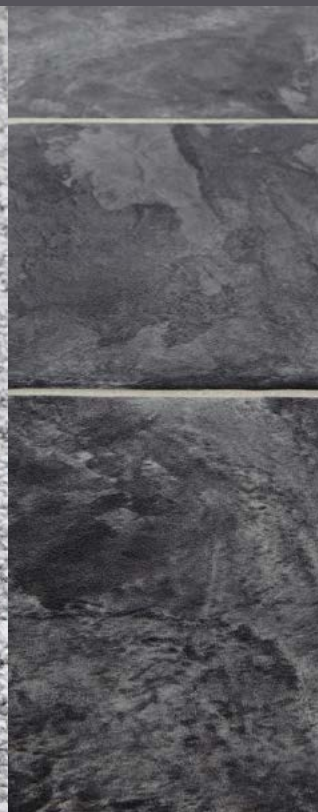




carpetright.

Annual report and accounts 2017



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Carpetright is Europe's leading specialist retailer of floorcoverings and beds in the domestic home improvement market.

Our primary business objective is to help customers transform their homes with our products and services delivered through an integrated multi-channel proposition.

Through this we will maximise value for our shareholders by delivering long-term sustainable growth in earnings per share and cash flow.

We're **honest and straightforward**

We **care about customers and colleagues**

We **make it easy**

Details of our strategy, including a strategic update, can be found on pages 10 to 13 of this report.

This Strategic Report was approved by the Board of Directors on 26 June 2017 and was signed on its behalf by Jeremy Sampson – Company Secretary and Legal Director.

More online

This report, along with our other announcements and stakeholder information, can be found on our corporate website: carpetright.plc.uk



At a glance

Strategic progress

- Year of significant operational change and investment – strategic plan on track.
- Accelerated store refurbishment programme with 47% of the UK estate trading under the new brand identity by period end. On track to complete remainder of UK estate by end of 2018.
- Post-investment performance of refurbished estate continues to be encouraging with like-for-like sales up by 6.8% on average.
- Hard flooring category achieving double digit sales growth as it benefits from greater strategic focus.
- Focus on improving customer service delivering stronger satisfaction metrics.
- Further progress made in reducing number of underperforming stores:
 - Net nine closures in the UK, reducing the estate to 426 stores, a space reduction of 1.9%.
 - In Rest of Europe, store base increased by a net one but trading space was reduced by 2.8%.
- Rest of Europe refurbishment programme has been extended to a further nine stores following a successful trial.

Financial highlights

Group

- Group revenue increased to £457.6m (2016: £456.8m).
- Underlying profit before tax of £14.4m (2016: £18.3m), in line with market expectations.
- Year-end net debt position of £9.8m (2016: £1.1m) reflects investment in the accelerated store refurbishment programme.
- Separately reported items of £13.5m (2016: £5.5m), primarily related to increased onerous lease cost provisions on loss-making stores.
- Statutory profit before tax of £0.9m (2016: £12.8m).

UK

- Significant improvement in performance in the second half – re-establishing trading momentum after a difficult first six months.
- Like-for-like sales in the second half increased by 1.8% partially mitigating the decline of 2.8% experienced in the first half, to give a full year decline of 0.5% (2016: 2.8% growth).
- Underlying operating profit of £10.7m (2016: £17.8m) with reduction reflecting sterling depreciation impact and margin effect of measures to address increased competition.

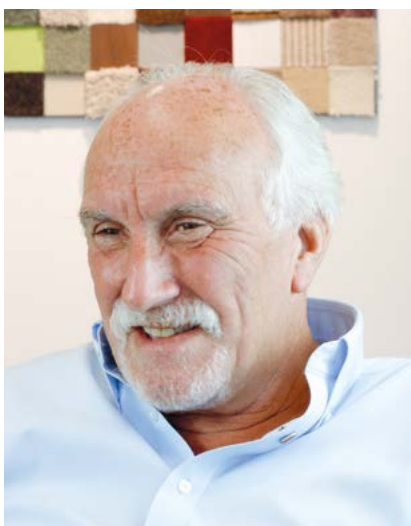
Rest of Europe

- Like-for-like sales growth of 2.5% (2016: 4.8%).
- Improvement in underlying operating profit to £5.7m (2016: £2.5m).

The financial period for 2017 represents the 52 weeks ended 29 April 2017. The comparative financial period for 2016 was the 52 weeks ended 30 April 2016.

The Group uses a number of Alternative Performance Measures (APMs) in addition to those reported in accordance with IFRS, the definitions of these can be found on page 70.

Chairman's statement



Bob Ivell
Chairman

Overview

In a challenging year characterised by both political and economic turbulence, I am pleased to report that the Group made good progress in implementing the programme of strategic initiatives to extend the appeal of the Carpetright brand and to address the significant legacy issues within its property estate. The acceleration of the refurbishment programme extended it to over 40% of UK stores by year end, well ahead of the original target, and is a great example of the pace and energy the executive team is bringing to these initiatives. Recent evidence shows that retailers must adapt to combat tougher trading conditions. With this in mind, we know we need to continue to innovate as we strive to differentiate ourselves from the competition.

While there is much left to do, we made tangible progress across the year in key areas such as product offering, promotional effectiveness, brand perception, store standards and customer service. The strategic update on pages 6 to 16 provides more details on our progress against our plan.

Results and dividend

Total revenue for the year ended 29 April 2017 increased by 0.2% to £457.6m (2016: £456.8m), reflecting further store closures as we continued to rationalise our estate. In challenging market conditions, UK like-for-like sales declined by 0.5% with an increase of 2.5% in the Rest of Europe. Underlying profit before tax decreased by 21.3% to £14.4m (2016: £18.3m). After the impact of separately reported items, statutory profit before tax was £0.9m (2016: £12.8m). Underlying earnings per share decreased to 16.4p (2016: 20.8p) and basic earnings per share were 1.0p (2016: 14.9p).

The Board continue to prioritise the use of cash for the acceleration of the strategy by investing further in the existing store estate, while also reducing the fixed occupancy costs as quickly as possible. As a result, it has taken the decision not to pay a final dividend (2016: nil). Based on our current outlook we do not expect this position to change in the current financial year.

The Board

The composition of the Board was unchanged in the year. Much of our time has been spent overseeing the implementation of multiple strategic initiatives and providing an appropriate level of challenge to the executive on the Group's response to the tougher trading conditions. Further details of the Board's work can be found in the Directors' report starting on page 30 of this Annual Report.

Our people

On behalf of the Board, I would like to thank the more than 3,000 colleagues working in our stores, distribution centre and support offices for their hard work and dedication across the year. Their commitment to delivering outstanding service to our customers is endorsed by increased levels of customer satisfaction as measured by our Net Promoter Score. I am delighted that a significant number of our colleagues now participate in our SAYE share schemes, enabling them to share in our future success.

Summary and outlook

In common with other retailers in the home improvement sector in the UK, we have experienced more challenging trading conditions over recent months. We are expecting the consumer environment to remain equally testing in the year ahead as the uncertainties created by the UK's decision to leave the EU persist. Delivering a turnaround in these conditions is not easy, but we continue to believe that the strategic plan we are implementing will ensure the business better capitalises on its market leading position and provides resilience against weaker trading conditions.

While we cannot control external market conditions, we have a wide-ranging programme of self-help measures on which to concentrate and we believe these have significant potential to improve the performance of the Group. I am confident that these will deliver long-term profitable growth for the benefit of our shareholders.

Bob Ivell
Chairman

Our market

Overview

Our market is highly fragmented, with approximately 4,000 floorcoverings businesses. Current estimates place the UK market at £2.0bn per annum for the calendar year to December 2017, placing ourselves as the market leader with a share of around 20%.

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 underlines the importance of having an effective and integrated digital proposition.

Product ranges

Whilst carpet remains the dominant product category in floorcoverings, we

have historically over-indexed on carpet product ranges relative to wider market preferences. We are redressing this bias by substantially extending our offer in the hard flooring area to better reflect consumer tastes.

In our UK business, beds provides 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.

Macroeconomic indicators

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.

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.

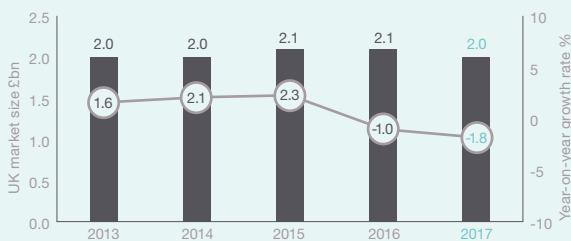
We see moving house as a key stimulant of demand and a potential lead indicator of activity in the home improvement sector. Having grown steadily from 2013 to early 2015, UK housing transactions were then relatively flat through to February 2016.

During this financial year transactions have declined by around 10% to a monthly average of 98,000 as at April 2017 down from 109,000 in April 2016.

Consumer confidence

Consumer confidence, which has been fragile for some time, remains a key driver of our performance. During the course of the financial year the average level of consumer confidence was -5, which compares to +2 in the prior year comparative.

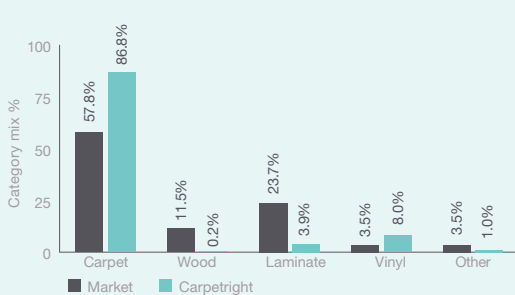
UK Floorcoverings market size¹



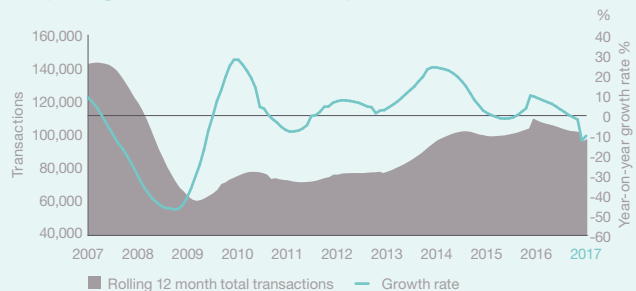
GfK consumer confidence index²



UK floorcoverings market by category³



UK housing transactions (rolling 12 months, over £40k)⁴



Sources:

1. GlobalData, 2. GfK, 3. Mintel, 4. HMRC

Our business model

We want to help our customers transform their homes. We will achieve this by delivering our products and services and in doing so create value for our customers, our shareholders, our colleagues and our suppliers.



Our strategic priorities

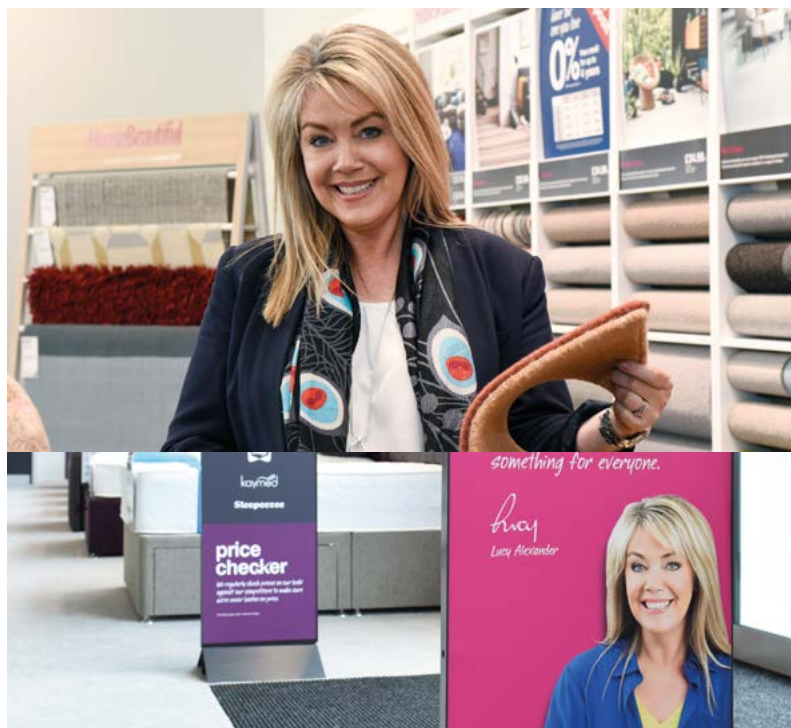
Who we are

Our stores, the brand and our people

read more about our strategy on pages 10 to 13

Achievements in 2017

- Refurbished 160 stores in the UK
- Refurbished nine stores in the Netherlands and Belgium
- Recruited Lucy Alexander as Brand Ambassador
- Secured “Which? Trusted Trader” status for our recommended fitters
- Introduced a new colleague uniform
- Launched ‘Fuse’ – internal training and communication tool
- Rebadged the transport fleet with new brand livery



Objectives for 2018

- Refurbish a further 70 stores in the UK
- Refurbish a further 20 stores in the Netherlands and Belgium
- Launch a Carpetright Store Managers’ Academy



What we sell

An unrivalled choice of floorcoverings

Achievements in 2017

- Extended the 'House Beautiful' exclusive range
- Achieved double digit growth in laminate, LVT and engineered wood
- Re-introduced curtains and blinds to the Netherlands and Belgium



Kahrs Unity
Park Wood
Flooring



Kahrs Artisan
Collection Oak
Rye Wood
Flooring



Kahrs Oak
Chevron Light
Grey Wood
Flooring



Objectives for 2018

- Launch new collection of exclusive products under the 'Country Living' brand
- Extend hard flooring merchandising units to more stores
- Step change the sales contribution of beds through re-ranging and re-merchandising
- Launch a range of artificial grass in the UK
- New range of underlays, exclusive to Carpetright
- Launch an extended range of premium accessories, branded 'Finishing Touches'



Our strategic priorities

How we sell

Making the process easy with unbeatable value

Achievements in 2017

- Increased the Net Promoter Score from 71% to 75%
- Increased the sales penetration of interest free credit
- Introduced 'uplift & disposal' service nationwide in the UK
- Retained all our UK Home Flooring Surveyors, investing in technology to improve the customer experience
- Increased the average transaction value by 11%



Objectives for 2018

- Developed 'Fuse' to robustly deliver selling skills to improve the consistency of the customer experience
- Improve the customer service metrics across stores, surveyors and fitters
- Upgrade all hardware and networks in the stores in the Netherlands and Belgium
- Introduce and integrated customer relationship management system in the UK



Where we sell

Multi-channel convenience and improving the quality of the store portfolio

Achievements in 2017

- In UK, opened 8 new and closed 17 underperforming stores
- In the Netherlands and Belgium, opened 6 and closed 5 underperforming stores
- Achieved online sales growth of 74%
- Introduced online 'visualiser'
- Enabled facility for customers to buy online using interest free credit
- Introduced functionality for customers to be able to book a surveyor visit to their home online



Objectives for 2018

- Exit lease liabilities of a further 20 underperforming stores in the UK
- Introduce the functionality to enable customers to pay outstanding balances online



Chief Executive's review



Wilf Walsh
Chief Executive

“The way we train, communicate and reward our frontline staff remains a key priority in making sure we are the first choice for the floorcoverings consumer, every time.”

As we move into the third year of our transformation of Carpetright, we are maintaining the consistency of our strategic direction which has been to focus exclusively on:

- **Who we are** – our stores, the brand and our people
- **What we sell** – an unrivalled choice of floorcoverings
- **How we sell** – making the process easy with unbeatable value
- **Where we sell** – multi-channel convenience and improving the quality of the store portfolio

This proven strategy is supported by clear, uncomplicated principles that are applied consistently throughout the business, specifically:

- We are honest and straightforward
- We care about customers and colleagues
- We make it easy

We review the progress made across the year in each area of strategic focus in the following sections:

Who we are

Our principles are the essence of our Group-wide ‘We are Carpetright’ initiative, which is driving cultural change throughout the business with the aim of updating customers’ perceptions of the brand. This work is central to our success, as we modernise the store estate and the way we do things around here.

Refurbishment of the store estate and introduction of our new branding and store-fit was a major focus during the year. By the end of April 2017, we had 199 stores in the UK trading under the new brand identity, some 47% of the estate, completing 160 refurbishments during the year, more than our original target having accelerated the programme twice in the course of the period. This work ranged from introducing new signage and a sample area for carpet in stores that make a smaller profit, through to full refurbishment of larger, highly profitable stores, or stores where we are tackling new competition. In these

latter two cases, the introduction of our new ‘Graphite’ store-fit is proving highly successful in regenerating sales growth. As a group, refurbished stores delivered like-for-like sales growth of 6.8% in the final quarter of the year, markedly higher than the un-invested estate (including stores refurbished expressly to meet new competition this figure would be 5.0% growth). This gives us confidence to press ahead with the investment programme. We are aiming to have completed the remainder of the UK estate with some form of additional investment (at a minimum, re-branding with the new identity) by December 2018.

We have a similar programme underway to address the un-invested estate in the Netherlands and Belgium. As at the end of April 2017, we had refurbished an initial nine stores and they have achieved excellent sales growth post-refurbishment. We see this as a significant opportunity to increase share and profitability and are in the process of refurbishing a further twelve stores by the end of July 2017. If we can achieve similar levels of sales growth, we will look to accelerate the programme across the remaining stores in the Netherlands and Belgium during the coming months.

Further improving our reputation and being readily identified as a brand that customers can trust is vital to Carpetright’s future success. Our recruitment of Lucy Alexander, previously a presenter on BBC TV’s cult home improvement programme ‘Homes under the Hammer’, as Carpetright Brand Ambassador in the summer of 2016 has been a key initiative in this area. We have supported this move with extensive brand sponsorship on UKTV featuring Lucy, who is a credible home improvement personality. Customer research shows this activity is yielding positive results on brand metrics such as awareness, trust and consideration. Equally, Carpetright achieving ‘Which? Trusted Trader’ status for our recommended fitting service is another important element to improving brand perception and ‘Making it Easy’. This standard gives potential customers the comfort that the final and most important

part of the customer journey, the fitting, and that “ta da” moment, is going to be carried out by carefully selected and properly assessed trades people. ‘Who we are’ also incorporates our new colleague uniform which was successfully rolled out last year to give teams a comfortable, contemporary identity.

It also covers our culture and the way we train and talk with our colleagues. To this end we have introduced ‘Fuse’, which is a brand new internal training and communications tool, built around a single platform for mobile, social and programme learning and development as well as internal communications. The training element covers everything from “the basics”, through product knowledge, as well as customer service and selling skills. It is also a tool to encourage ongoing management development and Fuse will be at the heart of our launch of a Carpetright Managers’ Academy in 2017.

Video based communication offers a much more dynamic live update for store colleagues. The ‘Staff Room’ element on Fuse allows for open feedback from staff that will help us improve, by being honest and straightforward with each other and accepting of constructive criticism.

What we sell

The floorcoverings market does not stand still. Through market research we know consumer tastes are changing and they tell us what they want to buy for their home. The UK market is currently split 60/40 on carpets versus hard flooring, while Carpetright, because of its heritage, has a split of 90/10 in favour of carpet.

Our move over recent years to increase our share of the hard flooring market is already well documented. We have enjoyed particularly good growth in hard flooring as we have introduced ranges into all of our stores, with a clear product and price architecture, for customers from budget spend right through to £100 per square metre and over, with sufficient cross-over between categories to allow customers to trade up if they choose:

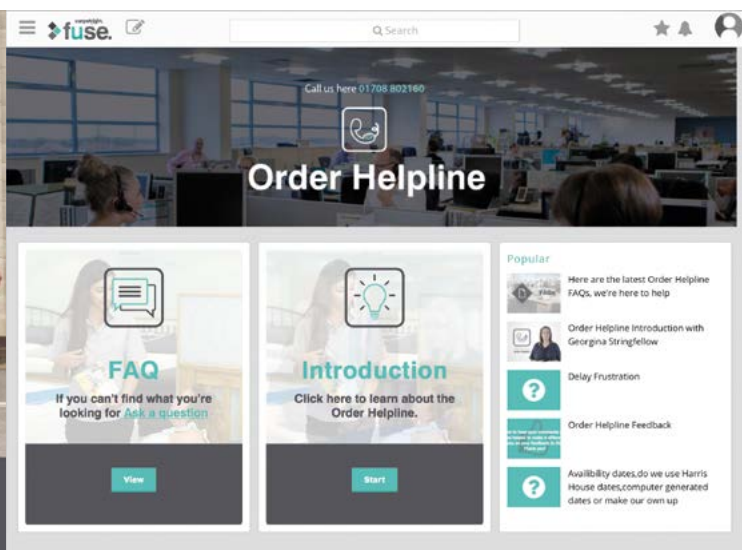
- **Vinyl** – from roll stock, for the take away and DIY market, to premium quality sample vinyl which is specifically ordered for professional fitting;
- **Laminate** – again in the budget, DIY take away form or in a new range of sampled product for third party fitting;
- **Luxury Vinyl Tile (LVT)** has now been introduced across the estate, becoming

our fastest growing category (albeit from a low base), offering customers the natural look of wood or stone but with the features and benefits of easy to maintain vinyl; and

- **Engineered Wood** – a superior and more stable product than traditional solid wood, supplied to us by Kahrs, the leading Swedish supplier of environmentally friendly and sustainable flooring products.

