

# DIXONS RETAIL

BRINGING LIFE TO TECHNOLOGY

**Annual Report and Accounts 2013/14**

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“This has been a great year for the Group with some excellent performances across our multi-channel businesses, together with the achievement of a number of important strategic objectives. Our profits are up 76% from those we reported a year ago and up 10% on a restated basis. This not only reflects the fact we have now exited all of our non-core markets, meaning we are now a leader in all our core markets, but is also a testament to the creativity and hard work of our teams. The Group is in robust financial health with further cash generation resulting in a strong net cash position even after the costs incurred in exiting the non-core businesses. Best of all, our customer service metrics have again reached new records.

All of this all means that the Group is stronger – both commercially and financially – than it has been for a number of years and we are well positioned to set sail into new waters. I am very excited about the opportunities that the proposed merger with Carphone Warehouse offers for the Group. We will build what I hope will be the first and best truly multi-channel proposition that allows customers not only to buy and experience the explosion of new connected products that are emerging, but to also get the advice, connectivity and services that will allow them to use technology as it should be used – to make their lives better. In turn, this will allow us profoundly to change the nature of what we do: we will move from a transactional to a lifelong relationship with customers everywhere.

In the meantime the new financial year has started well, with an uplift in TV sales driven by the World Cup, but we also believe we are seeing the early glimmers of a consumer recovery. On this there is no certainty just yet, but what we know for sure is that if we maintain a tight rein on costs, our pricing sharp – against all comers – and our service levels high, customers will continue to choose us over others.”



**Sebastian James**  
Group Chief Executive

25 June 2014

**Cautionary statement**

Certain statements made in this Annual Report and Accounts are forward looking. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future events or results referred to in these forward looking statements. Unless otherwise required by applicable laws, regulations or accounting standards, we do not undertake any obligation to update or revise any forward looking statements, whether as a result of new information, future developments or otherwise. Nothing in this Annual Report and Accounts should be regarded as a profit forecast.

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## Group at a Glance

We are a leading European specialist electrical retailing and services company. We trade through over 900 stores and on-line. We operate three divisions as follows:

	UK & Ireland	Nordics	Greece
	<p>Currys and PC World are the largest specialist electrical retailing and services operators in the UK and Ireland.</p> <p>KNOWHOW is our market leading services brand.</p> <p>Dixons Travel operates in all major UK airports as well as Dublin, Copenhagen, Rome, Milan and Brussels.</p> <p>PC World Business provides computing products and services to business to business customers.</p>	<p>The Elkjøp Group is the leading specialist electrical retailer across the Nordics.</p> <p>Elkjøp and Lefdal stores operate in Norway, El Giganten in Sweden and Denmark and Gigantti in Finland.</p>	<p>Kotsovolos is Greece's leading specialist electrical retailer.</p>
<b>Brands</b>	<b>Currys, PC World, KNOWHOW, Dixons Travel, PC World Business</b>	<b>Elkjøp, El Giganten, Gigantti, Lefdal</b>	<b>Kotsovolos</b>
<b>Underlying sales</b> (£million)	<b>4,148.6</b>	<b>2,789.8</b>	<b>279.2</b>
<b>Underlying operating profit / (loss)</b> (£million)	<b>141.0</b>	<b>116.9</b>	<b>(10.5)</b>
<b>Number of stores</b>	<b>524</b>	<b>294</b>	<b>99</b>
<b>Average number of employees</b>	<b>21,420</b>	<b>8,798</b>	<b>1,750</b>
<b>Selling space</b> (‘000 sq ft)	<b>7,480</b>	<b>4,639</b>	<b>1,018</b>
<b>Average selling area per store</b> (sq ft)	<b>14,275</b>	<b>15,779</b>	<b>10,283</b>
<b>Websites</b>	<p>www.currys.co.uk www.pcworld.co.uk www.knowhow.co.uk www.currys.ie www.pcworld.ie www.pcworldbusiness.co.uk</p>	<p>www.elkjop.no www.elgiganten.se www.elgiganten.dk www.gigantti.fi www.lefdal.com</p>	<p>www.kotsovolos.gr</p>

## Five Year Highlights

	Underlying Group revenues* £million	EBIT* £million	Underlying profit before tax* £million	Underlying diluted earnings per share* Pence
<b>2013/14</b>	<b>7,217.6</b>	<b>202.8</b>	<b>166.2</b>	<b>3.0p</b>
2012/13 <sup>†</sup>	7,026.6	186.4	151.0	2.6p
2011/12 <sup>†</sup>	6,521.4	158.1	124.7	2.2p
2010/11 <sup>†</sup>	6,393.9	142.8	109.3	2.1p
2009/10 <sup>†</sup>	6,506.0	154.2	117.9	2.5p

\* Underlying performance measures are as defined in the Performance Review.

† Underlying figures for 2012/13 and prior years have been re-presented to exclude the results of discontinued operations.

## **Chairman's Statement**

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Your Group has made considerable progress this year in delivering our key priorities. We also announced a proposed merger with Carphone Warehouse Group plc (Carphone) to take us on the next phase of growth.

On top of this, the fundamentals of the business have become stronger than ever. Customers are increasingly recognising our improved offer and our financial position continues to be strengthened through good cash generation.

I am confident that the Group is now in a better position than it has been for a number of years, and I am again pleased that these actions are being reflected in the overall value of our shares.

The Group is now focused on those markets where it has a leadership position. Sebastian James and his team have ably negotiated transactions that have seen us exit from Turkey, Italy, Central Europe and the pure play business of PIXmania. All operations which we couldn't see a clear economic path to leadership and which were a drag on the overall performance of the Group. We have also put our UK & Ireland, Nordics and Greek operations on the road to delivering a sustainable business for the long term. Our suppliers, customers and colleagues all recognise the improvements we have made and we are leading the field in how a specialist electrical retailing and services company should operate.

In the UK & Ireland, Katie Bickerstaffe and her team have delivered another strong performance with market share gains and improvement in profitability of the division, which grew 24% year on year. This reflects the hard work being done that continues to deliver an improved offer for customers which is being recognised with another year of record advocacy scores. Katie and her team are now exploring new ways to excite and engage with customers with trials of new store formats and new categories, such as the connected world trials in five large stores. I look forward to seeing how this division delivers another year of progress in the year ahead.

Our Nordics business, which has been a stalwart in our group for a number of years, continues to deliver a solid set of results. In his first full year Jaan Ivar Semlitsch has consolidated Elkjøp's position in each of its markets, faced into some tough competitive positions and embraced being a part of the Group that will see all our businesses benefit properly from shared expertise. We have, during the year, rolled our KNOWHOW services into the Nordics delivering a market leading range of services to Elkjøp's customers. With new customer measurement tools, the team is responding dynamically to customer needs with improving satisfaction scores being delivered.

The economic environment in Greece remains tough, but we did see some modest signs of stabilisation towards the end of the financial year. Kotsovolos has a great reputation amongst customers and is benefiting from market share gains. As a result the business is well placed to benefit from any improvement in the Greek economy.

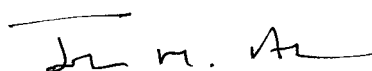
In streamlining the Group and disposing of non-core businesses we did incur non-underlying charges and with other items these totalled £186.0 million, resulting in a total loss after tax of £70.3 million. However, underlying Group profit before tax of £166.2 million was a significant improvement year on year and enabled us to enjoy another year of cash generation. While net cash was positive in the year we remain focused on reducing the financial leverage of the Group to improve the balance sheet as well as returns for shareholders.

This puts the Group in a strong and healthy financial position from which to embark on our next phase of growth. With the products we sell becoming increasingly connected, the internet of things is upon us and rapidly evolving. With this in mind one of our objectives has been to bring a market leading mobile and connectivity offer to our customers. While we have good positions in the Nordics and Greece, we need to strengthen our position in the UK & Ireland. The proposed merger with Carphone, if completed, will bring two market leading businesses together with an unrivalled offer for this new connected world for customers, not just in products and connectivity, but in the great service platforms we both have. Documentation giving details of the proposed merger and seeking your approval is being sent out on or around 26 June.

During the year the Group continued to raise money for various charities in the countries in which our businesses operate. In the UK, donations totalling £233,800 were made including £150,000 to Children in Need. In the Nordics, we continued our support for the Red Cross Water for Life project with donations totalling NOK 1.9 million.

The Board, through its various committees, continues to ensure that the requisite controls are in place across the business and that the highest possible principles of corporate governance are adhered to.

We can all reflect on what I believe has been a successful year for the Group and I would like to thank all our colleagues and congratulate the leadership team for their part in delivering this. I look forward to the exciting developments the year ahead will bring for the Group.



**John Allan**  
Chairman

## Group Chief Executive's Statement

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I am delighted to be reporting another year of significant progress for the Group. When taking on this role a little over two years ago I recognised that to be successful and to best reward our shareholders we needed to focus on those markets where we have a leadership position. So I am very pleased to report that we are now delivering on that promise with our UK & Ireland, Nordics and Greek operations all leaders in their markets delivering great service for our customers each and every day. In a busy year we disposed of our businesses in Italy, Turkey, Czech Republic and Slovakia, as well as exiting the PIXmania operations, thereby streamlining and focusing the Group.

A leadership position is important in our industry as it makes us the most relevant place to go for customers as well as the most relevant outlet for our suppliers. It is this for which suppliers reward us, and is a key factor in ensuring we have a sustainable business in a multi-channel world. These key factors put us firmly in control of our own destiny. Our colleagues can serve our millions of customers with the confidence that we have the best offer in each of our markets.

As a more streamlined and focused group we are able to free up capital enabling investment in our stores, colleague training, our websites and importantly our service offering. Continuously improving our business for customers and colleagues has contributed to further improvements in our already impressive customer satisfaction scores with, for example 88% of customers in the UK highly likely to recommend us to friends and family. In fact during the year 319 stores in the UK scored 100% at least once on this metric.

Having delivered on one of our key objectives I see the three things we now need to focus on to drive further returns for our shareholders as:

1. Continue to enhance and drive a successful and sustainable business model in a multi-channel world.
2. Leverage our national and pan-European scale, our knowhow, and our unique asset base to drive growth in new product areas including growth in services – both to our retail and business customers.
3. Become a major player in connectivity and associated services and so be uniquely positioned to benefit from technology changes as the majority of devices become connected.

These are discussed in more detail under the Strategy section of this report, but I'd like to dwell on the last of these three.

You will no doubt have seen that we have announced a proposed merger with Carphone Warehouse. We have a great offer for customers across all our businesses, but as the technology we use evolves and becomes increasingly connected we need to have a fully integrated offering across electricals, mobiles and connectivity. While we have this to some extent in the Nordics and Greece, Carphone Warehouse would clearly bring further expertise in mobiles and connectivity across the Group, but most particularly to our UK & Ireland business. I am incredibly excited about the opportunities that this proposed combination would bring to the Group. Our two businesses are coming together from positions of strength which will enable us to focus on adding value – the opportunities for which I see as being the following.

Firstly, in bringing two sizeable companies together we can leverage significant synergies from the combination. We believe that we can deliver at least £80 million of synergies on a recurring basis, with delivery expected in the 2017/18 financial year. These are a combination of costs, revenue opportunities from putting a Carphone Warehouse mobile offering in all of our stores as well as some benefits from having increased scale in administrative purchasing, such as marketing. We confirm that the synergy statements that were set out in our joint merger announcement with Carphone Warehouse on 15 May 2014 remain valid. Deloitte LLP and Deutsche Bank AG, London Branch reported on these synergy statements in that joint announcement and we expect them to confirm to Carphone Warehouse on publication of the shareholder documentation relating to the merger that their reports continue to apply. If the transaction successfully completes, I look forward to updating you on what further opportunities we can deliver in enjoining our two businesses together.

In addition, by being a unique place for customers to experience new products that will make up the connected world as well as get advice from our highly trained colleagues, we can truly be the go to expert for this new, exciting and complex world for customers. Not only can we help them in navigating their way to a truly connected home, we can bring existing and new services to them to keep their world functioning and connected. This will not only open up new products and services for us, but can take our relationship with our customers from a transactional one, to a longer term relationship.

Further, both we and Carphone Warehouse have started to explore how we can leverage the platforms we have created that support our core retailing and services expertise to further benefit our shareholders. Carphone Warehouse has made great strides in this field with its Connected World Services business that provides a selection of services to support retailers wishing to add connectivity to their offering. We already provide two man delivery logistics for certain manufacturers in the UK and are in discussions to leverage our Hong Kong white label product sourcing operations for other retailers around the world. Together we can offer a full range of services to business customers with the potential to build a significant operation across the globe, adding real value for our shareholders.

Turning to the performance of our underlying operations, the UK & Ireland has had another strong year. An increase in like for like sales of 5% across the year ensured we gained further market share. Profitability grew by 24% to £141 million, delivering a 3.4% return on sales. This performance reinforces the fact that we have built a market leading, economically robust business – one that is delivering great service each and every day. As I mentioned earlier this is being increasingly reflected in the record customer advocacy scores. But also because we believe that we have to earn a conversation with a customer through great advice, prices and service. Katie Bickerstaffe has ably led her team in delivering a truly transformed business that stands shoulder to shoulder with our customers. The team vigorously grasped the opportunity provided by consolidation in the UK market over the last two years, significantly increasing our market share and thereby our relevance to both customers and suppliers. This gain has been most significant in white goods where we have grown market share faster than our peers and established a market leading position across both large and small kitchen appliances, all supported by our leading services offering incorporating delivery, installation, repair and recycling. Indeed we are trialling a new kitchen department as we look to

**Group Chief Executive's Statement (continued)**

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deepen our offer for customers in this area. The year ahead is an exciting one for CurrysPCWorld and KNOWHOW, particularly as we combine the business with Carphone Warehouse to deliver an unrivalled offer for customers.

Our Nordics business had another successful year with like for like sales up 2%. Jaan Ivar Semlitsch and his team have risen to face a few challenges this year while also continuing to improve the offer for customers, service levels and growing market shares.

In the Spring of 2013 we introduced 'Happy or Not' kiosks into the stores across the region, this enables the store to monitor customer satisfaction scores in real time and make dynamic adjustments in response, such as adjusting shift patterns. Encouragingly we have seen a steady improvement in these scores through the year with 85% of customers in April 2014 saying they were happy with their store visit.

Our business in Greece has weathered the storm of the economic crisis well. It at last looks like there may be some glimmers of improvement on the horizon. With powerful brand positioning and strong relationships with suppliers, Kotsovolos has gained further market share and can at last look forward with some confidence. While the economy still has some way to go, Kotsovolos is well positioned to help customers as the recovery takes shape.

Our Group is in the best shape it has been for a number of years. Net cash of £70.9 million at the year end means we are in robust financial health and have clarity on being able to redeem our 2015 and 2017 bonds as they fall due. With the proposed merger with Carphone Warehouse I am delighted that we will be able to return to paying a dividend, a milestone that underpins the financial robustness of a successful business, and will enable us to further reward our loyal shareholders.

As ever I remain indebted to my colleagues across the Group, in particular those out in our shops, call centres, service labs, warehouses and delivery services helping, surprising and delighting our customers every day. It is they that enable us to make this a truly great business and I thank them for their hard work and dedication. We embark on a new chapter in the year ahead and I know I can rely on them for their continued support.



**Sebastian James**  
Group Chief Executive

25 June 2014



## Our Markets

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Specialist electrical retailers are the predominant destination for customers in the European market. Buying groups, general merchants and independents also have a retail presence through stores and / or on-line in most European markets. The market is served by a relatively small number of global manufacturers supplying goods to local, regional, national and international electrical retailers.

The electrical retail market can be split between specialist electrical retailers, such as Dixons Retail, and general retailers which sell certain electrical goods as part of a wider offering, such as catalogue retailers, department stores, large supermarket chains and single channel internet retailers. The market can also be broken down into two distinct distribution channels: 'assisted' and 'unassisted'. In the assisted channel, specialist retailers, such as us, help customers through the buying process in the form of product advice, add-on services, delivery and installation. The unassisted channel, which includes single channel internet retailers as well as general retailers, tends not to offer all of these services.

We are one of the largest specialist electrical retailing and services companies in Europe and with leading market shares in the UK, Ireland, the Nordic region and Greece we benefit from long established and widely recognised brands. In each of our markets there are varying numbers of specialist retailers who compete in the assisted market. While we do compete against general retailers, this is generally limited to certain lower unit price product categories as these operators do not offer the full range of products, assisted sale or associated ancillary services we are able to provide.

We have seen some significant shifts in capacity in many of our markets over the last 12 to 24 months with some mass merchandisers reducing space for electrical products, some single channel internet operators, as well as some specialists, exiting the market. These shifts have helped us gain market share and it underpins our view that a strong service led multi-channel operation satisfies both customer and supplier needs while delivering a sustainable business as customer shopping habits continue to evolve. We believe further consolidation will occur in some of our markets going forward.

The internet has established itself as an integral part of the retail landscape. It brings enhanced product information as well as price comparability for consumers. It is therefore becoming an important part of the shopping trip for customers combining the internet with stores as they consider their purchase, particularly for high ticket discretionary products such as electricals. Larger retailers with an integrated multi-channel offer with scalable distribution and systems, together with proven after sales service and support are increasingly attractive to customers. Our *collect@store* service, where customers can order on the internet and collect from a convenient store at a time to suit them, and our *pay&collect* service, where customers can access a wider range of products than is typically available in their local store for either home delivery or later collection from the store, are both proving to be increasingly popular.

The UK and Nordic markets have high broadband penetration and a maturing on-line sales platform. The increase in on-line penetration provides us with the opportunity to increase both the range of goods on offer and the availability of product information. Our multi-channel approach is well placed to exploit synergies between our internet sites and stores.

Innovation brings new products and products with improved functionality, such as Ultra High Definition and Smart TVs, Apple's iPad, and other tablets, as well as converging products that combine the flexibility of a tablet with a keyboard in turn driving sales growth. New content, such as social media, apps, digital media and cloud computing, also help to drive hardware innovation and replacement. Product sales are also driven by structural shifts, such as analogue to digital and standard format through to Ultra HD television. In addition, innovation drives new service requirements, such as TV installation, data backup, computer set up and instructional *Showhow* teach-ins. In this increasingly complex world we believe our assisted sales model is best placed to help customers navigate the products available and to help them choose a complete solution that best meets their needs.

Electrical products, and in particular brown goods, are predominantly discretionary purchases. However, increasing penetration of digital technology in the home drives replacement cycles as these products become less discretionary. The economic backdrop also determines whether customers buy up or down price points. Accordingly, the electrical market tends to grow at a rate which is at or exceeding the economy during boom years. While the opposite can be true during a downturn, this may be influenced by new innovation and products.

The rapid innovation cycle leads to price deflation in brown goods and computing, but also drives volume as products become more affordable and replacement cycles accelerate. For larger ticket items, the low frequency of purchases limits the impact of price deflation on total market sales as consumers typically trade up to higher specification products. Our 'Customer Journeys' are designed to explain the features and benefits of the latest technology to customers and help them understand the reasons for trading up to the newer technologies.

The sale of white goods is underpinned by the replacement cycle. Due to higher costs of repair, it often makes better economic sense for consumers to replace white goods outright rather than to arrange for their repair. The sale of white goods is also driven by the dynamics of the housing market as new construction, house sales and refurbishment trigger new purchases.

Technology and the digitised world increasingly embed themselves into our customers' lives, whether it be keeping up with friends and family through social media, on-line gaming, watching movies on the move, sharing pictures with others or across different technologies in the home, backing up precious memories in the cloud or through energy efficiency. The latest technology allows our customers to do all this and more with tablets, Smart TVs and apps. The ecosystems behind the current digital revolution are simplifying our customers' lives. Customers come to us not just for the enabling technology, but to find a solution.



## Strategy and Business Model

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### Strategy

Over the last two years the Group has made very significant progress on delivering against our key priorities, and we have seen the benefits of this in our financial performance. By changing the pricing model, driving service and the selling of complete solutions, by embracing and driving a true multi-channel proposition and by leveraging our ability to tell suppliers' stories better, we have built what we believe to be a business model that will flourish in an internet world. In addition, we have been relentless in managing our portfolio so that we are now the market leader, and growing market share in all of our key markets.

This enables us to drive the Group forward from a position of strength with a focus on the three strategic priorities as set out below. By focusing on these we can deliver not only a better business for our customers and colleagues, but also better returns for shareholders. In delivering each of these priorities the proposed merger with Carphone Warehouse will add additional strength as well as a new category of products and services across which these benefits can be brought to bear.

The three strategic priorities are:

1. Continue to enhance and drive a successful and sustainable business model in a multi-channel world.
2. Leverage our national and pan-European scale, our knowhow, and our unique asset base to drive growth in new product areas including growth in services – both to our retail and business customers.
3. Become a major player in connectivity and associated services and so be uniquely positioned to benefit from major technology changes as the majority of devices become connected.

Looking at each of these in turn:

#### **1. Continue to enhance and drive a successful and sustainable business model in a multi-channel world**

The way in which a customer shops continues to evolve. Our customers tell us that they want advice, to experience products and to ensure they are making the right choices, particularly as these are often major purchases that they will own for several years. The internet empowers customers with lots of information including product knowledge and price transparency. Single channel internet operators have a different model whose principal advantage is structurally lower costs and which have historically been able therefore to offer competitive prices versus store based operators. By focusing on those aspects that we, as a multi-channel specialist, can offer customers and suppliers we can eliminate the cost advantage that pure play internet operators have historically enjoyed. As a result we are able to offer customers very competitive prices against all our competitor set and still be more profitable.

There are four distinct activities that we believe are the key strengths of our multi-channel, service-based model and which will support our competitive advantage going forward:

- i. Work closely with suppliers to harness benefits available to our business model: Suppliers want to ensure that customers not only choose their brands, but also experience the benefits of the latest products they have developed to meet customers' needs. As a multi-channel operator we work with our suppliers to ensure we can explain the benefits of these products and demonstrate them to customers in our stores and our suppliers support us in this work in a variety of tangible ways.
- ii. Focus on complete solutions for customers: Customers buy products in order to achieve something, such as washing clothes, or entertaining the children. This does not just mean buying the hardware, but increasingly includes delivery, explanation and peace of mind through product support and after sales services, as well as accessories and eventually, recycling. The conversations our colleagues have in store with customers gives us an opportunity to explain the benefits of these solutions and sell more of them than our single-channel competition.
- iii. Drive our service proposition: We need to be able to stand shoulder to shoulder with our customers and for them to know they can come to our stores and get knowledgeable advice and great service to help them buy the right product. They need to be confident that we will solve their problem for them quickly and efficiently. KNOWHOW in the UK offers customers one cohesive services brand that can help them with their product throughout its life from purchase, help and support, repair and through to disposal. When we get this right we know that customers are prepared to pay us for this service.
- iv. Reduce costs: The scale of our operations across stores, ranges, logistics, distribution, repairs and services means that we can continually improve processes to reduce costs. We have removed a considerable amount of cost from the business over the last few years by making the business simpler, easier to operate and more efficient and we remain relentlessly focused on managing costs to make our business more efficient.

The proposed merger allows us to further expand and strengthen our proposition to customers, our service capability and our relationship with suppliers to underpin and drive even greater advantage in the markets in which we operate.

#### **2. Leverage pan-European scale and knowhow, including growth in services**

The Group has many best practices in each of its business divisions. Some work has taken place to align these and share them across the Group, such as the new store formats, supplier relationships and, to a limited degree, own brands. However, there remain many opportunities to share knowledge, expertise and best practice across the Group. For example *Our Experts Love* model that aligns recommendations for customers with suppliers' new technology operates in some form in each of our key markets.

## Strategy and Business Model (continued)

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Growing complexity and interconnectivity of products means that customers are increasingly demanding help and support, not just in choosing the right product, but also installation, connection, support and repair. Our KNOWHOW services are at the forefront of this in the UK and we have started to roll out our KNOWHOW services across the Nordics. In Greece we are rolling out services under the Support360 brand. We can and will do more to make sure that innovation in local markets is rewarded and rolled back to other territories.

We must continue to innovate new services to help customers and to remain relevant to the way products and connectivity is evolving. Behind our end to end service operation we have a comprehensive infrastructure, including technical phone support, delivery, installation, repair and recycling. We can leverage this infrastructure to widen our customer base either to customers who bought their products through a third party (for example, our *fault&fix* computer service), or for business customers (for example deliveries for Beko and Bosch Siemens) for products bought directly. By doing this we can lower the cost density of utilising this infrastructure and deliver even better value services for our customers. As we move forward with our proposed merger, this thinking has been further evolved and fits very neatly with Carphone Warehouse's ambitions to grow its Connected World Services business.