In carpet, we continue to strengthen our range authority as market leader, with a focus on all budgets, from £2.99 per square metre roll stock in our ‘Essentials’ range through to outstanding quality wool carpets from British manufacturers such as Westex, Brintons and Ulster.

We have identified an opportunity to create exclusives that allow for differentiation of Carpetright versus the independent sector and our national competitors. In this space the ‘House Beautiful Collection’ has been an outstanding success with the recent addition of a new velvet-style polyamide twist. Exclusive ranges accounted for 3.2% of sales in the final quarter of the year, up from 1.9% in the comparable prior year period.



Chief Executive's review continued

We will be launching a new collection of products under the popular and well recognised 'Country Living' brand before the end of 2017 in collaboration with this leading lifestyle magazine.

Our buying team has also begun to take a more creative and proactive approach to anticipating interiors fashion trends, with the introduction of more designed products that customers currently favour, including more bright colour options alongside blue, blush tones and dusty pastels.

In the UK, we began selling beds in 2009 and the business has grown to represent 9.2% of total sales, with beds being merchandised in 253 of our stores. Whilst we have delivered sales growth in the year, we believe a significant opportunity exists to grow this category faster. Through a programme of significant re-ranging and merchandising, supported by additional training, we are confident of delivering a step change in the sales contribution from the bed category, starting in the current financial year.

In the Netherlands and Belgium, we have re-introduced a range of curtains and blinds. This range is now available in 88 stores and represented 4.7% of the total sales mix by the end of the financial year.

How we sell

As part of our plan to keep it simple, the performance of our store colleagues is measured on a small number of straightforward KPIs designed to increase the quality of the sale, both in terms of customer service and value. The success of this programme is demonstrated by our average transaction values, which grew by 11% in the year.

As a simple guide, where a store team delivers 15% or more interest free credit participation, 50% plus underlay penetration and 75% or more "highly satisfied" responses under 'Do We Measure Up?' surveys, they can, on average, expect to deliver like-for-like sales growth 3% ahead of the total UK estate.

As always, our biggest challenge is achieving consistency and narrowing variance between the very best

performing stores and under-performing units. Customer service is central to this effort, to ensure we deliver an enviable reputation for service in what is, potentially, a lengthy customer journey with lots of moving parts. Our Net Promoter Score has improved significantly to 75% from 71% across the year. As it stands, 96% of our customers are at least "satisfied", as are 91% who experience our Home Flooring Surveyors and 85% of those who deal with recommended fitters. We remain focused on driving these metrics higher, particularly those in the latter area where we should be getting higher scores.

In simple terms, "highly satisfied" customers spend 3.4 times more on average and are significantly more likely to recommend Carpetright.

Across the Group, customer needs and technology changes are continuing to drive the need to deliver a fully integrated omnichannel shopping experience.

We plan to invest in technology that enables our customers to interact with us throughout their buying journey on any device or physical outlet; uses information to make decisions easy for the customer; delivers a simple environment for our colleagues with the right tools; and establishes robust data security and controls. In 2016, we invested in upgrading our store hardware and networks in the UK and are now extending this to the Netherlands and Belgium. We will also be implementing an integrated customer relationship management system in the UK within the next twelve months.

Where we sell

In Carpetright we have too many stores on too many unsustainable long leases that severely impact our overall profitability. We continue to address this challenge with vigour.

In the UK, the last twelve months was another year of progress as we opened eight stores, closed 17, including three relocations, to leave a total of 426 stores (2016: 435 stores). The new stores, opened in areas where we have long been under-represented, including Bath, Leeds

and Liverpool, and have all delivered encouraging initial performances. As a result, we now trade from 3,691,000 sq ft of retail space in the UK (2016: 3,763,000 sq ft), a 1.9% reduction year-on-year.

Our progress in the last five years on improving the quality of our UK store estate and reducing overall store numbers has been significant and we aim to have reduced the total to below 400 stores by this time next year. Where we close or downsize stores, we are almost always able to redeploy existing staff locally.

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 48% of the UK estate has a lease renewal scheduled, providing further opportunity to reduce the fixed store operating costs or to exit underperforming stores. As at April 2017, the average length of lease had fallen to 5.5 years (2016: 6.3 years).

In the Rest of Europe, we opened six stores and closed five, including four relocations during the year, to leave a total of 138 stores (2016: 137 stores). Consequently, we now trade from 1,360,000 sq ft of retail space (2016: 1,387,000 sq ft), a 2.0% reduction year-on-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 2.8 years (2016: 2.6 years) in the Netherlands and 1.8 years (2016: 2.3 years) in Belgium. In the Republic of Ireland this period is 8.1 years (2016: 9.1 years), reflecting the agreement of long-term deals during the expansion into this market in the period from 2001 to 2008.

Our progress in this area is delivering an improvement in profitability. Whilst this activity can incur a cash cost to exit leases, 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.

We are also acutely aware of the growing impact of digital on our business, both now and in the medium term. Sales, where the customer journey originated online, increased by 13.4% during the year, along with sample and appointment requests up around 20%. Over the past twelve months we have seen visits to the website increase by 14%, a reduction in our bounce rate due to improvements in the design, and pure online sales increase by 74%. Website revenue is now the equivalent of a top turnover store.

Initiatives delivered during the year include:

- introducing the Carpetright 'Visualiser', giving the customer the opportunity to upload photos of their rooms and see how their choice of new floorcovering will enhance them by trying different product across our extensive ranges;
- blogs designed to enhance consumer knowledge including decorating tips and trends with Diana Civil, a leading interior stylist;
- practical videos on how to choose products, measure a room, stain removal and other tips to enhance our authority as market leaders in the sector;
- online guide with Lucy Alexander as to how we make it "easy with every step";
- ability to book a visit with our Home Flooring Surveyors online; and
- ability to pay for products online using interest free credit

Competition

The floorcoverings market in the UK has long been a highly competitive environment, with the Group facing competition from a vibrant independent sector and from a number of national and regional floorcoverings retailers. However, competition intensified significantly during the year when a new national competitor rolled out an aggressive store opening programme and a number of smaller players also began competing more actively at a local level.

Our strategy in response to competitor activity is simple and it applies in a variety of locations, specifically:

- we refurbish our store with our new 'Graphite' shop fit, effectively minimising the potential of any negative store environment factor;
- we ensure the team are appropriately resourced for taking on the challenge of a new competitor; and
- we introduce enhanced local promotions.

While this impacted our profit performance, we firmly believe that the cost to the business of failing to meet the competitive challenge would be considerably greater.

Significantly, while a new competitor inevitably steals some sales in the first year of operation, once we anniversary their store opening we are seeing like-for-like sales growth well ahead of the main estate. We believe that this encouraging performance demonstrates that the action we are taking is working.

Summary

Our primary external challenges over the past year were two-fold. First, the UK's decision to exit the European Union on 23 June 2016, saw Sterling depreciate dramatically against the Euro. Along with our competitors, this eventually made it necessary to raise some prices and we were able to mitigate this unexpected development in the second half of the year.

Second, as discussed above, a new entrant came to the market with an aggressive store opening programme, to which we are responding robustly.

Against this backdrop, we will not be diverted from our plan to transform the Carpetright business. The four main planks of our strategy remain valid and cover all elements of the customer journey as well as tackling our legacy property issues. Responding to intensified competition has sharpened us up and we are relishing the challenge in what

may well become a more difficult trading environment, with ongoing uncertainty over consumer spending and inflationary pressures. We are confident that whatever the external environment we can increase our market share.

After a testing twelve months not lacking in excitement, I am grateful to the Board for their support and counsel and my thanks of course go to everyone in the store support offices in both Purfleet and Utrecht as well as our Regional and Divisional Managers across Europe.

My admiration for our store managers and sales colleagues who serve the customer day in, day out knows no bounds. Everyone in the store support offices does an 'in-store day' once a year, normally during the relatively quiet December period when we can cause least havoc. Whether our sales colleagues are in Edinburgh, Salford, Exeter, Rotterdam, Bruges or Cork, they are all doing a demanding job and I am grateful for their hard work and dedication.

Our ongoing change of culture is still very much in the early stages but the way we train, communicate and reward our frontline staff remains a key priority in making sure we are the first choice for the floorcoverings consumer, every time. We are Carpetright.

Wilf Walsh

Chief Executive

In conversation with the Chief Executive

What is your view of the Group's performance in the year?

Whilst the dramatic depreciation of Sterling, and the intensified competitive pressures have made it a challenging period for the UK business, we have made continued progress in the turnaround in the Rest of Europe. The combined result has been a decline in overall profitability which indicates it has been a tough year. That said, we have a clear plan with a robust set of actions which I think will mitigate some very serious headwinds which most retailers are feeling right now.

It's two years since you launched the new strategy – how much progress has been made?

We are absolutely in the thick of it but we are making real progress. We have re-engineered virtually every aspect of the business: from the look and feel of the brand; the concerted move into hard flooring where we under-index versus the market; and the drive to improve our reputation and customer service. If you add in the number of shops that we have refurbished, re-sited, re-sized, or closed in the period, along with re-shaping our digital offer, it is easy to underestimate the size of the task that the team has undertaken.

Is the business where you planned for it to be at this point?

Not quite in terms of profit delivery for the reasons I outline above – but yes, in terms of confirming a very clear strategic direction and our progress with the operational turnaround.

How much further is there to go with the plan?

We are barely half way through in my considered judgment. We need to rebrand the entire estate and become famous for hard flooring and floorcoverings in general, not just carpet. We need to ensure our improved customer service gets even better and we have to keep our focus on reducing store numbers and improving the quality of our estate. The good news is that a lot of these initiatives are within our gift and are best described as “self help”.

What's worked best so far and which areas are proving more difficult?

I think we have made very good progress in the four main areas of who we are, what we sell, how we sell and where we sell. We have obviously had to prioritise individual activities as trying to land them all overnight is a practical impossibility. Culture change is also something that has had to evolve over time – when practice becomes ingrained over an extended period of time, people can become institutionalised and resistant to change and addressing that has been the biggest challenge.

Has Brexit de-railed your recovery plans?

No – although it slowed up the first half considerably as Sterling depreciated significantly. We mitigated this in the second half through price increases and renegotiating with suppliers. The future and how Brexit will look is still very uncertain indeed but that applies to the whole sector where we and our competitors operate.

What criteria should we use to judge the Group's progress this year?

It's all about momentum and assessing whether or not the business is focusing on the right things. For me, it's about the quality of transaction and to that end it's gratifying to see our Average Transaction Value increase by 11% in the year. This is driven by the instore KPI's and should give investors confidence that we are concentrating on the important stuff whatever the market conditions.

What underpins your confidence that the Group is on the right track?

Not chopping and changing what is a solid strategic plan is key. And having supportive shareholders who understand the retail landscape, agree with our initiatives and are cognisant of the competitive threats gives us confidence that we are firmly on the right track.

Do you have any evidence that consumers are now beginning to re-appraise the Carpetright brand?

As I discuss in my statement, the measurements from our market research, in particular the Brand Tracker work, indicates a very positive reappraisal of the Carpetright brand – this isn't a case of “hitting and hoping”. It remains vital work-in-progress.

“We have a clear plan with a robust set of actions which I think will mitigate some very serious headwinds which most retailers are feeling right now.”

“By doing the things within our control better, day-in day-out, we can take market share from our competitors and that, in essence, is the plan.”

The outlook for the UK consumer looks more uncertain – do the self-help measures being taken have enough potential for you to drive improved performance even if times in retail get tougher?

Undoubtedly – we cannot do anything about the economy, what Government in its infinite wisdom throws at us or consumer confidence. By doing the things within our control better, day-in day-out we can take market share from our competitors and that, in essence, is the plan. I would not want to be a new entrant in a market such as this.

How are the rebranded/ refurbished stores performing – are they meeting your expectations?

Great – we're very pleased with their performance. We discuss the numbers in detail in my review but in summary we are hitting our targets on sales and return on investment. Clearly where we are up against a new competitor that refurbishment work is primarily focused on mitigating the negative effect they can have on us.

Are you maintaining the sales uplift as you work your way through the estate?

Carpentright has been in a nonsensical situation where in too many locations we had two Carpentright stores trading within close proximity to each other – total madness. Where we close one store the model sees us lose the two main costs, namely establishment (rent and rates) and people (who we nearly always reintegrate somewhere else in the region). We also see a sales transfer of around 40% to the remaining store and hey presto – you are actually now making a profit. Old fashioned, I know.

You will soon be approaching the point where half the UK store estate has been refurbished – should we see that as the tipping point?

Not really – the “tipping point” is when we see at least 75% of the units hitting their in-store KPIs that drive like-for-like sales relentlessly. You can spend a load of money to dress a store up beautifully but unless the people inside are dedicated to great service then you will not see a return.

Should we expect more store closures this year? How many stores do you see the UK having ideally?

We are at 426 stores – we are aiming to be below 400 in the UK this time next year. I don't have an ideal number, if the stores are making a contribution we want to keep them. The numbers in the Netherlands and Belgium are about right – it's just improving their look and performance.

Reducing property costs is a critical part of the strategy – how much progress was made in the year?

We closed 22 shops, including 7 relocations, thereby reducing our rent and rates bill. But there's more to do and we're very focused on this.

Are you looking to accelerate the property disposal programme this year?

Yes, but we will have to overcome significant landlord inertia. We are offering significant premiums to get out of unprofitable sites but when they have a tenant with a strong covenant, paying the rent on time every month – on a lease that has ten years to run – they don't appear to have the appetite to find another tenant. I find this a rather odd call.

The Rest of Europe businesses continue to recover – will we see you invest in a store refurbishment roll out in these markets as you have in the UK?

Absolutely, as I mention in my review the team in Utrecht has done an excellent job in reformatting some units that hadn't had any investment since the business was acquired in 2002. The Netherlands especially will see us increase capital spend in the coming twelve months.

What are your priorities for the year ahead?

“Sticking with the knitting” is the term, so doing the same things – only better.

Where do you see Carpentright at the end of 2018?

An improved performance, with a profit growth and increasing market share, especially in hard flooring, whatever the economic conditions.

Wilf Walsh
Chief Executive

Measuring our performance

The Board of Directors and senior 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

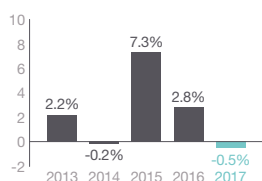
Definition

Calculated as this year's sales divided by last year's 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).

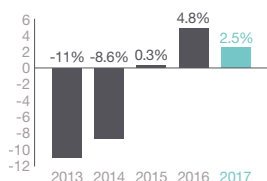
Rationale

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

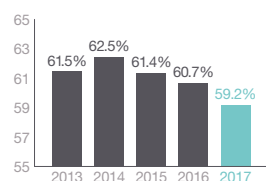
Definition

Gross profit as a percentage of revenue (calculated in local currency).

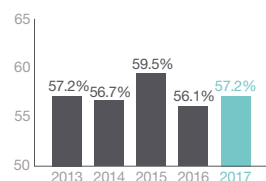
Rationale

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)

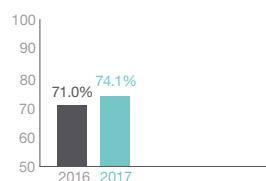
Definition

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 (%)



Operating cash flow

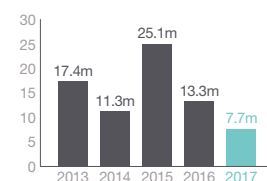
Definition

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)



Financial review



Neil Page

Chief Financial Officer

Overview

Total Group revenue for the year increased by 0.2% to £457.6m, consisting of a decline in the UK business of 2.6% offset by an increase of 16.4% in the Rest of Europe, with the latter impacted by foreign exchange rate movements. Our continued focus on rationalising and repositioning the store portfolio saw the Group open 14 stores and close 22 during the year, which gave a net decrease of eight stores, including seven relocations. The total store base numbered 564 at year end (2016: 572), with total store space declining by 1.9% to 5.1 million square feet during the period.

Group underlying operating profit decreased by 19.2% to £16.4m (2016: £20.3m), reflecting the impact of the significant depreciation of sterling during the first half of the year and the costs of measures to address intensified competition. This impacted sales and margin rate in the UK, but was partially offset by the benefit from closing underperforming stores, and a strengthening performance in our Rest of Europe business. Net finance charges were level with the prior year at £2.0m. These factors combined to generate underlying profit before tax of £14.4m (2016: £18.3m), a 21.3% decrease on the prior year.

Separately reported items totalled £13.5m (2016: £5.5m), primarily costs associated with rationalising the store estate and a re-assessment of provisions held for onerous lease costs for loss-making stores following a strategic review of the portfolio.

When separately reported items are included, the statutory measure of profit before tax for the Group was £0.9m (2016: £12.8m) and basic earnings per share of 1.0p (2016: 14.9p).

The Group ended the year with net debt of £9.8m (2016: £1.1m), reflecting an acceleration of the store refurbishment programme and the cash costs of rationalising the store portfolio.

	2017 £m	2016 £m	Change
Revenue	457.6	456.8	0.2%
Underlying operating profit	16.4	20.3	(19.2%)
Net finance charges	(2.0)	(2.0)	0.0%
Underlying profit before tax	14.4	18.3	(21.3%)
Separately reported items	(13.5)	(5.5)	(145.5%)
Profit before tax	0.9	12.8	(93.0%)
Earnings per share (pence)			
underlying	16.4p	20.8p	(21.2%)
basic	1.0p	14.9p	(93.3%)
Operating cash flow	7.7	13.3	(42.1%)
Net debt	(9.8)	(1.1)	(8.7)

Strategic report continued

Financial review continued

UK – Performance review

The key financial results for the UK were:

	2017 £m	2016 £m	Change
Revenue	381.0	391.0	(2.6%)
Like-for-like sales	(0.5%)	2.8%	
Gross profit	225.6	237.3	(4.9%)
Gross profit %	59.2%	60.7%	(1.5ppts)
Costs	(214.9)	(219.5)	2.1%
Costs %	56.4%	56.1%	(0.3ppts)
Underlying operating profit	10.7	17.8	(39.9%)
Underlying operating profit %	2.8%	4.6%	(1.8ppts)

The UK portfolio is now as follows:

	Store numbers			29 April 2017	Sq ft ('000)	
	30 April 2016	Openings	Closures		30 April 2016	29 April 2017
Standalone	420	8	(14)	414	3,734	3,669
Concessions	15	0	(3)	12	29	22
Total	435	8	(17)	426	3,763	3,691

In tough trading conditions, like-for-like sales in the second half of the year increased by 1.8% partially mitigating the decline of 2.9% experienced in the first half, to give a full year decline of 0.5%.

We opened eight stores and closed 17 stores during the period, including three relocations. This translated into a net space decline of 72,000 sq ft, a decrease of 1.9%. At period end there were 253 stores trading with a bed department (2016: 246). Sales within the beds category now represent 9.2% of the sales mix (2016: 9.0%).

Gross profit decreased by £11.7m to £225.6m, representing 59.2% of sales, a decrease of 150 basis points. This decline in margin rate reflects a combination of:

- adverse impact of 210 bps from the fall in Sterling to Euro exchange rate on imported goods for resale. The average EUR/GBP rate in 2017 was 12% lower at €1.20 (2016: €1.36);
- measures to address intensified competition including a ‘free fitting’ offer in selected stores, an adverse impact of 60bps;
- a dilutive impact of 30bps from product categories which attract lower average gross margins; and
- a favourable impact of 150bps from the improvement in underlying floorcovering margin through improved sourcing, promotional planning and selected price increases.

The total UK cost base decreased by 2.1% compared with the prior year to £214.9m (2016: £219.5m). Costs as a percentage of sales were 56.4%, a marginal uplift from 56.1% in the prior year, reflecting the operational gearing of the business. The movement in costs was a combination of:

- store payroll costs decreased by £1.7m to £59.7m (2016: £61.4m) owing to a reduction in headcount from store closures, combined with a decline in sales commission and bonus costs from the fall in sales;
- store occupancy costs (rent, rates, other & depreciation) decreased by 1.0% to £115.2m (2016: £116.4m), primarily the impact of the store closures, offset in part by an increase in depreciation from the refurbishment programme; and
- marketing and central support costs decreased by 4.1% to £40.0m (2016: £41.7m), primarily the result of lower performance related cost, partially offset by higher advertising costs.

The combination of the above factors resulted in underlying operating profit decreasing by 39.9% to £10.7m.

Rest of Europe – Performance review

The key financial results for the Rest of Europe were:

	2017 £m	2016 £m	Change (Reported currency)	Change (Local currency)
Revenue	76.6	65.8	16.4%	2.0%
Like-for-like sales	2.5%	4.8%		
Gross profit	43.8	36.9	18.7%	3.9%
Gross profit %	57.2%	56.1%	1.1ppts	
Costs	(38.1)	(34.4)	(10.8%)	2.8%
Costs %	49.7%	52.3%	2.5ppts	
Underlying operating profit	5.7	2.5	128.0%	98.5%
Underlying operating profit %	7.4%	3.8%	3.6ppts	

The Rest of Europe portfolio is now as follows:

	Store numbers				Sq ft ('000)	
	30 April 2016	Openings	Closures	29 April 2017	30 April 2016	29 April 2017
Netherlands	93	5	(4)	94	985	975
Belgium	23	1	(1)	23	245	228
Republic of Ireland	21	0	0	21	157	157
Total	137	6	(5)	138	1,387	1,360

Macroeconomic indicators for our markets in Belgium and the Republic of Ireland remained fragile throughout the year, however, the Netherlands experienced a recovery in market conditions with an increase in reported consumer confidence and encouraging economic indicators, such as the number of housing transactions, fuelling demand.

In local currency terms, the three businesses combined to produce an increase in revenue of 2.0% on the prior year. The combined like-for-like sales increased by 2.5%. A contributor to growth has been the re-introduction of a curtains & blinds offer into the Netherlands and Belgium. After exchange rate movements, total revenue increased by 16.4% in reported currency.

The number of stores increased by one during the year, having opened six and closed five during the period, including four relocations. The associated trading space reduced by 2.0%.

Gross profit percentage increased 110 basis points to 57.2%, resulting principally from improved supplier terms and non-recurring clearance activity in the prior year, offset in part by investment in promotions to drive top line sales volumes and the impact of growth in lower margin product categories. The combination of volume and rate improvements led to cash gross profit in local currency terms increasing by 3.9%. After taking into account exchange rate movements this resulted in an increase of 18.7% in reported currency.

Operating costs in local currency reduced by 2.8%, primarily the result of reduced occupancy costs related to the downsizing and relocating stores. This was reflected in the decline in the costs as a percentage of sales to 49.7%, a reduction on the prior year figure of 52.3%. In reported currency, costs increased by 10.8% to £38.1m.

The net result was a year-on-year improvement in underlying operating profit of 98.5% in local currency, which translated to an increase of 128.0% in reported currency of £3.2m to £5.7m (2016: £2.5m).

Strategic report continued

Financial review continued

Net finance costs and taxation

Net finance charges for the period were unchanged at £2.0m (2016: £2.0m).

The effective tax rate for the year was 24.3% (2016: 21.3%), a variance of 4.3% compared to the UK corporation tax rate of 20.0% due to the effects of non-deductible items, overseas tax rates and other permanent differences. The 3.0% increase from last year's rate is predominantly due to lower profitability in the UK with non-deductible items remaining unchanged, along with improved profitability in Europe being taxed at higher rates.

Separately reported items

The Group makes certain adjustments to statutory profit measures in order to help investors understand the underlying performance of the business. These adjustments are reported as separately reported items. The Group recorded a net charge of £13.5m (2016: £5.5m).

	2017 £m	2016 £m
Underlying profit before tax	14.4	18.3
Property related		
– Loss on disposal of properties	(1.9)	(3.6)
– Freehold property reversal/(impairment)	2.2	(0.4)
– Store asset (impairment)/reversal	(0.4)	0.1
– Net onerous lease charge	(11.0)	(0.6)
Strategy		
– Store refurbishment – asset write-offs	(1.4)	–
Other		
– Share based payments	(1.0)	(1.0)
Total separately reported items	(13.5)	(5.5)
Statutory profit before tax	0.9	12.8

The charge reported in the 2016 Annual report and accounts was £4.5m. For consistency with the current period presentation we have reclassified £1.0m relating to share based payments. This has no impact on the Group's statutory reported profit before tax and earnings per share. The reclassified separately reported charge for 2016 is therefore £5.5m.

A net loss of £1.9m was made on the disposal of 25 (22 trading and 3 onerous) properties during the year (2016: £3.6m loss), principally a combination of surrender premiums being paid to exit loss-making stores and asset write-offs.

A number of investment properties that have previously been impaired are in receipt of rental income from independent third party tenants. As a result, £2.2m of impairment against these locations is no longer required and has been reversed (2016: £0.4m charge).

Leasehold store impairment testing during the year has identified a number of stores where the anticipated future performance does not support the carrying value of the assets. As a result, a charge of £0.4m has been incurred in respect of the impairment of assets associated with these stores (2016: £0.1m credit).

At 30 April 2016 there were eleven vacant properties in the UK and two in the Republic of Ireland classed as onerous leases against which we carried a provision. During the year we disposed of three of these locations. This was offset by three trading stores being closed and added to this group. Following a strategic review of the store portfolio in February 2017, we have made a revised assessment of the onerous lease costs for loss-making stores. The net impact of these judgments is a charge of £11.0m (2016: £0.6m credit).

The value of assets written off during the store refurbishment programme amounts to £1.4m during the year. Given the quantum, and in keeping with historical treatment, such write-offs have been reported as separately reported items.

In light of the variable and non-cash nature of employee share based payments, these have been classified as separately reported items. This also allows for greater visibility of these charges in the accounts. A charge of £1.0m was incurred during the year (2016: £1.0m).

The cash flow impact of separately reported items was £4.0m outflow in the year.

Earnings per share

Underlying earnings per share were 16.4p (2016: 20.8p), reflecting the fall in underlying profitability of the Group.

Basic earnings per share were 1.0p (2016: 14.9p). The reduction in basic earnings per share is less in percentage terms than the reduction in underlying earnings per share, a result of a deferred tax credit of £0.6m associated with the fall in the UK corporation tax rate to 17% being taken as a separately reported tax credit.

Dividend

The Board continues to prioritise the use of cash for the acceleration of the strategy by investing further in the existing store estate, while also reducing the fixed occupancy costs as quickly as possible. As a result, it has taken the decision not to pay a final dividend (2016: nil). 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 £78.0m at the end of the period (2016: £74.0m), a year-on-year increase of £4.0m.

	29 April 2017	30 April 2016
Freehold & long leasehold property	60.3	61.5
Other non-current assets	116.6	107.5
Stock	41.1	41.6
Trade & other current assets	25.8	20.0
Creditors < 1 year	(85.6)	(91.1)
Creditors > 1 year	(67.2)	(62.2)
Net (debt)/cash	(9.8)	(1.1)
Pension deficit	(3.2)	(2.2)
Net assets	78.0	74.0

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 rental deals, the operating lease liabilities have reduced significantly to £531.9m (2016: £599.3m).

Cash flow

The Group's net debt at 29 April 2017 was £9.8m, an adverse movement of £8.7m (2016: £1.1m debt).

This increase in debt was driven by a combination of the decline in the underlying operating profit performance; net expenditure of £2.2m on exiting operating leases; cash outflow of £5.2m related to previously made provisions; contributions of £0.9m to closed defined benefit pension schemes; and an increase of £13.6m in working capital, partially offset by a decrease in stock of £1.0m.

The increase in working capital was attributable to a combination of an increase in debtors (driven by the seasonal impact of a later Easter and the longer lead times on newly introduced product categories); a decrease in creditors associated with a combination of lower activity levels and a reduction in performance based costs (the result of lower level of profitability); increase in prepayments due to timing differences; and amortisation of deferred income relating to property incentives.

The resulting net inflow of cash generated by operations of £7.7m was offset by net capital expenditure, net interest paid, tax paid and other movements (primarily exchange differences) totalling £16.2m, resulting in free cash outflow of £8.5m (2016: £1.4m outflow).

The Group's average net debt was £10.2m over the period (2016: £7.1m).

	2017 £m	2016 £m
Underlying operating profit	16.4	20.3
Depreciation & other non-cash items	12.2	12.5
Decrease/(Increase) in stock	1.0	(7.0)
(Increase) in working capital	(13.6)	(4.3)
Net expenditure on exit of operating leases	(2.2)	(2.2)
Contributions to pension schemes	(0.9)	(0.9)
Provisions paid	(5.2)	(5.1)
Operating cash flows	7.7	13.3
Net interest paid	(1.3)	(2.0)
Corporation tax paid	(0.9)	(3.0)
Net capital expenditure	(14.0)	(9.7)
Free cash flows	(8.5)	(1.4)
Other	(0.2)	(0.2)
Movement in net debt	(8.7)	(1.6)
Opening (net debt)/cash	(1.1)	0.5
Closing net debt	(9.8)	(1.1)

Gross capital expenditure was £17.4m (2016: £11.9m), with the majority of this relating to the store refurbishment programme and opening new stores. After allowing for proceeds from freehold property disposals, net capital expenditure was £14.0m (2016: £9.7m).

	2017 £m	2016 £m
Refurbishment & relocations	(12.7)	(5.9)
New stores	(1.6)	(0.6)
IT	(1.7)	(4.0)
Support offices & warehouse	(1.4)	(1.4)
Gross capital expenditure	(17.4)	(11.9)
Proceeds from freehold property disposals	3.4	2.2
Net capital expenditure	(14.0)	(9.7)

Current liquidity

In April 2015, the Group completed a refinancing arrangement of its principal facilities, providing £58.0m of debt capacity split between a revolving credit facility (RCF) and multi-option facilities (principally overdrafts) in a mixture of Sterling and Euro currencies. In December 2015, the Group elected not to renew its €5.0m multi-option facility in Belgium thereby saving non-utilisation fees. This action reduced the Group's total facilities in GBP terms to £54.7m, of which the main £45.0m RCF in the UK matures in July 2019. The facilities contain financial covenants which are believed to be appropriate in the current economic climate and tested on a quarterly basis, against which the Group monitors compliance.

Gross bank borrowings at the balance sheet date were £20.1m (FY16: £7.1m), being a combination drawn down from overdraft and revolving credit facilities. The Group had further undrawn facilities of £34.4m at the balance sheet date. In addition, the Group held gross cash balances of £12.5m. The combination of these resulted in net debt, before finance leases, of £7.6m, providing total headroom against facilities of £46.9m. With the addition of £2.2m of finance leases (2016: £2.3m), the Group closed the period on £9.8m of net debt, being £8.7m higher than year end 2016.

Pensions

At 29 April 2017, the IAS 19 net retirement benefit deficit was £3.2m (2016: £2.2m). The discount rate was 2.5% (2016: 3.5%), reflecting prevailing corporate bond rates. This lower discount rate resulted in an increase in the schemes' liabilities and more than offset the increase in market value of the plan's assets and additional company contributions.

The 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 triennial valuation, which will be performed as at 5 April 2017.

Neil Page

Chief Financial Officer

Managing risk

The Group faces a number of risks and uncertainties in both the development of, and day-to-day operations of, its business.

General approach to risk management

Carpentright recognises that effective business management requires regular review of business risks. The Group has established a flexible and practical framework, sponsored by senior executives, which aims to identify and manage the principal risks that may prevent it 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 33. 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 35 to 38.

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, and 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's 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

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

The 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

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

The Group uses its risk management process as described on page 24 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 on pages 26 to 27 are those which are believed to be the most material to its 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, or which are currently believed 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
- following the UK's vote to leave the European Union, the terms of exit are such that Carpetright will 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 to have 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, it 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 69.

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, including 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 23.

Principal risks and uncertainties

Description	Possible impacts	Risk management actions
Customer proposition and changing customer preferences 1 2 3 4		
Failure to anticipate and plan for changes in consumer tastes could have a material effect on future operations and financial performance	<ul style="list-style-type: none"> – Fail to deliver our business objectives – Loss of revenue – Diminished reputation – Reduction in market share – Reduction in customer service levels 	<ul style="list-style-type: none"> – 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 – Frequently introduce new product ranges – Provided clarity to our pricing structure
Economic uncertainty 1 2 3		
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	<ul style="list-style-type: none"> – Fail to deliver our business objectives – Loss of revenue – Reduced long-term growth and profit 	<ul style="list-style-type: none"> – 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		
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	<ul style="list-style-type: none"> – Reduced long term growth, profit and cash flow 	<ul style="list-style-type: none"> – 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 3		
The Carpetright name is a key asset of the business and, as the largest operator in its markets, expectations of the Group are high	<ul style="list-style-type: none"> – Fail to deliver our business objectives – Diminished reputation – Loss of revenue – Loss of consumer trust and confidence – Inability to recruit the best people 	<ul style="list-style-type: none"> – 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 ensure our flooring customers receive a first class fitting experience – The performance of our bed delivery partner is continuously monitored – We regularly engage with our customers and act upon their feedback
Competition 1 2 3 4		
The Group competes with a wide variety of retailers across multiple channels and across a broad spectrum of price points	<ul style="list-style-type: none"> – Fail to deliver our business objectives – Loss of revenue – Reduced long-term growth and profit 	<ul style="list-style-type: none"> – 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

Description	Possible impacts	Risk management actions
IT performance and cyber-security 1 3 4		
<p>Carpetright is dependent on the reliability, availability, capability and security of key information systems and technology</p>	<ul style="list-style-type: none"> - Diminished reputation - Loss of revenue - Loss of consumer trust and confidence - Reduction in customer service levels 	<ul style="list-style-type: none"> - 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 3		
<p>The Group relies upon attracting and retaining talented and appropriately qualified people in order to deliver its long-term objectives</p>	<ul style="list-style-type: none"> - Reduced long-term growth and profit - Reduced customer service levels - Inadequate succession planning 	<ul style="list-style-type: none"> - 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		
<p>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</p>	<ul style="list-style-type: none"> - Diminished reputation - Reduced long-term growth and profit 	<ul style="list-style-type: none"> - 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		
<p>The Group risks exposure to exchange rate, interest rate, liquidity and credit risks having an adverse or unexpected impact on results, funding requirements or purchasing ability</p>	<ul style="list-style-type: none"> - Fail to deliver our business objectives - Reduced long-term growth and profit 	<ul style="list-style-type: none"> - 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
Business continuity planning 1 3		
<p>A major incident, such as a key system or supplier failure, could impact the ability of the Group to continue trading</p>	<ul style="list-style-type: none"> - Fail to deliver our business objectives - Loss of revenue - Diminished reputation 	<ul style="list-style-type: none"> - Developed separate disaster recovery facilities - Reviewed and tested continuity plans - The Group has long-established and good working relationships with its key suppliers - Actively monitor the supply base to identify exposures and identify appropriate contingency solutions

Link to Strategy

- 1 Who we are 2 What we sell 3 How we sell 4 Where we sell

Corporate responsibility

Corporate responsibility is about doing business the *right* way.

Our corporate responsibility (CR) policy is designed to support our objectives and strategy. Our principal areas of focus are:

- Our customers – how our activities affect our current and future customers;
- Our people – the Group’s policies and actions towards our employees;
- Our communities – how we give back to the communities in which we operate; 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.

We recognise that matters such as how we treat our people, the environment and ethical trading are important to our customers and colleagues, 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. During the year we committed to the ‘Ban the Box’ initiative, ensuring ex-offenders are not excluded from appropriate job opportunities within 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 Group, senior managers and other employees as at 29 April 2017 is set out below.

	Male	Female
Directors	5	1
Senior managers	8	2
Other employees	2,462	728
Total	2,475	731

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, customer service, management skills and personal development.

In October 2016 we introduced a new social learning platform, “Fuse”, which enables all colleagues to take control of their own development with access to bite-sized learning anywhere, any time and on any device, including the use of an app. Since the launch, over 6,000 training plans have been completed with another 1,000 + learning plans in progress.

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. In 2016 we started using Fuse as an additional communication tool, enabling us to reach all UK and RoI colleagues instantly for the first time. So far 80% of colleagues have engaged with the platform, and, on average Fuse receives 72,000 page views per day.

Additionally, all annual results and interim management statements are made available through both the intranet and Fuse. 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 30% of 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 37.

Health and safety

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

Health and Safety Committees meet to review any issues to identify, prevent and mitigate against potential risks. We investigate all accidents and recommend changes to working practices, additional colleague training and disciplinary action as and when appropriate. There have not been any fatalities this year (2016: nil).

We have received notification of 144 accidents across the Group during the year, compared to 179 in the prior year. Of these, 133 were in the UK, with the remaining 11 being in Europe and the Republic of Ireland.

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.carpetrightright.plc.uk.

Our communities

We are committed to giving something back to the communities in which we operate. From March 2017, following a colleague vote, we have been supporting the British Heart Foundation. The partnership, which is largely centred on colleague fundraising, raised £10,000 during the first weekend, which saw Carpetright staff selling BHF pin badges, running raffles, bake sales and sponsored cycles.

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 CO₂ 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. During the year ended 2017, we were able to reduce our electricity consumption by a combination of reducing store numbers, introducing LED lighting into our refurbished stores and installing motion-sensor technology to ensure lights are only being used when necessary. So far we have introduced these energy-saving practices into 39 stores in the UK.

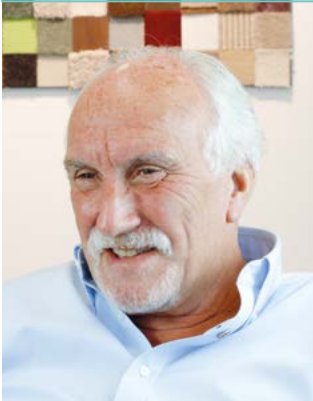
Emissions data in respect of the financial year ended 2017 is as follows:

Emission type	CO ₂ e (Carbon Dioxide equivalent) 2017	CO ₂ e (Carbon Dioxide equivalent) 2016	Change
Scope 1: Operation of facilities	8,783	8,793	–
Scope 1: Company owned vehicles	6,141	5,623	9%
Scope 1: Emissions	14,924	14,417	4%
Scope 2: Purchased energy	16,827	19,743	(15%)
Scope 2: Emissions	16,827	19,743	(15%)
Total emissions	31,751	34,165	(7%)
Greenhouse gas emissions intensity ratio:			
	2017	2016	Change
Total footprint (Scope 1 and Scope 2)	31,751.3	34,162	(7%)
Turnover (£m)	457.6	456.8	–
Intensity ratio (tCO ₂ /turnover £000)	0.070	0.075	(7%)

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 2016 to 30 April 2017.
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.

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. He chairs the Nomination Committee.



Wilf Walsh

Chief Executive Officer

Appointed to the Board as Chief Executive on 21 July 2014, Wilf has held senior positions in various roles, most recently as Chairman of Fortuna Entertainment Group NV, and was also the Managing Director of Coral and a Non-Executive Director of Gala Coral Group between 2000 and 2016. Prior to that he spent six years with HMV Media Group as the Managing Director of HMV Germany and as Operations Director for the UK and Ireland. Wilf graduated in Law from the University of Leeds and is a Chartered Fellow of the Institute of Personnel and Development.



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. In his role as Chief Financial Officer he also has responsibility for property and supply chain activities. He is a fellow of the Chartered Institute of Management Accountants.



Sandra Turner

Non-Executive Director

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



David Clifford

Non-Executive Director

David, a Chartered Accountant, joined the Board in December 2011. He was previously a Senior Partner with KPMG. Throughout his career he held a variety of roles and led the Consumer Markets Unit of KPMG for a period, advising a number of retailers. He is a Trustee and the Treasurer of the Gurkha Welfare Trust, a Trustee of the Varkey Foundation, an educational charity, and a Non-Executive Director of Optivo, a housing association. He chairs the Audit Committee.