### 3. Drive a leadership position in mobile and connectivity in each of the markets in which the Group operates

In the markets outside the UK & Ireland, we have successful mobile retailing operations within our specialist electrical stores. However, in the UK & Ireland we do not have our own mobile and connectivity offering. We currently operate a joint venture shop in shop offer in 160 stores with Phones4U under a contract that runs until May 2015.

The consumer electronics and mobile phone retail landscapes have evolved significantly over the last few years. In particular, the growth of smartphones, tablets and speed of internet access both in and out of the home, together with an increasing number of connected devices, are altering the way people live their lives, communicate and use technology. This has made available to Dixons a number of markets, like health, security, content, home management and others in which we are not able to operate today but which are developing and will continue to develop into large connected markets in the next few years. Linked to this market development will be a need for a raft of new services that will ensure that these technologies work and are maintained and monitored so that they can achieve what they are supposed to achieve: They can make people's lives better.

It is for this reason we have announced the proposed merger with Carphone Warehouse. We believe that combined with their leading position in independent mobile retailing and connectivity we will be best placed to help customers navigate this increasingly complex matrix of device, connectivity and content in all the markets in which the Group operates. By combining these two already strong businesses, with industry-leading management teams, we can provide the opportunity to create a new retailer for the new digital age.

Having set a clear view of the future and understood the actions that are required to deliver against this. We aim to ensure that the recognition and reward systems can accurately help to support these ambitions. As a result the Board measures a variety of metrics including profits, cash and return on capital employed (ROCE).

Our UK & Ireland and Nordics divisions together delivered a 3.7% EBIT return after associated central costs in the 2013/14 financial year, in-line with our strategic objective of a 3 – 4% EBIT return. In Greece the economic backdrop remains challenging, but with a focus on costs and customer service management have been able to limit the impact of the downturn on bottom line performance. As the Greek economy shows early signs of a stability returning to the markets, Kotsovolos is well placed to see improvements in its returns in the medium term.

Cash is an important part of this and the Group has been cash generative in each of the last four financial years. Indeed we ended the 2013/14 financial year with an improved net cash position for a second year of £70.9 million. As a Group we need to make the right choices as to how each of our divisions utilise or preserve cash, whether it be determining ranges and stock held in store, managing returns and related processes or improving working capital and stock turn.

We must make sure we use capital efficiently and ensure we are making it work to the best advantage of shareholders which is why ROCE is an important KPI. ROCE for the financial year 2013/14 was 16.3%, an improvement from the prior financial year figure of 14.9%.

## Strategy and Business Model (continued)

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### Business model

Our business model, driven by customer insight, comprises three pillars of an integrated multi-channel offering including a wide range of products together with after sales service and support, underpinned by a low cost operating model.

### Customer insight

In order to ensure we understand what products and services our customers want, how they use the products they buy from us and what they think of the service they get from us, we use extensive customer insight. This includes discussions at customer panels, interviews, home visits and detailed surveys. We use this information to build our ranges, improve our stores and services and other business decisions. This is supported by mystery shops in our own and competitor stores, exit surveys and customer feedback. During the year our UK and Nordics businesses made considerable progress in customer satisfaction metrics as we continue to improve the business.

Taking each of the three pillars in turn, our model can be described as follows:

### Multi-channel

The shopping trip for customers is constantly evolving. Our objective is to provide our customers with a seamless experience where convenience, ease of navigation and simplicity are key in attracting customers to shop with us whether it is on-line, in-store or a combination of both. We constantly aim to develop and improve our stores making them easier to shop with, for example, improved navigation, better signage, play tables to allow customers to interact with products before they buy, as well as good advice on features and benefits from our colleagues and our websites are an integral part of the customer shopping trip.

In recognition of how customer trends are evolving we have made it easier for our colleagues to access products and extended ranges in store. For example, our store colleagues are rewarded for all sales in their catchment, whether it be on-line or in store. We have also introduced *pay&collect*, alongside our existing *collect@store* service, where customers can buy products not immediately available in their local store for collection later.

Our training programmes combined with our *Product Learning Centres* and Customer Journeys provide our colleagues with the right tools to really understand customers' needs and to provide them with the complete solution to properly meet those needs. We will continue to improve the training of our colleagues and the ways in which we can really make them experts in the products we sell.

### Products

Combining our customer insight with our market strength across Europe we can make sure we have the right range of products in our stores to suit customers' needs. Our scale and relationships with suppliers means that we can work with them to showcase the latest technology and products in our stores with areas dedicated to key suppliers' products.

Own brand products enable us to offer customers greater choice and access to a range of products at competitive prices. We have defined a clear 'good, better, best' brand range of: Currys and PC World Essentials; Logik; iWantit; Advent; Goji; and Sandstrøm brands. We see particular opportunities in the area of accessories and essentials with, for example, our own range of Sandstrøm cables.

### After sales services and support

Our customers need help with their products, whether it be delivery and installation, help keeping their products up and running or repair should things go wrong. Our business in the UK & Ireland sets the benchmark for our services infrastructure under our KNOWHOW brand, which we are now rolling out across the Nordics.

We operate the largest network of two man deliveries in the UK with an average of 50,000 deliveries per week enabling us to provide customers with the convenience of next day delivery in a three hour time slot or the value of a free delivery later.

Our KNOWHOW teams in stores, in our call centre and field technicians can provide set up and upgrade services as well as on-line fix and back up services. Our market leading range of help and support services ensure a customer has the backing of expertise and support that keeps their technology up and running. In the event that a customer has a problem with their product, we can fix it. For example, our state of the art repair facility in Newark is able to repair and return a laptop in seven days. Our network of field technicians offer white goods repair in a market we estimate to be worth around £500 million. We provide customers with a choice of support agreements such as 'Premier' services which provide customers with a loan TV, for example, if theirs needs to be taken away for repair.

Through ownership of the service infrastructure we can ensure the quality of service delivered to customers. This, we believe, provides us with a significant competitive advantage in meeting the needs of our customers, as well as a revenue stream not readily available to single channel on-line and mass market competitors.

## **Our Resources**

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- **Customers**
- **People**
- **Suppliers**
- **Distribution and logistics**
- **Store portfolio**
- **Intellectual property**
- **Energy**
- **Cash and capital**

### **Customers**

To deliver on our strategies and to ensure we continue to respond to customers' needs, we must listen and respond effectively to them. We have comprehensive customer research programmes spanning a variety of tools including exit surveys, mystery shops, focus groups and effective data gathering through, for example, our 'Happy or Not' tools in our Elkjøp business.

Through this research, managed internally, we have developed a clear and detailed understanding of what we are doing well and more importantly of where we can target further improvements. Customers tell us that they need us to deliver a strong combination of 'Value, Choice and Service' across all our shopping channels and it is clear from their feedback that more and more, they recognise that we are doing this. We will continue to deliver easier, more exciting places to shop for customers whether that be in store, on-line or a multi-channel combination of both.

Listening to customers extends into how we approach the sales process in store. Our unique training programmes combined with our customer journeys are designed to ensure customers leave our stores with a complete solution that is right for them. Doing this is a key part of our ongoing strategy and delivery of a sustainable business model, as well as enabling us to differentiate our offer from competitors.

By maintaining our absolute focus on the customer and delivering what they want in a retail environment that is constantly evolving, we will continue to attract new customers and retain existing ones.

### **People**

Dixons Retail is an organisation spanning Europe, with over 30,000 colleagues in over 900 stores, offices, call centres and distribution centres. For our colleagues, we believe there are four core values that constitute who we are, as individuals and as a team:

- We love to make our customers happy.
- We know our stuff.
- We love to work here.
- We deliver.

To support this we have a comprehensive Customer Plan that involves improving every possible aspect of the shopping trip, whether that be in our exciting new stores, better ranges at great value, untangling the shopping trip, helping customers get their products up and working, or keeping them working as technology gets more and more embedded into daily lives.

We continue to make huge progress each year, however, we must never be satisfied and we can and must make further improvements to delight customers and to outpace the competition. This year, the Customer Plan will remain our vehicle for demonstrating to the team what needs to be delivered, building on last year's successes, introducing new work streams and sharing our practices across Europe.

We are focusing on building a career development framework that rewards customer centric behaviour and instils a sense of pride in our colleagues. We now provide tailor-made development programmes and support further education qualifications for our colleagues throughout the business. Our development programmes use modules, training workshops and a dedicated e-learning intranet service that helps provide the skills colleagues need to succeed at every level and career stage.

We use our sophisticated tracking and measuring processes, including regular mystery shops and exit surveys, to measure individual and store performance, and to ensure we reward appropriate behaviours. Each region within the Group defines its own reward system as is appropriate to local customers' expectations and colleague behaviours. However, all these systems incentivise a combination of good customer service and contribution to a store or team's performance.

## **Our Resources (continued)**

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### **Suppliers**

With our market leading positions, growing reputation and being increasingly seen as the 'go to' location for all the latest technology, our relationship with suppliers becomes ever more important as well as ever stronger. Product sourcing offices for each of the UK & Ireland division, Nordics and Greece continually monitor current and future product cycles with existing and potential suppliers.

In a complex multi-channel environment, suppliers trust us with their new product releases and stock allocations, as they appreciate the superior service and advice offered by our stores and indeed our websites, as well as the exciting environments offered by our transformed stores in which customers can experience their brands and products.

We work closely with suppliers of all sizes to help them deliver the right product for customers, through the forecasting and planning stages to ensure we deliver the right levels of stock for customers at the right time. The electrical and computing industry is characterised by a number of large global manufacturers, who account for a large proportion of our sales. However, we also source product from a large number of smaller suppliers. We seek to maintain strong relationships with all of these suppliers, not just to source the right product for customers, but also to ensure the Group can purchase the appropriate level of stock on favourable terms. While we leverage the Group's scale and buying power through an international buying team, we also maintain strong relationships at a local level.

We continue to refine our own-brand ranges to suit all budgets and tastes. Our most notable successes have been the launch of our own Sandström cables brand alongside our Currys and PC World Essentials ranges as key entry level products in our 'good, better, best' line-up. These products are sourced by the Group's teams based in the UK and Hong Kong in collaboration with manufacturers in, for example, Asia.

### **Distribution and logistics**

The Group sees distribution as one of the keys to success in maintaining highly competitive margins and delivering outstanding, market-beating service to customers. We operate a centralised system of distribution centres for each of the regions in which we operate. This delivers significant competitive advantages, including reduced operating costs, reduced supplier delivery costs, reduced stock volumes in store, increased flexibility as to where to deliver and when, and a more efficient home delivery network for both us and our customers.

While continuing to reduce costs, we are also constantly raising the bar, both in terms of successful delivery and installation rates, but also the range and quality of services we offer customers nationwide. In our Nordic operations (Jönköping, Sweden) and the UK (Newark), we operate two of the largest distribution centres of their kind in Europe. In the UK alone we now make some 2.5 million deliveries, including some 500,000 installations per year.

### **Store portfolio**

We operate a wide variety of stores to suit the local customer demographics. We operate small, very popular outlets in airport locations up to 'Megastores' in out-of-town locations, up to 60,000 square feet.

We constantly review our store portfolio to ensure we have the right store for customers in the most competitive location and for the way shopping habits evolve. As part of this ongoing review in the UK, we are currently reducing our exposure to the High Street, only maintaining a presence in the most profitable locations. We are also transitioning stores to a 2-in-1 format in the UK & Ireland. These stores allow us to offer the best of both worlds to customers, attracting new footfall and often at a lower cost.

In the Nordic region and Greece we also operate a number of franchise stores. This arrangement allows our brands to be present in a wider range of catchments, while increasing the volume of purchases and therefore buying power of the Group.



## **Our Resources (continued)**

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### **Intellectual property**

Dixons Retail is one of the largest electrical and computing specialist groups in Europe, and leads the market in a number of its operations, in the UK & Ireland through Currys and PC World, in the Nordics through its various Elkjøp brands and in Greece through Kotsovolos. These brands are extremely well-established and respected in their markets. The Group is also building a strong service business (branded KNOWHOW) in the UK and Nordics, aiming to delight customers while generating significant new business opportunities.

As well as our retail and service brands outlined above, we also sell a range of own brand products such as Sandstrøm, Goji, Logik, Essentials and Advent. Each of these brands have specific target markets defined in conjunction with our customer research findings.

### **Energy**

Saving energy is good for the business, good for customers and of course good for the environment. We take energy efficiency extremely seriously and whilst we have already made progress in a number of areas, we are investing in a wider range of initiatives to significantly reduce our consumption going forward.

Over the past four years we have developed an ongoing programme to reduce energy consumption throughout our estate through, for example, low energy lighting and centralised monitoring of consumption.

### **Cash and capital**

It remains the Group's policy to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. Through careful working capital and balance sheet management, a focus on cost reduction as well as efficient use of capital management is focused on ensuring we deliver a sustainable business with strong cash generation.

As a Group we need to make the right choices as to how each division utilises or preserves cash, whether it be in determining ranges and stock held in store or managing returns and related processes. This focus has enabled the Group to be cash generative in each of the last four financial years. The strengthening cash position of the Group has meant that the revolving credit facility has remained undrawn through the financial year.

## Key Performance Indicators

### Financial and operational

	Definition	Performance	
<b>Total underlying sales*</b>	Growth in total underlying sales. The ability to grow sales is an important measure of a brand's appeal to customers and its competitive position.	<b>2013/14</b> <b>£7,217.6m</b>	2012/13 <sup>†</sup> £7,026.6m
<b>Like for like sales</b>	The Board measures like for like sales based on underlying store and internet sales using constant exchange rates. New stores are included where they have been open for a full financial year both at the beginning and end of the financial period. Closed stores are excluded for any period of closure. Customer support agreement sales are excluded from all UK like for like calculations. Sales targets and growth are set relative to the market and expected economic conditions.	<b>2013/14</b> <b>3%</b>	2012/13 <sup>†</sup> 9%
<b>Market position</b>	In line with the Group's strategy to be the leading specialist electrical retailer in Europe, this is an important measure of how well customers are being engaged by the Group's brands in each market. Retailing operations should be, or be capable of becoming, the number one or number two specialist electrical retailer in their market, measured by market share.	Market leading positions in: UK & Ireland Nordics Greece	
<b>Underlying operating profit / EBIT*</b>	Continued growth of underlying operating profit enables the Group to invest in its future and provide a return for shareholders. Earnings before interest and tax (EBIT) equates to underlying operating profit. Targets are set relative to expected market performance.	<b>2013/14</b> <b>£202.8m</b>	2012/13 <sup>†</sup> £186.4m
<b>Underlying profit before tax*</b>	Continued growth of underlying profit before tax represents a measure of Group performance to external investors and shareholders. Targets are set relative to expected market performance.	<b>2013/14</b> <b>£166.2m</b>	2012/13 <sup>†</sup> £151.0m
<b>Free Cash Flow</b>	The Group defines Free Cash Flow as net cash generated from operations, less net finance costs, taxation and net capital expenditure and excluding certain discrete items such as special pension contributions. The management of cash usage, in particular working capital employed in the business, optimises resources available for the Group to invest in its future growth and to generate shareholder value.	<b>2013/14</b> <b>£200.5m</b>	2012/13 <sup>†</sup> £207.8m
<b>Return on Capital Employed (ROCE)</b>	The Group calculates ROCE on a pre-tax and lease adjusted basis. The return is based on underlying operating profit, adjusted to add back the estimated interest component associated with capitalising operating lease costs. Capital employed is based on net assets including capitalised leases, but excluding goodwill, cash, tax and the defined benefit pension obligations. The calculation is performed on a moving annual total in order to best match the return on assets in a year with the assets in use during the year to generate the return.	<b>2013/14</b> <b>16.3%</b>	2012/13 <sup>†</sup> 14.9%

### Shareholder

	Definition	Performance	
<b>Underlying diluted earnings per share* (EPS)</b>	The level of growth in EPS provides a suitable measure of the financial health of the Group and its ability to deliver returns to shareholders each year. The Group targets growth in EPS commensurate with growth in earnings.	<b>2013/14</b> <b>3.0p</b>	2012/13 <sup>†</sup> 2.6p
<b>Total shareholder return (TSR)</b>	This metric provides a relative performance measure over the longer term of the Group's ability to deliver returns for shareholders. From 2010/11, the base which the Group has used has been to measure against the FTSE 250 Index (comprising FTSE 101-350 companies), excluding investment trusts, over a three year period.	<b>3 Year Compound Annual Growth</b>	
		Dixons Retail plc	<b>46.1%</b>
		FTSE 250 Index	14.1%

\* Underlying performance measures are as defined in the Performance Review.

† Underlying figures for the year ended 30 April 2013 have been re-presented to exclude the results of discontinued operations.



## Principal Risks to Achieving the Group's Objectives

The Group recognises that taking risks is an inherent part of doing business and that competitive advantage can be gained through effectively managing risk. We continue to develop our risk management processes, integrating risk management into business decision making.

The principal risks and uncertainties together with their impacts are set out in the tables below along with an illustration of what is being done to mitigate them.

### Context, specific risks and potential impacts

Principal risk	Specific risks	Potential impacts
<b>1. Corporate strategy</b>	<ul style="list-style-type: none"> <li>We do not respond quickly or decisively enough to changing technology and consumer preferences</li> </ul>	Reduced revenue and profitability
<b>2. Sustainable business model</b>	<ul style="list-style-type: none"> <li>We fail to respond with a business model that enables us to compete against a broad range of competitors on price, range and / or quality of service</li> <li>We fail to respond effectively to changes in the economic and / or competitor landscape</li> <li>The UK economic recovery is slow and prolonged with increased volatility through 2014 and beyond</li> <li>Stability of the economy in Greece is not sustained, leading to a further deterioration and challenge to our business</li> </ul>	Reduced revenue and profitability
<b>3. IT systems and infrastructure</b>	<ul style="list-style-type: none"> <li>A key system becomes unavailable for a period of time</li> <li>We fail to invest adequately and appropriately in our IT systems and infrastructure, constraining our ability to grow and / or adapt quickly</li> </ul>	Reduced revenue and profitability
<b>4. Information security</b>	<ul style="list-style-type: none"> <li>We suffer a major loss / breach of customer, colleague or business sensitive data</li> <li>Under investment in people, systems and processes leaves us vulnerable to attack</li> </ul>	Damage to our reputation Financial penalties Lost revenue and margin
<b>5. Organisational change and execution risk</b>	<ul style="list-style-type: none"> <li>The planned change programmes do not deliver the necessary benefits due to programme failure or not delivering to the required timescales</li> </ul>	Reduced revenue and profit Deteriorating cash flow Reduced customer satisfaction

## Principal Risks to Achieving the Group's Objectives (continued)

### Example mitigating actions and related strategic priorities

Principal risk	Example mitigating actions	Related strategic priorities
<b>1. Corporate strategy</b>	<ul style="list-style-type: none"> <li>Regular review of strategic matters by Board and Executive committees</li> <li>Successful exit of loss making businesses of PIXmania, Italy and Turkey during the year and post year end agreement to sell Central European operations</li> <li>Profit and cash flow scenario planning is performed to help the Group anticipate and manage the impact of a range of possible circumstances</li> <li>Five year plans to deliver the strategy in place across the Group, which are monitored and managed against</li> <li>Structured stakeholder engagement programme</li> </ul>	Sustainable business model
<b>2. Sustainable business model</b>	<ul style="list-style-type: none"> <li>Strategic and business planning takes into account varying economic scenarios, with ongoing monitoring by finance and senior executives</li> <li>Close scrutiny of product performance, trading results, competitor activity, market share</li> <li>Use of customer insight / advocacy to monitor success of initiative and actions</li> <li>Continued focus on driving service and cost improvements</li> <li>Ongoing evolution of our seamless multi-channel proposition with on-line price monitoring and matching</li> <li>Strengthening of relationships with suppliers</li> </ul>	Leader in our markets Group leverage
<b>3. IT systems and infrastructure</b>	<ul style="list-style-type: none"> <li>Group-wide change programme initiated to provide simplified, well-supported and fit-for-purpose systems</li> <li>Individual recovery plans in place in the event of failure and are tested regularly</li> </ul>	Leader in our markets Group leverage
<b>4. Information security</b>	<ul style="list-style-type: none"> <li>Data and security governance committee responsible for oversight, co-ordination and monitoring of information security risk</li> <li>Implementation of appropriate measures to secure key systems and data against malicious attack</li> </ul>	Leader in our markets
<b>5. Organisational change and execution risk</b>	<ul style="list-style-type: none"> <li>Senior management committee dedicated to governance and monitoring of major change programmes</li> <li>Defined portfolio of programmes and projects with rolling plan process and quarterly reviews</li> <li>Evaluation, planning and implementation analysis carried out throughout the project lifecycle</li> <li>Training on change policies and practices across the Group</li> </ul>	Leader in our markets Sustainable business model

Principal Risks to Achieving the Group's Objectives (continued)

*Context, specific risks and potential impacts*

Principal risk	Specific risks	Potential impacts
<b>6. Colleague retention and capability</b>	<ul style="list-style-type: none"> <li>Our organisational structure limits our ability to adapt to market changes</li> <li>We fail to attract, develop and retain quality and depth of necessary leadership and management talent for our business</li> </ul>	<p>Reduced revenue and profit</p> <p>Deteriorating cash flow</p> <p>Reduced customer satisfaction</p>
<b>7. Business continuity and major incident response</b>	<ul style="list-style-type: none"> <li>A major incident impacts the Group's ability to trade</li> </ul>	<p>Reduced revenue and profitability</p>
<b>8. Health and safety</b>	<ul style="list-style-type: none"> <li>We fail to prevent injury or loss of life for customers and / or colleagues</li> </ul>	<p>Employee / customer injury or loss of life</p> <p>Damage to our reputation</p> <p>Financial penalties</p>
<b>9. Finance and treasury</b>	<ul style="list-style-type: none"> <li>We incur foreign exchange losses through supplier contracts being denominated in a foreign currency</li> <li>An increase in the UK defined benefit pension scheme deficit requires higher deficit recovery payments</li> <li>We fail to maintain the support of our credit insurers</li> </ul>	<p>Reduced revenue and profit</p> <p>Deteriorating cash flow</p>
<b>10. Governance, fraud and internal controls</b>	<ul style="list-style-type: none"> <li>We fail to comply with laws and regulations or suffer adverse rulings by regulatory authorities</li> <li>Our actions result in disputes with third parties and / or business partners</li> <li>We fail to maintain and develop processes and controls to support our business activities</li> </ul>	<p>Reduced revenue and profitability</p> <p>Damage to our reputation</p> <p>Financial penalties</p>

## Principal Risks to Achieving the Group's Objectives (continued)

### Example mitigating actions and related strategic priorities

Principal risk	Example mitigating actions	Related strategic priorities
<b>6. Colleague retention and capability</b>	<ul style="list-style-type: none"> <li>Group-wide standardised performance management</li> <li>Store structures which provide a clear career path for colleagues</li> <li>Maintain Group talent and succession plans with improved 'bench strength'</li> <li>Reward strategy aligned to retain the best talent</li> <li>Bonus plans, which include components relating to business performance and, for levels below senior management, individual performance</li> <li>Continued improvements in the quality of training courses and development programmes with specialist focus on service, product, commercial and technical</li> </ul>	<p>Leader in our markets</p> <p>Sustainable business model</p>
<b>7. Business continuity and major incident response</b>	<ul style="list-style-type: none"> <li>Appropriate business continuity and crisis management plans in place for key business locations</li> <li>Disaster recovery plans in place for key IT systems and data centres</li> <li>Crisis team appointed to manage response to significant events</li> <li>Major risks insured</li> </ul>	<p>Sustainable business model</p>
<b>8. Health and safety</b>	<ul style="list-style-type: none"> <li>Dedicated team responsible for ensuring health and safety risks are understood, controlled and monitored against applicable regulations, who report on a regular basis to the Compliance Committee</li> <li>Clear policies and procedures are in place detailing the controls required to manage health and safety risks across the business</li> <li>Quality checks and factory audits for own brand products</li> </ul>	<p>Leader in our markets</p>
<b>9. Finance and treasury</b>	<ul style="list-style-type: none"> <li>Regular review of financial performance, gearing and net debt by management to maintain adequate headroom in revolving credit facility</li> <li>Compliance Committee approves activity that may impact the terms of Group credit facilities</li> <li>Treasury policies set out processes, controls and authority limits for financial instruments, liquidity and bank account management</li> <li>Regular Tax &amp; Treasury Committee reviews of cash and debt management, investment performance, credit risk and foreign exchange risk.</li> <li>Proactive engagement with suppliers and credit insurers</li> <li>Diversified pensions investment strategy in place with regular investment reviews by Trustee, external investment consultants and Group Treasury</li> </ul>	<p>Sustainable business model</p>
<b>10. Governance, fraud and internal controls</b>	<ul style="list-style-type: none"> <li>Established governance process in place to monitor and manage regulatory and reputational risk and monitor mitigating actions</li> <li>In-house legal teams communicate on a frequent basis and legal reports are submitted to the Board</li> <li>Group Ethical Conduct Policy supported by annual declaration of compliance</li> <li>Corporate Responsibility Committee meets regularly to discuss reputational and regulatory risks and monitor mitigating action</li> <li>Active in-house group legal team monitoring changes in legislation / regulation and managing significant regulatory issues</li> <li>Active group loss prevention and internal audit teams monitor the effectiveness of control compliance across the Group</li> </ul>	<p>Sustainable business model</p> <p>Leader in our markets</p>

## Overview

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### Key highlights

- Group underlying profit before tax increased by 76% to £166.2 million versus £94.5 million reported last year<sup>(1)(2)</sup> and up 10% on a restated basis.
  - Further strong progress in the UK & Ireland with underlying operating profits up 24%
  - Elkjøp delivered another strong year with record profits growing in NOK, its local reporting currency
  - Greece delivered an improved performance with some signs of stability returning to the market
- Another successful year for the Group, delivering on its key objectives:
  - Firm establishment of a sustainable business in a multi-channel world
  - Disposals of all non-core operations, leaving the Group with leading positions in all our core markets
- Proposed merger with Carphone Warehouse announced to develop a leading position across electricals, mobiles and connectivity.
- Group on-line sales increased by 16% to £1 billion
- Customer service metrics at their highest ever recorded levels in all markets
- Return on capital employed of 16.3%, up from 14.9% in the prior year.
- Group costs reduced by a further £45 million completing the two year £90 million cost reduction initiative.
- Very strong cash generation with the Group ending the year with net cash increasing to £70.9 million.