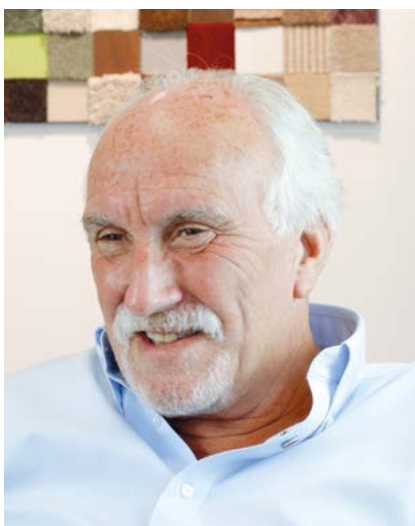


Andrew Page

Non-Executive 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. Andrew retired as Chief Executive of The Restaurant Group plc ("TRG") in August 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. He is the Senior Independent Director.

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 29 April 2017, 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 composition of 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	8	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 30 and 31. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board and this is described in the section concerning the Nomination Committee on page 34.

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:

- assessed and decided upon the corporate strategy
- reviewed and approved all trading announcements and the interim and final results
- reviewed the competitive market in which the Company operates, the effect of a new competitor entering the market and the Company's response
- agreed the property strategy
- reviewed the financial effect of the store refurbishment programme
- approved the investment in replacement IT
- reviewed its risk appetite and the current assessment of the principal risks compared to the desired level of risk
- met with senior managers and received presentations in relation to Fuse (see the CR report on page 28), the beds business, property strategy and IT
- reviewed the terms of reference of its Committees
- approved option grants
- received an update on the Market Abuse Regulations
- approved the Statement of Modern Slavery

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 Board and each of its Committees considered its mix of skills, its leadership and governance role, whether the meetings are of the right length, whether the strategic and operational focus is appropriate, the effectiveness of the Chair and the Secretariat and whether all directors have the opportunity to air their views. 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 one area highlighted for additional focus is succession planning, which is being considered by the Nomination Committee.

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 annually. 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.

Board of Directors

Audit 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 35 to 38.

Remuneration Committee

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 39 to 60.

Nomination Committee

The role of the *Nomination Committee*, its members and details of how it carried out its duties are set out on page 34.

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 pages 61 and 62.

Nomination Committee

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
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;
- 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.

Following the review of the Board and its effectiveness the Committee will be providing additional focus in relation to succession planning in the coming year.

Audit Committee report



David Clifford

Chairman of the Audit Committee

“Overall, I am satisfied that the activities of the Committee during the year enable it to gain a good understanding of the key risks impacting the Group along with the oversight of its key controls.”

Dear Shareholder,

I am pleased to introduce the report of the Audit Committee for 2017.

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.

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;
- 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 fraud;
- reviewed the viability statement; and
- reviewed its terms of reference and effectiveness.

We meet formally at key times within our reporting calendar and the agendas are designed to cover significant areas of risk over the course of the year and to provide oversight and challenge to the key financial judgments, controls and processes that operate within the Company.

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

Overall, I am satisfied that the activities of the Committee during the year enable it to gain a good understanding of the key risks impacting the Group along with the oversight of its key controls.

I will be available to answer any questions at the AGM in September.

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), were invited to three meetings this year.

This year, Deloitte LLP, who provide services to the internal audit team, also attended one meeting with the Audit Committee.

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 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 page 31. Details of membership and attendance are set out below:

Number of meetings:		5
Members	Attendance	Meetings eligible to attend
David Clifford (Committee Chairman)	5	5
Andrew Page	5	5
Sandra Turner	4	5

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.

The Committee reviewed the viability statement, which 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 reviewed the 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.

The internal audit reports this year received and reviewed by the Committee showed an increasing stock-loss in stores. As a result there is a renewed focus on reducing this loss through improved operational discipline. There will be a measure relative to operational discipline as part of the annual bonus in respect of the financial year ending 2018, details of which are contained in the remuneration report on page 58.

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 2017 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 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. Following discussions with both management and PwC, the Committee agreed with management that a release of £2.2m of the impairment of the property charge previously carried is appropriate.

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 property 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 disposal of leases of three properties previously considered to be onerous, the leases of three further trading stores being identified as onerous and the reassessment of the provision, there would be a net charge of £11.0m to the provision. Further details can be found in note 5 to the financial statements on page 78.

Risk management and internal control

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. Deloitte also met with the Committee during 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, right to work in the UK 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 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 fitters, people, information technology and cyber risks, risks in Europe, changing customer preferences and the property portfolio.

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

Assessing 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 2017 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 103 to 108.

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 2017 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.

PwC have been auditors to the Company since 2005 when they were appointed following a competitive tender. They were, again, re-appointed following a competitive tender which concluded in May 2016 and was reported in the 2016 Annual Report.

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.

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 third to be carried out of the Group by the current audit partner.

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, being no more than 10% of the audit fee. For 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. The Audit Committee Chairman's approval is required for any engagement of PwC where the fee would exceed 10% of the audit fee, but is less than 25% of the audit fee, with the Committee's approval being required for expenditure in excess of 25% of the audit fee.

The Committee monitors the volume of work provided by the auditors and the fees incurred in order to consider whether to use other firms. The Company continues to use other firms for general tax advice and to support the internal audit function.

During the year the only non-audit services work undertaken by PwC related to online technical resources at a total cost of £1k (2016: £53k).

Audit and non-audit fees

Details of the auditors' remuneration for audit work and non-audit fees for the period ended 29 April 2017 are disclosed in note 3 to the financial statements on page 77 and disclosed above. The Committee approved the fees for audit services for 2017 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 33. No significant matters were identified which needed to be addressed.

Directors' remuneration report



Sandra Turner

Chair of the Remuneration Committee

“The New Policy is designed to ensure that executive remuneration will continue to be directly related to the achievement of the Company's strategic aims.”

Dear Shareholder,

I am pleased to present the Directors' remuneration report on behalf of the Board.

The report comprises three key sections:

- This annual letter;
- Our remuneration policy report, which sets out a summary of the Directors' remuneration policy for all directors of Carpetright. This is a new policy for the three years from the Annual General Meeting to be held in September 2017 and will be put to a binding shareholder vote at that meeting; and
- Our annual remuneration report, which sets out how our current remuneration policy has been implemented.

The annual remuneration report is subject to an advisory shareholder vote at the 2017 AGM.

Remuneration policy

Our current remuneration policy was approved by shareholders at our AGM on 4 September 2014 and became effective for three years (the 'Current Policy'). I am pleased to summarise the Current Policy and the way it has been implemented during the financial year ended 2017.

Looking ahead, I also explain in this report the Committee's thinking with regard to the design and structure of the Revised Remuneration Policy (the 'New Policy') which is being placed before shareholders for approval on a binding basis at the Annual General Meeting to be held in September 2017. If approved, the New Policy is expected to operate from the conclusion of the 2017 AGM until our AGM in 2020.

The Committee continues to remain mindful of the interest in executive remuneration. The Committee has therefore carefully reviewed and taken into consideration the developments in corporate governance and best practice during the year. In line with this the Committee has again sought to ensure that the remuneration policies and practices, and the New Policy being proposed at this year's AGM, are clearly explained and justified such that they will drive behaviour that is both appropriate and in the long-term interests of the Company and shareholders.

Remuneration policy review

The Committee has engaged and consulted with its key shareholders and shareholder representative bodies with regard to director remuneration focusing, in particular, on obtaining feedback on the proposals for the New Policy. The Committee has considered and taken into account all of the feedback which it has received and is grateful for the engagement that has taken place.

Shareholders approved the Current Policy at the 2014 AGM, with a vote in favour of 87%. Subsequent years' remuneration reports detailing the application year on year of the Current Policy were approved by shareholders with votes in favour of 85%. The majority of the vote against the reports related to the absence of a two-year post-vesting period in relation to the Company's Long-Term Incentive Plan (LTIP). The Committee, accordingly, took that into account in producing the revised policy and the New Policy includes such a provision.

The Committee remains firmly committed to ensuring that the remuneration of the Executive Directors supports and drives the Carpetright strategy based on a framework which both challenges and motivates management to deliver the strategy and value for our shareholders.

A summary of the changes proposed between the Current Policy and the New Policy is set out in the policy table on pages 42 to 45 and, as can be seen, only limited changes are being proposed.

Long term incentive plan

As explained above, one change that we are proposing is the introduction of a two-year post-vesting period in relation to the Company's LTIP. A resolution to amend the LTIP rules will be presented to the AGM as a consequential amendment is required to enable dividend equivalents to be paid in respect of the two-year post-vesting period. This will apply to all awards which have been made subject to a post-vesting holding period, including those to be made in July 2017.

Directors' remuneration report continued

The Committee also recognises that it is increasingly common for companies to include more than one performance measure in respect of the LTIP. Historically the Company has only included one measure in respect of LTIP awards and has debated, at length, an appropriate second measure. Amendments have been proposed in the New Policy to make this desire more explicit. However, the Committee decided that, for grants made this year, only one measure will be used.

Share retention guidelines

The current shareholding guideline is for Executive Directors to hold the same percentage of base salary as awards are made under the LTIP.

Changes have been made to the shareholding guidelines such that there is an additional holding period in respect of shares vesting under the Long-Term Incentive Plan of one year post-employment.

Conclusion

The Committee is confident that the New Policy will ensure that the level of remuneration in place and its linkage to the achievement of increasing shareholder value continues to remain appropriate. In particular, the New Policy is designed to: ensure that executive remuneration will continue to be directly related to the achievement of the Company's strategic aims; link a significant proportion of pay to performance, with appropriate and robust performance criteria and targets; directly relate increases in pay and pension to the workforce in general; have no retrospective adjustment or re-testing of performance or related metrics; be compatible with the Company's risk policies and systems and remain sufficiently flexible to address changing circumstances as they arise but within carefully agreed parameters. The Committee therefore commends the New Policy to shareholders at the 2017 AGM as set out in the Notice of Meeting.

Voting on both the New Policy and the annual report on remuneration will take place at the forthcoming AGM to be held on 7 September 2017.

Salaries

For the 2017 pay review, the Chief Executive and the Chief Financial Officer indicated to the Committee that, in light of the performance of the business, their base salaries should remain unchanged. The Committee therefore decided not to conduct a review of their pay and, as a result, their base salaries remain unchanged.

Annual bonus scheme

As described in the financial review section of the Annual report the Group has delivered an underlying profit before tax of £14.4m. The strategic objectives relating to property and customer service for the Executive Directors were both achieved in part. However, this level of profit is below the level at which an annual bonus would be earned. Consequently, no bonus will be paid in respect of the financial year ended April 2017. Further details can be found in the annual report on remuneration on page 53.

Annual incentive arrangements for the financial year ending 2018 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.

Long term incentives

The level of vesting under the LTIP awards made in July 2014 reflects the challenging targets that were set for participants. The performance measure set related to cumulative underlying profit over a three-year measurement period. I am pleased to report that, for the first time since 2009, the performance over the three-year period has been such that 75% of the LTIP awards made will vest on 31 July 2017.

The Committee has reviewed the current performance of the LTIP awards made in 2015 and 2016, which were also based upon cumulative underlying earnings per share measures, and has concluded that they are currently unlikely to vest. Further details can be found on page 55.

It is anticipated that awards under the LTIP will normally be made following the announcement of the annual results. The awards to be made in 2017 will have a performance measure based on underlying earnings per share and will be subject to a two-year post-vesting holding period. The Committee will continue to keep the introduction of a second performance measure relative for LTIP awards under review for future awards. The level of awards will be consistent with the level made in previous years.

Gender pay gap reporting

In addition to the consideration of executive remuneration, the Committee has taken a keen interest in the gender pay gap and the Company will be publishing its data when required by law.

Closing comments

I will be available to answer any questions at the AGM in September and recommend that you support the adoption of the New Policy, the Directors' remuneration report and annual report on remuneration at our forthcoming meeting.

Sandra Turner

Chair of the Remuneration Committee

Part 2 – Directors' Remuneration Policy Report

Introduction

This report has been prepared to comply with the provisions of the Companies Act 2006 and other applicable legislation, including the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) ('Regulations'), and has also been prepared in line with the recommendations of the UK Corporate Governance Code (the 'Code') and the Listing Rules of the UK Listing Authority.

As part of its responsibilities the Remuneration Committee prepares the Policy Report, below, describing the framework within which the Company remunerates its Executive Directors and other senior executives (subject to shareholder approval). If approved by shareholders at the 2017 AGM, it will replace the Current Policy (approved by shareholders at the 2014 AGM) and will apply for a period of three years from the date of the 2017 AGM or until a revised Policy is approved by shareholders, if sooner. Any existing remuneration commitments or contractual arrangements agreed prior to the approval and implementation of this Policy in accordance with any policy in place at the time, namely before 7 September 2017, will be honoured in accordance with their original terms.

Adoption of New Policy

The Company's existing remuneration policy was subject to a binding shareholder vote at the 2014 Annual General Meeting of the Company.

The Company is proposing to shareholders the New Policy at the forthcoming 2017 AGM, in order to meet the requirement for such policies to be submitted to shareholders at least once every three years. The New Policy is again designed to ensure that the remuneration framework will support and drive the strategy forward by both challenging and motivating the Executive Directors and senior management to deliver it and drive value for our shareholders. Details of the New Policy are set out on pages 42 to 49.

The Remuneration Policy Report as approved by shareholders at the Company's 2014 AGM is set out in the Company's 2014, 2015 and 2016 Annual Reports which can be found on the Company's website at www.carpetright.plc.uk.

Policy overview

A key part of the Committee's role is to ensure that the remuneration of Executive Directors and senior management is aligned to the Company's strategic objectives. It is key that the Company is able to attract and retain leaders who are focused and also appropriately incentivised to deliver the Company's strategic objectives within a framework which is aligned with the interests of the Company's shareholders. This alignment is (or will be, if the New Policy is adopted by shareholders) achieved through a combination of setting appropriate performance targets, a retention period for vested LTIP awards and share ownership guidelines which require executives to build up holdings of Carpetright shares. These guidelines, which are reviewed at least annually, require Executive Directors to build up and maintain a target holding having a value 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, each Executive Director is obliged to retain shares with a minimum value equal to 50% of the post-tax vested shares under the LTIP.

The Committee ensures that a significant proportion of the overall remuneration package of Executive Directors remains at risk. With all packages for Executive Directors substantially geared towards meeting targets set under the annual bonus and long-term incentive schemes, the Committee believes that the pay and benefits of its Executive Directors and senior management adequately take account of reward versus risk.

The Committee considers that no element of the remuneration arrangements, which are all very carefully considered, will encourage inappropriate risk taking or behaviour by any executive.

The policy for the remuneration of the Executive and Non-Executive Directors is set out in the tables below.

Directors' report continued

Directors' remuneration report continued

Policy Table – Elements of Directors' remuneration package

Executive Directors

Purpose and link to strategy	Operation	Maximum	Performance measurement
Base salary			
Helps to recruit and retain Executive Directors.	Generally reviewed annually (with any change effective in May) but exceptionally at other times of the year.	Annual increases generally in line with the level of standard increase awarded to other employees.	Not applicable
Reflects responsibilities, performance, experience and role.	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.	More significant increases may be awarded at the discretion of the Committee in connection with: <ul style="list-style-type: none"> – an increase in the scope and responsibility of the individual's role; or – the individual's development and performance in the role following appointment. 	

No substantive change to policy from 2014 vote.

Benefits

Provides a competitive package of benefits to assist with recruitment and retention of Executive Directors.	Executive Directors are entitled to a competitive package of benefits, including: <ul style="list-style-type: none"> – car benefits; – life assurance; and – private medical cover. 	The value of a car allowance is of a level appropriate to the individual's role and is subject to review from time to time. The cost to the Company of other benefits is not predetermined and may vary from year to year.	Not applicable
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No substantive change to policy from 2014 vote.

Purpose and link to strategy	Operation	Maximum	Performance measurement
Pension			
The Company aims to provide competitive retirement benefits. This helps recruit and retain Executive Directors.	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.	Up to 20% of base salary.	Not applicable

No substantive change to policy from 2014 vote.

Annual bonus

To incentivise achievement of annual targets and objectives consistent with the short to medium-term strategic needs of the business, so as to encourage sustainable growth in the Company's operating profits.	<p>Bonuses are awarded by reference to performance against specific targets measured over a single financial year.</p> <p>Any amounts awarded to an Executive Director under this arrangement are paid out in full shortly after the assessment of the performance targets has been completed.</p> <p>Bonuses do not form part of the Executive Directors' pensionable earnings.</p> <p>Bonuses are subject to clawback at the discretion of the Committee in the event of a material misstatement of the financial results, an error in assessing the size of the bonus or where the individual had committed an act of gross misconduct during the relevant financial year.</p>	<p>Capped at 100% of base salary.</p> <p>The percentage payable for on-target performance is determined by the Committee each year in light of the degree of stretch in the targets and affordability of the resulting bonus pay-outs relative to budgeted levels of profit.</p>	<p>The measures and targets are set annually by the Committee in order to ensure that they are relevant to participants and take account of the most up-to-date business plan and strategy.</p> <p>All or a significant majority of the bonus opportunity will normally be determined by reference to performance against a demanding Group underlying profit target.</p> <p>Additional targets applied may relate to the achievement of specific strategic or personal objectives. These measures will be disclosed in the annual report on remuneration, where not deemed commercially sensitive.</p>
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No substantive change to policy from 2014 vote.

Directors' report continued

Directors' remuneration report continued

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.	<p>The current LTIP was approved at the 2013 AGM (Carpentright Long Term Incentive Plan 2013).</p> <p>Awards consist of annual awards of shares that vest three years after grant to the extent that performance conditions have been met over a three-year performance period.</p> <p>A two-year post-vesting holding period applies to shares (less any required to be sold to cover tax and social security) that vest.</p> <p>Awards are subject to clawback at the discretion of the Committee in the event of a material misstatement of the financial results, an error in the calculation of performance conditions or if the participant ceases to be employed as a result of misconduct.</p>	<ul style="list-style-type: none"> – normal maximum of 150% of salary; and – exceptional circumstances maximum 250% of salary. <p>Dividend equivalents may be payable on LTIP awards, in cash or shares, to the extent that awards vest.</p>	<p>The measures and targets are set annually by the Committee ensuring alignment with the Company's medium to long-term strategy.</p> <p>Awards to be made in the financial year ending 2018 are expected to be subject to performance conditions based on the Company's underlying earnings per share.</p> <p>25% will vest at threshold with full vesting taking place for equalling or exceeding the maximum target, with a sliding scale between the two points.</p> <p>The Committee has discretion to set different and multiple metrics and targets for future awards.</p>

Proposed substantive change for 2017 policy vote.

The revised policy provides clarity that 25% of an award will vest at threshold. The former policy was silent on the matter.

A two-year post-vesting holding period has been introduced.

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
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No substantive change to policy from 2014 vote.

Purpose and link to strategy	Operation	Maximum	Performance measurement
Share retention guidelines			
To further align the interests of Executive Directors to those of shareholders.	<p>Executive Directors are expected to build up and retain a shareholding of the same percentage of salary as awards are made under the LTIP by the retention of shares with a minimum value equal to 50% of the net of tax gain arising from any vesting or exercise under the Company's Long-Term Incentive Plan.</p> <p>The Executive Directors are required to continue to hold the lower of 50% of their guideline level and 50% of the value of shares they own at cessation of employment (excluding shares purchased in the market) for a period of one year following cessation of employment.</p>	Not applicable.	Not applicable.

Proposed substantive change for 2017 policy vote.

This matter did not previously appear in the policy table, although the guidelines existed and was reported upon in previous Annual Reports. In 2014 the guideline was to build up and retain a shareholding having a value equal to 100% of base salary using the mechanism set out above. This was increased in 2015 to shareholdings having a value equal to the same percentage of salary as awards are made under the LTIP (150% for the Chief Executive and 125% for the Chief Financial Officer).

The guideline now applies, to a reduced extent, for a period of one year following cessation of employment.