### Financial highlights

- Total underlying Group sales up 3% at £7.22 billion (2012/13 £7.03 billion).
- Group gross margins down 0.2% in the full year, with an improvement in the second half.
- Total profit before tax after non-underlying items increased by 53% to £132.9 million (2012/13 profit of £86.6 million)<sup>(1)</sup>.
- Post tax non-underlying charges of £186.0 million, relating mainly to disposals of non-core operations.
- Underlying diluted earnings per share 3.0 pence (2012/13 earnings of 2.6 pence)<sup>(1)</sup>. Basic loss per share including discontinued operations of (1.9) pence (2012/13 loss per share of (4.5) pence).

## Overview (continued)

### Underlying sales and profit analysis

	Note	Underlying sales			Underlying profit / (loss)		
		Year ended 30 April 2014 £million	Year ended 30 April 2013 £million	% change	Like for like <sup>(4)</sup> % change	Year ended 30 April 2014 £million	Year ended 30 April 2013 <sup>(5)</sup> £million
UK & Ireland	(6)	<b>4,148.6</b>	4,014.5	<b>+3%</b>	<b>+5%</b>	<b>141.0</b>	113.3
Nordics	(7)	<b>2,789.8</b>	2,733.3	<b>+2%</b>	<b>+2%</b>	<b>116.9</b>	125.4
Greece	(8)	<b>279.2</b>	278.8	<b>Flat</b>	<b>(9)%</b>	<b>(10.5)</b>	(11.0)
Central costs						<b>(19.2)</b>	(16.9)
Total Group Retail		<b>7,217.6</b>	7,026.6	<b>+3%</b>	<b>+3%</b>	<b>228.2</b>	210.8
Property losses						<b>(25.4)</b>	(24.4)
EBIT	(9)					<b>202.8</b>	186.4
Underlying net finance costs						<b>(36.6)</b>	(35.4)
Group underlying profit before tax						<b>166.2</b>	151.0

#### Notes

- (1) Throughout this Annual Report and Accounts, references are made to 'underlying' performance measures. Underlying results are defined as excluding trading results from businesses exited, amortisation of acquired intangibles, net restructuring and business impairment charges and other one off non-recurring items, profits / (losses) on sale of businesses, net interest on defined benefit pension schemes, net fair value remeasurements of financial instruments and, where applicable, discontinued operations. These excluded items are described as 'non-underlying'. The financial effect of these items is shown in the analyses on the face of the income statement and in note 4 to the Financial Statements.
- (2) Underlying Profit Before Tax originally reported for the year ended 30 April 2013 was £94.5 million, as reported on 20 June 2013.
- (3) Businesses exited comprise the operations of PC City Spain and Equanet.
- (4) Like for like sales are calculated based on underlying store and internet sales using constant exchange rates. New stores are included where they have been open for a full financial year both at the beginning and end of the financial period. Closed stores are excluded for any period of closure. Customer support agreement sales are excluded from all UK like for like calculations.
- (5) Underlying figures for the year ended 30 April 2013 have been re-presented to exclude discontinued operations. Discontinued operations comprise Electroworld in Turkey, Unieuro, PIXmania and Electroworld in the Czech Republic and Slovakia.
- (6) UK & Ireland comprises Currys, PC World, CurrysDigital, Dixons Travel, Harrods concession, operations in Ireland, PC World Business and KNOWHOW. Like for like sales exclude PC World Business.
- (7) Nordics comprises the Elkjøp group which operates in Norway, Sweden, Finland and Denmark.
- (8) Greece comprises Kotsovolos.
- (9) Earnings Before Interest and Tax (EBIT) equates to underlying operating profit and is defined as underlying earnings from retail operations, after property losses, before deduction of net finance costs and tax.
- (10) Free Cash Flow relates to continuing operations and comprises net cash flow from operating activities before special pension contributions, less net finance costs, less income tax paid and net capital expenditure.

#### Group business performance

Underlying Group sales were up 3% at £7,217.6 million (2012/13 £7,026.6 million) and up 3% on a like for like basis, outperforming local markets in general. Underlying Group sales were up 3% at constant exchange rates. Underlying profit before interest and tax was £202.8 million (2012/13 £186.4 million). Underlying profit before tax was up 10% year on year at £166.2 million (2012/13 £151.0 million). Group gross margins were down 0.2% across the full year, with improvements in the second half.

## Divisional Summary

### UK & Ireland

- Underlying operating profit growth of 24% to £141.0 million
- Strong market share gains, especially in white goods

Total sales in the UK & Ireland division were up 3% to £4,148.6 million (2012/13 £4,014.5 million) and like for like sales were up 5%. Underlying operating profits increased 24% to £141.0 million (2012/13 £113.3 million).

The UK & Ireland division has delivered a strong performance across the year with significant growth in profitability delivering a 3.4% return on sales. With these results the division has firmly established a sustainable business model in a multi-channel world. In the early part of the year the business continued to take advantage of the exit of Comet, establishing itself as the leading service led multi-channel operator in electrical retailing. This benefit anniversaried out during the third quarter, and since then we have consolidated our market share gains and continue to trade ahead of the market. The establishment of 'Black Friday' as a new promotional period in the lead up to Christmas this year moved trading patterns around in the important Christmas period. However, these types of planned promotional periods are a particular strength of ours and enable us to perform ahead of the market, indeed, we experienced record trading on Boxing day and a strong sale in the period after Christmas. A shift in the Easter trading period year on year gave the business a challenging final quarter to anniversary, but with a strengthened market position and great offers for customers the out turn was better than we had anticipated.

A continued focus on serving our customers with the best advice, expertise and help means that we have achieved even higher levels of advocacy. 96% of customers said they would be likely to recommend our stores following their shopping trip, while 88% said they were very likely to recommend. 319 stores recorded a 100% very likely to recommend score at least once during the year. This is a fantastic achievement and is a testament to our teams up and down the country who strive each and every day to make customers feel welcome and help them as best they are able whenever a customer comes into our stores.

We continue to innovate our stores to make them even better places to showcase the exciting range of products we sell. During the year we opened new High Street formats in Bluewater and Canary Wharf and a new larger format 2-in-1 store in Aylesbury. These stores trial a number of retailing innovations such as mobile and flexible fittings, new playtables, *Showhow* areas around the store, and tablets for colleagues to better help customers. We opened a new kitchen department in Thurrock which extends our traditional product range into other products for the kitchen such as cookware, utensils and cooking accessories. More recently we have opened Connected World departments in five megastores to showcase, amongst other things, home automation, such as heating, lights and security cameras, as well as some of the latest 'wearable' technology. It is early days for these trials, and we will develop them further as the range of products evolves further. The Connected World is a particularly exciting opportunity most notably in connection with the proposed merger with Carphone Warehouse, but as it takes us into new product areas and potentially new services.

KNOWHOW, our market leading end to end services offering continues to perform strongly. During the year we made 2.2 million two man deliveries achieving a 97.2% right first time, of which 230,000 involved gas and electric installations. In our state of the art repair facility we processed more than half a

million repairs of laptops, tablets, PCs and flat panels. Added value services, such as *Showhow*, provide an exciting opportunity to help customers get the most out of their products as well as new revenue streams. In the year these added value services sales continued to grow strongly.

During the year our IT teams successfully transferred the IT infrastructure supporting [www.currys.co.uk](http://www.currys.co.uk) and [www.pcworld.co.uk](http://www.pcworld.co.uk) to the UK, supported by our shared services centre in Brno, Czech Republic. This was a seminal development for our multi-channel offering as it puts us firmly in control of our IT platform. We are now focused on delivering a world class experience on-line experience for our customers.

### Nordics

- Nordics delivered another year of record sales, growing by 2% to £2.79 billion
- Delivered a 4.2% return on sales, in line with the Group's objective

The Elkjøp group in the Nordics continues to perform strongly. Sales grew by 3% at constant exchange rates, while in sterling, underlying sales grew by 2% to £2,789.8 million (2012/13 £2,733.3 million). Like for like sales were up 2%. Underlying operating profits were £116.9 million (2012/13 £125.4 million).

This has been another very satisfactory year for the Elkjøp business across the Nordics. It has consolidated its position as market leader, delivered record sales and improved its already very strong customer services. The electrical retailing landscape remains competitive, and Elkjøp continues to trade robustly against the competition supported by its low cost structure and its efficient sales and logistics platform, enabling it to deliver a 4.2% return on sales.

In the Spring of 2013 we introduced 'Happy or Not' kiosks into the stores across the region, this enables the store to monitor customer satisfaction scores in real time and make dynamic adjustments in response, such as adjusting shift patterns. Encouragingly we have seen a steady improvement in these scores through the year with 85% of customers in April 2014 saying they were happy with their store visit.

During the year, we rebranded the Elkjøp group's brands with a new logo that underlines our commitment to our customers. In Denmark, El Giganten was recognised as the second strongest brand across all categories while in Norway, Elkjøp was ranked as one of the top 10 most recognised brands.

We continue to embed the KNOWHOW services brand into the Nordics with KNOWHOW bars in all our megastores. Initial customer response to the range of KNOWHOW services has been very encouraging.



## **Divisional Summary (continued)**

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### **Greece**

- Robust performance in difficult markets
- Work ongoing to improve financial and strategic footings

Total sales in Kotsovolos in Greece were down 3% at constant exchange rates and flat in sterling at £279.2 million (2012/13 £278.8 million), with like for like sales down 9%, largely as a result of the weak economic environment being experienced in Greece coupled with a mild summer and the digital switchover benefit in the prior year. Underlying operating loss was £10.5 million (2012/13 loss of £11.0 million).

Kotsovolos has proved to be incredibly robust in the face of a very challenging economic environment in Greece over the last few years. With a strong brand recognition amongst customers, a service led approach, learnings from its sister companies in the Group around accessories and services as well as a focus on managing costs stringently, the business has fared better than its peers. During the year Kotsovolos has been able to increase both its conversion rate as well as the number of transactions, despite continued weak markets through much of the year. In addition a number of weaker operators have exited the market, or are showing some signs of economic distress. In the last quarter of the year we saw some evidence that the economic environment is showing signs of stability. As the outlook has started to improve, management has initiated a number of actions to improve its offer for customers, particularly around services and multi-channel, by introducing new customer relationship tools that make the shopping trip even more integrated between the stores, sales colleagues and on-line. It is early days for this technology and process, but initial indications are positive and the tools that have been developed have the potential to be rolled out across the Group and are highly complementary to Carphone's honeyBee platform. Alongside this Kotsovolos is improving the way it communicates with customers through, for example, its marketing. Management are also investigating and trialing a number of initiatives to deliver a wider range of services under its Support360 brand, as well as opportunities to extend its franchise network across Greece. We are confident, therefore, that the outlook for Kotsovolos is improving and the management team are focused on returning the business to profitability.

### **Proposed merger with Carphone Warehouse**

Our proposed merger with Carphone Warehouse will bring together two strong businesses to provide customers with a great offer across electrical, mobile, connectivity and services for the connected world that is already upon us. Our two businesses are coming together from positions of strength which will enable us to focus on adding value in three clear ways.

Firstly, in bringing two sizeable companies together we can leverage significant synergies from the combination. We believe that we can deliver at least £80 million of synergies on a recurring basis, with delivery expected in the 2017/18 financial year. These are a combination of costs, revenue opportunities from putting a Carphone Warehouse mobile offering in all of our stores as well as some benefits from having increased scale in administrative purchasing, such as marketing. We confirm that the synergy statements that were set out in our joint merger announcement with Carphone Warehouse on 15 May 2014 remain valid. Deloitte LLP and Deutsche Bank AG, London Branch reported on these synergy statements in that joint announcement and we expect them to confirm to Carphone Warehouse on publication of the shareholder documentation relating to the merger that their reports continue to apply.

In addition, by being a unique place for customers to experience new products that will make up the connected world as well as get advice from our highly trained colleagues we can truly be the go to expert for this new, exciting and complex world for customers. Not only can we help them in navigating their way to a truly connected home, we can bring existing and new services to them to keep their world functioning and connected. This will not only open up new products and services for us, but can take our relationship with our customers from a transactional one, to a longer term relationship.

Further, both we and Carphone Warehouse have started to explore how we can leverage the platforms we have created that support our core retailing and services expertise to further benefit our shareholders. Carphone Warehouse have made great strides in this field with their Connected World Services business that provides a selection of services to support retailers wishing to add connectivity to their offering. We already provide two man delivery logistics for certain manufacturers in the UK and are in discussions to leverage our Hong Kong white label product sourcing operations for other retailers around the world. Together we can offer a full range of services to businesses customers with the potential to build a significant operation across the globe, adding real value for our shareholders.

## Group Financial Summary

### Financial position

The Group has again delivered a very robust performance against the financial priorities of profitability and strengthening the balance sheet:

- The Group delivered a £28.8 million increase in net funds at year end, to £70.9 million.
- Exit of loss making businesses of Electroworld Turkey, Unieuro Italy and PIXmania completed, with disposal of Central Europe expected to complete around the end of the first quarter of 2014/15.
- The increase in net funds was delivered after incurring cash costs of £156.6 million in respect of trading losses and exit costs of the discontinued operations.
- Return on capital employed of 16.3%, up from 14.9% in the prior year.
- Positive Free Cash Flow, before restructuring items, of £207.3 million was generated.
- Costs reduced by £45 million in the year, as part of the two year £90 million cost reduction programme.
- The RCF has remained undrawn since October 2011.

### Free Cash Flow

	Year ended 30 April 2014 £million	Year ended 30 April 2013 £million
Underlying profit before tax	166.2	151.0
Depreciation and amortisation	116.4	114.0
Working capital	41.3	104.9
Taxation	(49.0)	(19.9)
Capital expenditure	(79.7)	(75.9)
Settlement of historical currency hedges	–	(62.6)
Other items	12.1	2.1
Free Cash Flow before restructuring items	207.3	213.6
Net restructuring	(6.8)	(5.8)
Free Cash Flow	200.5	207.8

Free Cash Flow was £200.5 million (2012/13 £207.8 million). The working capital result in the prior year benefited from the timing of payments around year end as previously announced, and in this context the positive working capital result this year reflects a strong underlying performance. Cash tax costs increased mainly reflecting higher taxable profits.

### Funding

At 30 April 2014 the Group had net funds of £70.9 million, compared with net funds of £42.1 million at 30 April 2013.

	Year ended 30 April 2014 £million	Year ended 30 April 2013 £million
Opening net funds / (debt)	42.1	(104.0)
Free Cash Flow	200.5	207.8
Special pension contributions	(20.0)	(20.0)
Discontinued operations	(156.6)	(60.5)
Other items	4.9	18.8
Other movements in net funds	(171.7)	(61.7)
Closing net funds	70.9	42.1

Net funds are stated inclusive of restricted funds of £103.3 million (2012/13 £110.2 million), which predominantly comprise funds held under trust for potential customer support agreement liabilities. The improvement in the net funding position was due to the Free Cash Flow generated, partly offset by the trading losses and exit costs associated with the discontinued operations, as well as the ongoing payments to the UK defined benefit pension scheme under the terms of the deficit reduction plan.

### Adjustments to underlying results

Underlying profit before tax is reported before net non-underlying charges before tax of £33.3 million.

	Year ended 30 April 2013 £million	Year ended 30 April 2013 <sup>(1)</sup> £million
<b>Underlying profit before tax</b>	166.2	151.0
<b>Add / (deduct) non-underlying items:</b>		
Net restructuring charges <sup>(2)</sup>	(8.7)	(24.8)
Business impairments	–	(9.1)
Other operating items	(4.7)	(1.9)
Loss on sale of business	–	(9.6)
Financing items:		
Bond redemption related costs	–	(4.3)
Net pension interest	(17.1)	(13.1)
Other financing items	(2.7)	(1.6)
<b>Total net non-underlying charges</b>	<b>(33.3)</b>	<b>(64.4)</b>
<b>Profit before tax<sup>(3)</sup></b>	<b>132.9</b>	<b>86.6</b>

(1) Underlying figures for the year ended 30 April 2013 have been restated for the impact of the amendment to IAS 19 'Employee Benefits' and represented to exclude discontinued operations.

(2) Net restructuring charges relate to the impairment of system costs following a revision in strategy following the business disposals.

(3) Continuing operations.

## **Group Financial Summary (continued)**

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### **Discontinued operations**

During the year, the Group disposed of its Turkish and Italian operations as well as PIXmania. In addition, following the year end, the Group also announced the disposal of its Central European operations in the Czech Republic and Slovakia. All four businesses have been classified as discontinued and charges associated with these exits comprise the trading losses of £(42.1) million together with the loss incurred on the disposal transactions of £(116.0) million.

### **Property losses**

Underlying property losses were £25.4 million (2012/13 loss of £24.4 million). These comprise mainly store re-site and store asset disposal costs, predominantly in the UK and Nordics.

### **Underlying net finance costs**

Underlying net finance costs were £36.6 million (2012/13 £35.4 million). The increase in costs was primarily due to the full year net effect of issuance of the 2017 Notes, partial redemption of the 2015 Notes and full redemption of the 2012 Bonds and associated hedging instruments in the prior year.

### **Tax**

The Group's underlying tax charge equates to an effective rate of 30.4% (2012/13 35.8%). The decrease in the tax rate has, in the main, been affected by an increase in the proportion of taxable profits relative to the non-deductible expenses.

### **Pensions**

The IAS 19 accounting deficit of the defined benefit section of the UK pension scheme amounted to £399.8 million compared to £406.4 million at 30 April 2013. The assumptions used for determining the accounting valuation use a consistent basis to that adopted at 30 April 2013 which build from the most recent actuarial valuation as at 31 March 2010.

The deficit remains largely unchanged as a result of financial assumptions which determine liabilities and asset values remaining broadly the same from one year end to the next. The next triennial valuation as at 31 March 2013 has commenced with the results expected in the first half of 2014/15.

## Corporate Responsibility Report

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Dixons Retail believes that it has a responsibility to its stakeholders and the environment to act as a socially responsible business. We believe that good sustainability practices make sound business sense, not only to benefit the environment, stakeholders and the communities in which we operate, but also to help us achieve our corporate objectives, fulfil our business plan and reduce costs.

### Corporate responsibility management framework

Humphrey Singer, Group Finance Director, is the Board member responsible for corporate responsibility matters. He is supported by the Corporate Responsibility (CR) Committee, which comprises senior executives from key business areas. The Committee is chaired by Helen Grantham, Company Secretary and General Counsel and met three times during the period under review. A summary of the key matters discussed are listed below:

- Reviewing the results of the completed sustainability review and identifying ways to implement the corporate responsibility priorities within the Group.
- Consideration of the new mandatory carbon reporting requirements and the compliance mechanisms required.
- Implementing processes and procedures to enable carbon reporting across the geographic regions as required for the Group's reporting obligations.
- Monitoring key performance indicators at each meeting.
- Ongoing evaluation of the Group's risks and opportunities and identification of areas where the Committee can enhance reporting or control mechanisms already in place.
- Reviewing Group health and safety performance.
- Supply chain risks and social and ethical auditing.

### Our approach to corporate responsibility

In accordance with the approach to corporate responsibility contained within the Association of British Insurer's Guidelines, Dixons Retail seeks to identify the risks and opportunities which are most significant and relevant to its business rather than addressing a standardised agenda. Accordingly, the Committee maintains a matrix of risks and opportunities that are specific to its business. The principal risks to the Group as a whole are outlined in the Principal Risks to Achieving the Group's Objectives section. The monitoring of the risks and opportunities allows the identification of our main exposures and most significant opportunities. A plan is then produced to mitigate / exploit those exposures / opportunities in line with the risk appetite of the Group. Our priorities continue to be:

- to provide a safe and healthy environment for customers, colleagues and visitors to our stores and other locations;
- to engage colleagues through the provision of rewarding workplace environments and careers, whilst assisting in the ongoing improvement of customer service levels;
- to improve operational energy efficiency and forward planning;
- to reduce our impact on the environment and to reduce costs and raise revenue through improved waste recycling;
- the monitoring and reduction of our main carbon emissions;
- the provision of safe and reliable own-brand products, achieved as a result of our expert technical knowledge with products sourced from manufacturers which are audited against our ethical requirements; and

- to add to and promote the customer proposition in relation to product reuse and recycling.

Members of the Committee have been identified as accountable for each priority. The main areas of the Committee's responsibilities are set out below.

### Business ethics

The way we do business is important to us and forms part of our corporate responsibility objectives. Our shared values are to:

- operate with honesty and integrity;
- give outstanding service to our customers;
- respect our colleagues;
- treat suppliers with respect and to check the ethical values of the businesses we intend to deal with;
- continually seek ways to improve performance; and
- work together to beat our competition.

The Dixons Retail Ethical Conduct Policy applies to all employees and all employees at managerial level must sign an annual statement to confirm that the policy is adhered to.

### Customer services

We are proud to serve many customers every year in our stores, over the telephone and on-line. In the tough economic environment of the last few years, our customers have looked to us to provide greater value, choice, service and a high level of specialist advice, and we have reinvigorated our business model accordingly.

Throughout the year we have spoken regularly to customers who have shopped in our stores, visited our websites and used our KNOWHOW services about their experiences, and this feedback has been used to drive continuous improvement across all areas of our business. We engage with our customers in a variety of ways including personal feedback from store exit surveys, telephone interviews, and on-line and mobile text surveys.

One of the main statistics we monitor is whether our customers are likely to recommend us. The customer satisfaction measures are combined with key performance indicators from across operations, people and finance to form our scorecard. This provides a balanced view of how we are doing and is reviewed regularly by the Committee and the Board.

As part of our commitment to delivering customer service to the highest standards, our colleagues work to ensure that our communications with customers are clear and that the information we present to them is accurate and not misleading. We maintain compliance with trading standards and legal requirements. Our policies and procedures integrate those standards into our daily work.

## Corporate Responsibility Report (continued)

### Supplier relationships

Many of our electrical products are sourced through major international brands, which have their own strong ethical and environmental policies in place.

The Group operates its own Ethical Sourcing Policy based on the Social Accountability 8000 and the FTSE4Good criteria. We have our own social and ethical auditing team and audit suppliers of our own brand products prior to selection against strict trading terms and operating procedures. Included within these terms are minimum standards in respect of health and safety, wages, working hours, equal opportunities, freedom of association, collective bargaining and disciplinary procedures. It is also against our terms of operation to employ any forced or child labour. Once the audits are complete, suppliers are rated on a traffic light basis. Green status on an audit indicates that a supplier meets or exceeds all of our standards. Amber status indicates that some of the standards required have not been fully met. Red status means that some significant failures were identified against our Ethical Sourcing Policy standards. Suppliers are approved if they reach either green or amber status in our audits. Once suppliers have been approved they remain subject to regular checks and audits and their status may be adjusted accordingly.