Non-Executive Directors

<p>Helps recruit and retain high quality, experienced individuals.</p> <p>Reflects time commitment and role.</p>	<p>The Chairman is paid a fee, and no additional fee will be paid for chairing any of the Board's Committees.</p> <p>Non-Executive Directors are paid an annual basic fee plus additional fees are payable to the Senior Independent Director (SID) and the Chair of each of its Committees. Where the SID role is combined with that of chairing a Committee then only one fee is paid.</p> <p>Non-Executive Directors are not eligible for pension scheme membership, bonus or incentive arrangements. They are entitled to reimbursement of reasonable business expenses and tax thereon.</p> <p>Limited benefits relating to travel, accommodation and hospitality may be provided in relation to the performance of any Directors' duties.</p> <p>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.</p>	The aggregate amount of Directors' fees is limited by the Company's Articles of Association.	Not applicable.
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Proposed substantive change for 2017 policy vote.

The references to deputy chairman have been removed as the Company no longer has a deputy chairman (who was also the SID) and clarity has been provided that an additional fee can be paid to the SID.

Directors' remuneration report continued

Differences in remuneration policy across the Group

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 and in share-based form, which provides a good link to long-term Company performance.

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 colleague discount and, depending upon the colleague's seniority, healthcare.

Incentive plan determinations and discretions

The Committee fully recognises that the exercise of discretion must be undertaken in a very careful and considered way and that it is an area that will quite rightly come under scrutiny from shareholders and other stakeholders. It is, however, important for the Committee to retain some discretion to make payments outside its remuneration policy in exceptional circumstances. The Committee confirms that any exercise of discretion in such circumstances would be within the available discretions set out in this report, the rules of the relevant schemes, the Listing Rules and HMRC rules where relevant and that the maximum levels available under any relevant plans would not be exceeded.

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, other than in respect of the tax element of any vesting of awards made under the LTIP. The Committee may decide that participants will receive a dividend equivalent payment (in cash and/or shares).

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.

With regard to the annual bonus scheme and the LTIP, 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 (with the maximum level of awards restricted as set out in the policy table on pages 42 to 45):

- 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;
- 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; and
- discretion to allow participants to sell, transfer, assign or dispose of some or all of their shares in exceptional circumstances before the end of the holding period, subject to such additional terms and conditions as the Committee may specify.

Any exercise of discretions would, where relevant, be explained in the annual report on remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Legacy arrangements

In approving the Policy Report, authority is given to the Company to honour any commitments entered into with current or former Directors that is consistent with the approved remuneration policy in force at the time the commitment was made (or, if made before the Current Policy was approved, as have been disclosed previously to shareholders), or was made at a time when the relevant individual was not a Director of the Company.

Consideration of employee views

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

Directors' report continued

Directors' remuneration report continued

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 (including the settlement of claims brought against the Company) and to provide outplacement services.

In circumstances in which a departing director may be entitled to pursue a legal claim, the Company may negotiate settlement terms and, with the approval of the Committee on the remuneration elements therein, enter into a settlement agreement accordingly.

In addition, the Company would honour any legal entitlements, such as statutory redundancy payments or awards made by any tribunal or court, which executives may have on, or in respect of, 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, ill health, or because the individual's employing company or part of the business in which employment is transferred out of the Group or as otherwise determined by the Committee). Where an individual is a 'good leaver', awards would not lapse but would normally continue to vest at the end of the original performance period but only if, and to the extent that, the applicable performance conditions are satisfied. Awards would also normally be subject to a pro-rata reduction to take account of the proportion of the vesting period that has elapsed, although the Committee has discretion to disapply pro-rating in certain circumstances. On a change of control awards would vest early, subject to performance conditions being achieved, and would normally be subject to a pro-rata reduction, although the Committee has discretion to disapply pro-rating.

Neil Page and Wilf Walsh have contracts of an indefinite term, subject to a 12 month notice period. Non-Executive Directors are entitled to one month's notice.

Recruitment remuneration

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

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

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

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

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

Outside appointments of the Executive Directors

Executive Directors retain remuneration from outside non-executive directorships. Wilf Walsh was a non-executive director of Gala Coral until 1 November 2016 and retained his fees from this directorship which accrued at a rate of £80,000 p.a.

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.

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. The Company consulted with major shareholders and other shareholder representative bodies in relation to changes to its 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.

Expected value of the proposed annual remuneration packages for Executive Directors

The following chart indicates the level of remuneration payable to Executive Directors in respect of the financial year ended 2018 based on policy at 'minimum' remuneration, remuneration in line with 'on-target' performance and the maximum remuneration available for stretch performance.



Assumptions:

- Fixed only – fixed pay only, including base salary, pension allowance and benefits as disclosed in the single figure table on page 52.
- 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).

Directors' report continued

Directors' remuneration report continued

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 29 April 2017. It also summarises how the policy contained within the Directors' Remuneration Policy Report on pages 41 to 49 will be applied in the financial year ending 28 April 2018.

It has been prepared in accordance with the Regulations 2008. In accordance with the Regulations, this part of the report will be subject to an advisory vote at the forthcoming AGM on 7 September 2017.

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.

Structure and Responsibilities of the Remuneration Committee

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

Number of meetings:			5
Members	Date joined Committee	Attendance	Meetings eligible to attend
Sandra Turner (Committee Chairman)	October 2010	5	5
Andrew Page	July 2013	4	5
David Clifford	September 2014	5	5

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 31. 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), the 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).

Summary of Committee activity during the year ended 2017

During the year ended 2017 the Committee has:

- conducted an extensive review of the current remuneration policy;
- considered both internal and external reference points in the completion of this review;
- undertaken a formal investor consultation;
- discussed and reviewed the salaries of Directors and other senior executives;
- discussed and reviewed the level of awards under the LTIP;
- considered the appropriate metrics and targets for both the annual bonus and LTIP awards for the year ahead;
- considered performance against the targets for the 2016 annual bonus (and following the year end, the 2017 annual bonus);
- considered, since the year end, the performance against targets for the 2014 LTIP and approved payments under that award;
- considered and approved the content of the Directors' remuneration report;
- reviewed and proposed new share retention guidelines for Directors;
- approved the launch of an annual invitation under the SAYE scheme; and
- reviewed its own performance.

Remuneration advice

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 all five Committee meetings. New Bridge Street, which is a signatory to the Remuneration Consultants' Group Code of Conduct for Executive Remuneration Consultants, did not provide other services to the Company. Fees paid (excluding VAT) by the Company to New Bridge Street during the year amounted to £39k net of VAT (2016: £25k). 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.

Statement of shareholder voting at the 2016 AGM

The table below shows the voting outcome at the 9 September 2016 AGM in respect of the approval of the 2016 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	39,507,685	6,882,919	46,390,604	397,223	46,787,827
% votes cast	85%	15%			

Note:

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

One shareholder's proxy vote represented the majority of the vote against the remuneration policy. It is understood that this principally related to the absence of a two-year post-vesting holding period for LTIPs. This has been addressed in the New Policy.

Directors' report continued

Directors' remuneration report continued

How our remuneration policy was implemented in the financial year ended 2017

Single total figure table for the financial year ended 2017 (audited)

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

	Salary and fees £000	Benefits ¹ £000	Pension ² £000	Subtotal fixed remuneration £000	Bonus ³ £000	Long-term incentives ⁴ £000	All employee schemes ⁵ £000	Subtotal variable remuneration £000	Single figure for total remuneration £000
Executive Directors									
Wilf Walsh	459	28	92	579	–	217	4	221	800
Neil Page	300	28	60	388	–	112	4	116	504
Total	759	56	152	967	–	329	8	337	1,304
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 financial year ended 2016 was as follows:

	Salary and fees £000	Benefits ¹ £000	Pension ² £000	Subtotal fixed remuneration £000	Bonus ³ £000	Long-term incentives ⁴ £000	All employee schemes ⁵ £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

Notes:

1. The main benefits available to the Executive Directors during the year ended 2017 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.
4. This column shows the value of shares that vested in respect of LTIP awards with performance conditions that ended during the relevant period and includes dividends accrued during the relevant performance period and are payable on vesting. The share price used for the purpose of calculation of the figure for the financial year ended 2017 is the average mid-market closing share price (rounded to the nearest penny) in the dealing days in the three months to 29 April 2017, being 225p. This will be restated in next year's report to reflect the actual share price on the date of vesting. Details of the vesting of the January 2014 awards (included in the 2016 single figure) are provided on page 54. Further details of the LTIP's operation during the year ended 2017 are provided on page 55.
5. These figures represent the value of the 20% discount on the Sharesave option price granted in the relevant year.

Payments to past directors (audited)

No payments were made to past directors in the financial year ended 2017.

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 – 2017 structure and outcome (audited)

In respect of the financial year ended 2017, 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 14 new stores and closed 22, giving a net reduction of 8 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. The precise targets will be disclosed once they are no longer commercially sensitive. As a result, the property targets in respect of the financial year ended 2016 as well as in respect of the financial year ended 2017 are yet to be disclosed.
- Improvement in customer service relating to the Net Promoter Score. This was a move away from the previous measure and towards a more recognisable metric. The proportion of highly satisfied customers and overall satisfaction is also measured.

The maximum bonus opportunity for Executive Directors for the 2017 financial year was 100% (2016: 100%) of basic salary earned in the financial year. In 2017, 50% (2016: 50%) 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. The strategic objectives relating to the property objective and the Net Promoter Score were met to the extent as set out in the table below. However, as the financial metric was not achieved, no bonus will be payable.

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)	18.4	23.0	27.6	14.4	80%	0%
Property	Commercially sensitive			Threshold exceeded	10%	0%
Net Promoter Score (averaged over three months)	71%	73%	75%	75%	10%	0%
Bonus payout					100%	0%

Directors' report continued

Directors' remuneration report continued

Long-term incentives (audited)

LTIP awards granted in January 2014 and included in single figure for the year ended 2016

The LTIP awards granted in January 2014, which lapsed 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, with pro-rata straight-line vesting between the points:

Underlying cumulative profit before tax over the performance period	Vesting level
Below £44m	0%
£44m	25%
£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 vested.

LTIP awards granted in July 2014 and included in the single figure for the year ended 2017

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 with pro-rata straight-line vesting between the points:

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

The actual performance included in the single figure table is set out below:

LTIP award	Performance target	Weighting	Actual performance	Actual vesting level	Date at end of performance period	Date of vesting	Share price at vesting ¹
July 2014	Underlying cumulative profit	100%	£45.9m	75%	29 April 2017	31 July 2017	225p

Note:

1. The share price used for the purpose of calculation of the figure for the financial year ended 2017 is the average mid-market closing share price (rounded to the nearest penny) in the dealing days in the three months to 29 April 2017, being 225p.

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:

	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 earnings per share, 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)	Equivalent to 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%

Based on current performance these awards are unlikely to vest.

LTIP granted September 2016

The LTIP awards granted in September 2016, which will vest in September 2019, based on performance over the three financial years beginning 3 May 2016, are shown in the table below:

	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	241p	285,684	£688,498	25%	100%	Cumulative underlying earnings per share to the financial year ended 2019
Neil Page	Nil cost option	125% of salary	241p	155,601	£374,998	25%	100%	

Awards will vest according to performance against the cumulative underlying earnings per share, 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)	Equivalent to compound profit growth from financial year ending 2016
Less than 68.6p	Nil	0%	<5.9%
68.6p	Threshold	25%	5.9%
83.8p	Maximum	100%	13.2%

Based on current performance these awards are unlikely to vest.

Directors' report continued

Directors' remuneration report continued

All-employee share plans (audited)

Sharesave

Details of options awarded to the Executive Directors under the Sharesave plan during the course of the year are set out in the table below. Both Executive Directors cancelled their participation in previous schemes in order to participate in the 2017 scheme.

	Granted during the year	Exercise price	First exercise date	Last exercise date
Wilf Walsh	13,846	130p	April 2020	October 2020
Neil Page	13,846	130p	April 2020	October 2020

Share Incentive Plan

Carpentright 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. This will continue to January 2020 when all shares will have been transferred to him.

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 29 April 2017.

	Date granted	Balance at 30 April 2016	Granted during year	Vested/ exercised during year	Lapsed during year	Balance at 29 April 2017	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 ¹	128,449	–	–	–	128,449	525.5	nil	–	–	–	Jul 17	Jul 27	LTIP
	Apr 15 ²	5,187	–	–	5,187	–	433	347	–	–	–	Apr 18	Oct 18	SAYE
	Jul 15	119,324	–	–	–	119,324	577	nil	–	–	–	Jul 18	Jul 28	LTIP
	Sept 16	–	285,684	–	–	285,684	241	nil	–	–	–	Sept 19	Sept 29	LTIP
	Apr 17	–	13,846	–	–	13,846	162	130	–	–	–	Apr 21	Oct 21	SAYE
		252,960	299,530	–	5,187	547,303								
Neil Page	Jan 14 ³	69,169	–	–	69,169	–	506	nil	–	–	–	Jan 17	Jan 27	LTIP
	Apr 14 ²	2,227	–	–	2,227	–	505	404	–	–	–	Apr 17	Oct 17	SAYE
	Jul 14 ¹	66,603	–	–	–	66,603	525.5	nil	–	–	–	Jul 17	Jul 27	LTIP
	Apr 15 ²	2,593	–	–	2,593	–	433	347	–	–	–	Apr 18	Oct 18	SAYE
	Jul 15	64,991	–	–	–	64,991	577	nil	–	–	–	Jul 18	Jul 28	LTIP
	Sept 16	–	155,601	–	–	155,601	241	Nil	–	–	–	Sept 19	Sept 29	LTIP
Apr 17	–	13,846	–	–	13,846	162	130	–	–	–	Apr 21	Oct 21	SAYE	
		205,583	169,447	–	73,989	301,041								

Notes:

- The performance condition was met and the awards will vest in July 2017. An estimate of value has been included in the single figure table, although the awards have yet to vest.
- These options were cancelled in order to permit participation in the 2017 SAYE offer.
- The performance condition was not met and the awards lapsed in January 2017.

Share ownership and shareholding guidelines for Directors (audited)

The Company had a share ownership policy that requires the Executive Directors to build up and maintain a target holding having a value 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 post-tax vested shares under the LTIP. The Executive Directors are required to hold the lower of 50% of their guideline level and 50% of the value of shares they own at cessation of employment (excluding any shares purchased in the market) for a period of one year following cessation of employment. 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 29 April 2017 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 365,248 shares held in trust to satisfy awards made under the LTIP.

	Financial year ended	Ordinary shares	Ordinary shares held in the SIP ¹	Total holding of ordinary shares	Value of holding as a % of salary on the last day of the relevant financial year 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	2017	53,778	–	53,778	26%	13,846	533,457	601,081
	2016	41,278	–	41,278	20%	5,197	247,773	294,248
Neil Page	2017	38,042	740	38,782	29%	13,846	287,195	339,823
	2016	27,771	1,011	28,782	22%	4,820	200,763	234,365
Non-Executive								
Bob Ivell		–	–	–	–	–	–	–
Sandra Turner		–	–	–	–	–	–	–
David Clifford		5,000	–	5,000	–	–	–	5,000
Andrew Page		–	–	–	–	–	–	–

Notes:

- 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 56.
- Share price used is the price as at 29 April 2017: 225p.
- None of these options are subject to a performance condition. Details of the Sharesave interests can be found on page 56.
- This column shows all unvested and outstanding awards under the LTIP that were held by the Executive Director concerned as at 29 April 2017 (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 56.

Directors' report continued

Directors' remuneration report continued

Application of the remuneration policy for the financial year ending 2018

Basic salary

For the 2017 pay review, the Chief Executive and the Chief Financial Officer indicated to the Committee that, in light of the performance of the business, their base salaries should remain unchanged. The Committee therefore decided not to conduct a review of their pay and, as a result, their base salaries remain unchanged. The current salaries of the Executive Directors are as follows:

	Base salary as at 30 April 2016	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 ending 2018 as per their respective policies set out in the Policy Report on pages 41 to 49.

Annual bonus plan performance targets

The annual bonus plan for the financial year ending 2018 will operate consistently with the policy detailed in the Policy Report on page 43.

Performance targets for the Executive Directors for the financial year ending 2018 will be based on a combination of Group underlying profit (80% of the total opportunity) and strategic metrics linked to property (10% of the total opportunity), customer service (5% of the total opportunity) and improved store disciplines (5% 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 pay-outs 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 and maximum for achieving a stretch level of performance. 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 2018 Annual Report and Accounts.

Long-term incentive awards in the financial year ended 2018

The Committee intends to make the next awards under the LTIP during the summer of 2017. The awards for the Executive Directors will be at 150% of base salary for Wilf Walsh and 125% for Neil Page and will vest three years from the date of grant, based on performance over the three financial years beginning 30 April 2017. Awards will be made subject to a two-year post-vesting holding period and will carry a dividend equivalent. The awards will vest according to performance against the cumulative underlying earnings per share, 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)	Equivalent to compound profit growth from financial year ending 2017
Less than 64.8p	Nil	0%	<14.8%
64.8p	Threshold	25%	14.8%
79.2p	Maximum	100%	22.8%

Non-Executive Directors' fees

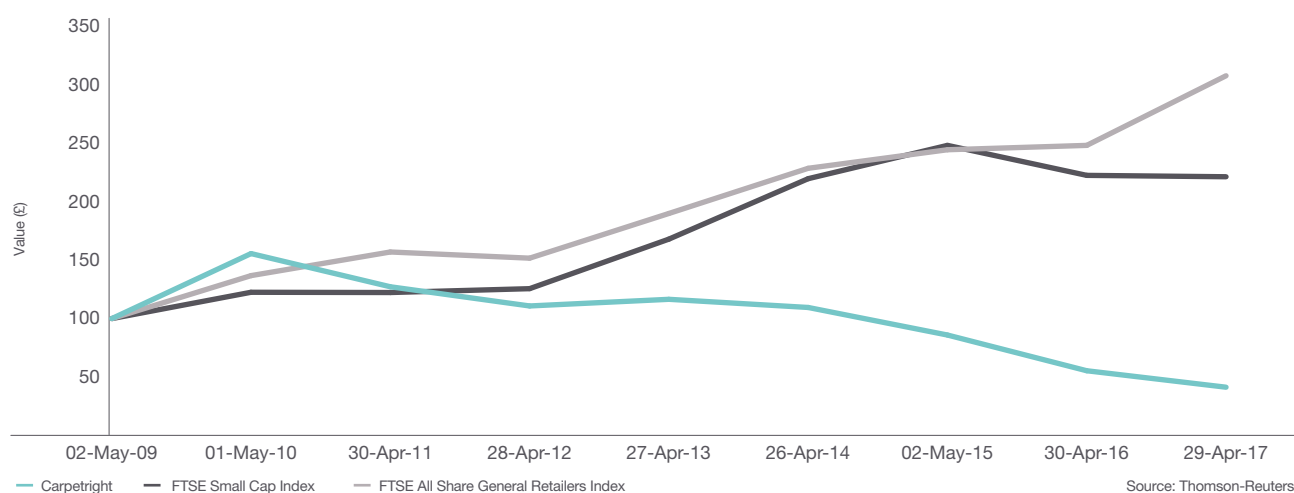
Non-Executive Directors' fees have been reviewed and no changes were made. The current fees are as follows:

	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, by 29 April 2017, of £100 invested in Carpetright plc on 2 May 2009 compared with that of £100 invested in the FTSE Small Cap Index and the FTSE All Share General Retailers 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 eight 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)
2017	Wif Walsh	800	0%	75%
2016	Wif Walsh	819	52%	0%
2015	Combined remuneration	842		
2015	Wif 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:

- 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. Wif Walsh joined as Chief Executive on 21 June 2014, at which point Lord Harris ceased to fulfil that role.
- 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 52.

Directors' report continued

Directors' remuneration report continued

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

The table below 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.

	Salary % change	Benefits % change	Bonus/payments as a result of performance % change
Chief Executive Officer	0	0	(8%)
Average per employee	2%	(3%)	(2%)

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 30 April 2016 to the financial year ending 29 April 2017.

	2017 £m	2016 £m	Percentage change
Overall expenditure on pay	90.0	90.7	(1%)
Dividend plus share buyback	–	–	–

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 77 to 78.