These supplier audits are carried out with a view to assisting them in improving their working practices and we work with factories where failures have been identified. Where this is not possible or no improvements are made, they will not be approved as a supplier, or will be delisted as appropriate. During the year under review, 14 suppliers were classified as red, failed to make improvements and therefore the Group did not approve them to supply our branded products or they were delisted.

The results of ethical supply chain audits carried out during the period under review are detailed below:

Performance indicators	2013/14	2012/13
Green	0	0
Amber	102	74
Red	26	25
Total factories audited	128	99
Delisted / not approved	14	10

### Environment

Dixons Retail recognises that it has a responsibility to manage the impact of its business on the environment. We have enhanced our reporting process to give better visibility of Group-wide carbon emissions.

Key areas of focus continue to be:

- energy use and emissions from stores, warehouses, distribution centres and offices;
- fuel emissions from the transportation of products to either stores or customers' homes;
- use of refrigerant gases;
- waste created in stores, warehouses, distribution centres and offices; and
- unwanted electrical equipment collected for recycling.

### Carbon management

The Group remains committed to a carbon management programme and has invested in specific sustainability reporting software which will give Group-wide emissions and carbon data for all properties to the CR Committee. This will allow comparison of operational efficiency of stores in each operating country.

This will be our reporting platform going forward:

- The Carbon Reduction Commitment (CRC) energy efficiency scheme – in the UK, we have reported our Scope 2 emissions for the final year of the CRC Phase 1 with a further reduction against the 2012/13 financial year of 4%. The Group is a registered participant for Phase 2 of CRC.
- Mandatory Greenhouse Gas (GHG) Reporting – the Group will be reporting for the first time under the new legislation on global Group emissions.
- Carbon Disclosure Project (CDP) – the Group is currently considering whether to report for CDP in the coming year.

### Greenhouse gas reporting

Greenhouse gas emissions for the Group for the financial year ending 30 April 2014 are:

Category / source of emissions	Tonnes of CO <sub>2</sub> emitted <sup>(1)</sup>
Combustion of fuel	15,239
Operation of any facility	1,793
Purchase of electricity	101,757
	<b>118,789</b>

Intensity measure	Tonnes of CO <sub>2</sub> emitted per 1,000 ft <sup>2</sup> of floor area <sup>(2)</sup>
	<b>6.97</b>

(1) Exclusions comprise: Franchises as they do not fall directly under the Group's operational control, emissions generated within properties occupied by the Group but operated by the relevant landlord and refrigerant data from Nordics as data was not available (although this is estimated to be less than 0.34% of total emissions for the Group).

(2) Overall floor area of the Group is 17,052,000 ft<sup>2</sup> and the calculations use the methodology set out in Defra's updated greenhouse gas reporting guidance, Environmental Reporting Guidelines (ref. PB 13944), issued in June 2013.

### Energy management

The Group has continued to work on reducing its energy use and improving the energy efficiency of our operations, showing a 4% reduction in electricity consumption this year in the UK. This work will continue into 2014/15. We are now collecting half hourly electricity data from over 95% of sites across the UK and Ireland and are aiming to reach 100% by the end of summer 2014. This enables us to accurately monitor consumption at individual site level to ensure we are operating as efficiently as possible.

The programme to connect all stores' building management systems to a national energy monitoring centre continues and will allow more strategic energy enhancements to be made.

As part of our continued drive to simplify our business operations in the UK, we have consolidated our electricity supply chains to a single source supplier with 98% of our properties within this contract. This will be 100% by the end of summer 2014.



## **Corporate Responsibility Report (continued)**

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A proactive management system is in place to monitor the half hourly consumption data through the energy management centre and deal quickly with out of profile electricity usage.

We will also soon be utilising energy dashboards across all UK operations. For the first time our individual stores will be able to see their own energy consumption data and understand their own efficiency opportunities. All our UK and Ireland stores now see their energy costs on their monthly profit and loss statement.

We continue to explore new technologies and advanced strategies to assist in our programme of energy reduction. We have successfully trialled a bespoke lighting strategy in our new store in Cramlington which adjusts the store lighting in relation to the external ambient brightness during the trading day.

We are also in talks with a number of landlords regarding partnering on an initiative to install photovoltaic panels on the rooftops of our stores and using the electricity generated in store.

### **Waste and recycling**

We have continued to drive efficiencies through refuse and recycling across the Group. In the last year, 70% of the waste generated from our stores now goes into recycling streams and not into landfill.

We have now installed cardboard balers in 147 UK stores. Each of these stores now uses their stock delivery lorries to backhaul cardboard, polythene and expanded polystyrene for recycling. We are in the planning stages of extending this backhaul to all stores and will start a trial in Scotland early next year. We will also extend this programme to recycle paper from our stores.

Our National Distribution Centre in Newark diverted 90% of its waste into recycling streams rather than landfill and our UK store refit programme transferred 95% of the waste generated away from landfill and into recycling streams.

Through our national distribution network in the UK, we expect to recycle over 60,000 tonnes of Waste Electrical and Electronic Equipment (WEEE) which is an increase of 23% on last year's volumes. We have delivered over 10,500 trailers of WEEE into various recyclers across the year, which otherwise would have returned empty to our distribution centre.

### **Transport and distribution**

We have driven some outstanding efficiency in our UK transport fleet with a relatively modest increase in emissions from a significant increase in goods transported.

Fleet emissions in the UK are at 14,736 tonnes for the year, increasing 9.2% year on year with miles driven up 4.02%. Transported volume was up by 22.84% year on year and cube delivered per mile driven up by 21.85% (1.63 more m<sup>3</sup> per mile). Overall combined trailer fill is up by 6.37m<sup>3</sup> per vehicle, 12.47%.

Within our Home Delivery fleet, we have introduced 150 brand new 7.5 tonne vehicles to replace vehicles reaching the end of their lease. These have come in fully fitted with tracking and telematics and also forward facing cameras, which allows us to get full management reporting analysis of vehicle and driver performance. This will help reduce accidents, improve driving efficiencies and also support us with accident investigations and dealing with insurance claims.

### **Workplace**

#### **Our colleagues**

Our people form the heart of our business and are the key to the delivery of excellent service for our customers. They are the face of our business and truly understand our customers and their needs.

We want them to flourish and are committed to providing the right development opportunities to help them reach their full potential and actively contribute to the success of our business.

We value and respect each colleague and endeavour to engage their talents and abilities to the fullest extent. We want to be recognised as an employer of choice and aim to reward colleagues fairly, to provide equality of opportunity, personal development and training. Our culture supports the discovery of new and better ways of working, two-way communication and the speedy resolution of any concerns or queries. We monitor our staff turnover rates regularly.

We also review regularly our benefits packages for colleagues to ensure that they are attractive and conducive to the recruitment and retention of talented people. We encourage all colleagues to participate in our Save As You Earn / Sharesave scheme to build a personal stake in the business.

This summer we have launched a new benefits portal which will act as a 'one stop shop' for all colleagues to learn more about and access the variety of the benefits we offer.

We work to achieve high standards in employment practices and have a comprehensive suite of employment policies and procedures, which we review regularly. These policies include guidance on being family friendly through to colleague dispute management, diversity and equal opportunities.

#### **Equal opportunities**

The Group is committed to equality of opportunity across all of its employment practices throughout the Group. We strive to prevent unlawful discrimination in the workplace on the grounds of sex, race, disability, sexual orientation, religion or religious belief, age, marriage and civil partnership, gender reassignment, pregnancy and maternity. To that extent, we promote an open and honest environment and encourage colleagues with concerns to report issues to us either directly through line managers or via the independent, confidential integrity line.

#### **Disability**

We encourage applications from individuals with disabilities who can do the job, and all candidates will be considered for any roles they apply for. We are committed to providing colleagues with equal opportunities, from recruitment to training and development. We make every effort to retain disabled colleagues in our employment including any reasonable adjustment to their jobs, workplace or environment.

#### **Diversity**

Dixons recognises the importance of diversity, including, but not restricted to, gender diversity and the important role that diversity plays in achieving the right mix of skills, knowledge and experience in order to help our organisation reach its potential.

## Corporate Responsibility Report (continued)

Diversity in terms of age and gender remains a key performance indicator and we report on gender below:

	All Employees		Senior managers†		Directors	
	Number	%	Number	%	Number	%
Male	23,528	70%	12	75%	7	78%
Female	9,970	30%	4	25%	2	22%

† Senior managers incorporate those individuals included as key management personnel in note 31 to the Financial Statements, but excludes executive and non-executive directors of Dixons Retail plc which are shown separately.

### Human rights

Dixons is committed to upholding and respecting human rights. While we do not operate a separate human rights policy, these values are reflected in our equal opportunity practices throughout the Group, and in our ethical policies and processes.

We expect all our suppliers to operate in a fair and honest way towards their employees and with whom they do business.

### Training and development

Each of our international businesses has their own method of performance development. In the UK our personal and career development processes are designed to ensure all our people have the skills to meet the requirements of their roles. Each person has regular one-to-one time on their performance. Store colleagues follow a training career path and have a personal development review on the anniversary of their start date. Head office and colleagues in Home Services have a personal appraisal and development plan agreed with their line manager. We also encourage our office-based colleagues to work in store to support our sales teams and to increase their understanding of the Group's operations. We also run talent programmes to develop high achievers and to improve leadership skills in our management population.

We review our policies and training methods to ensure we continue to meet our obligations.

### Employee communications

We have a comprehensive colleague engagement programme across the business. This summer we will run the third consecutive colleague engagement survey during which the majority of colleagues across the Group are invited to tell us – in confidence – how they feel about working for Dixons. As a result of these surveys initiatives are put in place to confirm our drive to make the business a great place to work.

We also recognise the importance of effective two-way communications and collaboration. In the UK and Ireland a new Sharepoint intranet and a colleague-focused magazine are both in development to promote a united vision and awareness of what the different parts of the business contribute to our overall success.

### Health and safety

It is the policy of the Group to comply with relevant health and safety and fire safety legislation and to take all reasonably practicable steps to ensure the health, safety and welfare of all employees, visitors and members of the public who are or may be affected by our activities.

Dixons Retail encourages a positive health and safety culture throughout the Group's business, taking measures to maintain a safe environment for our customers and colleagues. A comprehensive safety management system is operated throughout the business to ensure legislative requirements

and best practice are adhered to. This is supported by Group Health and Safety standards that the business units formally confirm compliance with.

In the UK in the past year we have undertaken a number of initiatives related to key priorities, including:

- Prevention – root cause analysis on accident types followed by relevant action plans to reduce repeat occurrences. Elimination of hazards at source through close working with design and development teams.
- Engagement – improved engagement with middle management of the businesses demonstrating benefits of effective risk control. Focused behavioural safety conversations with colleagues to reinforce the 'work safe' message.
- Accountability – a clear structure has been set out covering the following traits: Responsible, Accountable, Support, Consulted, Informed (RASCI), developed to ensure that the matrix management structure in place is fully understood and that all parties are executing their responsibilities.
- Compliance – to ensure that key policies are complied with a more robust system has been implemented to ensure that reporting is accurate, timely and of sufficient depth. Auditing and inspection processes are in place to confirm compliance.

These initiatives have resulted in reducing employee accidents in UK supply chain by 35% and in the UK as a whole by 28%. Accidents per 100,000 customers in the UK and Ireland have been reduced by 8%.

Health and safety performance is reviewed by the CR Committee on a quarterly basis, with an in-depth review annually. The Group Health and Safety Policy, KPI performance in the preceding 12 months and priorities for the year ahead are reviewed and approved by the Board.

### Health and safety: employee accidents and injuries†

	2013/14	2012/13
Number of accidents or injuries reported	723	876
Rate of accidents per 1,000 employees	34	43

† Data for UK & Ireland.

### Community and charitable donations

During the year colleagues and businesses across the Group have been encouraged to support charities of their choice. The amount of charitable donations made by the Group is set out in the Statutory Information section of this Annual Report and Accounts, and examples of some of the key initiatives are set out below.

#### UK & Ireland

Total charity donations of approximately £233,800 were made during the year in the UK. The business continued its support for Children in Need enabling our colleagues across our store, service and logistics networks to get behind fundraising efforts for a nationally branded fundraising event that supports causes across the UK and importantly local to their respective place of work. As a result of a number of activities, total fundraising and donations to Children in Need of £150,500 were made. The majority of this was from the fundraising efforts of our colleagues across the business with approximately £15,000 coming from the DSG International Foundation.



**Corporate Responsibility Report (continued)**

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The Group also continued its support for the 'Tablets for Schools' campaign with a donation of £50,000. This is a joint initiative with Carphone Warehouse that aims to give all 11 year olds access to tablet computers at school. It is currently undergoing trials and we look forward to developing this initiative further in the year ahead.

The Group also made donations of products totalling approximately £31,000. This included a number of electrical items for those affected by the floods in the UK at the beginning of 2014, as well as a number of products for the BBC's DIY SOS build for the Chilterns MS Centre.

The total charitable donations made by the DSG international Foundation in 2013/14 were £66,000 (2012/13 £1,350).

For the 2014/15 financial year in the UK we have decided to continue our support for Children in Need, with an emphasis on each of our business locations and stores engaging directly with beneficiaries of funds raised local to them.

**Outside the UK**

Elkjøp continues to support the Red Cross Water for Life (Vann for Livet) project and donated approximately NOK 1.9 million to the Red Cross Water for Life project during 2013/14.

**Key performance indicators**

The performance criteria reported above are largely focused on the Group's UK & Ireland and the Nordics businesses which represent 96% of Group revenues from continuing operations in the period.



**Humphrey Singer**

Executive Director with responsibility for  
Corporate Responsibility

**At 25 June 2014**

**Committee membership**

	Audit	Nominations	Remuneration
John Allan		✓†	✓
Prof. Dr. Utho Creusen	✓	✓	✓
Andrea Gisle Joosen	✓	✓	✓
Tim How	✓	✓	✓†
Jock Lennox	✓†	✓	✓
Dharmash Mistry	✓	✓	✓

† Denotes the Chair of the Committee.

**John Allan CBE, Chairman**

John Allan joined the Board on 23 June 2009 and was appointed Chairman on 2 September 2009. He is also chairman of the Nominations Committee and a member of the Remuneration Committee. John is chairman of WorldPay and the DHL UK Foundation, non-executive director of Royal Mail Group and a senior advisor to Alix Partners. He is a regent of the University of Edinburgh. He was previously Chief Executive of Exel plc and, following its acquisition by Deutsche Post, a member of its management board and subsequently Chief Financial Officer of Deutsche Post. He has extensive board experience having been chairman of Samsonite Corporation and Care UK Health & Social Care Holdings Limited, a director of BET plc and a non-executive director of PHS Group plc, ISS A/S, National Grid plc, Wolseley plc, Hamleys plc, 3i plc and Connell plc and a non-executive member of the Home Office Supervisory Board. He has also served on the supervisory boards of both Lufthansa AG and Deutsche Postbank. His early career was with Lever Brothers, Bristol-Myers Company Ltd and Fine Fare Ltd.

**Sebastian James, Group Chief Executive**

Sebastian James joined the Board on 20 February 2012. He joined the Group in April 2008 and held various roles before his appointment to the Board including Operations Director. He is an advisor to the government on the building and maintenance of schools, a Trustee of Save the Children and was previously Chairman of INK Publishing (Holdings) Limited. Prior to joining the Group he was Chief Executive of Synergy Insurance Services Limited, a private equity backed insurance company. He has wide retail experience and was Strategy Director responsible for developing and implementing the turnaround strategy at Mothercare plc in 2003. He started his career at The Boston Consulting Group having completed an MBA at INSEAD and an MA at Oxford University.

**Humphrey Singer, Group Finance Director**

Humphrey Singer joined the Board on 1 July 2011. Since joining Dixons Retail in 2007 he has held a number of finance roles, namely Finance Director of Currys, Group Financial Controller and Finance Director of the UK & Ireland division. Prior to joining the Group, he was Finance Director of Coca-Cola Enterprises (UK) Ltd and prior to that also held a number of finance roles at Coca-Cola Enterprises (UK) Ltd and Cadbury Schweppes plc.

**Katie Bickerstaffe, Chief Executive UK & Ireland**

Katie Bickerstaffe joined the Board on 20 February 2012 after joining the Group in June 2008 as Director of Marketing, People and Property. In addition to her executive position she is also non-executive director of Scottish and Southern Energy plc. Previously, Katie was Managing Director of Kwik Save Ltd and Group Retail Director and Group HR Director at Somerfield plc. Her earlier career included roles at Dyson Ltd, PepsiCo Inc. and Unilever plc.

**Board of Directors (continued)**

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**Prof. Dr. Utho Creusen, Independent Non-Executive Director**

Utho Creusen joined the Board on 1 February 2010 and is a member of the Audit, Nominations and Remuneration Committees. Utho has extensive international retail experience and his external appointments include non-executive director of M.Video (the leading Russian electrical retailer) and Unternehmensgruppe Theo Müller, chairman of the Jury of the European Retail Institute, vice-president of Modern Market-Methods Association in Germany and consultant to the Al-Faisaliah Group JSC. He is also honorary professor at both Westfälische Wilhelms-Universität Münster and the Catholic University, Eichstätt-Ingolstadt. Utho is the owner of a management consultancy, Positive Leadership, and co-owner of Grid-International. Previously, Utho was Human Resources Director of Media Saturn Holding GmbH and co-owner of the German electronics chain Alpha-tecc. He spent 22 years with European DIY retailer OBI AG where he rose to become a member of its executive board and chairman of OBI Franchise GmbH.

**Andrea Gisle Joosen, Independent Non-Executive Director**

Andrea Gisle Joosen joined the Board as a non-executive director on 1 March 2013 and is a member of the Audit, Nominations and Remuneration Committee. She is currently a non-executive director of ICA Gruppen AB and Neopitch AB. Former roles include Chief Executive of Boxer TV Access AB in Sweden and Managing Director (Nordic Region) of Panasonic, Chantelle AB and Twentieth Century Fox. Her early career involved several senior marketing roles with Procter & Gamble and Johnson & Johnson.

**Tim How, Senior Independent Director**

Tim How joined the Board as non-executive director on 8 September 2009 and became Senior Independent Director on 9 May 2012. He is chairman of the Remuneration Committee and a member of both the Audit and Nomination Committees. Tim holds a variety of external board positions including chairman of Woburn Enterprises Limited, Senior Independent Director of Henderson Group plc and the Norfolk and Norwich University Hospitals NHS Foundation Trust, non-executive director of Roys (Wroxham) Limited and Wine and Spirit Education Trust. Former roles include chairman of Rayner and Keeler Limited and Enotria Wine Group and non-executive director of Peabody Capital plc. Tim served as Chief Executive of Majestic Wine plc, where he led the management buy-out of the business and subsequent Alternative Investment Market (AIM) flotation. Prior to this, he was Managing Director of Bejam Group plc.

**Jock Lennox, Independent Non-Executive Director**

Jock Lennox joined the Board on 10 January 2012. He is chairman of the Audit Committee and is also a member of the Nominations and the Remuneration Committees. Jock is a Chartered Accountant and has extensive accounting and finance experience having worked for over 30 years (20 years as a partner) for EY (formerly Ernst & Young) where he led a number of relationships with international clients and held a number of leadership positions in the UK and globally. Jock retired from EY in 2009 and subsequently has acted as a non-executive director of a number of companies and was formerly a council member of the Institute of Chartered Accountants of Scotland. He is currently a trustee of the Tall Ships Youth Trust and non-executive director of A&J Mucklow Group plc, Enquest plc, Hill and Smith Holdings plc and Oxford Instruments plc.

**Dharmash Mistry, Independent Non-Executive Director**

Dharmash Mistry joined the Board on 27 September 2010 and is a member of the Audit, Nominations and Remuneration Committees. Dharmash is currently non-executive director of Hargreaves Landsdown plc and a director of Lemon Cube Ltd and Blow Ltd. He was formerly a Partner at Balderton Capital (UK) LLP and Board Director of Lovefilm, Achica, KupiVip, My-Wardrobe, MOG and Ewise & Tictail. Prior to joining Balderton Capital, Dharmash was part of the Executive team at Emap Plc, as Group Managing Director of Emap Consumer Media & Emap Performance. His earlier career was at The Boston Consulting Group and as Brand Manager at Procter & Gamble.

## Corporate Governance Overview

### Introduction

It is again a pleasure to issue to you, our shareholders, a personal statement on how the Company embraces good corporate governance practice.

### Proposed merger

Any introduction from me, however, would not be complete without discussing our proposed merger with Carphone Warehouse. The bringing together of these two great companies at a time when they are both flourishing will create a stronger business for our shareholders, customers and colleagues and create a world class retailer in an age where the importance of connectivity of electrical devices is ever growing. As a Board we are excited by the opportunities that this merger will bring. We have structured this governance section so that it includes all the information it should do as a standalone entity, but should the merger go ahead we will not be calling our AGM as usual in early September so have therefore adapted these sections in the following pages.

### Corporate governance

At Dixons Retail we think good corporate governance is at the heart of any well run business and as such we take our governance processes very seriously. The Board takes time at every other Board meeting to receive an update on corporate governance matters from internal experts in order that it remains aware of the most up-to-date regulations and thinking. We have clearly differentiated roles for the Chairman and Group Chief Executive. To put it simply, I am responsible for the running of the Board and the Group Chief Executive for the running of the business. The role descriptions are reviewed regularly by the Board and are set out in writing.

### Board

I am pleased to report that the Board has had no changes during the year under review. We have therefore been able to concentrate on providing continued, focused and effective leadership during a time when the business has divested itself of some of its less profitable international businesses and can now focus on its core markets. The Board has operated throughout the year with a majority of non-executive directors who have both challenged and supported the executive directors in their management of the Company throughout this period. The Board holds various dinners throughout the year, with and without the executives present, and this is very effective in encouraging an open relationship between all members of the Board.

Two separate strategy days were held during the year with senior management, giving the non-executive directors the chance to openly challenge, question and help shape the strategic direction of the Group.

### Composition of the Board

The Nominations Committee annually reviews the composition of the Board. That review includes not only diversity in relation to gender but also professional and international diversity. To enhance knowledge of European markets, the Board comprises two out of nine directors who are based outside of the UK. We also review annually the mix of professional experience on the Board to ensure it is appropriate in order for it to effectively discharge its duties. Following this year's review, it was agreed that no further appointments were necessary. The non-executive directors are asked each year to confirm that they continue to have enough time to dedicate to company business and all have again done so.

### Board evaluation

As in 2012/13, the Board evaluation for 2013/14 was conducted by myself and the Company Secretary and General Counsel via a series of discussions with individual directors. The Board believes that it continues to operate effectively and in the spirit of openness. This environment allows debate and challenge to flourish, leading to a thorough decision process. Further information on the Board review can be found on page 35, however, I should like to note in this report that each non-executive director continues to be considered independent in mind and judgement, and to provide their own unique perspective to the business of the Board.

### Remuneration regulations

The Remuneration Committee has been working hard to review its policies in light of the new BIS reporting regulations and I am pleased to refer you to our first Remuneration Report under the new regulations. Should the merger be agreed by shareholders, then the directors of the combined group will be governed by the policy disclosed by the Carphone Warehouse Group plc. However, we have set out our policy in the report as a standalone entity and will put this to shareholder vote should, for any reason, the merger not proceed. We believe that excellent performance should be adequately rewarded whilst avoiding rewards for failure.

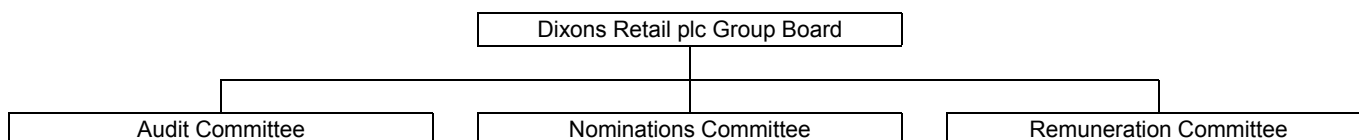
I believe we have a strong Board supported by sound procedures and excellent colleagues, and look forward to continuing to achieve the strategic goals of the Group of increasing long term shareholder value and concentrating on our core areas of expertise.

I trust you are as excited as I am about the future prospects for our business in this new chapter.