By order of the Board

Sandra Turner

Chairman of the Remuneration Committee
26 June 2017

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 29;
- the Directors' remuneration report appears on pages 39 to 60;
- 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 86;
- changes in asset values are set out in the consolidated balance sheet on page 67 and in the notes to the financial statements on pages 69 to 101;
- the Group's profit before taxation and the profit after taxation and minority interests appear in the consolidated income statement on page 65;
- a detailed statement of the Group's treasury management and funding is set out in note 23 to the financial statements on pages 94 to 96;
- matters concerning the employment etc. of disabled persons appear on page 28;
- details of employee involvement appear on page 28;
- disclosures concerning greenhouse gas emissions appear on page 29;
- 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 32; and
- in accordance with Listing Rule 9.8.4, details of dividend waivers appear on page 62.

Directors' interests

Directors' share interests are disclosed in the Directors' report on remuneration on page 57. 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 who held office during the financial year ended 2017. The Company has also purchased and maintained Directors' and Officers' liability insurance throughout the financial year ended 2017.

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.

Directors' report continued

Other information continued

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 96 to 98.

Substantial shareholdings

As at 26 June 2017, 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	19%
The Olayan Group	13%
FIL Limited	9%
Meditor	6%
Aberforth	5%
Wellcome Trust	5%
Majedie	5%

Donations

No political donations were made during the year (2016: £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 2017 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 2016 Annual General Meeting, shareholders gave the Company renewed authority to purchase a maximum of 6,792,447 shares of one penny each. This resolution remains valid until the date of this year's Annual General Meeting. As at 29 April 2017, 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 30 and 31 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 2017 Annual General Meeting of the Company will be held on 7 September 2017 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
26 June 2017

Financial statements

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Financial statements

Consolidated income statement

for 52 weeks ended 29 April 2017

	Notes	Group 52 weeks to 29 April 2017			Group 52 weeks to 30 April 2016 Reclassified*		
		Underlying performance £m	Separately reported items £m	Total £m	Underlying performance £m	Separately reported items £m	Total £m
Revenue	2	457.6	–	457.6	456.8	–	456.8
Cost of sales		(188.2)	–	(188.2)	(182.6)	–	(182.6)
Gross profit	2	269.4	–	269.4	274.2	–	274.2
Administration expenses		(255.4)	(9.3)	(264.7)	(255.8)	(1.9)	(257.7)
Other operating income/(loss)		2.4	(4.2)	(1.8)	1.9	(3.6)	(1.7)
Operating profit/(loss)	2,3	16.4	(13.5)	2.9	20.3	(5.5)	14.8
Finance costs	6	(2.0)	–	(2.0)	(2.0)	–	(2.0)
Profit/(loss) before tax		14.4	(13.5)	0.9	18.3	(5.5)	12.8
Tax	7	(3.3)	3.1	(0.2)	(4.2)	1.5	(2.7)
Profit/(loss) for the financial period attributable to equity shareholders of the Company		11.1	(10.4)	0.7	14.1	(4.0)	10.1
Basic earnings per share (pence)	9	16.4		1.0	20.8		14.9
Diluted earnings per share (pence)	9			1.1			14.9

* Certain prior year amounts, previously reported in underlying performance, have been reclassified for consistency with the current period presentation as separately reported items. This has no impact on the Group statutory reported profit before tax and earnings per share (see note 5).

Consolidated statement of comprehensive income

for 52 weeks ended 29 April 2017

	Notes	Group 52 weeks to 29 April 2017 £m	Group 52 weeks to 30 April 2016 £m
Profit for the financial period		0.7	10.1
Items that may not be reclassified to the income statement:			
Re-measurement of defined benefit plans	22	(1.8)	1.1
Tax on items that may not be reclassified to the income statement	7	0.1	(0.4)
Total items that may not be reclassified to the income statement		(1.7)	0.7
Items that may be reclassified to the income statement:			
Exchange gains		4.3	3.2
Total items that may be reclassified to the income statement		4.3	3.2
Other comprehensive income for the period		2.6	3.9
Total comprehensive income for the period attributable to equity shareholders of the Company		3.3	14.0

Statements of changes in equity

for 52 weeks ended 29 April 2017

Group	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
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
Profit for the period	–	–	–	–	–	0.7	0.7
Other comprehensive income for the financial period	–	–	–	–	4.3	(1.7)	2.6
Total comprehensive income for the financial period	–	–	–	–	4.3	(1.0)	3.3
Purchase of own shares by employee benefit trust	–	–	(0.3)	–	–	–	(0.3)
Share based payments and related tax	–	–	–	–	–	1.0	1.0
At 29 April 2017	0.7	17.8	(1.6)	0.1	7.6	53.4	78.0

Company	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
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
Profit for the period	–	–	–	–	–	(6.3)	(6.3)
Other comprehensive income for the financial period	–	–	–	–	–	(1.7)	(1.7)
Total comprehensive income for the financial period	–	–	–	–	–	(8.0)	(8.0)
Purchase of own shares by employee benefit trust	–	–	(0.3)	–	–	–	(0.3)
Share based payments and related tax	–	–	–	–	–	1.0	1.0
At 29 April 2017	0.7	17.8	(1.6)	0.1	(0.3)	31.2	47.9

Balance sheets

as at 29 April 2017

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Assets					
Non-current assets					
Intangible assets	10	57.3	57.1	27.8	29.2
Property, plant and equipment	11	102.0	95.0	67.6	63.4
Investment property	12	15.3	14.5	2.3	4.9
Investment in subsidiary undertakings	13	–	–	15.7	15.7
Deferred tax assets	21	1.9	1.9	–	–
Trade and other receivables	15	0.4	0.5	42.1	43.4
Total non-current assets		176.9	169.0	155.5	156.6
Current assets					
Inventories	14	41.1	41.6	35.4	35.7
Trade and other receivables	15	25.8	20.0	17.0	14.2
Cash and cash equivalents	16	12.5	8.3	9.3	5.5
Total current assets		79.4	69.9	61.7	55.4
Total assets	2	256.3	238.9	217.2	212.0
Liabilities					
Current liabilities					
Trade and other payables	17	(83.9)	(88.8)	(72.5)	(77.6)
Obligations under finance leases	18	(0.1)	(0.1)	(0.1)	(0.1)
Borrowings and overdrafts	19	(20.1)	(7.1)	(20.1)	(7.1)
Current tax liabilities		(1.7)	(2.3)	(1.7)	(2.4)
Total current liabilities		(105.8)	(98.3)	(94.4)	(87.2)
Non-current liabilities					
Trade and other payables	17	(34.5)	(34.3)	(44.2)	(43.4)
Obligations under finance leases	18	(2.1)	(2.2)	(1.0)	(1.1)
Provisions for liabilities and charges	20	(17.5)	(12.6)	(17.5)	(12.3)
Deferred tax liabilities	21	(15.2)	(15.3)	(9.0)	(10.6)
Retirement benefit obligations	22	(3.2)	(2.2)	(3.2)	(2.2)
Total non-current liabilities		(72.5)	(66.6)	(74.9)	(69.6)
Total liabilities	2	(178.3)	(164.9)	(169.3)	(156.8)
Net assets		78.0	74.0	47.9	55.2
Equity					
Share capital	24	0.7	0.7	0.7	0.7
Share premium	24	17.8	17.8	17.8	17.8
Treasury shares	24	(1.6)	(1.3)	(1.6)	(1.3)
Other reserves		61.1	56.8	31.0	38.0
Total equity attributable to equity shareholders of the Company		78.0	74.0	47.9	55.2

These financial statements from pages 65 to 101 were approved by the Board of Directors on 26 June 2017 and were signed on its behalf by:

Wilf Walsh
Directors

Neil Page

Statements of cash flow

for 52 weeks ended 29 April 2017

	Notes	Group 52 weeks to 29 April 2017 £m	Group 52 weeks to 30 April 2016 £m	Company 52 weeks to 29 April 2017 £m	Company 52 weeks to 30 April 2016 £m
Cash flows from operating activities					
Profit/(loss) before tax		0.9	12.8	(7.9)	9.0
Adjusted for:					
Depreciation and amortisation	2,3	12.2	12.5	10.0	10.3
Loss on property disposals		3.3	3.6	3.1	3.5
Separately reported non-cash items		9.2	0.9	11.4	1.1
Share based payments		1.0	1.0	1.0	1.0
Net finance costs	6	2.0	2.0	1.8	1.7
Operating cash flows before movements in working capital		28.6	32.8	19.4	26.6
Decrease/(Increase) in inventories		1.0	(7.0)	0.4	(7.2)
(Increase)/decrease in trade and other receivables		(5.4)	6.2	(1.0)	10.0
(Decrease)/increase in trade and other payables		(8.2)	(10.5)	(6.0)	(10.2)
Net expenditure on exit of operating leases		(2.2)	(2.2)	(2.1)	(2.2)
Contributions to pension schemes		(0.9)	(0.9)	(0.9)	(0.9)
Provisions paid		(5.2)	(5.1)	(5.0)	(4.9)
Cash generated by operations		7.7	13.3	4.8	11.2
Interest paid		(1.3)	(2.0)	(1.4)	(2.1)
Corporation taxes paid		(0.9)	(3.0)	(0.9)	(3.1)
Net cash generated from operating activities		5.5	8.3	2.5	6.0
Cash flows from investing activities					
Purchases of intangible assets		(0.6)	(1.8)	(0.6)	(1.8)
Purchases of property, plant and equipment and investment property		(16.8)	(10.1)	(13.6)	(8.0)
Proceeds on disposal of property, plant, equipment & investment property		3.4	2.2	2.8	1.4
Interest received		-	-	0.3	0.2
Net cash generated used in investing activities		(14.0)	(9.7)	(11.1)	(8.2)
Cash flows from financing activities					
Issue of new shares		-	0.4	-	0.4
Purchase of treasury shares by employee benefit trust		(0.3)	(0.9)	(0.3)	(0.9)
Repayment of finance lease obligations		(0.3)	(0.2)	(0.2)	(0.1)
Movement in borrowings	29	13.0	-	13.0	-
Net cash used in financing activities		12.4	(0.7)	12.5	(0.6)
Net increase/(decrease) in cash and cash equivalents in the period	29	3.9	(2.1)	3.9	(2.8)
Cash and cash equivalents at the beginning of the period		1.2	2.9	(1.6)	0.8
Exchange differences	29	0.3	0.4	(0.1)	0.4
Cash and cash equivalents at the end of the period	16, 29	5.4	1.2	2.2	(1.6)

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 and are included in borrowings and overdrafts under current liabilities.

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 4 to 5 of the Annual Report.

Basis of preparation

The consolidated financial statements of the Group and the Company are drawn up to within seven days of the accounting record date, being 30 April of each year. The financial period for 2017 represents the 52 weeks ended 29 April 2017. The comparative financial period for 2016 was 52 weeks ended 30 April 2016.

The consolidated 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 loss for the Company for the period was £6.3m (2016: profit of £7.2m).

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, which remain unchanged, being a leverage covenant, a fixed charge cover covenant, a clear down covenant and a capital expenditure covenant. The fixed charge cover covenant is the most sensitive to changes in the Group's profitability. The Group was compliant with all covenants as at the year end.

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 result in a breach of the banking covenants as well as mitigating factors that would be available and actionable in the event that the adverse 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.

Financial statements continued

Notes to the financial statements continued

1. Principal accounting policies continued

Alternative Performance Measures

The Company uses a number of Alternative Performance Measures (APMs) in addition to those reported in accordance with IFRS. The Directors believe that these APMs, listed below, are important when assessing the underlying financial and operating performance of the Group and its segments. The following APMs do not have standardised meaning prescribed by IFRS and therefore may not be directly comparable to similar measures presented by other companies.

Underlying performance

Underlying performance, reported separately on the face of the Consolidated Income Statement, is from continuing operations and before separately reported items on the face of the income statement.

Sales

Sales represents amounts payable by customers for goods and services before deducting VAT and other charges.

Like-for-like sales (calculated in local currency)

Calculated as this year's sales compared to last year's sales for all stores that are at least 12 months old at the beginning of our financial year. Stores closed during the year are excluded from both years. No account is taken of changes to store size or introduction of third party concessions.

Gross profit ratio

Calculated as Gross profit as a percentage of revenue. It is one of the Group's key performance indicators and is used to assess the underlying performance of the Group's segments.

Separately reported items

Defined below.

Underlying operating profit

Underlying operating profit is defined as operating profit before separately reported items. It is one of the Group's key performance indicators and is used to assess the trading performance of Group businesses.

Underlying profit before tax

Underlying profit before tax is calculated as the net total of underlying operating profit less total net finance costs associated with underlying performance. It is one of the Group's key performance indicators and is used to assess the financial performance of the Group as a whole. It is also used as one of the targets against which the annual bonuses of certain employees are measured.

Underlying earnings per share

Underlying earnings per share is calculated by dividing underlying profit before tax less associated income tax costs by the weighted average number of ordinary shares in issue during the year. It is one of the Group's key performance indicators and is used to assess the underlying earnings performance of the Group as a whole.

Net debt

Net debt comprises the net total of current and non-current interest-bearing borrowings and cash and short-term deposits. Net debt is a measure of the Group's net indebtedness to banks and other external financial institutions.

Operating cash flow

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

Disclosure of 'separately reported items'

IAS 1 'Presentation of Financial Statements' provides no definitive guidance as to the format of the income statement but states key lines which should be disclosed. It also encourages the disclosure of additional line items and the reordering of items presented on the face of the income statement when appropriate for a proper understanding of the entity's financial performance. In accordance with IAS 1, the Company has adopted a columnar presentation for its Consolidated income statement, to separately identify underlying performance results, as the Directors consider that this gives a better view of the underlying results of the ongoing business. As part of this presentation format, the Company has adopted a policy of disclosing separately on the face of its Consolidated income statement, within the column entitled 'Separately reported items', the effect of any components of financial performance for which the Directors consider separate disclosure would assist both in a better understanding of the financial performance achieved. In its adoption of this policy, the Company applies an balanced approach to both gains and losses and aims to be both consistent and clear in its accounting and disclosure of such items.

Both size and the nature and function of the components of income and expense are considered in deciding upon such presentation. Such items may include, inter alia, the financial effect of separately reported items which occur infrequently, such as major reorganisation costs, onerous leases and impairments and the taxation impact of the aforementioned separately reported items.

1. Principal accounting policies continued

New and amended accounting standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial period commencing 1 May 2016 had a material effect on the consolidated financial statements of the Group in the current period or any prior period, and are not likely to affect future periods.

New standards and interpretations not yet adopted

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:

- IFRS 9 'Financial Instruments' is a new standard which enhances the ability of investors and other users of financial information to understand the accounting for financial assets and reduces complexity. The standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the various rules in IAS 39, and also introduces a new expected loss impairment model. This standard is effective for accounting periods commencing on or after 1 January 2018.
- IFRS 15 'Revenue from Contracts with Customers' is a new standard based on a five-step model framework, which replaces all existing revenue recognition standards. The standard requires revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for accounting periods commencing on or after 1 January 2018.
- IFRS 16 'Leases' is a new standard which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. A lessee will be required to recognise assets and liabilities for all leases with a term of more than 12 months and depreciate lease assets separately from interest on lease liabilities in the income statement. This standard is effective for accounting periods commencing on or after 1 January 2019.

The Directors anticipate that the adoption of IFRS 9 and IFRS 15 are not expected to have a material impact, whereas IFRS 16 will materially impact on the financial statements of the Group. Management is currently undertaking an exercise to quantify the impact.

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.

Financial statements continued

Notes to the financial statements continued

1. Principal accounting policies continued

Share based payments

The Group issues equity-settled share based payments to certain employees, the terms of these payments do not contain any market conditions. 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 the share premium reserve.

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.

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 into 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.

Financial statements continued

Notes to the financial statements continued

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

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 also 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. 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.

Financial statements continued

Notes to the financial statements continued

2. Segmental analysis

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

- UK; and
- Rest of Europe (comprising Belgium, the Netherlands and Republic of Ireland).

The reportable operating segments derive their revenue primarily from the retailing of 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 29 April 2017 is as follows:

	52 weeks to 29 April 2017			52 weeks to 30 April 2016 *Reclassified		
	UK £m	Europe £m	Group £m	UK £m	Europe £m	Group £m
Gross revenue	468.0	91.8	559.8	480.2	78.8	559.0
Inter-segment revenue	(2.9)	–	(2.9)	(5.0)	–	(5.0)
Gross Sales	465.1	91.8	556.9	475.2	78.8	554.0
Less cost of interest free credit	(6.8)	–	(6.8)	(5.1)	–	(5.1)
Less VAT and other sales tax	(77.3)	(15.2)	(92.5)	(79.1)	(13.0)	(92.1)
Revenues from external customers	381.0	76.6	457.6	391.0	65.8	456.8
Gross profit	225.6	43.8	269.4	237.3	36.9	274.2
Underlying operating profit	10.7	5.7	16.4	17.8	2.5	20.3
Separately reported items	(11.9)	(1.6)	(13.5)	(5.1)	(0.4)	(5.5)
Operating profit/(loss)	(1.2)	4.1	2.9	12.7	2.1	14.8
Intercompany interest	–	–	–	0.1	(0.1)	–
Finance costs	(2.0)	–	(2.0)	(2.1)	0.1	(2.0)
Profit/(loss) before tax	(3.2)	4.1	0.9	10.7	2.1	12.8
Tax	0.5	(0.7)	(0.2)	(1.9)	(0.8)	(2.7)
Profit/(loss) for the financial period	(2.7)	3.4	0.7	8.8	1.3	10.1
Segment assets:						
Segment assets	204.3	100.6	304.9	196.4	87.0	283.4
Inter-segment balances	(28.7)	(19.9)	(48.6)	(26.6)	(17.9)	(44.5)
Balance sheet total assets	175.6	80.7	256.3	169.8	69.1	238.9
Segment liabilities:						
Segment liabilities	(174.4)	(52.5)	(226.9)	(163.1)	(46.3)	(209.4)
Inter-segment balances	19.9	28.7	48.6	17.9	26.6	44.5
Balance sheet total liabilities	(154.5)	(23.8)	(178.3)	(145.2)	(19.7)	(164.9)
Other segmental items:						
Depreciation and amortisation	10.2	2.0	12.2	10.6	1.9	12.5
Additions to non-current assets	15.0	4.9	19.9	10.2	1.9	12.1

* Certain prior year amounts, previously reported in underlying performance, have been reclassified for consistency with the current periods presentation as separately reported items. This has no impact on the Group statutory reported profit before tax and earnings per share (see note 5).

Carpetright plc is domiciled in the UK. The Group's revenue from external customers in the UK is £381.0m (2016: £391.0m) and the total revenue from external customers from other countries is £76.6m (2016: £65.8m). The total of non-current assets (other than financial instruments and deferred tax assets) located in the UK is £143.6m (2016: £141.7m) and the total of those located in other countries is £80.2m (2016: £69.9m).

Carpetright's trade has historically shown no distinct pattern of seasonality, with trade cycles more closely following macro-economic indicators.

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

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

	Notes	Group 2017 £m	Group 2016 £m
Rental income earned on investment property		(1.9)	(2.0)
Cost of inventories recognised as an expense in cost of sales		155.7	145.2
Operating lease rentals:			
Lease payments in respect of land and buildings		79.3	80.7
Lease payments in respect of plant and machinery		2.4	1.4
Other lease items (lease incentives and rent free credits)		(2.9)	(3.3)
Sublease rental income		(1.1)	(1.0)
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
Audit-related assurance services		–	–
Non audit fees		–	0.1
Staff costs	4	99.7	101.1
(Reversal)/impairment of assets	5	(1.8)	0.3
Amortisation of intangible assets	10	2.0	1.9
Depreciation of property, plant and equipment:			
Owned assets	11	9.7	10.2
Under finance leases	11	0.2	0.1
Depreciation of investment property	12	0.3	0.3

Non audit fees in the period were £1k (2016: £54k); these fees are explained on page 38 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 2017 Number	Group 2016 Number	Company 2017 Number	Company 2016 Number
Stores	2,530	2,609	2,107	2,184
Store support office and distribution centre	417	401	356	350
	2,947	3,010	2,463	2,534

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

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Wages and salaries (including short-term employee benefits)		87.2	88.6	72.4	74.9
Social security costs		9.3	9.4	6.7	7.1
Post-employment benefits – defined contribution		2.2	2.1	1.1	1.2
Share based payments	5, 25	1.0	1.0	1.0	1.0
		99.7	101.1	81.2	84.2

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

Financial statements continued

Notes to the financial statements continued

4. Staff costs continued

The Group considers key management to be the Executive Directors only. The employment costs of key management were as follows:

	Group 2017 £m	Group 2016 £m
Wages and salaries (including short-term employee benefits)	0.8	1.2
Social security costs	0.2	0.2
Post-employment benefits – defined contribution	0.2	0.2
Share based payments	0.1	0.4
	1.3	2.0

During the period, the Executive Directors did not realise any gains (2016: 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 39 to 60.