John Allan  
Chairman  
25 June 2014

### The Board and Committee Structure



The directors present their report and audited financial statements for the year ended 30 April 2014.

The Strategic Report, which provides a comprehensive review of the development, performance and future prospects of the Group's operations for the year ended 30 April 2014, includes the following:

- Business Overview, including principal activities;
- Strategic Summary;
- Performance Review, including the Corporate Responsibility Report; and
- Corporate Governance.

These sections are incorporated by reference and are deemed to form part of this report.

#### **Changes in composition of the Group during the year**

During the year, the Group disposed of its Electroworld operations in Turkey and Unieuro in Italy, as well as its pure play PIXmania business. On 19 May 2014, the Group announced its agreement to dispose of its Electroworld operations in the Czech Republic and Slovakia, and its expectation that this will complete within the first half of 2014/15. Further details on these disposals are shown in note 27 to the Financial Statements.

It is envisaged that these changes will enable the Group to fulfil the Company's strategic plan of focusing on markets where it holds a leading position.

#### **Directors**

The names, biographies and dates of appointment of the Board of directors are provided on pages 29 and 30.

Shareholders should note that, given the expected timetable for the merger with Carphone Warehouse Group plc (the Merger), Dixons is not currently intending to convene a 2014 AGM prior to completion. In the event that the Merger does not complete, or is not implemented in accordance with the expected timetable, Dixons may convene and notify shareholders of an AGM in due course. In this case, all directors would retire and offer themselves for re-election at that AGM in line with the UK Corporate Governance Code (the Code).

The Remuneration Report provides details of applicable service agreements for executive directors and terms of appointment for non-executive directors. The Board is satisfied that each director is qualified for reappointment by virtue of their skills, experience and contribution to the Board.

During the year, no director had any material interest in any contract of significance to the Group's business. Their interests, including those of any connected persons, in the shares of the Company are outlined in the Annual Report on Remuneration.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders.

In accordance with the Company's Articles of Association, and to the extent permitted by law, the Company may indemnify its directors out of its own funds to cover liabilities incurred as a result of their office. The Group holds Directors' and Officers' Liability Insurance cover for any claim brought against directors or officers for wrongful acts in connection with their positions. The insurance provided does not extend to claims arising from fraud or dishonesty.

Subject to the Company's Memorandum and Articles of Association, the Companies Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. The matters reserved for the Board are detailed in a specific schedule, which is reviewed annually and details are provided in the Corporate Governance Report.

#### **Directors' responsibilities**

The directors' responsibilities for the financial statements contained within this Annual Report and the directors' confirmations required under Disclosure and Transparency Rule 4.1.12 are set out on page 59.

#### **Employees and employee share schemes**

A commentary on the Group's role as an employer is included in the Corporate Responsibility Report and details of employee involvement through share participation are contained in the Remuneration Report.

Details of the Group's employee share plans and long term incentive plans are contained in the Remuneration Report and note 25 to the Financial Statements.

#### **Share capital**

The Company's only class of share is ordinary shares. The authorised and issued share capital of the Company, together with any shares issued during the period, is set out in note 23 to the Financial Statements. The voting rights of all Dixons Retail plc shares are identical, with each share carrying the right to one vote. Dixons Retail plc holds no shares in Treasury and did not make any market purchases of its own shares during the period under review.

#### **Restrictions on transfer of securities of the Company**

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

#### **Change of control – significant agreements**

The Company does not have any significant agreements which contain change of control clauses other than for its borrowings. Further details are disclosed in note 17 to the Financial Statements.

In addition, provisions under the rules of the Company's share incentive schemes may cause options and awards granted under these schemes to vest and become exercisable in the event of a change of control, as will be the case with the current proposed merger.



**Statutory Information (continued)**

**Major shareholders**

As at 25 June 2014, the Company has been notified in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules of the following interests in the voting rights of the Company:

	Direct / Indirect	No. of shares <sup>†</sup>	% <sup>†</sup>
Standard Life Investments Ltd	Direct and Indirect	334,133,351	9.12
AXA Investment Managers S.A.	Indirect	182,488,142	5.03
Invesco Limited	Indirect	178,859,553	4.94
Schroders Plc	Indirect	180,411,104	4.93
Majedie Asset Management Ltd	Indirect	178,163,135	4.90
Capital Research & Management Company	Indirect	175,071,032	4.84
Tameside MBC re Greater Manchester Pension Fund	Direct	142,578,014	3.89

<sup>†</sup> Represents shareholdings on the date on which the notification of interest was made to the Company.

**Issue of shares**

In accordance with section 551 of the Companies Act 2006, shareholders can authorise the directors to allot shares in the Company up to one third of the issued share capital of the Company. Accordingly, at the 2013 AGM shareholders approved a resolution to give the directors authority to allot shares up to an aggregate nominal value of £30,290,138. The directors have no present intention to issue ordinary shares, other than pursuant to obligations under employee share schemes. This resolution remains valid until the conclusion of this year's AGM when, should the Company convene an AGM in the light of the proposed merger timetable, a resolution will be proposed to renew the authority.

**Use of financial instruments**

Information about the use of financial instruments is given in note 22 to the Financial Statements.

**Related party transactions**

Details of related party transactions undertaken during the year are contained in note 31 to the Financial Statements.

**Political and charitable donations**

The Group engages in various charitable activities as set out in the Corporate Responsibility Report. During the period under review, the Group made donations of £234,000 (2012/13 £308,000) to local charities serving the communities in which the Group operates.

At the 2013 AGM, the shareholders of the Company adopted a resolution authorising the Board to incur political expenditure up to an aggregate amount not exceeding £25,000 during 2013/14. Notwithstanding this, the Company made no political donations during the year under review (2012/13 £nil). The Company has no present intention to make contributions to political parties but while the legislation is drafted with a wide definition of political donations, it feels that it is in the best interests of shareholders that the directors are authorised to engage with people in the political arena on issues that are important to the Company. A resolution will therefore be presented to the 2014 AGM (should such AGM be convened) to renew this authority.

**Payment of suppliers**

It is the Group's policy to agree terms of payment with its suppliers on a case-by-case basis prior to commencing trade with them. Payments are made in accordance with these terms provided the supplier has complied with relevant contractual obligations. Trade creditors as at 30 April 2014 represent 46 days of annual purchases made during the period (30 April 2013 52 days).

**Going concern**

In considering the going concern basis for preparing the financial statements, the directors have considered the Group's objectives and strategy, the risks and uncertainties to achieving the objectives, and the review of business performance, all of which are set out in the Business Overview, Strategic Summary and Performance Review sections of this Annual Report and Accounts. The Group's liquidity and funding arrangements are described in notes 17 and 22(f) to the Financial Statements, as well as in the funding section of the Performance Review, and the directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities for the foreseeable future.

Accordingly, after reviewing the Group's expenditure commitments, current financial projections and expected future cash flows, together with the available cash resources and undrawn committed borrowing facilities, the directors have considered that adequate resources exist for the Group to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

**Post balance sheet events**

Particulars of any important events affecting the Group since 30 April 2014 are described in note 32 to the Financial Statements.

**Corporate governance compliance**

The statement on compliance with the Financial Reporting Council's UK Corporate Governance Code (the Code) for the reporting period is contained on page 34 of this report.

**Audit information**

So far as each person who is a director at the date of approving this report is aware, there is no relevant audit information (being information needed by the auditor in connection with their report) of which the auditor is unaware. Having made enquiries of fellow directors, each director has taken all the steps that he / she is obliged to take as a director in order to make himself / herself aware of any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

**Auditor**

Deloitte LLP have expressed their willingness to be reappointed as auditor of the Company. Upon the recommendation of the Audit Committee, resolutions to reappoint them as auditor and to authorise the directors to determine their remuneration will be proposed at the 2014 AGM, should such AGM be convened.



**Helen Grantham**  
Company Secretary  
25 June 2014

## Corporate Governance Report

### Corporate Governance Report

The Board confirms that during the year ended 30 April 2014, and as at the date of this Annual Report and Accounts, the Company has been in compliance with the UK Corporate Governance Code (the Code). This report, together with the Statutory Information, the Audit Committee Report, the Nominations Committee Report, and the Remuneration Report, provides details of how the Company has applied the principles and complied with the provisions of the Code during the year.

### The Board

At 30 April 2014, the Board of Directors was made up of nine members, comprising the Chairman, three executive directors and five non-executive directors. There have been no changes to the Board since this date. The Board has reconfirmed that all the non-executive directors continue to be considered independent and each brings their own senior level of experience. Upon appointment, the Chairman was also deemed to be independent.

The division of responsibility between the Chairman and the Group Chief Executive is formally defined, set out in writing and reviewed by the Board on a regular basis, as it was on 11 March 2014. The Chairman is responsible for the overall operation, leadership and governance of the Board. The Group Chief Executive is responsible for the executive management of the Group's business and for implementing the Group's strategic and commercial objectives.

Tim How, Senior Independent Director, supports the Chairman and is available for approach or representation from shareholders who feel they are unable to raise issues with the Chairman directly. The Senior Independent Director also discusses, on an individual basis, the performance of the Chairman with each director and provides feedback on these discussions to the Chairman. The role of the Senior Independent Director is clearly defined, set out in writing and reviewed regularly by the Board.

The Board has a formal schedule of matters reserved for its decision. This schedule was reviewed during the year and includes, but is not limited to:

- approval of Group strategy and the annual budget;
- overseeing the Group's operations and review of its performance;
- changes relating to the Company's share capital or corporate structure;
- communications with shareholders, including approval of the Interim Statement, Annual Report and Accounts (including the review of critical accounting policies and judgements, and assessment of going concern), and other major public announcements;
- maintenance and monitoring of the Group's system of internal control and risk management;
- approval of major capital expenditure, material acquisitions and divestments and material contracts; and
- appointment and remuneration of the external auditor on the recommendation of the Audit Committee.

Helen Grantham, Company Secretary and General Counsel, acts as Secretary to the Board and its committees. She is also responsible for ensuring that correct Board procedures are followed and advises the Board on legal and corporate governance matters. All directors have access to the advice and services of the Company Secretary and may also take independent professional advice at the expense of the Company in furtherance of their duties. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

### Board attendance

The Board held two separate strategy days in addition to meeting on eight occasions during the year under review, all of which were scheduled Board meetings.

Member	Attendance
John Allan	8 of 8
Sebastian James	8 of 8
Katie Bickerstaffe	8 of 8
Humphrey Singer	8 of 8
Prof. Dr. Utho Creusen	8 of 8
Andrea Gisle Joosen	8 of 8
Tim How	8 of 8
Jock Lennox	8 of 8
Dharmash Mistry	8 of 8

### Committees of the Board

The Board has three main committees: Audit, Nominations and Remuneration. Individual reports on the work of these committees and their membership and attendance are set out separately in this Annual Report and Accounts.

Dixons Retail is dependent on its senior management to operate its business and execute its strategies. The Group has a decentralised management structure with many high-level management decisions delegated to divisional or country management. These regional managers report back to the Board. The Managing Directors of the Group's major operating businesses present a business review to the Board on an annual basis and to the executive directors on a quarterly basis.

### Board information and development

The Chairman is responsible for ensuring that all directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. The quality and supply of information provided to the Board is reviewed as part of the Board evaluation exercise. The Company continues to use an electronic board paper system which enables the fast dissemination of quality information in a safe and secure manner. It has also implemented guidelines on the form and content of board papers to ensure that the information presented to the Board is clear, informative and concise. The directors have the opportunity to request further information if necessary.

It is Board policy that, wherever possible, a formal agenda and written reports be issued to the directors on the Wednesday of the week prior to the Board meeting, allowing time for detailed review before the meeting. Formal minutes of Board and committee meetings are prepared by the Company Secretary and approved by the Board / committees at the next meeting.



The Chairman holds regular meetings with the non-executive directors without the executive directors being present to discuss, amongst other matters, corporate strategy, business performance and the performance of the executive team. There is frequent contact between directors outside formal meetings to progress the Group's business and to promote open communication and team working.

The Board holds meetings at a variety of the Group's business locations to help all Board members gain a deeper understanding of the business. This also provides senior management from across the Group with the opportunity to present to the Board as well as to meet the directors on more informal occasions. In 2013, the Board held a two day meeting in Norway at Elkjøp's headquarters and the non-executive directors had the opportunity to meet senior management without the presence of executive directors. The meeting included presentations from the Nordic team.

All Board directors are encouraged to attend external seminars relevant to the retail industry and corporate governance matters in order to refresh and update their knowledge and skills. The Chairman discusses any professional development needs with each director as part of the performance evaluation and actions are agreed following these discussions. The Board also receives bi-monthly updates on legal matters affecting the Group and wider corporate governance best practice.

New directors appointed to the Board receive a tailored induction programme, together with guidance and training appropriate to their level of previous experience. Each director is given the opportunity to meet with senior management and store colleagues, and to visit the Group's sites both in the UK and overseas. This enables familiarisation with the businesses, operations, systems and the markets in which the Group operates. New directors are also encouraged to meet with the Group's auditors and advisors.

#### **Board evaluation**

The Company last conducted an external board evaluation in 2011/12. As with 2012/13, the Board felt that the 2013/14 evaluation should be conducted internally. This involved a two stage process as follows:

- A discussion between the Company Secretary and each Board director to review progress on actions arising from previous reviews and to discuss any further views on the current operation of the Board. A summary of these discussions was circulated initially to the Chairman and then to the Board, and actions discussed at a Board meeting. The Chairman also arranged individual meetings with each Board member to discuss their performance and the Senior Independent Director led an evaluation of the performance of the Chairman.
- Each committee performed a self-evaluation of its performance on the basis of a detailed questionnaire relating to the areas of responsibility for that particular committee and provided feedback to the Board. No major areas for action were identified.

#### **Authorisation of conflicts of interest**

The Company has procedures in place to identify, authorise and manage conflicts of interest which have operated effectively during the year. Potential conflicts are approved by the Board or by two independent directors where an authorisation is needed quickly (then reported to the main Board at its next meeting for ratification). A register of directors' conflicts is maintained and is reviewed by the Audit Committee on an annual basis.

#### **Internal control**

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, whilst senior management is responsible and accountable for internal control and effective risk management at an operational level.

The Board confirms that the Group has established and maintained a process for identifying, evaluating and managing the significant risks faced by the Group and this has been in place throughout the year ended 30 April 2014, up to the date of approval of the financial statements. This process accords with the Turnbull guidance and the Code and is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Certain of the Board's responsibilities have been delegated to the Audit Committee, which has reviewed the effectiveness of the system of internal control (including material, financial, operational and compliance controls) and risk management for the year under review. The Audit Committee has ensured that any required remedial action has or is being taken. Areas of focus have included participation of internal audit in key control projects in certain business units, participation in business unit balance sheet reviews and assessment of business units against their financial control frameworks.

The system of internal control and the process for managing risk include the following elements:

- discussion and approval by the Board of the Group's strategic direction, plans and objectives, and the risks to achieving them;
- the Board and management committees meet regularly to monitor progress against the targets set out in the Group's budget and strategic five year plan;
- the defined levels of authority established by the Board ensure that significant decisions are taken at an appropriate level, supported by a Group-wide delegation of authority process;
- each business function has established procedures and controls to minimise the risk of fraud and to safeguard the Group's assets;
- policies, procedures and governance structures to ensure capital investment is appropriately approved and subsequently monitored;
- policies, controls and procedures have been established over the security of data held on, and functionality provided by, the Group's business systems, including disaster recovery arrangements;
- business continuity plan;
- the Group appoints individuals who are of a calibre to enable them to discharge the duties and responsibilities of the roles assigned to them to minimise operational risk;

**Corporate Governance Report (continued)**

- the Group has implemented appropriate strategies to deal with each significant risk that has been identified. These strategies include insurance, treasury policies and operational framework, and common standards of internal control;
- all employees in subsidiaries within the Group have the opportunity to make confidential disclosures about suspected impropriety or wrongdoing to a hotline run and monitored by a third party;
- policies and procedures covering financial reporting;
- local management at each business unit and in those functions of the Group requiring greater overview have responsibility for identification and evaluation of significant risks to their business areas, together with design of mitigating controls; and
- the Company Code of Ethics.

The Group's approach to managing risk has been reviewed and remains appropriate. Risk and opportunity radars (Radars) exist for each business in the Group to identify, assess and monitor key risks, and the most significant of these are consolidated into a group level radar for Board review. Each risk is monitored by an executive owner and is included on business unit leadership team agendas on a regular basis. Business unit management across the Group review key business risks twice per annum, followed by Board reviews. Group Board directors and business management teams are interviewed by the risk management team in alternate years, to refresh and develop the Radars.

There are clear processes for monitoring the system of internal control and reporting any significant corrective control weaknesses, together with corrective action. These include reports to the Audit Committee from assurance providers, periodic certification from business units, reviews by Group and regional management, whistleblowing facilities and independent assurance from both internal and external audit. The latter of these are described in more detail below.

**Internal audit**

The Internal Audit department is fully independent of business operations and has a Group-wide mandate. Its work is driven by a risk-based methodology ensuring that the controls to mitigate the Group's key risks are audited on a periodic basis. Third parties may be engaged to support audit work as appropriate. Its plans are approved by the Audit Committee, which also receives reports on its findings and progress of related actions at each meeting. The department also works with the businesses to promote and further develop effective risk management and control within their operations. The Director of Internal Audit attends all Audit Committee meetings.

**External auditor**

The external auditor provides further independent observations of certain elements of the internal financial controls as part of their audit of the financial statements. Their findings are presented to the Audit Committee with updates on progress against the recommendations being made throughout the year.

**Whistleblowing policy**

The Group operates a whistleblowing policy and has a confidential helpline operated by a third party. This can be used to report, anonymously if so wished, on matters of concern to employees. This can range from unethical behaviour, such as fraud, to practices that might endanger the health of customers and colleagues.

**Bribery Act**

The Group reviews regularly its policies and procedures to help prevent individuals associated with the Group from committing acts of bribery. These policies and procedures include training for individuals to ensure awareness of acts that might be construed as contravening the regulations. The Group's Anti-Bribery policy is included on the Investors section of the corporate website.

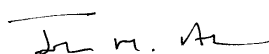
**Relations with shareholders**

The Company supports the initiatives set out in the Code and the Stewardship Code and actively encourages engagement with major institutional shareholders and other stakeholders.

Effective two-way communication with institutional investors, brokers and analysts is established through regular presentations and meetings in the UK and overseas, usually by the Group Chief Executive, Group Finance Director and Investor Relations Director. The Chairman holds occasional meetings with major shareholders to discuss matters of mutual interest, including corporate strategy and governance. Where appropriate, the chairman of the Remuneration Committee communicates with major shareholders to canvass opinion when deciding remuneration policy. The Senior Independent Director and the other non-executive directors are also available to attend meetings with major shareholders if requested. Any issues of importance arising from these meetings are reported to the Board at the next meeting. The Board also receives a regular investor relations report at each of its scheduled meetings, in addition to a detailed annual review of the perception of the Company amongst stakeholders.

The Company is committed to communication with all of its members, whether institutional investors, private or employee shareholders. The Company reports formally to shareholders when its full year and half year results are published. These results are posted on the investor section of the corporate website. Regular trading updates are also posted on the corporate website in addition to other external announcements and press releases made by the Company. In accordance with the Listing Rules, formal notification of the Company's AGM is sent to shareholders at least 20 working days in advance of the meeting. The directors, including the respective chairmen of the Audit, Remuneration and Nominations Committees, are available for questions formally during the AGM and informally afterwards.

As previously mentioned, the Company is not expecting to convene an AGM prior to completion of the merger with Carphone Warehouse Group plc. However, should the merger not be implemented in accordance with the expected timetable, the Company may convene and notify shareholders of an AGM in due course.



**John Allan**  
Chairman  
25 June 2014

## Audit Committee Report

### Chairman's overview

The Audit Committee has detailed duties set out in its terms of reference. In addition to this, it serves to reassure shareholders that the Company's financial management, internal control and reporting practices are properly protecting their interests. As such, I have the pleasure of reporting to you how the Audit Committee has discharged its duties over the past financial year and the priorities for the year ahead for the Group on a standalone basis.

The Committee supports the changes to the UK Corporate Governance Code (the 'Code') and has reviewed its terms of reference. Accordingly, the Committee has this year implemented a suitable process for it to be able to advise the Board as to whether the Annual Report and Accounts are a fair, balanced and an understandable assessment of the business. This included a summary being presented to the Committee which focused on key matters affecting the financial results and to what degree these are discussed in each section of the Annual Report and Accounts. This enabled the Committee to determine the appropriate weighting given to each matter in each section.

You will have seen the progress the Company has made in streamlining the business by the completion of the sale of Electroworld Turkey, Unieuro and PIXmania operations, as well as the recently announced agreement to sell our Central European operations. The Audit Committee has carefully analysed the accounting treatment of those transactions to ensure that each transaction was adequately represented and that any judgements made in reporting these transactions were appropriate.

Further to the above, in 2013/14 we have:

- built on the framework to enhance Group-wide financial policies and controls by introducing a set of minimum control standards, along with revising the management self-assessment process. This has been subjected to internal audit reviews to report on their effectiveness;
- continued to embed our enhanced enterprise risk management policies;
- overseen the recruitment of a new Group Director of Internal Audit and Risk Management. I was actively involved, as Audit Committee Chair, in the final selection process alongside management; and
- undertaken an independent review of the effectiveness of internal audit. As part of this review, areas of improvement were identified, including making better use of technology and tools, the prioritisation and focus of audit effort and enhancing working practices. An action plan has been put in place by the new Group Director of Internal Audit and Risk Management and progress against this plan will be monitored and reported to the Committee. Notwithstanding the opportunities for improvement, it has been concluded that the Internal Audit function continues to provide effective assurance to the Board on the adequacy of the risk management and internal control procedures of the Group.

You will have seen earlier that it is our intention to merge the Group with Carphone Warehouse Group plc. Our main priorities on a standalone basis over the coming year will be to receive and review reports from management for which the objectives will be to:

- undertake a review of the effectiveness of risk management. The independent review of internal audit highlighted some further opportunities to improve and embed risk processes across the Group and a full review of risk practices will be undertaken by the Group Director of Internal Audit and Risk Management and reported to the Audit Committee in the coming year;
- continue the roll out of the minimum control standards for all financial processes and put in place action plans to address any identified gaps; and
- seek opportunities to further standardise systems, processes and controls across the Group, through Group-led initiatives.



**Jock Lennox**  
Chairman of the Audit Committee  
25 June 2014

### Audit Committee

**Main objective:** To assist the Board in fulfilling its corporate governance obligations relating to the Group's financial reporting practices, internal control and risk management framework, and its internal and external audit processes.

**Chairman:** Jock Lennox

**Number of meetings:** 4

Member	Attendance
Jock Lennox	4 of 4
Prof. Dr. Utho Creusen	4 of 4
Andrea Gisle Joosen	4 of 4
Tim How	4 of 4
Dharmash Mistry	4 of 4

### Committee membership and attendance

The Committee comprises exclusively non-executive directors in compliance with the Code. The members are set out in the table above along with their attendance for the year under review. The biographical details of the current members are set out on pages 29 and 30.

The Board is satisfied that the Chairman of the Committee, a member of the Institute of Chartered Accountants of Scotland, meets the requirement for recent and relevant financial experience. The Company Secretary and General Counsel acts as Secretary to the Committee and attends all meetings.

The Committee's deliberations are reported by its chairman to the following Board meeting and the minutes of each meeting are circulated to all members of the Board.

## **Audit Committee Report (continued)**

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### **Role**

The Committee assists the Board to fulfil its oversight responsibilities by acting independently from the executive directors.

There is an annual schedule of items which are shared across the meetings during the year to ensure the Committee fully covers those items in its terms of reference. Standing agenda items are as follows:

- corporate governance, risk management and finance updates;
- accounting and control findings from the external audit, and the status and progress on recommendations arising;
- progress against the internal audit plan and revised plans;
- internal audit reports and findings together with status and progress on action plans;
- approval of audit fees;
- fees paid to the auditor for non-audit services; and
- tax matters.

These standing items are supplemented by key matters arising throughout the course of the year. The Committee's terms of reference are reviewed annually by the Committee and then by the Board. A copy of the terms of reference, approved on 4 September 2013, is available on the Group's corporate website.

### **Attendance at meetings**

The Chairman of the Board, Group Chief Executive, Group Finance Director, Group Financial Controller, Group Chief Accountant and Head of Tax, Group Director of Internal Audit and Risk Management, Deputy Company Secretary and external auditors were invited by the Chairman of the Committee to attend meetings during the year. Other members of senior management were also invited during the year if the subject under discussion fell within their remit.

Each time the Committee convenes, it meets with external auditors without the presence of management in order to allow private discussion of any matters that the auditors wish to raise without management or the Company Secretary being present. Occasionally, a private discussion is also held between the members of the Committee, the external auditors and the Group Director of Internal Audit and Risk Management without management present.

In undertaking its duties, the Committee has access to the services of the Group Finance Director and the Company Secretary and General Counsel, as well as external professional advice as necessary. In addition, the Chairman of the Committee meets regularly with the external auditors outside of formal meetings and without management present.

### **Key matters considered during the year**

During the period the Committee reviewed the following:

#### **Financial reporting**

The Committee received management papers setting out the main assumptions and judgements applicable to the following key areas. These were discussed and the Committee concurred with management's conclusions:

- Judgements taken in the calculation of losses of £158.1 million arising on disposal of subsidiary companies. Matters discussed included the amounts of deferred consideration to be recognised and any requirements to accrue for potential liabilities relating to warranties;
- Classification of items between underlying and non-underlying, including consideration of the components of the £33.3 million pre-tax non-underlying items. Discussions centred around confirming that the items fell within the Group's definitions on non-underlying items as well as the consistency of treatment of such items year on year;
- Tax matters: The Committee reviewed judgements concerning any significant provisions and discussed the assumptions being made. In addition, international tax matters were considered and in this respect management's presentations incorporated any external advice in order to enhance the Committee's understanding; and
- The integrity and sufficiency of information disclosed in the Annual Report and Accounts to ensure that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and the Company's performance, business model and strategy. This included an assessment of the narrative reporting section to ensure consistency with the financial reporting section. In this respect, the co-ordination and review of the various sections of the Annual Report and Accounts follows a well established process which is performed in parallel with the formal process undertaken by the external auditors. The Annual Report and Accounts undergoes numerous reviews, with drafts being presented to the Committee at various stages of the process. The Committee received a summary of the approach taken by management in the preparation of the 2013/14 Annual Report and Accounts and also the contents of individual sections. The Committee was then able to recommend to the Board that the Annual Report and Accounts contained a fair, balanced and understandable assessment of the Group and the Company.

#### **Internal control and risk management**

- The lessons learnt from any incidents of fraud detected within the Group;
- the financial control framework and its subsequent assessment by Internal Audit;
- the assessment of the Group's response to information security and data protection risks, including compliance with PCI (Payment Card Industry) standards which seek to protect customer payment card data; and
- the proposed enhanced approach to risk management and the outcome of the risk work with the respective business units and Group.

#### **Compliance**

- Monitoring compliance activity in relation to the terms of the Group's financing; and
- reports on the Anti-Bribery policy and procedures and compliance with them.

#### **Internal audit**

- The effectiveness of Internal Audit and the adequacy of its resources;
- significant issues arising from Internal Audit reports; and



## Audit Committee Report (continued)

- the succession to the Director of Internal Audit which occurred during the year, in which the Chairman of the Committee participated in the recruitment selection process.

### External audit

- The effectiveness of the external auditors through a survey of key stakeholders and consideration of their responses. Such stakeholders included the members of the Committee as well as divisional finance directors and key members of the Group finance team;
- the annual audit fee, which is set out in note 3 to the Financial Statements, with due regard to the balance between audit and non-audit fees and the policy for approval of non-audit fees paid to the Group's auditor;
- fees paid to the auditor for non-audit services; and
- significant issues and areas of judgement arising from reports from the external auditor which, in addition to those matters referred to above under Financial Reporting and Internal Control and Risk Management, included revenue recognition relating to customer support agreements, inventory provisioning, defined benefit pension assumptions, liquidity, covenant compliance, going concern and an assessment of the quality of earnings reported.

In respect of the areas of judgement, note 1.19 to the Financial Statements sets out the critical accounting policies in respect of revenue recognition relating to customer support agreements and taxation, whilst note 21 to the Financial Statements sets out the defined benefit pension assumptions including sensitivities to these. Non-underlying items are set out in detail in note 4 to the Financial Statements. All of these areas, together with the quality of earnings reported, were set out in the reports from the external auditor and were discussed with the Committee. The Committee concluded that the judgements taken and assumptions made were all fair and reasonable.

### Other matters

- The Audit Committee's performance and terms of reference;
- the Company's whistleblowing policy and its implementation across the international jurisdictions of the Group; and
- the expenses of all Board members.

### Policy on the use of the external auditor for non-audit services

The Audit Committee has approved a policy for the use of our external auditor for non-audit purposes which has remained in place for the whole of the current and previous financial year. The policy allows the auditor to perform other services for specific reasons such as where:

- it is a statutory or contractual requirement; or
- significant historical knowledge may place the auditor in the best position to perform such non-audit work.

The auditor is specifically not permitted to undertake the following services:

- bookkeeping or similar services relating to the preparation of financial statements;
- internal audit; and
- any other assignment which would place the auditor in a position of conflict with its duties as external auditor.

To ensure this policy is applied appropriately, the Committee monitors quarterly all fees paid to the external auditor. All fees paid to the auditor in respect of non-audit work above £50,000 require pre-approval of the Audit Committee Chairman. These are then reported back to the Committee as part of the Committee's agenda.

During 2013/14 the auditor has performed non-audit work which has been mainly in relation to statutory or contractually mandated areas. For example, providing an interim review report on the Group's Interim Statement and providing auditor opinions on tax returns where local legislation requires this. In addition, work has also been performed in respect of the Corporate disposal transactions which occurred during the year.

The Committee is satisfied that the policy is conducive to retaining auditor independence and objectivity, and is satisfied with the operation of the policy during the year. The level of non-audit fees paid to the external auditor is set out in note 3 to the Financial Statements and amounts to approximately 33% of total fees paid to the auditor, although after adjusting for the effects of the interim review, which are treated as non-audit fees for statutory reporting purposes, amounted to 25% of the total of year end and interim fees paid to the auditor.

### External auditor

Deloitte LLP has been the auditor of the Company since 1987 and the current lead partner has acted for the Company for five years, with this being the final year before rotation would occur. The Audit Committee acknowledges the requirements of provision C.3.7 of the Code whereby FTSE 350 companies should put out to tender the external audit every ten years. The Committee had adopted a policy to comply with these requirements with view to tendering during 2014, however, owing to the proposed merger with Carphone Warehouse, this process was suspended. Should the merger not occur, the Committee will revert to its conclusions to tender, but in any event will consider the most appropriate point to invite a tender, taking into account the FRC's transitional provisions. The Committee is keeping under review the ongoing legislative proposals on audit tendering and rotation from the EU and the Competition Commission (now the Competition and Markets Authority), and will implement them in accordance with the suggested timescales. In the meantime, the Committee is recommending the reappointment of Deloitte LLP.

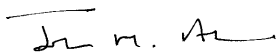
The Committee has reviewed the effectiveness of the external audit process by issuing a questionnaire to the members of the Audit Committee, the Chairman, the Group Chief Executive, Group Finance Director and all business units finance directors. The results were then collated and the findings discussed by the Audit Committee and communicated and discussed with the external auditor. Having considered the results of this year's annual performance review, and the internal policies and representations of Deloitte LLP, the Audit Committee remains satisfied with the auditor's objectivity and independence and the effectiveness of the audit process. Given the expected timetable of the merger with Carphone Warehouse, the Group does not currently expect to call an AGM prior to completion of the Merger. However, should there be any delay to the timetable then an AGM may be called. In that case, the Committee will recommend to the Board that a resolution for their reappointment be proposed at that AGM.

**Nominations Committee Report**

**Chairman's overview**

The Nominations Committee reports directly to the Board of the Company and is made up of a majority of non-executive directors as required by the UK Corporate Governance Code (the Code).

It has been a quiet year for the Nominations Committee following the last two years where appointments to the Board have been made. I am happy to set out for you what the Committee has concentrated on in the following pages.



**John Allan**  
 Chairman of the Nominations Committee  
 25 June 2014

**Nominations Committee**

**Main objective:** To monitor the size and composition of the Board and its Committees and ensure a formal, rigorous and transparent procedure for the appointment of new directors and to plan for succession.

**Chairman:** John Allan  
**Number of meetings:** 2

Member	Attendance
John Allan	2 of 2
Prof. Dr. Utho Creusen	2 of 2
Andrea Gisle Joosen <sup>(1)</sup>	1 of 2
Tim How	2 of 2
Jock Lennox	2 of 2
Dharmash Mistry	2 of 2

(1) Andrea Gisle Joosen was unable to attend one Committee meeting due to a prior commitment.

**Committee membership and attendance**

The members of the Nominations Committee are shown in the table above along with their attendance for the year under review. At least half of the Board of Directors are independent non-executive directors as required by the Code.

The biographical details of the members of the Committee are set out on pages 29 and 30. The Company Secretary and General Counsel acts as Secretary to the Committee.

The Committee's deliberations are reported by its chairman to the following Board meeting and the minutes of each meeting are circulated to all members of the Board.

**Role**

The principal duties of the Committee are to:

- review the structure, size and composition of the Board and its Committees and to recommend changes as necessary;
- review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively;
- be responsible for the succession planning for Board members and, in so doing, other senior management of the organisation;
- identify, evaluate and nominate candidates to fill vacancies on the Board; and
- make recommendations to the Board regarding the continuation in office of a director upon the expiry of any specified terms of appointment.

The Committee's terms of reference are reviewed annually by the Committee and then by the Board. A copy of the terms of reference, approved on 11 March 2014, is available on the Group's corporate website.

**Key matters considered**

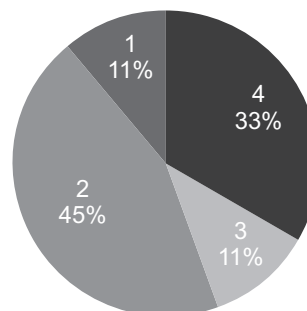
During the year, the principal matters considered by the Committee were as follows:

- consideration of the succession planning process;
- an evaluation of the size, composition and structure of the Board and its Committees;
- a review of the Diversity Policy;
- consideration of the time commitment of non-executive directors along with a review of the external appointments policy;
- a review of the Committee's performance and terms of reference; and
- a review of the roles of the Chairman, Senior Independent Director and the Group Chief Executive.

The Nominations Committee keeps itself up-to-date on best practice through a combination of private research and briefings by internal and external advisors on key developments relevant to the Company.

**Board tenure**

The chart below shows Board tenure in years:





## **Nominations Committee Report (continued)**

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### **Appointments to the Board**

The Committee has a formal, rigorous and transparent procedure for the appointment of new directors. Appointments are made to the Board on merit, against objective criteria and with due regard to the benefits of diversity and the leadership needs of the Company.

### **Terms of reference**

The terms of reference of the Nominations Committee were reviewed during the year and re-approved.

### **Succession planning**

Succession planning was mentioned in the 2011/12 externally facilitated Board effectiveness review as an area for improvement. The Nominations Committee will maintain succession planning as an area of focus in 2014/15. A talent management review of senior personnel was conducted during the year which has helped to support succession planning objectives. This review was supported by the Group HR Director and executive management.

### **Diversity**

The Board recognises the importance of diversity, including, but not restricted to, gender diversity on the Board and in its senior management team, and the important role that diversity plays in achieving the right mix of skills, knowledge and experience in order to help the organisation reach its potential.

The Board continues to believe that individuals should be appointed on merit. We are committed to increasing boardroom and senior management diversity as suitable candidates present themselves. For further information on board diversity and length of service refer to the directors' biographies on pages 29 and 30, and on employee diversity refer to the Corporate Responsibility Report on page 26.

### **Re-election**

Should the Merger timetable be delayed, and an AGM be called by the Company, all directors will seek election or re-election at the AGM. Each of the directors are being unanimously recommended by the other members of the Board due to the directors' individual experience, knowledge and wider management and industry experience, continued effectiveness and commitment to their role. The independent non-executive directors were re-affirmed by the Board to be independent in character and judgement.

The executive directors' service contracts and non-executive directors' letters of appointment are available for inspection by prior arrangement during normal business hours at the Company's registered office. They will also be available for inspection at the venue prior to the AGM, should one be called by the Company prior to completion of the Merger, details of which will be contained in the Notice of Meeting.

## Remuneration Report – Chairman's Overview

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### Chairman's overview

I am pleased to introduce this new style report to you as Chairman of the Remuneration Committee. This is our first report under the new Regulations and we have worked hard to produce a compliant Remuneration Report which includes the necessary details for you to clearly understand our remuneration strategy and how it supports the objectives of the business.

A key part of our role as the Remuneration Committee is to determine remuneration policy for directors and key senior managers. We believe, and we trust you will agree, that we have structured the policy in such a way that provides a framework within which we have appropriate flexibility to ensure that we can continue to attract the right people to the business to execute our strategy.

The Remuneration Report is split into two reports: the Remuneration Policy Report and the Annual Report on Remuneration. The first report that follows summarises our remuneration policy. Following completion of the proposed merger, the directors of the combined entity will be bound by the policy issued by Carphone Warehouse Group plc and approved by shareholders. Clearly should the Merger not complete in line with the expected timetable, the Company will continue to operate within the parameters of this report (once approved by shareholders) including the incentive awards, which will only be issued should the Merger not proceed. The second report is the Annual Report on Remuneration which outlines what remuneration arrangements have operated during the financial year under review.

### How our remuneration arrangements support our strategy

This has been a busy year for Dixons as we concentrated on achieving our strategy of being leaders in the markets in which we operate. This involved exiting our operations in Turkey, France and Italy.

We have structured the targets of our annual bonus (STIP) to support this reorganisation and the Group's profitability, cash generation and return on capital. The combination of these, and the longer term (three year) metrics in the PSP plan, supports our strategic priorities to deliver long term profitability and return to shareholders. In turn, these metrics provide a platform from which management can be incentivised to achieve all-round Group strategy, aligning these interests with shareholders. To mitigate any risk, we review the metrics each year and set the target ranges in line with the strategic plan. Further details of the metrics and why they were chosen can be found within the Remuneration Policy Report.

### 2013/14 performance

The stretching targets that were set for the STIP at the start of the year have been achieved in full; therefore I am pleased to report that our directors will this year receive 100% of their bonus opportunity.

I am pleased to announce that the PSP awards issued in 2011 will vest on 3 August this year. Sebastian James and Katie Bickerstaffe will both receive 100% of the award granted to them and Humphrey Singer will receive 81.25% following the application of performance conditions. Further details on the payments received from the STIP and LTIP in light of these achievements are set out in the Annual Report on Remuneration.

The Remuneration Committee has again reviewed the reward structure and has decided that it should remain largely unchanged. Therefore, should the merger not proceed, the structure for 2014/15 will comprise the following elements:

### Base pay

Executive directors and key senior management pay increases will be made based on the average pay increase for the whole of the workforce in the country in which the individuals operate.

### Short Term Incentive Plan (STIP)

The annual bonus remains unchanged.

In 2013/14 personal objectives were replaced for executive directors and senior management with a return on capital employed measure. The Committee believes that this remains appropriate, as do the metrics shown later in the Remuneration Policy Report which underpin the Group's strategic goals and drives shareholder value and operational efficiency. Accordingly, these measures will continue to be used in 2014/15.

### Long Term Incentive Plans (LTIP)

In 2014/15, we will continue to make awards under the LTIP at the levels awarded to the executive directors during the 2013/14 financial year. Awards will be granted under either the Performance Share Plan and / or the Executive Share Option Plan. Awards at executive director level will be subject to challenging performance targets which will deliver significant value to shareholders if met. Succession planning and performance considerations will be taken into account when deciding the level of awards throughout the organisation.

### Save as You Earn (SAYE or Sharesave)

We do not intend to offer a Sharesave after the preliminary announcement this year given the expected merger timetable. Should the Merger not proceed, we will look to invite our UK and Ireland colleagues to join the scheme later in the year. We continue to believe that this scheme is an important part of the benefit structure of the Group and enables colleagues to build up a shareholding and share in the Company's success.

I very much hope that you will support the Remuneration Policy Report and the Annual Report on Remuneration. We firmly believe that these proposals are right for the Company, that they will motivate and incentivise our senior team and therefore play an integral part in the creation of shareholder value and the achievement of Company strategy.



**Tim How**

Chairman of the Remuneration Committee  
25 June 2014

## Remuneration Report (continued) – Remuneration Policy Report

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### Introduction

The purpose of these reports is to inform shareholders of the Company's policies on directors' remuneration for the year ended 30 April 2014 and the remuneration policy for subsequent years. This report is divided into two sections:

- (I) The Remuneration Policy Report; and
- (II) The Annual Report on Remuneration.

The Company may call an AGM prior to the completion of the proposed merger. Should the AGM be called, shareholders will be asked to approve both the Remuneration Policy Report and the Annual Report on Remuneration. The Remuneration Policy Report will be subject to a binding vote whilst the Annual Report on Remuneration is subject to an advisory vote.

The role of the Committee is to determine on behalf of the Board a remuneration policy for executive directors and senior management in order to attract and retain executives who have the ability and experience, and are adequately incentivised, to deliver the Company's strategic objectives. The Committee has adopted the principles of good governance relating to directors' remuneration as enshrined within section D of the UK Corporate Governance Code (the Code) and has complied with those principles during the year under review.

These reports have been prepared by the Remuneration Committee on behalf of the Board in accordance with the Companies Act 2006, Schedule 8 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), and the Listing Rules of the Financial Conduct Authority. The Remuneration Policy Report (not subject to audit) details the role of the Committee, the principles of remuneration and other matters. The Annual Report on Remuneration (elements of which are audited) details directors' and former directors' emoluments, share awards, share options and pension arrangements.

### (I) Remuneration Policy Report: Unaudited Information

#### Remuneration Committee objectives

The Board has delegated to the Remuneration Committee responsibility for determining policy in relation to the remuneration packages for directors and senior management. This delegation includes the terms and conditions of employment of each of the executive directors and other senior management in addition to the operation of the Group's share-based employee incentive schemes. The Remuneration Committee has clearly defined terms of reference which are available on the Company's corporate website.

The objectives of the Company's remuneration policy are to:

- align with and support the Group's business strategy;
- facilitate the building and retention of a high calibre and focused team which will work effectively to achieve the Group's longer term strategic objectives and enhance shareholder value;
- ensure that the remuneration structure motivates the directors and senior management to succeed and appropriately rewards them for their contribution to the attainment of the Group's short and long term results;
- maintain, via an appropriate level of base salary and incentive structure, a competitive package of pay and benefits which provides the motivation for future achievement whilst discouraging inappropriate risk taking;
- align the directors' interests with those of shareholders by offering participation in reward schemes which provide opportunities to build shareholdings in the Company; and
- avoid reward for failure.

In developing its policy, the Committee has regard to:

- the performance, roles and responsibilities of each executive director or member of senior management;
- arrangements which apply below senior management level, including average base salary increases;
- information and surveys from internal and independent sources; and
- the economic environment and financial performance of the Group.

#### Guidelines of Responsible Investment Disclosure

In line with the ABI Guidelines on Responsible Investment Disclosure, the Committee is satisfied that the incentive structure and targets shown below for executive directors do not raise any environmental, social or governance risks by inadvertently motivating irresponsible or reckless behaviour. The Committee considers that no element of the remuneration package will encourage inappropriate risk taking by any member of senior management.

As part of the overall system of governance and the evaluation of the performance of the business, the Board evaluates the Group's corporate responsibility performance. Further information is set out in the Corporate Responsibility Report.

## Remuneration Report (continued) – Remuneration Policy Report

### Remuneration components

Set out below are the remuneration policy components proposed for directors should the Merger not complete to the expected timetable. This policy will become binding following approval by shareholders at the 2014 AGM until the 2017 AGM. Any changes to the policy in the interim will be put to shareholders for approval.

Remuneration component	Purpose and link to strategy	Operation of policy	Performance targets	Maximum
Base salary	To attract and retain executive directors with the appropriate experience and knowledge to deliver the strategic objectives of the business.	<p>Normally reviewed annually, effective August.</p> <p>The Committee takes into consideration the potential multiplier effect of base salary increases on the package as a whole, as bonuses and discretionary share plans are generally worked out based on a percentage of salary.</p>	Based on the individual's experience, performance and added value to the business. This assessment takes into account external information and advice provided to the Committee by external remuneration advisors, New Bridge Street.	<p>Ordinarily, salary increases for executive directors and senior management will be in line with the average increase awarded to other employees in the country in which the individual works.</p> <p>However, increases greater than those granted to the wider workforce (in percentage of salary terms) may be awarded in certain circumstances, such as where there is a change of responsibility, progression in the role, experience or a significant increase in the scale of the role.</p> <p>Further information on how salaries are set on recruitment or promotion can be found later in the policy report.</p> <p>Further details of any changes made to salary levels can be found in the Annual Report on Remuneration.</p>
Pension and life insurance	Provide competitive retirement benefits and the opportunity for executives to contribute to their own retirement plan.	<p>Defined contribution plan offered to all employees above a certain grade. Directors and a small number of selected members of senior management are offered a higher contribution rate than other employees.</p> <p>A defined benefit pension plan continues in operation for longer serving employees which is now closed to new participants and future accrual.</p>	n/a	<p>Company's contribution is 20% of base salary per director up to a notional earnings cap, which can be taken as a cash allowance in lieu of pension.</p> <p>A 20% of base salary supplement over and above the notional earnings cap is provided for directors and certain members of senior management.</p> <p>Life cover of four times salary.</p>
Other taxable benefits	<p>Provide a competitive package consistent with other companies which enables the attraction and retention of executives.</p> <p>Provision of relocation or other related assistance may be provided to support the appointment of a director.</p>	<p>Specific level of benefits for directors is predetermined and therefore set upon appointment to the Board. The Company offers executive directors a range of benefits including some or all of:</p> <ul style="list-style-type: none"> <li>– Car or car allowance;</li> <li>– Private medical insurance; including family cover and annual medicals;</li> <li>– Life cover;</li> <li>– Income protection; and</li> <li>– Access to independent financial and legal advice when necessary.</li> </ul> <p>Relocation or other related assistance could include, but is not limited to, removal and other relocation costs, tax support and short term rental costs.</p> <p>Such benefits are sourced on the open market and are kept under regular review.</p>	n/a	<p>Provision of company car or allowance in lieu up to a maximum of £12,000.</p> <p>Value of other benefits is based on the cost to the Company and is not predetermined.</p>

## Remuneration Report (continued) – Remuneration Policy Report

Remuneration component	Purpose and link to strategy	Operation of policy	Performance targets	Maximum
Short Term Incentive Plan (STIP): Annual Bonus Plan	To appropriately incentivise directors to achieve short term annual objectives and targets that support the Group's strategic goals. High potential rewards for reaching stretching targets.	<p>Based on performance over the financial year.</p> <p>Bonus payouts are determined after the year end based on the achievement against predetermined annual targets with payments being made in August each year.</p> <p>Targets are set using benchmarks that reflect both internal business objectives and external expectations which the Committee also feel are sufficiently challenging but will not encourage irresponsible behaviour.</p> <p>Non-pensionable. Paid in cash, but can be settled in shares or a mixture of cash or shares which could be deferred, at the discretion of the Remuneration Committee.</p> <p>Adjustment provisions apply for material adverse misstatement, error in determining the extent to which the target has been satisfied and misconduct.</p>	<p>The bonus targets are reviewed annually and are aligned to the Group strategy and Key Performance Indicators (KPIs) which are set out on page 13.</p> <p>The Committee determines the metrics from a range of measures, including, but not limited to, Group Operating Profit, Free Cash Flow, Return On Capital Employed (ROCE) and EPS. Further details are provided in the Annual Report on Remuneration and current metrics and targets shown on page 54.</p> <p>The Committee has the discretion to change the metrics and / or weighting from year to year to achieve better alignment with the Company's annual strategic objectives.</p> <p>A 'gateway' for each element is set, below which no bonus is paid. Once the gateway is achieved, a sliding scale determines payment between minimum and maximum bonus payable.</p> <p>For threshold level of performance 25% of bonus is payable.</p>	<p>Up to a maximum of 100% of base salary.</p> <p>The above is achieved if all metrics are achieved at 'stretch'.</p>