5. Separately reported items

In order to provide shareholders with additional insight into the underlying performance of the business, items recognised in reported profit or loss before tax which, by virtue of their size and, or nature, do not reflect the Group's underlying performance, have been excluded from the Group's underlying results.

	Notes	Group 2017 £m	Group 2016 £m Reclassified*
Underlying profit before tax		14.4	18.3
Property related			
Loss on disposal of properties		(1.9)	(3.6)
Freehold property reversal/(impairment)		2.2	(0.4)
Store asset (impairment)/reversal		(0.4)	0.1
Net onerous lease charge	20	(11.0)	(0.6)
Strategy			
Store refurbishment – asset write-offs		(1.4)	–
Other			
Share based payments	25	(1.0)	(1.0)
Total		(13.5)	(5.5)
Statutory profit before tax		0.9	12.8

* In 2016 the charge reported in the annual report and accounts was £4.5m. For consistency with the current period presentation we have reclassified £1.0m relating to share based payments. This has no impact on the Group's statutory reported profit before tax and earnings per share. The reclassified separately reported items for 2016 is therefore £5.5m.

A net loss of £1.9m was made on the disposal of 25 (22 trading and three onerous) properties during the year (2016: £3.6m loss), principally a combination of surrender premiums being paid to exit loss-making stores and asset write-offs.

A number of investment properties that have previously been impaired are in receipt of rental income from independent third party tenants. As a result £2.2m of impairment against these locations is no longer required and has been reversed (2016: £0.4m charge).

Leasehold store impairment testing during the year has identified a number of stores where the anticipated future performance does not support the carrying value of the assets. As a result, a charge of £0.4m has been incurred in respect of the impairment of assets associated with these stores (2016: £0.1m credit).

At 30 April 2016 there were eleven vacant properties in the UK and two in the Republic of Ireland classed as onerous leases against which we carried a provision. During the year we disposed of three of these locations. This was offset with three trading stores being closed and added to this group. Following a strategic review of the store portfolio in February 2017, we have made a revised assessment of the onerous lease costs for loss-making stores. The net impact of these judgments is a net charge of £11.0m (2016: £0.6m) – (see note 20).

The value of assets written off incurred during the strategic store refurbishment programme amounts to £1.4m during the year. In light of the quantum, and in keeping with historical treatment, such write-offs have been reported as separately reported items.

5. Separately reported items continued

In light of the variable and non-cash nature of employee share based payments, these have been classified as separately reported items. This also allows for greater visibility of these charges in the accounts. A charge of £1.0m was incurred during the year (2016: £1.0m).

The cash flow impact of separately reported items was £4.0m outflow in the year.

The tax impact of separately reported items is a credit of £2.5m. The Group also recognised a £0.6m tax credit for the fall in the UK main rate of tax to 17%, which has also been included in separately reported items.

6. Finance costs

	Notes	Group 2017 £m	Group 2016 £m
Interest on borrowings and overdrafts		(1.2)	(1.1)
Fees amortisation		(0.5)	(0.6)
Interest on obligations under finance leases		(0.2)	(0.2)
Net interest on pension scheme obligations	22	(0.1)	(0.1)
Finance costs		(2.0)	(2.0)

7. Tax

(i) Analysis of the charge in the period

	Notes	Group 2017 £m	Group 2016 £m
UK current tax		(0.2)	3.6
Adjustment in respect of prior years		–	(0.6)
Overseas current tax		0.1	–
Total current tax		(0.1)	3.0
UK deferred tax		(1.0)	(1.1)
UK deferred tax prior year adjustment		(0.2)	–
Overseas deferred tax		2.2	0.8
Overseas deferred tax prior year adjustment		(0.7)	–
Total deferred tax	21	0.3	(0.3)
Total tax charge in the income statement		0.2	2.7

(ii) Reconciliation of profit before tax to total tax

	Group 2017 £m	Group 2016 £m
Profit before tax	0.9	12.8
Tax charge at UK corporation tax rate of 20% (2016: 20%)	0.2	2.6
Adjusted for the effects of:		
Overseas tax rates	0.5	0.3
Deferred tax impact of fall in UK tax rates	(0.6)	(1.3)
Non-qualifying depreciation	0.4	0.4
Other permanent differences	0.6	0.9
Prior year adjustments	(0.9)	–
Impact of gains crystallising	–	(0.2)
Total tax charge in the income statement	0.2	2.7

The weighted average annual effective tax rate for the period is a charge of 24.3% (2016: 21.3%).

The March 2016 Budget announced a fall in UK corporation tax rate to 17% from 1 April 2020 and was substantively enacted in September 2016 and the effects of which are included in these financial statements. The reduction resulted in a deferred tax credit of £0.6m in the year.

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

	Group 2017 £m	Group 2016 £m
Deferred tax on actuarial losses recognised in other comprehensive income	(0.1)	(0.4)
Deferred tax on share based payments	–	–
Total tax recognised in equity	(0.1)	(0.4)

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Notes to the financial statements continued

8. Dividends

The Directors decided that no final dividend will be paid (2016: No final dividend paid). This results in no dividend in the period to 29 April 2017 (2016: 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 29 April 2017			52 weeks to 30 April 2016		
	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	0.7	67.6	1.0	10.1	67.7	14.9
Effect of dilutive share options	0.1	1.6	0.1	–	0.2	–
Diluted earnings per share	0.8	69.2	1.1	10.1	67.9	14.9

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

Reconciliation of earnings per share excluding post tax profit on separately reported items

	52 weeks to 29 April 2017			52 weeks to 30 April 2016		
	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	0.7	67.6	1.0	10.1	67.7	14.9
Adjusted for the effect of separately reported items:						
Separately reported items	13.5	–	20.0	5.5	–	8.1
Tax thereon	(2.5)	–	(3.7)	(0.2)	–	(0.3)
Separately reported tax benefit from tax rate change	(0.6)	–	(0.9)	(1.3)	–	(1.9)
Underlying earnings per share	11.1	67.6	16.4	14.1	67.7	20.8

The prior year underlying earnings per share has been amended to take account of the reclassification of £1.0m shared based payment charge as a separately reported item (note 5). Basic earnings per share is unchanged.

10. Intangible assets

Group	Goodwill £m	Computer software £m	Brands £m	Total £m
<i>Cost:</i>				
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
Exchange differences	1.7	–	–	1.7
Additions	–	0.6	–	0.6
Disposals	–	(0.9)	–	(0.9)
At 29 April 2017	54.1	22.2	0.1	76.4
<i>Accumulated amortisation and impairment:</i>				
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
Exchange differences	–	0.1	–	0.1
Amortisation	–	2.0	–	2.0
Disposals	–	(0.9)	–	(0.9)
At 29 April 2017	0.5	18.5	0.1	19.1
<i>Net book value:</i>				
At 29 April 2017	53.6	3.7	–	57.3
At 30 April 2016	51.9	5.2	–	57.1

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, being the Netherlands and Belgium. The goodwill allocated to each CGU is £29.8m (2016: £29.8m) to UK and £23.8m (2016: £22.1m) 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% (2016: 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 of 2% is 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 £516.8m.

In Europe, the recoverable amount calculated based on value in use exceeded carrying value by £97.7m. A fall in long-term growth rate to -26.2% from 2.0% or a rise in the discount rate to 18.6% from 7.8% would remove the remaining headroom.

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Notes to the financial statements continued

10. Intangible assets continued

Company	Goodwill £m	Computer software £m	Brands £m	Total £m
<i>Cost:</i>				
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
Additions	–	0.6	–	0.6
Disposals	–	(0.9)	–	(0.9)
At 29 April 2017	24.1	22.1	0.1	46.3
<i>Accumulated amortisation and impairment:</i>				
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
Amortisation	–	2.0	–	2.0
Disposals	–	(0.9)	–	(0.9)
At 29 April 2017	–	18.4	0.1	18.5
<i>Net book value:</i>				
At 29 April 2017	24.1	3.7	–	27.8
At 30 April 2016	24.1	5.1	–	29.2

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

11. Property, plant and equipment

Group	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
<i>Cost:</i>						
At 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
Exchange differences	1.5	0.1	0.1	1.1	2.0	4.8
Additions	–	–	0.7	17.1	1.5	19.3
Transfer between asset classes	–	(1.0)	0.9	0.1	–	–
Transfer to investment property	(1.7)	–	–	–	–	(1.7)
Disposals	(1.6)	(0.3)	(1.2)	(14.7)	(1.1)	(18.9)
At 29 April 2017	42.0	16.4	17.1	97.1	36.3	208.9
<i>Accumulated depreciation and impairment:</i>						
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/(reversal)	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
Exchange differences	0.6	0.1	0.1	1.1	1.6	3.5
Impairment/(reversal)	(0.8)	–	–	0.4	–	(0.4)
Depreciation	0.7	0.3	0.8	7.3	0.8	9.9
Transfer between asset classes	–	(0.7)	0.6	0.1	–	–
Transfer to investment property	(0.1)	–	–	–	–	(0.1)
Disposals	(0.9)	(0.2)	(1.1)	(13.1)	(1.1)	(16.4)
At 29 April 2017	7.8	5.6	11.5	55.0	27.0	106.9
<i>Net book value:</i>						
At 29 April 2017	34.2	10.8	5.6	42.1	9.3	102.0
At 30 April 2016	35.5	11.5	5.5	34.3	8.2	95.0

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

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cost	8.8	9.1	2.1	2.3
Accumulated depreciation and impairment	(3.3)	(3.2)	(1.6)	(1.7)
Net book value	5.5	5.9	0.5	0.6

The assets held under finance leases comprise buildings.

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Notes to the financial statements continued

11. Property, plant and equipment continued

Company	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
<i>Cost:</i>						
At 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
Exchange differences	–	–	0.1	0.1	–	0.2
Additions	–	–	0.8	12.8	0.9	14.5
Disposals	–	(0.3)	(1.2)	(12.5)	(0.9)	(14.9)
At 29 April 2017	17.8	9.6	16.3	81.6	8.7	134.0
<i>Accumulated depreciation and impairment:</i>						
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
Exchange differences	–	–	0.1	–	–	0.1
Impairment	(0.6)	–	0.1	0.5	–	–
Depreciation	0.2	0.1	0.8	6.3	0.6	8.0
Transfer from investment property	0.6	–	–	–	–	0.6
Disposals	–	(0.2)	(1.1)	(10.9)	(0.9)	(13.1)
At 29 April 2017	3.1	3.7	11.0	43.6	5.0	66.4
<i>Net book value:</i>						
At 29 April 2017	14.7	5.9	5.3	38.0	3.7	67.6
At 30 April 2016	14.9	6.1	5.5	33.5	3.4	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.

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

Properties now sublet have been reclassified as investments.

	Group £m	Company £m
<i>Cost:</i>		
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
Exchange differences	1.2	–
Transfer from property, plant and equipment	1.7	–
Disposals	(3.9)	(3.9)
At 29 April 2017	20.2	2.9
<i>Accumulated depreciation and impairment:</i>		
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
Exchange differences	0.2	–
Impairment	(1.4)	0.3
Depreciation	0.3	–
Transfer from/(to) property, plant and equipment	0.1	(0.6)
Disposals	(1.0)	(1.0)
At 29 April 2017	4.9	0.6
<i>Net book value:</i>		
At 29 April 2017	15.3	2.3
At 30 April 2016	14.5	4.9

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Notes to the financial statements continued

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 29 April 2017.

	Registered office and country of incorporation	Principal activity	Percentage of ordinary shares held directly by Company	Percentage of ordinary shares held indirectly by Company
Carpetright of London Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Holding	100%	–
Melford Commercial Properties Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Property	100%	–
Carpetright (Torquay) Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Property	100%	–
Pluto Sp. Z.o.o.	Ul. Spacerowa 188, 270 Marki, Poland	Property	100%	–
Carpetland NV	Nieuwe Stallesstraat 215, 1620 Drogenbos, Belgium	Retail	–	100%
Carpetland BV	Franciscusdreef 62, 3565 AC Utrecht, Netherlands	Retail	–	100%
Fontainebleau Vastgoed BV	Franciscusdreef 62, 3565 AC Utrecht, Netherlands	Property	–	100%
Carpetworld Manchester Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Property	–	100%
Carpet Express Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Carpet Depot Ltd	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Carpetright Purfleet Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Carpetright Purfleet Holdings Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Carpetworld Ltd	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Carpetright at Home Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Carpetright Card Services Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Harris Beds Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Harris Carpet Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Harris Carpets at Home Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Harris Carpets Direct Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Harris Carpets Direct.com Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Harris Furnishing Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
In-House Carpets Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Mays Holdings Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Mays Carpets Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
New Carpet Express Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Premier Carpets Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Rugright (EU) Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Storey Carpets Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Sleepright (UK) Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Sleepright (EU) Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–
Woodright Limited	Purfleet Bypass, Purfleet, Essex, England and Wales	Dormant	100%	–

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

Company	2017 £m	2016 £m
Cost:		
At the beginning of the period	15.7	15.7
At the end of the period	15.7	15.7

The cost of investments before impairments is £16.7m. As at 29 April 2017 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 £0.2m (2016: £0.4m), resulting in a stock provision of £0.4m (2016: £0.2m).

15. Trade and other receivables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<i>Non-current:</i>				
Receivables from subsidiaries	–	–	41.7	42.9
Prepayments	0.4	0.5	0.4	0.5
	0.4	0.5	42.1	43.4
<i>Current:</i>				
Trade receivables	13.4	8.6	6.4	4.2
Less: provision for impairment	(0.7)	(0.4)	(0.7)	(0.4)
	12.7	8.2	5.7	3.8
Other receivables	1.3	1.2	0.7	0.7
Prepayments and accrued income	11.8	10.6	10.6	9.7
	25.8	20.0	17.0	14.2
Total trade and other receivables	26.2	20.5	59.1	57.6

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

Provision for impairment

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
At the beginning of the period	(0.4)	(0.4)	(0.4)	(0.4)
Provision for impairment recognised during the year	(0.3)	–	(0.3)	–
At the end of the period	(0.7)	(0.4)	(0.7)	(0.4)

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

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Major insurance companies	1.0	0.9	0.4	0.4
Property rent receivables	0.3	0.3	0.3	0.3
Receivables from retail credit finance	1.4	1.2	1.4	1.1
Retail customers	11.3	7.0	4.3	2.7
Trade and other receivables	14.0	9.4	6.4	4.5

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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Neither past due nor impaired	1.2	1.1	0.6	0.6
30 to 60 days	0.1	0.1	0.1	0.1
60 to 90 days	–	–	–	–
Over 90 days	–	–	–	–
Non-retail trade and other receivables	1.3	1.2	0.7	0.7

Other classes within trade and other receivables do not contain impaired assets and are not past due.

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16. Cash and cash equivalents

	Notes	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash at bank and in hand		12.5	8.3	9.3	5.5
Bank overdrafts	19	(7.1)	(7.1)	(7.1)	(7.1)
Cash and cash equivalents in the cash flow statements		5.4	1.2	2.2	(1.6)

Included in the £12.5m cash at bank are £5.2m 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<i>Current:</i>				
Trade payables	51.0	52.8	45.4	46.0
Other taxes and social security	10.2	11.5	9.0	9.5
Accruals and deferred income	22.7	24.5	18.1	22.1
	83.9	88.8	72.5	77.6
<i>Non-current:</i>				
Accruals and deferred income	34.5	34.3	34.6	34.3
Payable to subsidiaries	–	–	9.6	9.1
	34.5	34.3	44.2	43.4
Total trade and other payables	118.4	123.1	116.7	121.0

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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £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	0.6	0.5	0.5
Amounts payable after five years	3.7	4.0	0.5	0.7	1.5	1.6	0.5	0.6
	5.1	5.4	1.5	1.7	–	–	–	–
Less: future finance charges	(2.9)	(3.1)	(0.4)	(0.5)	–	–	–	–
Present value of obligations under finance leases	2.2	2.3	1.1	1.2	2.2	2.3	1.1	1.2
Current	0.1	0.1	0.1	0.1				
Non-current	2.1	2.2	1.0	1.1				

The Group leases certain properties under finance leases. The average lease term remaining is 12 years (2016: 13 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<i>Current:</i>				
Bank overdraft	7.1	7.1	7.1	7.1
Bank loans	13.0	–	13.0	–
	20.1	7.1	20.1	7.1
<i>Non-current:</i>				
Bank loans	–	–	–	–
	20.1	7.1	20.1	7.1

Borrowings and overdrafts are denominated in Sterling and Euro of which £7.1m (2016: £7.1m) are secured on certain Group freehold properties.

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

	Group 2017 %	Group 2016 %	Company 2017 %	Company 2016 %
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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Amounts payable within one year	20.1	7.1	20.1	7.1
	20.1	7.1	20.1	7.1

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 2017 £m			Company 2017 £m		
	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m
Group and Company						
At the beginning of the period	12.5	0.1	12.6	12.3	–	12.3
Exchange differences	0.1	–	0.1	0.1	–	0.1
Added during the period	12.4	–	12.4	12.4	–	12.4
Released during the period	(1.4)	–	(1.4)	(1.3)	–	(1.3)
Utilised during the period	(6.1)	(0.1)	(6.2)	(6.0)	–	(6.0)
At the end of the period	17.5	–	17.5	17.5	–	17.5

The onerous lease provisions relate to estimated future unavoidable lease costs in respect of closed and loss-making trading stores.

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Notes to the financial statements continued

21. Deferred tax assets and liabilities

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Deferred tax assets	(1.9)	(1.9)	–	–
Deferred tax liabilities	15.2	15.3	9.0	10.6
Net deferred tax liabilities	13.3	13.4	9.0	10.6

Deferred tax assets and liabilities are offset against each other where there is a legally enforceable right to offset. Deferred tax liabilities of £15.2m (2016: £15.3m) comprise deferred tax assets of £1.8m (2016: £2.1m) offset against deferred tax liabilities of £17.0m (2016: £17.4m).

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 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
Exchange difference	0.2	0.1	–	–	(0.3)	–	–	–
Charge/(credit) to the income statement	(0.1)	–	(0.9)	0.3	1.2	(0.2)	–	0.3
Charge/(credit) to other comprehensive income	–	–	–	–	–	–	(0.1)	(0.1)
Transfer to current tax	–	–	(0.3)	–	–	–	–	(0.3)
At 29 April 2017	5.0	1.3	9.7	(0.3)	(1.8)	(0.3)	(0.3)	13.3

Company	Accelerated tax depreciation	Fair value adjustments	Deferred capital gains	Short-term timing differences	Tax losses	Share based payments	Retirement benefit obligations	Total
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
Charge/(credit) to the income statement	(0.2)	–	(0.9)	0.1	–	(0.2)	–	(1.2)
Charge/(credit) to other comprehensive income	–	–	–	–	–	–	(0.1)	(0.1)
Transfer to current tax	–	–	(0.3)	–	–	–	–	(0.3)
At 29 April 2017	1.7	–	8.8	(0.9)	–	(0.3)	(0.3)	9.0

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 (2016: £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 (2016: £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 2018.