## Remuneration Report (continued) – Remuneration Policy Report

Remuneration component	Purpose and link to strategy	Operation of policy	Performance targets	Maximum
Long Term Incentive Plans (LTIP): Performance Share Plan (PSP)	<p>Incentivise the achievement of long term growth and profitability objectives.</p> <p>Align interests with those of shareholders.</p>	<p>Annual grants which vest after a minimum of three years, subject to performance conditions and continued employment.</p> <p>The Committee has the ability to reduce future vesting under the recovery provisions of the rules and the reasons for invoking such provisions are clearly defined.</p> <p>On vesting, an amount of cash or shares may be payable to participants based on the number of shares vesting and the dividends paid to shareholders during the performance period.</p> <p>The PSP may be utilised on recruitment, if appropriate, to allow for buy-out or forfeited compensation.</p> <p>Further information on the operation of the LTIP policy can be found in the Annual Report on Remuneration.</p>	<p>Performance metrics / targets are reviewed prior to each grant and reflect strategic goals and selected KPIs.</p> <p>The Committee determines the metrics from a range of measures, including but not limited to, TSR, EPS growth and ROCE.</p> <p>Further details and current metrics are provided in the Annual Report on Remuneration.</p> <p>The Committee reserves the right to choose a comparator Group for the TSR element which is in the best interests of the Company. Awards with performance conditions are also subject to an underpin, such that there has been satisfactory financial performance.</p> <p>Performance is measured over a minimum of three years.</p> <p>Vesting for each component varies between 25% for threshold performance rising to 100% maximum with straight line vesting between the two.</p>	<p>The normal maximum award is 100% of salary or 200% of salary in exceptional circumstances.</p> <p>Further information on long term incentive arrangements on recruitment or promotion can be found later in the policy report.</p>
Long Term Incentive Plans (LTIP): Executive Share Option Plan (ESOP)	<p>Incentivise the achievement of long term growth and profitability objectives.</p> <p>Align interests with those of shareholders.</p> <p>Grant HMRC approved options up to the approved limit.</p>	<p>Grants of the ESOP may be made in addition to the PSP or in substitution of at the discretion of the Committee and awards under this scheme will be determined annually.</p> <p>The ESOP may also be utilised on recruitment, if appropriate, to allow for buy-out or forfeited compensation.</p> <p>The Committee has the ability to reduce future vesting under the recovery provisions of the rules and the reasons for invoking such provisions are clearly defined.</p> <p>Further information on the operation of the LTIP policy can be found in the Annual Report on Remuneration.</p>	<p>Performance measures will be determined at grant, as appropriate, and would come from a range of measures, including but not limited to, TSR, EPS growth and ROCE.</p>	<p>The maximum award is 200% of salary. However, in exceptional circumstances an award of 300% of salary may be made.</p>



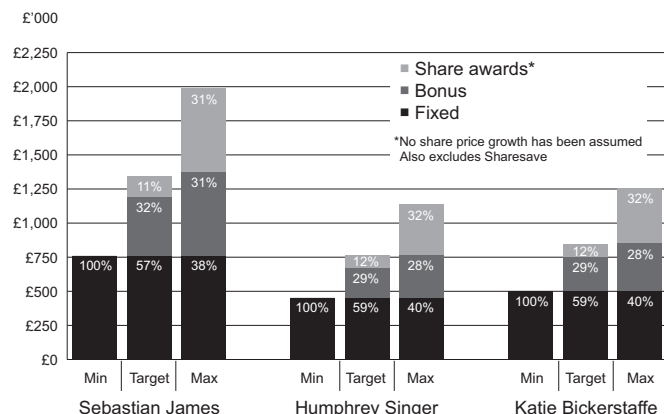
## Remuneration Report (continued) – Remuneration Policy Report

Remuneration component	Purpose and link to strategy	Operation of policy	Performance targets	Maximum
Directors' shareholding guidelines	The Company has a policy of encouraging directors to build a shareholding in the Company.	Executive directors are usually required to retain 50% of the net of tax outturn from the vesting of awards under the Company's share plans until a shareholding with a value equivalent to their base salary is achieved.	n/a	100% of base salary.
All employee share schemes	The Company believes in offering its employees a chance to build up a shareholding in the Company. It therefore operates a Sharesave plan in which executive directors are entitled to participate on the same basis as other employees.	The Sharesave plan has standard terms under which all UK and Ireland employees who meet the eligibility criteria can participate.	n/a	This HMRC approved scheme allows participants to enter into a savings contract and in return receive a share option granted at up to 20% discount to the market price at the time of invitation. The maximum monthly saving under all contracts are limited by HMRC approved limits or such lower limit as the Company may set.
Non-executive directors (NEDs) and Chairman's fees	To provide a competitive fee for the performance of NED duties, sufficient to attract high calibre individuals to the role.	Fees are set to align with the duties undertaken, taking into account market rates. Additional fees are payable for acting as Chair of either the Remuneration or Audit Committee, or for acting as the Senior Independent Director.	n/a	Aggregate annual limit of £1,000,000 imposed by the Articles of Association for directors' fees (not including fees in relation to any executive office or Chairman, Committee Chair or Senior Independent Director fees).

## Remuneration Report (continued) – Remuneration Policy Report

### Illustration of remuneration policy

The core focus of our remuneration strategy for executive directors is designed to ensure that a substantial proportion of remuneration opportunity is performance related. The chart below illustrates the level and mix of remuneration payable under the current policy at minimum, target and maximum levels for the executive directors.



The assumptions underlying the chart in respect of the percentage of maximum opportunity payable are set out below:

	Minimum	Target	Maximum
Bonus	0%	70%	100%
PSP	0%	25%	100%

	Sebastian James £	Humphrey Singer £	Katie Bickerstaffe £
Salary	612,000	367,200	408,000
Benefits	13,000	13,000	11,000
Pension / cash allowance in lieu	122,400	73,440	81,600

The Committee operates the cash bonus, discretionary and all employee share schemes according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant.

### Committee discretions

The Committee retains discretion, consistent with market practice, over a number of areas relating to the operation and administration of the STIP and share plans. These include, but are not limited to, the following:

- entitlement to participate in the plan;
- when awards or payments are to be made;
- size of an award and / or a payment;
- discretion as to the measurement of performance metrics in the event of a change in control;
- the determination of a good leaver for incentive plan purposes and the appropriate treatment, based on the rules of each plan;
- pro-rating considerations in the event of either a good leaver or a change of control;
- any adjustments to awards or performance conditions for significant events or exceptional circumstances (e.g. rights issues, corporate restructuring, etc).

### How shareholder views are taken into account

The Remuneration Committee has a policy to consult with its largest shareholders in advance of making any material change regarding the remuneration policy of the Company. Any feedback received from either these consultations or from the AGM are taken into account when determining the future policy.

The Committee also follows remuneration guidance from large investor bodies generally as well as the principles of good governance relating to directors' remuneration as set out in the Main Principles, Supporting Principles and Code Provisions of the Code.

### Remuneration policy for the wider workforce

Dixons Retail employs a large number of colleagues in a variety of roles across a range of geographies. Our reward framework is structured around a set of common principles, but is altered as necessary to suit the needs of the business and for our different employee groups. Reward packages therefore differ, taking account of a number of factors, including seniority, impact on the business, local practice, custom and legislation.

In determining salary increases to apply across the wider workforce, the Company takes into consideration company performance and other market metrics as necessary.

The Remuneration Committee, when setting the policy for the executive directors, takes into consideration the pay and employment conditions throughout the Company as a whole. Typically, salary increases will be aligned with those received elsewhere in the Company unless the Committee considers that specific circumstances require a different level of salary increase for the executive directors.

Discretionary share plans are extended to both senior management and other key members of the workforce, as the Company feels that it is important to incentivise and retain these employees in order for the Company to continue to grow.

The Group's UK and Irish employees who meet the eligibility criteria are able to participate in the STIP arrangements. Employees in the UK and Ireland who meet the eligibility criteria are also able to participate in the Sharesave plan, which is encouraged as this enhances the link between shareholder value and employee reward.

Although the Company has not carried out a formal employee consultation regarding executive remuneration, it does comply with local regulations and practices regarding employee consultation more broadly and conducts employee surveys in many business areas.

### How performance measures were chosen

The performance metrics used in both the STIP and LTIPs (PSP and ESOP) have been chosen to align the directors' interests with those of the Company's short and long term goals. They are also designed to drive shareholder value. The Committee reviews and determines the metrics and / or weighting to be used from year-to-year to achieve alignment with the strategic goals based on the Group's KPIs which are set out earlier in this Annual Report and Accounts.

We have structured the targets of our 2014/15 STIP to support the Group's reorganisation and its profitability, cash generation and return on capital. The reasons why these were chosen are set out below:

## Remuneration Report (continued) – Remuneration Policy Report

- profitability measure (underlying operating profit) to create a return for shareholders and support the Group's investment in its activities;
- cash generation (Free Cash Flow) to support the efficient management of cash to optimise resources available and for investment in future growth, and to support shareholder value creation; and
- return on capital (ROCE) which is an indicator of investment efficiency.

All of these are seen as key metrics in supporting increasing returns to our shareholders.

Our LTIP longer term measures are based on shareholder value metrics including:

- underlying diluted earnings per share (EPS), which is seen as an indicator of the financial health of the Group and its ability to deliver returns to shareholders; and
- total shareholder return (TSR), which provides a measure of the relative performance of the Company against a comparator group.

The combination of the STIP plan metrics (annual) and the longer term (minimum of three year) shareholder metrics in the LTIP plans, provide a spring board from which management can be incentivised to achieve all-round Group strategy.

### Remuneration policy on recruitment or promotion

When determining the remuneration of a newly appointed executive director, the Remuneration Committee will take into consideration all relevant factors, including but not limited to, existing remuneration arrangements and pay relative to other senior management, the market, the candidate's skills, knowledge and experience, the nature of the role they are being recruited to fulfil and the deliverables expected of the new appointee.

The Committee may feel it necessary to offer a below market initial salary with a view to making above market and workforce annual increases over a number of years to reach the desired salary positioning, subject to individual and company performance. All of the principles and components set out in the policy table above are considered.

Benefits, including pension, will be offered in line with the current policy although transitional provisions may apply. The Committee may also provide relocation expenses / arrangements, tax equalisation arrangements and legal fees and other costs.

For variable pay elements granted on recruitment (i.e. STIP, PSP, ESOP) the scheme maximum limits (as described in the policy table above) will apply. The Company may also in these circumstances apply different performance measures if it feels these appropriately meet the strategic objectives and aims of the Company, whilst incentivising the new executive director. For any subsequent awards normal levels would apply as approved by shareholders in the policy.

In certain circumstances where remuneration is relinquished when leaving a former employer, the Committee may offer additional cash and / or share-based elements when it considers these to be in the best interests of the Company and its shareholders. This includes the use of awards made under section 9.4.2 of the Listing Rules. Such amounts would reflect,

as far as possible, the nature and conditionality attached to the remuneration relinquished.

The above policy applies to both internal promotions or an external hire. In the case of an internal promotion, any remuneration commitments entered into prior to the promotion shall continue to apply, with any variable pay elements paying out according to the original terms on grant. The Committee may, however, adjust awards to take into account the timing of the appointment.

For the appointment of a new Chairman or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

### Loss of office

Service agreements contain neither a liquidated damages nor a change of control clause. It is the Company's policy to ensure that any payments made to a director in the event of the early termination of a service agreement reflect the circumstances giving rise to termination and, where considered appropriate, the obligations of the outgoing director to mitigate their loss. Accordingly, consideration is given to making compensation payments in instalments and payments being conditional on the leaver's employment and earnings status. However, there may be circumstances where a director may have a legal right to either statutory or the Company's normal severance arrangements, such as in a redundancy situation. It is the Company's policy to honour any such rights.

### STIP

Other than in certain 'good leaver' circumstances (including but not limited to, redundancy, ill-health or retirement), no bonus would usually be payable unless the executive director remains employed and is not under notice at the payment date. Any bonuses paid to a 'good leaver' would usually be based on attainment of performance targets as well as an assessment of their performance over the performance period and pro rated for the proportion of the bonus year worked.

The Remuneration Committee has discretion to deem a participant in the plan who is leaving the Company to be a 'good leaver'. Should this discretion be exercised, awards may be payable on the basis outlined above.

### LTIP

The PSP and ESOP rules provide that other than in certain 'good leaver' circumstances, awards lapse on cessation of employment. The Committee has discretion to partly or completely disapply pro rating and the performance conditions in certain circumstances, or to permit awards to vest on cessation of employment. The Committee acknowledges that directors leave for a variety of reasons that do not necessarily fall within the prescribed categories in the scheme rules. It therefore retains discretion to deem an individual to be a 'good leaver' in accordance with the plan rules and in making that decision will take into account the performance of the individual in office and their reason for leaving.

Where an individual is considered a 'good leaver', the Committee's policy is ordinarily for the award to vest on the normal vesting date (or cessation of employment in the event of death) following the application of performance targets for the original performance period (or as the Committee considers reasonable in the case of death) and a pro rata reduction to take account of the proportion of the vesting period that has elapsed.

**Remuneration Report (continued) – Remuneration Policy Report**

**Service agreements**

It is the Company's policy that executive directors should have contracts of employment providing for a maximum of one year's notice from the Company and six months' notice from the executive director. Service agreements for all executive directors and letters of appointment for all non-executive directors are available for inspection as described in any Notice of Annual General Meeting.

Each of the executive directors' service agreements provides for the remuneration components set out in the table above as well as:

- the reimbursement of expenses incurred by the director in performance of their duties;
- in the case of termination by the Company with immediate effect, the Company may pay the executive a payment in lieu of notice (PILON). This will exclude bonus payments, payment of benefits to which the executive would be entitled during the period for which the PILON is made, or any payment in respect of any holiday entitlement that would have accrued during the period;
- 25 days' paid holiday each year or payment in lieu of any accrued or untaken holiday on termination of employment calculated with reference to a formula specified in the service agreement; and
- sick pay.

In situations where an executive director is dismissed, the Committee reserves the right to make additional exit payments where such payments are made in good faith, such as:

- In discharge of an existing legal obligation; or
- by way of settlement or compromise of any claim arising in connection with the termination of the directors' office and employment.

**External directorships**

The Company recognises that permitting executive directors to accept non-executive directorships in external companies can broaden the executive's experience and knowledge which is of benefit to their role with the Company. Directors are therefore allowed to retain any fees received for such additional roles. Under the policy approved by the Board, however, each executive director may only take on one non-executive directorship in a FTSE 350 company. Further details on current external directorships and fees relating to them can be found in the Annual Report on Remuneration.

**Non-executive directors' letters of appointment**

Non-executive directors are normally appointed for three year terms, although appointments may vary depending on length of service and succession planning considerations. Appointments are reviewed annually by the Nominations Committee based on effectiveness reviews and recommendations made to the Board accordingly. Each of the non-executive directors' notice periods comprises one month by either the Company or the individual with the exception of the Chairman whose notice period is six months given by the Company or the individual.

Non-executive directors derive no other benefits from their office and are not eligible to participate in the Company's pension scheme. It is Company policy not to grant share options or share awards to non-executive directors or to require part of their fees to be paid in the form of shares.

	Date of appointment	Expiry of current term	Length of service
John Allan	23 Jun 2009	2 Sep 2015	4yr 11m
Prof. Dr. Utho Creusen	1 Feb 2010	1 Feb 2016	4yr 4m
Andrea Gisle Joosen	1 Mar 2013	28 Feb 2016	1yr 3m
Tim How	8 Sep 2009	7 Sep 2015	4yr 9m
Jock Lennox	10 Jan 2012	9 Jan 2015	2yr 5m
Dharmash Mistry	27 Sep 2010	26 Sep 2016	3yr 8m

**Availability for inspection**

The service agreements for the executive directors and the letters of appointment for the non-executive directors will be available for inspection at the Company's registered office and, should an AGM be called, 15 minutes before and during the meeting.

**Legacy arrangements**

For the avoidance of doubt, in approving the Remuneration Policy Report, authority is given to the Company to honour any commitments previously entered into with current or former directors which have been disclosed previously to shareholders.

## Remuneration Report (continued) – Annual Report on Remuneration

### (II) Annual Report on Remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), and contents contain those elements required by section 9.8.6R and stipulated in 9.8.8 of the Listing Rules. Should the Merger not proceed to the expected timetable, the Annual Report on Remuneration will be put to an advisory shareholder vote at the 2014 AGM should it be called. Audited information follows the heading 'Audited information' set out below, except where otherwise indicated.

#### Remuneration Committee

**Main objective:** To determine and agree the remuneration policy for executive directors and senior management and to monitor and report on it.

**Chairman:** Tim How

**Number of meetings:** 5

Member	Attendance
Tim How	5 of 5
John Allan	5 of 5
Prof. Dr. Utho Creusen <sup>(1)</sup>	4 of 5
Andrea Gisle Joosen	5 of 5
Jock Lennox	5 of 5
Dharmash Mistry	5 of 5

(1) Utho Creusen attended all scheduled committee meetings but was unable to attend an ad hoc meeting due to a previous commitment

#### Remuneration Committee membership and attendance

Membership of the Committee currently comprises the five independent non-executive directors and the Chairman of the Company. Their names and attendance at meetings are set out in the table above and their biographies and qualifications are set out on pages 29 and 30. Members served throughout the year under review. In line with the Code, the Chairman is a member of the Committee but is not its Chair. The Committee's terms of reference are available on the Company's corporate website.

Outside of scheduled meetings, there is a formal process agreed by the Committee and the Board for urgent issues to be dealt with at either ad hoc meetings or by discussion with the Chair and other members of the Committee.

The Group Chief Executive and Group Finance Director attended meetings of the Committee by invitation and in an advisory capacity only. Meetings are also attended by the Company Secretary and General Counsel (who acts as Committee Secretary), Deputy Company Secretary, Group HR Director and the Head of Group Reward.

No executive director participates in discussions about their own remuneration.

#### Advice

The Committee keeps itself fully informed with best practice in the field of executive remuneration and seeks advice from internal and external advisors as appropriate. The Committee has retained the services of New Bridge Street (NBS), a subsidiary of Aon Hewitt Limited, as their external advisor throughout the year. NBS is a signatory to the Remuneration

Consultant's Code of Conduct and has confirmed to the Committee its compliance with this code. Accordingly, the Committee is satisfied that the advice that it receives is objective and independent. Fees paid to NBS were £40,000 (2012/13 £22,000) which represent a full year of service. NBS provided no other services to the Company.

#### External directorships

The policy relating to external directorships is outlined in the Remuneration Policy Report. For the year ended 30 April 2014, the following external directorships were undertaken and the fees retained by the executive directors who performed the role:

- Sebastian James was Chairman of INK Publishing (Holdings) Limited until 30 June 2013 and was paid a fee of £2,083 for the financial year to this date.
- Katie Bickerstaffe is a non-executive director of Scottish and Southern Energy plc and is paid a fee of £57,000 per annum.

#### How the Remuneration Policy will be applied in 2014/15

#### Executive directors

##### (i) Base salary

The Committee reviewed the executive directors' salaries in June 2013 and awarded increases of 2% with effect from 18 August 2013, in line with the equivalent general increase made to all UK employees.

The salaries of the executive directors at the beginning of the financial year were as follows:

Name	At 1 May 2014 £	At 1 May 2013 £	Increase %
Sebastian James	612,000	600,000	2%
Humphrey Singer	367,200	360,000	2%
Katie Bickerstaffe	408,000	400,000	2%

It is expected that new packages will be agreed with the executives in the newly merged company. However, should the Merger not complete to the expected timetable, the Committee will review the salaries of the executive directors later in the year.

##### (ii) STIP

The Committee feels that the specific targets relating to the 2014/15 bonus scheme are currently commercially sensitive, and as such are not disclosed. However, the Committee will provide full retrospective disclosure of the targets and the achievement against them in next year's Remuneration Report.

The performance metrics and their weightings for 2014/15 are shown in the table below.

Measure	Strategic objective	Weighting
Group underlying operating profit	To increase operating profit	55%
Adjusted Free Cash Flow	Optimises resources to invest in future growth	25%
ROCE	Optimises the efficiency and profitability of investments	20%



## Remuneration Report (continued) – Annual Report on Remuneration

### (iii) LTIP

The Carphone Warehouse policy will apply in relation to awards to directors of the merged entity should this proceed, it is therefore not the current intention to make awards under the Dixons plans. However, should the transaction not proceed to the expected timetable, or should the Company remain a standalone entity, the Remuneration Committee will consider granting annual awards to executive directors in 2014/15 on a similar basis to 2013/14. To this end, the Committee would make LTIP awards to 100% salary under the PSP or the equivalent value under the ESOP Scheme.

Given that the Company is not currently anticipating to make these awards performance conditions have not yet been agreed. In the event that these awards are granted, the performance conditions will therefore be disclosed to the stock exchange as part of the announcement of the award of shares to the executive directors.

### Non-executive directors' fees and Chairman's fees

The remuneration of non-executive directors is determined by the Board upon the recommendation of the Group Chief Executive and the Group Finance Director. The Chairman is not involved in the setting of his own salary which is dealt with by the Remuneration Committee annually without his participation.

The current fees for the non-executive directors and the Chairman are summarised in the table below:

	At 1 May 2014 £	At 1 May 2013 £	Increase %
Chairman	<b>269,500</b>	264,282	2%
Basic non-executive fee	<b>52,530</b>	51,500	2%
Senior Independent Director	<b>5,000</b>	5,000	–
Audit Committee Chairman	<b>12,500</b>	10,000	25%
Remuneration Committee Chairman	<b>12,500</b>	12,500	–

All directors will submit themselves for re-election at the AGM in accordance with the Code should an AGM be called prior to the proposed merger.

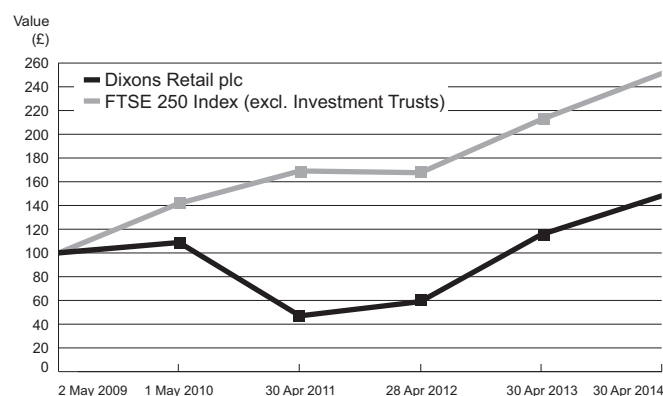
### Performance graph

The graph below shows the Company's performance measured by TSR on a holding of £100 in the Company's shares over the five years since 2 May 2009 compared to the same amount invested in the FTSE 250 Index (excluding investment trusts) (FTSE 250).

The other points plotted are values at intervening financial year ends. The FTSE 250 has been selected as the Company is a constituent of this index and the vesting of PSP awards (except 2012/13) is partly dependent on the Company's TSR performance compared to the constituents of this index.

### Total shareholder return

Source: Thomson Reuters



### Implementation of the remuneration policy during 2013/14

The table below shows the total remuneration figure for the Group Chief Executive over the same five year period. The total remuneration figure includes the bonus and share awards which vested based on performance in those years. The annual bonus and share award percentages show the payout for each year as a percentage of the maximum.

	30 Apr 2014 £'000	30 Apr 2013 £'000	28 Apr 2012 £'000	30 Apr 2011 <sup>(3)</sup> £'000	1 May 2010 <sup>(3)</sup> £'000
<b>Sebastian James<sup>(1)</sup></b>					
Total remuneration	1,351	1,320	218	n/a	n/a
Annual bonus	100%	95%	69%	n/a	n/a
LTIP vesting	–	–	–	n/a	n/a
<b>John Browett</b>					
Total remuneration	–	–	753	1,303	1,570
Annual bonus	–	–	–	18%	100%
LTIP vesting	–	–	–	58% <sup>(2)</sup>	–

(1) Amounts shown for Sebastian James represent amounts received in respect of services after he became a director.

(2) LTIP vesting represents full vesting of 1,068,870 shares awarded on recruitment in compensation of forfeited bonus and lapsing of LTIP awards (761,236 shares) subject to TSR performance conditions being met.

(3) Remuneration is shown before salary sacrifice into Reward Sacrifice options.