The assets and liabilities of the schemes were valued on an IAS 19 basis at 29 April 2017 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:

		2017 £m	2016 £m
Present value of pension schemes' obligations		(32.7)	(28.3)
Fair value of pension schemes' assets		29.5	26.1
Total recognised in the balance sheet		(3.2)	(2.2)
	Notes	2017 £m	2016 £m
Net interest cost on pension schemes	6	(0.1)	(0.1)
Total recognised in the income statement		(0.1)	(0.1)
		2017 £m	2016 £m
Actuarial gains/(losses) on plan assets		4.9	(0.6)
Change in assumptions underlying present value of liabilities		(6.7)	1.7
Total recognised in the other comprehensive income statement		(1.8)	1.1

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22. Retirement benefit obligations continued

2) Reconciliation of movement in net pension deficit:

	Defined benefit obligations		Fair value of assets		Net defined benefit obligations	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
As at 30 April 2016	(28.3)	(30.8)	26.1	26.8	(2.2)	(4.0)
Interest income/(expense)	(1.0)	(1.0)	0.9	0.9	(0.1)	(0.1)
Re-measurements:						
Actuarial gains and losses from:						
Financial assumptions	(6.4)	1.7	–	–	(6.4)	1.7
Experience adjustments	(0.3)	–	–	–	(0.3)	–
Return on plan assets excluding interest	–	–	4.9	(0.7)	4.9	(0.7)
Contributions:						
Employers	–	–	0.9	0.9	0.9	0.9
Payments from plan:						
Benefits paid	3.3	1.8	(3.3)	(1.8)	–	–
As at 29 April 2017	(32.7)	(28.3)	29.5	26.1	(3.2)	(2.2)

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:

	2017 Quoted £m	2017 Unquoted £m	Total 2017 £m	2016 Quoted £m	2016 Unquoted £m	Total 2016 £m
Equities	12.4	–	12.4	11.5	–	11.5
Bonds	9.0	–	9.0	7.6	–	7.6
Property	–	–	–	0.1	–	0.1
Insurance policy – unquoted	–	7.9	7.9	–	6.7	6.7
Cash and cash equivalents	0.2	–	0.2	0.1	0.1	0.2
Total	21.6	7.9	29.5	19.3	6.8	26.1

The unquoted insurance policy has been valued at an amount equal to the present value of the pensions secured, determined using the same actuarial assumptions and methodology as have been used to determine the present value of the obligations under the Scheme.

22. Retirement benefit obligations continued

4) Key assumptions used:

	2017 %	2016 %
RPI inflation	3.5	3.1
Discount rate	2.5	3.5
CPI inflation	2.7	2.3

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 and S2 table on a year of birth usage with CMI_2013 future improvements factors and a long-term rate of improvement of 1.25% (2016: 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 (2016: 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 life expectancy. The table below shows the impact on the present value placed on the plan's liabilities of the stated changes to the actuarial assumptions and has been derived by applying sensitivities determined at the most recent actuarial valuation to the projected liability value. The sensitivity analysis is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis

		2017 £m	2016 £m
Increase/(decrease) by 0.1%	Discount rate	0.6	0.5
Increase/(decrease) by 0.1%	RPI inflation or CPI inflation	0.4	0.3
Increase/(decrease) by 1 year	Life expectancy	1.2	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 £1.0m (2016: £0.9m) and expected contribution to this scheme for the financial period 2018 is £1.0m.

(ii) Defined contribution schemes

The Company launched a Group Personal Pension Plan in April 2006. Contributions made by employees are matched by the Company to an upper limit. The assets of the scheme are held separately from those of the Company and are invested by Royal London. Contributions for the period amounted to £1.1m (2016: £1.2m).

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 (2016: £0.1m) and there were no contributions to industry collective schemes (2016: nil).

Financial statements continued

Notes to the financial statements continued

23. Financial instruments

(i) Financial risk management objectives and policies

Risk management

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

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

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Group					
At 29 April 2017					
Interest bearing loans and borrowings	20.4	–	–	–	20.4
Finance leases	0.3	0.3	0.8	3.7	5.1
Trade and other payables	69.0	–	–	–	69.0
	89.7	0.3	0.8	3.7	94.5
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
Company					
At 29 April 2017					
Interest bearing loans and borrowings	25.5	–	–	–	25.5
Finance leases	0.2	0.2	0.5	0.6	1.5
Trade and other payables	64.7	–	–	–	64.7
	90.4	0.2	0.5	0.6	91.7
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

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 October and €2.4m in the Rest of Europe. The undrawn amounts on the committed facilities were £32.0m (2016: £45.0m). The undrawn amounts on the uncommitted facilities were £0.4m and €2.4m (2016: £0.4m and €2.4m).

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 23 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 (2016: £0.3m lower). At 29 April 2017, if Sterling had weakened/strengthened by 10% against the Euro, profit after tax for the period would have been £0.3m higher/lower as a result of the translation of the Euro denominated businesses.

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

	Euro 2017	Euro 2016	Zloty 2017	Zloty 2016
Average rate	1.20	1.36	5.21	5.77
Closing rate	1.19	1.28	5.01	5.62

(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 29 April 2017 and 30 April 2016 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 (2016: £0.1m).

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

	2017					2016				
	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	0.2%	8.9	–	6.2	15.1	0.1	5.4	–	4.4	9.8
Euro	–	2.8	–	7.8	10.6	–	2.2	–	5.0	7.2
Zloty	–	0.8	–	–	0.8	–	0.7	–	–	0.7
Total financial assets	–	12.5	–	14.0	26.5	–	8.3	–	9.4	17.7
Sterling	1.8%	(20.4)	(2.0)	(58.8)	(81.2)	0.5	(7.3)	(2.1)	(62.9)	(72.3)
Euro	–	–	(0.1)	(10.2)	(10.3)	–	–	(0.2)	(10.6)	(10.8)
Total financial liabilities	–	(20.4)	(2.1)	(69.0)	(91.5)	–	(7.3)	(2.3)	(73.5)	(83.1)

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.

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Notes to the financial statements continued

23. Financial instruments continued

(ii) Fair value of financial assets and liabilities

Financial assets and liabilities are classified in accordance with IAS 39. Financial instruments have not been reclassified or derecognised in the period. There are no financial assets which have been pledged or held as collateral. 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	
	2017 Fair value £m	2016 Fair value £m	2017 Fair value £m	2016 Fair value £m
At cost:				
Cash and cash equivalents	12.5	8.3	9.3	5.5
Loans and receivables at amortised cost:				
Trade and other receivables	14.0	9.4	48.1	47.7
Total financial assets	26.5	17.7	57.4	53.2
Financial liabilities at amortised cost:				
Borrowings and overdrafts	(20.1)	(7.1)	(20.1)	(7.1)
Finance lease obligations	(2.2)	(2.3)	(1.1)	(1.2)
Financial liabilities at cost:				
Trade and other payables	(69.3)	(73.7)	(70.1)	(73.5)
Total financial liabilities	(91.6)	(83.1)	(91.3)	(81.8)
Net financial liabilities	(65.1)	(65.4)	(33.9)	(28.6)

(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 2 May 2015	67.8	0.7	17.4	(0.4)	17.7
Issue of new shares	0.1	–	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
Issue of new shares	–	–	–	–	–
Purchase of own shares – employee benefit trust	–	–	–	(0.3)	(0.3)
At 29 April 2017	67.9	0.7	17.8	(1.6)	16.9

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 156,358 ordinary shares (2016: 157,450 shares purchased). At the period end, the Trust held 365,248 (2016: 208,890) ordinary shares of 1p each with a market value of £0.8m (2016: £0.7m).

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 separately reported items is a charge of £1.0m (2016: charge of £1.0m) 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 1,186,812 shares were granted (2016: 488,816). The amount recognised in the income statement in respect of all LTIP awards is a charge of £0.2m (2016: charge of £0.8m). 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 waives its right to dividends on the shares held.

Reconciliation of movements in the 52 week period ended 29 April 2017

	LTIP Sept 2016		LTIP July 2015		LTIP July 2014		LTIP Jan 2014	
	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 2 May 2015			–	–	398.6	2.1	302.5	1.1
Granted			488.8	2.7	–	–	–	–
Expired/lapsed			(32.6)	(0.2)	(33.0)	(0.1)	(34.0)	(0.2)
Outstanding at 30 April 2016	–	–	456.2	2.5	365.6	2.0	268.5	0.9
Granted	1,186.8	2.7	–	–	–	–	–	–
Forfeited	(53.4)	(0.1)	(19.8)	(0.1)	–	–	(1.8)	–
Expired/lapsed	–	–	–	–	–	–	–	–
Outstanding at 29 April 2017	1,133.4	2.6	436.4	2.4	365.6	2.0	266.7	0.9
Exercisable at 29 April 2017	–	–	–	–	–	–	–	–
Exercisable at 30 April 2016	–	–	–	–	–	–	–	–

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

Valuation assumptions	LTIP Sept 2016 award	LTIP July 2015 award	LTIP July 2014 award	LTIP Jan 2014 award
Fair value per share (pence)	231	560	524	504
Share price at grant (pence)	241	577	525.5	506
Exercise price (pence)	0.0	0.0	0.0	0.0
Expected volatility (%) ¹	38.5	32.4	33.4	35.1
Vesting period (years)	3.0	3.0	3.0	3.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Risk free interest rate (%)	1.6	1.0	1.5	1.0

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 (2016: £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 £0.8m (2016: £0.2m).

25. Share based payments continued

Reconciliation of movements in the period ended 29 April 2017

	SAYE 2017		SAYE 2016		SAYE 2015		SAYE 2014		SAYE 2013		SAYE 2012	SAYE 2011
	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 2 May 2015	-	-	-	-	757.8	158.8	128.2	24.7	34.0	8.6	8.3	6.1
Granted	-	-	197.3	39.5	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	(208.4)	(24.2)	(24.0)	(3.0)	(8.7)	(2.5)	(2.1)	(1.8)
Vested	-	-	-	-	(0.9)	-	-	-	-	-	-	-
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
Granted	487.6	3,264.3	-	-	-	-	-	-	-	-	-	-
Forfeited	(24.2)	-	(146.7)	(29.4)	(467.3)	(91.4)	(63.1)	(14.7)	(25.3)	(3.3)	(4.4)	(4.3)
Vested	-	-	-	-	-	-	-	-	-	-	-	-
Outstanding at 29 April 2017	463.4	3,264.3	50.6	10.1	81.2	43.2	41.1	7.0	-	2.8	1.8	-
Exercisable at 29 April 2017	-	-	-	-	-	-	41.1	-	-	2.8	1.8	-
Exercisable at 30 April 2016	-	-	-	-	-	-	-	-	25.3	-	-	4.3

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

Valuation assumptions	SAYE 2017		SAYE 2016		SAYE 2015		SAYE 2014		SAYE 2013		SAYE 2012	SAYE 2011
	3yr	5yr	3yr	5yr	3yr	5yr	3yr	5yr	3yr	5yr	5yr	5yr
Fair value per share (pence)	62	67	148	178	148	184	165	201	248	339	231	298
Share price at grant (pence)	162	162	446	446	446	446	505	505	679	679	529	792
Exercise price (pence)	130	130	356	356	347	347	404	404	544	554	423	634
Expected volatility (%) ¹	43.2	37.3	34.3	34.7	31.5	34.8	33.7	34.8	34.7	39.1	44.1	39.9
Vesting period (years)	3.0	5.0	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1	5.1	5.1
Dividend yield (%)	-	-	-	-	-	-	-	-	-	-	2.3	2.3
Risk free interest rate (%)	0.3	0.6	0.5	0.8	0.7	1.0	0.3	0.8	2.9	4.9	2.9	2.4
Possibility of ceasing employment before vesting (%)	40	50	40	50	40	50	40	50	40	40	50	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 29 April 2017 contracted for but not yet incurred are:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Store equipment	3.4	–	0.2	–
Intangibles	0.2	–	0.2	–
	3.6	–	0.4	–

27. Operating lease commitments

At 29 April 2017, the future minimum lease payments in respect of land and buildings and other assets under operating leases are:

Group	2017		2016	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	79.6	2.2	81.1	1.4
Amounts payable between one and five years	263.5	3.3	281.4	2.5
Amounts payable after five years	188.8	–	236.8	–
	531.9	5.5	599.3	3.9

Company	2017		2016	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	71.9	1.9	74.3	1.1
Amounts payable between one and five years	245.1	2.9	266.1	2.1
Amounts payable after five years	176.6	–	225.5	–
	493.6	4.8	565.9	3.2

The Group's operating leases have an average remaining length of 3 years (2016: 5 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 £8.5m (2016: £8.4m).

28. Contingent liabilities

The Group has no material contingent liabilities at 29 April 2017.

The Company's contingent liabilities derive from guarantees for subsidiaries, which are disclosed in note 29.

Financial statements continued

Notes to the financial statements continued

29. Net (debt)/cash

Group £m	Total 2016	Cash flow	Exchange differences	Other non-cash	Total 2017
<i>Current assets:</i>					
Cash and cash equivalents in the balance sheet	8.3				12.5
Bank overdraft	(7.1)				(7.1)
Cash and cash equivalents in the cash flow statement	1.2	3.9	0.3	–	5.4
<i>Current liabilities:</i>					
Current borrowing	–	(13.0)	–	–	(13.0)
Non – Current borrowing	–	–	–	–	–
	–	(13.0)	–	–	(13.0)
<i>Obligations under finance leases:</i>					
Current obligations under finance leases	(0.1)				(0.1)
Non-current obligations under finance leases	(2.2)	0.3	–	(0.2)	(2.1)
	(2.3)	0.3	–	(0.2)	(2.2)
Derivative financial instruments					
Total net (debt)/cash	(1.1)	(8.8)	0.3	(0.2)	(9.8)

Group £m	Total 2015	Cash flow	Exchange differences	Other non-cash	Total 2016
<i>Current assets:</i>					
Cash and cash equivalents in the balance sheet	7.3				8.3
Bank overdraft	(4.4)				(7.1)
Cash and cash equivalents in the cash flow statement	2.9	(2.1)	0.4	–	1.2
<i>Current liabilities:</i>					
Current borrowing					–
Non – Current borrowing					–
	–	–	–	–	–
<i>Obligations under finance leases:</i>					
Current obligations under finance leases	(0.1)	–	–	–	(0.1)
Non-current obligations under finance leases	(2.3)	0.2	–	(0.1)	(2.2)
	(2.4)	0.2	–	(0.1)	(2.3)
Derivative financial instruments					
Total net (debt)/cash	0.5	(1.9)	0.4	(0.1)	(1.1)

30. Related parties

Group

The Group considers key management to be the Executive Directors only, details of directors' emoluments and share based payments are disclosed on pages 52 to 57 of the Directors' report.

Costs incurred by the Group to administer pension schemes amounted to £0.3m in 2017 (2016: £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 £m	Amounts due from related parties £m	Amounts due to related parties £m
Subsidiary undertakings					
2017	1.1	0.6	1.7	41.7	9.6
2016	1.5	0.6	2.1	42.9	9.1

A full list of subsidiaries is detailed in note 13.

The Company guarantees bank and other borrowings of subsidiary undertakings. At the period-end there were nil drawn borrowings (2016: nil).

Group five-year financial summary

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Summarised income statements:					
Revenue	457.6	456.8	469.8	447.7	457.6
Gross profit	269.4	274.2	287.2	275.9	278.3
Operating profit/(loss)	2.9	14.8	8.2	(4.9)	(3.4)
Underlying operating profit	16.4	20.3	15.8	6.9	11.4
Net finance costs	(2.0)	(2.0)	(1.6)	(2.3)	(1.7)
Underlying profit before tax	14.4	18.3	14.2	4.6	9.7
Separately reported items	(13.5)	(5.5)	(7.6)	(11.8)	(14.8)
Profit/(loss) before tax	0.9	12.8	6.6	(7.2)	(5.1)
Tax	(0.2)	(2.7)	(2.1)	3.6	(1.5)
Profit/(loss) for the financial period	0.7	10.1	4.5	(3.6)	(6.6)
Extracts from balance sheets:					
Non-current assets	176.9	169.0	171.4	185.4	193.0
Net assets	78.0	74.0	59.5	61.1	65.3
Operating cash flows	7.7	13.3	25.1	11.3	17.4
Net cash/(debt)	(9.8)	(1.1)	0.5	(11.1)	(10.2)
Ratios and statistics:					
Number of stores at period end	564	572	597	614	620
Total space (sq ft – gross) '000	5,051	5,150	5,444	5,630	5,719
Gross margin (%)	58.9%	60.0%	61.1%	61.6%	60.8%
Underlying operating margin (%)	3.6%	4.4%	3.4%	1.5%	2.5%
Operating margin (%)	0.6%	3.2%	1.7%	(1.1%)	(0.7%)
Underlying earnings per share (pence)	16.4p	20.8p	15.5p	4.7p	9.6p
Basic earnings/(losses) per share (pence)	1.0p	14.9p	6.7p	(5.3p)	(9.8p)

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 29 April 2017 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 and Accounts (the "Annual Report"), comprise:

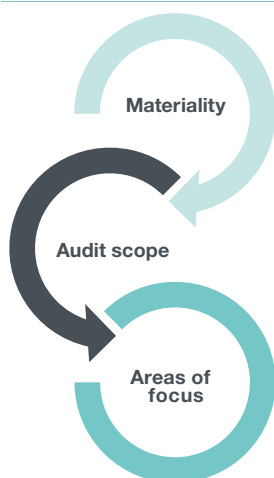
- the Group and Company Balance sheets as at 29 April 2017;
- the Consolidated income statement and Consolidated statement of comprehensive income for the period then ended;
- the Group and Company Statements of cash flow for the period then ended;
- the Group and Company Statements of changes in equity 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, 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 a full scope audit of the UK and Republic of Ireland segments which accounted for 85% of the Group revenues and 57% of the Group's profit.

- 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.

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.

Financial statements continued

Independent auditors' report to the members of Carpetright plc continued

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 37.

Goodwill is valued at £53.6m at the period end. No goodwill impairment charge has been recorded against this balance in the current period.

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 the UK and the Republic of Ireland, and "Europe", defined as the Netherlands and Belgium. Therefore these have been identified as the cash-generating units ("CGU's"). The Group's goodwill in the UK is £29.8m and in Europe it is £23.8m at the period end.

We focused on valuation of goodwill in Europe in particular because of the historical trading performance in this CGU and because of the judgment required in the impairment assessment.

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.

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 35.

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 treat 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 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%).

When properties are subdivided and sublet to third parties, the sublet income is taken into account in the model.

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.

How our audit addressed the area of focus

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 Netherlands and Belgium 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 within the range that we independently estimated based on market data and analysis of comparable companies.

We performed sensitivity analyses, for the assumptions specified above to identify the extent to which these needed to change to result in a material impairment charge.

Based on our knowledge of the business and of the retail industry amongst other factors, we considered 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.

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 cash generating unit ("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. Our analysis found that there had been a slight deterioration in the commercial property market from December 2014 to April 2017. We sensitised the Impairment model based on this deterioration and no material impairments were noted.

We found the methodology to be appropriate for fair value and the valuation to be reasonable at the period 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.

Area of focus

This review resulted in an impairment reversal of £2.2m in the current period.

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.

How our audit addressed the area of focus

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 within the range that we independently estimated based on market data and analysis of comparable companies.

We performed sensitivity analysis and noted that in order for a material impairment charge to arise, the key assumptions specified above would need to change significantly. Based on our knowledge of the business and of the retail industry amongst other factors, we considered that the likelihood for such changes in the key assumptions to be relatively low.

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 35.

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 (£0.4m impairment).

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 leases.

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").

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 for other factors such as performance improvement plans potential property deals or closure of nearby stores which should positively impact the poorer performing store.

This amount is then extrapolated over an appropriate period which ranges from three years to the end of the lease depending on the individual circumstances of the store.

A provision of £17.5m was held at the period end for the onerous leases.

We tested the directors' assessment of impairment triggers for the store assets. We challenged the key assumptions – namely that stores making a loss below a certain threshold are excluded from the model as 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 leases, we checked that stores assessed for onerous leases 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.

Financial statements continued

Independent auditors' report to the members of Carpetright plc continued

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 the Republic of Ireland, the 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 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 (2016: £2.3m).
How we determined it	0.5% of Group revenues.
Rationale for benchmark applied	Consistent with the prior period, 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 (2016: £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 and compliance with applicable requirements

Companies Act 2006 opinions

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

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

In addition, in light of the knowledge and understanding of the group, the company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

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

<ul style="list-style-type: none"> – Information in the Annual Report is: <ul style="list-style-type: none"> – 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 company acquired in the course of performing our audit; or – otherwise misleading. 	We have no exceptions to report.
<ul style="list-style-type: none"> – The statement given by the directors on page 32, 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.
<ul style="list-style-type: none"> – The section of the Annual Report on page 35 or 38, 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:

<ul style="list-style-type: none"> – The directors' confirmation on pages 24 and 32 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.
<ul style="list-style-type: none"> – 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.
<ul style="list-style-type: none"> – 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.

Financial statements continued

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 directors' responsibilities in respect of the financial statements set out on pages 62 to 63, 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Julian Jenkins (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 June 2017

Shareholder information

Calendar

2017

Annual General Meeting	7 September
First-half trading update	24 October
First-half ends	28 October
Interim results announcement	12 December

2018

Q3 trading update	23 January
Pre-close trading update	24 April
Year ends	28 April

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