## Remuneration Report (continued) – Annual Report on Remuneration

### Audited information

#### Directors' remuneration

The following table shows an analysis of the emoluments and LTIP payments of individual directors:

	2013/14						
	Basic salary and fees £'000	Pension contributions <sup>(2)</sup> £'000	Cash bonus £'000	Taxable benefits £'000	Total emoluments £'000	LTIP payments <sup>(3)</sup> £'000	Total remuneration £'000
<b>Executive</b>							
Sebastian James	608	122	608	13	1,351	–	1,351
Humphrey Singer	365	73	310	13	761	732	1,493
Katie Bickerstaffe	406	81	345	11	843	–	843
	<b>1,379</b>	<b>276</b>	<b>1,263</b>	<b>37</b>	<b>2,955</b>	<b>732</b>	<b>3,687</b>
<b>Non-executive</b>							
John Allan	268	–	–	–	268	–	268
Prof. Dr. Utho Creusen	52	–	–	–	52	–	52
Tim How	70	–	–	–	70	–	70
Andrea Gisle Joosen	52	–	–	–	52	–	52
Jock Lennox	64	–	–	–	64	–	64
Dharmash Mistry	52	–	–	–	52	–	52
	<b>558</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>558</b>	<b>–</b>	<b>558</b>
	<b>1,937</b>	<b>276</b>	<b>1,263</b>	<b>37</b>	<b>3,513</b>	<b>732</b>	<b>4,245</b>
	2012/13						
	Basic salary and fees £'000	Pension contributions <sup>(2)</sup> £'000	Cash bonus £'000	Taxable benefits £'000	Total emoluments £'000	LTIP payments £'000	Total remuneration £'000
<b>Executive</b>							
Sebastian James	600	120	572	28	1,320	–	1,320
Humphrey Singer	360	72	292	13	737	–	737
Katie Bickerstaffe	400	84	324	11	819	–	819
	<b>1,360</b>	<b>276</b>	<b>1,188</b>	<b>52</b>	<b>2,876</b>	<b>–</b>	<b>2,876</b>
<b>Non-executive</b>							
<b>Current directors</b>							
John Allan	263	–	–	–	263	–	263
Prof. Dr. Utho Creusen	51	–	–	–	51	–	51
Tim How	68	–	–	–	68	–	68
Andrea Gisle Joosen	8 <sup>(1)</sup>	–	–	–	8	–	8
Jock Lennox	61	–	–	–	61	–	61
Dharmash Mistry	51	–	–	–	51	–	51
<b>Former directors</b>							
Rita Clifton	18 <sup>(1)</sup>	–	–	–	18	–	18
Andrew Lynch	2 <sup>(1)</sup>	–	–	–	2	–	2
	<b>522</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>522</b>	<b>–</b>	<b>522</b>
	<b>1,882</b>	<b>276</b>	<b>1,188</b>	<b>52</b>	<b>3,398</b>	<b>–</b>	<b>3,398</b>

(1) Fees relate to periods in office as directors. 2012/13: Andrea Gisle Joosen from 1 March 2013 to 30 April 2013, Rita Clifton from 29 April 2012 to 6 September 2012 and Andrew Lynch from 29 April 2012 to 9 May 2012.

(2) Pension contributions comprise the Company's contribution together with the salary supplement which is based on the difference between basic salary and the scheme earnings cap set by the Company. This additional amount was 20% for Sebastian James, Humphrey Singer and Katie Bickerstaffe.

(3) LTIP payments comprise those vesting in respect of 2013/14 with performance conditions which were achieved, but excludes LTIPs which were not subject to performance conditions. Sebastian James and Katie Bickerstaffe both received vested PSP awards which were not subject to performance conditions (arising from grants prior to their appointments as directors) and which amounted to £746,976 and £605,656, respectively. Amounts disclosed have been calculated using an average share price over the three months to 30 April 2014 of 48.03p.

## Remuneration Report (continued) – Annual Report on Remuneration

### Status of previous STIPs and LTIPs

#### STIP in respect of 2013/14

The performance against each performance target was as follows:

Measure	Strategic objective	Weighting	Summary of targets	Result	% of maximum	% of salary paid in cash
Group underlying operating profit	To increase operating profit	55%	Threshold £140.0 million Target £155.1 million Stretch £170.0 million	£202.8 million	100%	55% <sup>(1)</sup> 46.75% <sup>(2)</sup>
Free Cash Flow	Optimises resources to invest in future growth	25%	Threshold £85.0 million Target £107.3 million Stretch £125.0 million	£200.5 million	100%	25% <sup>(1)</sup> 21.25% <sup>(2)</sup>
ROCE	Optimises the efficiency and profitability of investments	20%	Threshold 12.4% Target 13.4% Stretch 14.4%	16.3%	100%	20% <sup>(1)</sup> 17.00% <sup>(2)</sup>
<b>Total</b>		<b>100%</b>			<b>100%</b>	<b>100%<sup>(1)</sup> 85.00%<sup>(2)</sup></b>

(1) Percentage amounts relate to Sebastian James.

(2) Percentage amounts relate to Humphrey Singer and Katie Bickerstaffe.

Amounts to be paid to the executive directors in respect of 2013/14 are set out in the directors' remuneration table above.

#### LTIP

The status of the provisional awards and options under the outstanding share plans which are subject to performance conditions are reviewed regularly. At the end of the performance period for both the PSP and the ESOP, the awards will vest subject to the Committee determining that the performance conditions have been met. There is no re-testing of performance conditions. All share options lapse on the earlier of ten years from the date of grant or, as with the PSP awards, where either the participant leaves the Company or on the date on which the Remuneration Committee determines that the performance conditions have not been met. At the last review in June 2014, the status of the awards and options as at 30 April 2014 was as follows:

Period in which provisional award was made	Period in which performance condition ends	Scheme	Outcome of test <sup>(1)</sup>	Status	Award if status is maintained
2011/12	2013/14	PSP	TSR above median	Vested <sup>(2)(3)</sup>	Full vesting
2011/12	2013/14	PSP	EPS above target	Vested <sup>(2)(3)</sup>	Partial vesting
2012/13	2014/15	PSP	Share price above target		Full vesting
2012/13	2014/15	ESOP	EPS progress towards target		Partial vesting
2013/14	2015/16	PSP	TSR above target		Full vesting
2013/14	2015/16	PSP	EPS progress towards target		Partial vesting

(1) Fuller details of performance criteria are shown in the footnotes to the PSP and directors' share options tables set out below.

(2) See table below.

(3) Sebastian James and Katie Bickerstaffe both hold awards granted to them in 2011, prior to joining the Board, with no performance conditions attached.

#### Vesting of LTIP with performance period ending in 2013/14

The performance period for the 3 August 2011 award ended on 30 April 2014 and the results of the performance review were as follows:

Performance measure	Weighting	Vesting scale	Performance achieved	% of this award vesting
EPS	50%	No vesting below EPS of 2p 25% vests at 2p <sup>(1)</sup> 100% vests at 4p <sup>(1)</sup>	3.0p	62.5%
TSR v FTSE 250 <sup>(3)</sup>	50%	No vesting below median 25% vests at median <sup>(2)</sup> 100% vests at upper quartile <sup>(2)</sup>	Notional ranking of 10 out of 194	100%

(1) Straight line vesting between 2p and 4p.

(2) Straight line vesting between median and upper quartile.

(3) As at the end of the performance period, there were 194 companies, excluding Dixons Retail plc, left of the original FTSE 250 (excluding investment trusts) used for this award.

The Committee has the discretion to reduce the number of shares vesting under the TSR element of the award should they feel that the financial performance of the Company does not warrant vesting. The Committee has determined that no reduction in the number of TSR shares vesting is required.

## Remuneration Report (continued) – Annual Report on Remuneration

### Dilution

A combination of both newly issued shares and shares bought in the market are to be used to satisfy awards under the Group's employee share incentive arrangements. The Committee is aware of and supports the ABI guidelines regarding dilution and monitors regularly the Company's compliance with these requirements. In line with these guidelines, at the 2008 AGM the Committee included provisions in the scheme rules which limit the number of newly issued shares which can be granted to 10% of the issued share capital in ten years under all of the Company's share schemes and 5% for the executive directors and senior management under discretionary share schemes.

Shares relating to a portion of the potential obligations are held in the Dixons Retail Employee Share Trust (the Trust) for the benefit of participants of the share schemes and, if required, it is the Committee's intention to make purchases of shares. Any decision to do so will take into account the number of awards vesting and those options to be satisfied either from the Trust or by new issue, together with the likelihood of any performance targets being met and any potential lapsing of awards when employees leave the Group.

### Change in dividends paid relative to change in spend on pay

	2013/14 £million	2012/13 £million	Change (%)
Dividends paid per ordinary share	nil	nil	n/a
Total staff costs – continuing operations <sup>(1)</sup>	£717.1	£713.8	0.5%

	Number	Number	Change (%)
Employee numbers – continuing operations <sup>(1)(2)</sup>	32,400	30,672	5.6%

(1) Extracted from note 6 to the Financial Statements.

(2) The number of employees has been provided for context.

### Change in Group Chief Executive pay compared to that for employees (not audited)

The table below shows the percentage year-on-year change in salary, benefits and annual bonus earned between 2013/14 and 2012/13 for Sebastian James compared to the average UK based employee during the year.

	Salary	Benefits	Annual bonus
Sebastian James	2.0%	–	6.3%
Average pay based on all UK based employees	2.7%	–	5.4%

## Remuneration Report (continued) – Annual Report on Remuneration

### Directors' share-based rewards

#### Directors' PSP awards

The directors' restricted beneficial interests shown in the table below represent the maximum number of shares which may vest under the PSP.

	Reference market price	At 1 May 2013 <sup>(1)</sup>	Awarded in the period <sup>(2)</sup>	Vested in the period	Lapsed in the period	At 30 April 2014	End of performance period	Vesting date
<b>Sebastian James</b>								
2010/11 <sup>(2)(3)</sup>	27.59p	500,000	–	–	(500,000)	–	Apr 2013	Aug 2013
2011/12 <sup>(2)(5)</sup>	15.99p	1,555,191	–	–	–	1,555,191	n/a	Aug 2014
2012/13 <sup>(7)</sup>	17.50p	6,857,142	–	–	–	6,857,142	Apr 2015	Jun 2015 <sup>(6)</sup>
2013/14 <sup>(8)</sup>	40.79p	–	1,470,948	–	–	1,470,948	Apr 2016	Jul 2016
		8,912,333	1,470,948	–	(500,000)	9,883,281		
<b>Humphrey Singer</b>								
2011/12 <sup>(4)</sup>	15.99p	1,876,173	–	–	–	1,876,173	May 2014	Aug 2014
2012/13 <sup>(7)</sup>	17.50p	4,114,285	–	–	–	4,114,285	Apr 2015	Jun 2015 <sup>(6)</sup>
2013/14 <sup>(8)</sup>	40.79p	–	882,569	–	–	882,569	Apr 2016	Jul 2016
		5,990,458	882,569	–	–	6,873,027		
<b>Katie Bickerstaffe</b>								
2010/11 <sup>(2)(3)</sup>	27.59p	405,406	–	–	(405,406)	–	Apr 2013	Aug 2013
2011/12 <sup>(2)(5)</sup>	15.99p	1,260,967	–	–	–	1,260,967	n/a	Aug 2014
2012/13 <sup>(7)</sup>	17.50p	4,571,428	–	–	–	4,571,428	Apr 2015	Jun 2015 <sup>(6)</sup>
2013/14 <sup>(8)</sup>	40.79p	–	980,632	–	–	980,632	Apr 2016	Jul 2016
		6,237,801	980,632	–	(405,406)	6,813,027		

(1) The number of LTIP and PSP shares granted is calculated by reference to the average share price over a specified period prior to the date of the award.

(2) Award made prior to joining the Board.

(3) PSP awards made in 2010/11 were subject to TSR performance relative to the FTSE 250 Index (comprising FTSE 101-350 companies), excluding investment trusts, at the start of the performance period. Full vesting would occur for upper quartile performance with 25% vesting for median performance with straight line vesting between the two. No award vests for below median performance. The Remuneration Committee has reviewed this performance condition and has determined that it has not been met. Accordingly, these awards lapsed during the period under review.

(4) PSP awards made in 2011/12 to Humphrey Singer are subject to both TSR performance as described in note (3) above, as well as EPS performance whereby 25% of the award vests for an EPS of 2p and full vesting occurs at an EPS of 4p with straight line vesting between the two results. Since 30 April 2014 the Remuneration Committee have reviewed the performance criteria and have determined that 100% of shares subject to the TSR condition will vest, and 62.5% subject to the EPS performance condition (EPS of 3.0p) will vest.

(5) Awards made prior to joining the Board with no performance conditions other than continued service during the three year vesting period.

(6) If more than 75% of the award vests then there will be a partial vesting of 75% in June 2015. Anything over 75% will vest in June 2016 subject to continued employment.

(7) PSP awards made in 2012/13 are subject to a performance condition, whereby 25% vests for a share price of 25p, 100% vests for a share price of 35p with straight line vesting between the two results.

(8) PSP awards made in 2013/14 are subject to the performance conditions outlined below.

On 24 July 2013 performance shares were awarded to the executive directors as detailed below:

	Award	Type	Number of shares <sup>†</sup>	Face value (% of salary)
Sebastian James	PSP	Conditional share awards	1,470,948	100%
Humphrey Singer	PSP	Conditional share awards	882,569	100%
Katie Bickerstaffe	PSP	Conditional share awards	980,632	100%

† Determined by reference to the market price which is the average share price over the three months prior to 24 July 2013.

Performance conditions and vesting criteria for the above PSP, for which the performance period is measured from 1 May 2013 to 30 April 2016, are as follows:

- 50% of the award based on TSR relative to the FTSE 250 (excluding investment trusts). 25% vests at threshold performance, increasing to 100% vesting at upper quartile or above.
- 50% of the award based on EPS performance for the 2015/16 financial year. 25% vests at threshold of 3 pence increasing to 100% vesting for 4 pence.

## Remuneration Report (continued) – Annual Report on Remuneration

### Directors' share options

	Date of grant	Exercise price	At 1 May 2013	Awarded in the period	Lapsed or forfeited in the period	Exercised in period	At 30 April 2014	Date from which first exercisable	Expiry of the exercise period
<b>Sebastian James</b>									
Discretionary <sup>(1)</sup>	3 Aug 2010 <sup>(3)</sup>	27.59p	3,000,000	–	<b>(3,000,000)</b>	–	–	3 Aug 2013	2 Aug 2020
	29 Jun 2012	17.51p	2,571,428 <sup>(4)</sup>	–	–	–	<b>2,571,428</b>	29 Jun 2017	28 Jun 2022
Sharesave <sup>(1)(2)</sup>	23 Jul 2013	32.45p	–	<b>3,882</b>	–	–	<b>3,882</b>	1 Oct 2016	31 Mar 2017
			<b>5,571,428</b>	<b>3,882</b>	<b>(3,000,000)</b>	–	<b>2,575,310</b>		
<b>Humphrey Singer</b>									
Discretionary <sup>(1)</sup>	11 Jul 2008	27.63p	386,415	–	–	–	<b>386,415</b>	11 Jul 2011	10 Jul 2018
	3 Aug 2010 <sup>(3)</sup>	27.59p	300,000	–	<b>(300,000)</b>	–	–	3 Aug 2013	2 Aug 2020
	29 Jun 2012	17.51p	1,542,857 <sup>(4)</sup>	–	–	–	<b>1,542,857</b>	29 Jun 2017	28 Jun 2022
Reward Sacrifice <sup>(6)</sup>	28 Sep 2009	28.43p	101,110	–	–	–	<b>101,110</b>	28 Sep 2012	27 Sep 2019
Sharesave <sup>(1)(2)</sup>	3 Aug 2010	20.23p	12,100	–	–	<b>(12,100)</b> <sup>(5)</sup>	–	1 Oct 2013	31 Mar 2014
	22 Jul 2011	13.01p	9,711	–	–	–	<b>9,711</b>	1 Oct 2014	31 Mar 2015
	24 Jul 2012	14.18p	8,885	–	–	–	<b>8,885</b>	1 Oct 2015	31 Mar 2016
	23 Jul 2013	32.45p	–	<b>3,882</b>	–	–	<b>3,882</b>	1 Oct 2016	31 Mar 2017
			<b>2,361,078</b>	<b>3,882</b>	<b>(300,000)</b>	<b>(12,100)</b>	<b>2,052,860</b>		
<b>Katie Bickerstaffe</b>									
Discretionary <sup>(1)</sup>	3 Aug 2010 <sup>(3)</sup>	27.59p	2,432,434	–	<b>(2,432,434)</b>	–	–	3 Aug 2013	2 Aug 2020
	29 Jun 2012	17.51p	1,714,285 <sup>(4)</sup>	–	–	–	<b>1,714,285</b>	29 Jun 2017	28 Jun 2022
Reward Sacrifice <sup>(6)</sup>	28 Sep 2009	28.43p	299,762	–	–	–	<b>299,762</b>	28 Sep 2012	27 Sep 2019
Sharesave <sup>(1)(2)</sup>	3 Aug 2010	20.23p	12,100	–	–	<b>(12,100)</b> <sup>(5)</sup>	–	1 Oct 2013	31 Mar 2014
	22 Jul 2011	13.01p	9,711	–	–	–	<b>9,711</b>	1 Oct 2014	31 Mar 2015
	24 Jul 2012	14.18p	8,885	–	–	–	<b>8,885</b>	1 Oct 2015	31 Mar 2016
	23 Jul 2013	32.45p	–	<b>3,882</b>	–	–	<b>3,882</b>	1 Oct 2016	31 Mar 2017
			<b>4,477,177</b>	<b>3,882</b>	<b>(2,432,434)</b>	<b>(12,100)</b>	<b>2,036,525</b>		

(1) Discretionary and Sharesave options are granted for £nil consideration.

(2) Awards granted under the Sharesave Scheme are exercisable in the six month period following the date of maturity of the savings contracts which have terms of three years.

(3) Discretionary options granted on 3 August 2010 were subject to an EPS performance condition which failed to meet the performance condition and have therefore lapsed.

(4) Options granted on 29 June 2012 are subject to an EPS performance condition whereby 25% of the options vest for EPS in 2014/15 of 2.5p. 100% of the options vest for EPS in 2014/15 of 3.5p. Options will vest on a straight line basis between 25% and 100% of the award.

(5) The Sharesave awards exercised by Katie Bickerstaffe and Humphrey Singer had a market price of 46.52p and 46.69p, respectively, on the date of exercise.

(6) In 2009, certain executive directors and senior management were offered the choice to sacrifice part of their salary for a share award. For every £1 of salary sacrificed a £3 face value of share options was received. These awards have now vested and are shown in the table above for the executive directors.

The share price on 30 April 2014 was 44.98p and closing prices ranged between 35.31p and 53.30p during the year.

### Share ownership guidelines

The Company has a policy of encouraging executive directors to build shareholdings in the Company. Executive directors are required to retain 50% of the net of tax outturn from the vesting of future awards under the Company's share plans until a shareholding with a minimum value equivalent to their base salary is achieved. The table which follows sets out share interests and entitlements including those under share ownership guidelines.



## Remuneration Report (continued) – Annual Report on Remuneration

	Beneficially owned		Restricted interests in share plans as at 30 April 2014				Total beneficial interests under share ownership guidelines <sup>(1)</sup>	Total beneficial share interests as a % of salary <sup>(2)</sup>	Exercised during 2013/14 <sup>(6)</sup>
	30 April 2014	30 April 2013	PSP <sup>(3)</sup>	ESOS <sup>(4)</sup>	Reward sacrifice <sup>(5)</sup>	Sharesave	Total	30 April 2014	Sharesave
<b>Executive directors</b>									
Sebastian James	109,072	109,072	9,883,281	2,571,428	–	3,882	109,072	8%	–
Humphrey Singer	92,495	80,395	6,873,027	1,929,272	101,110	22,478	247,528	31%	12,100
Katie Bickerstaffe	208,657	196,557	6,813,027	1,714,285	299,762	22,478	303,981	35%	12,100
<b>Non-executive directors</b>									
John Allan	1,180,818	1,180,818	–	–	–	–	–	–	–
Prof. Dr. Utho Creusen	97,071	97,071	–	–	–	–	–	–	–
Tim How	80,000	80,000	–	–	–	–	–	–	–
Andrea Gisle Joosen	39,200	–	–	–	–	–	–	–	–
Jock Lennox	75,000	75,000	–	–	–	–	–	–	–
Dharmash Mistry	267,382	267,382	–	–	–	–	–	–	–

- (1) Shows the directors' total connected shareholdings plus any share interests that have vested but are not yet exercised (share ownership guidelines stipulate that only 60% of the reward after deduction of tax is counted in determining the minimum shareholding and accordingly, only 60% of the post tax number of vested but unexercised options has been used in the calculation).
- (2) Based on basic salary as at 1 May 2014 and an average share price over the month to 30 April 2014 of 46.49p.
- (3) Subject to performance conditions except for 1,555,191 shares awarded to Sebastian James and 1,260,967 for Katie Bickerstaffe which are not subject to performance conditions.
- (4) Subject to performance conditions. ESOS awards in respect of Humphrey Singer include 386,415 shares which have vested but are unexercised.
- (5) Vested but unexercised.
- (6) Further details in the share option table above.

There were no changes in the directors' restricted or unrestricted share interests between 30 April 2014 and the date of this report.

In addition to the share interests disclosed above, the following directors held interests in the Group's 8.75% 2015 Guaranteed Notes (the 2015 Notes) and the 8.75% 2017 Guaranteed Notes (the 2017 Notes):

- John Allan holds £556,000 of the 2015 Notes and £250,000 of the 2017 Notes; and
- Tim How and his connected interests hold £100,000 of the 2017 Notes.

Further details of the 2015 Notes and the 2017 Notes are set out in note 17 to the Financial Statements.

### Directors' pensions

All of the current executive directors are members of the defined contribution section of the Company's pension scheme (*pensionbuilder*) which provides for a pension at normal retirement age of 65. Each executive director contributes 5% of salary up to the scheme specific earnings cap via Pay Exchange, a salary sacrifice arrangement. In addition, the Company's contribution for each executive director is 20% up to the earnings cap (which is currently £146,400). In addition, the Company provides each executive director with a salary supplement above the earnings cap. Sebastian James, Humphrey Singer and Katie Bickerstaffe all receive a 20% salary supplement for the amount of their salary above the earnings cap. No directors accrued benefits under a defined benefit pension scheme. Humphrey Singer opted out of the pension scheme on 5 April 2014. He now receives the equivalent of the Company contribution to the pension scheme (adjusted for employer National Insurance contributions) as an additional salary supplement.

### Voting at the 2013 AGM (not audited)

At the AGM on 5 September 2013, the annual advisory vote on the Directors' Remuneration Report took place. The voting outcome was:

Resolution	Votes for	%	Votes against	%	Withheld
Remuneration Report	2,600,163,558	99.36	16,764,288	0.64	66,307,664

The Company consults with its shareholders as part of its ongoing investor relations programme. In 2012, the Company announced its intentions of returning to a normal award structure in 2013, which was duly carried out. Accordingly, no specific remuneration consultation took place in the current year.



**Tim How**  
Chairman of the Remuneration Committee  
25 June 2014

## **Directors' Responsibilities**

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The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations. English company law requires the directors to prepare financial statements for each financial year and under that law, the directors have prepared the Group and the Company financial statements in accordance with International Financial Reporting Standards (IFRS) 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 Group and the Company and of the profit or loss of the Group for the year. In preparing the financial statements, the directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance; and
- Make an assessment of the Group and the Company's ability to continue as a going concern.

In preparing both the Group and the Company financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. Applicable accounting standards have been followed. The financial statements have been prepared on the going concern basis as disclosed in the Statutory Information section of the Directors' Report and Business Review.

The directors are responsible for maintaining adequate accounting records and sufficient internal controls to safeguard the assets of the Company and to take reasonable steps for the prevention and detection of fraud or any other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors confirm that to the best of their knowledge:

- The Group and Company financial statements have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and (loss) / profit of the Group and Company, respectively;
- The business and financial review contained in this Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties they face; and
- This Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group and the Company's performance, business model and strategy.

By Order of the Board



**Sebastian James**  
Group Chief Executive  
25 June 2014



**Humphrey Singer**  
Group Finance Director  
25 June 2014

## Independent Auditor's Report

### Opinion on financial statements of Dixons Retail plc.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 April 2014 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- 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.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income and expense, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statement of changes in equity and the related notes 1 to 32 and C1 to C17. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the group financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

### Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the statutory information section of the directors' report that the Group is a going concern. We confirm that we have:

- concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

- **Revenue recognition:** We have identified revenue from customer support agreements (CSAs) as significant. In accounting for revenue from CSAs, the revenue is spread to reflect the expected claims under the agreements and there are key judgements inherent to the spreading methodology applied.

We assessed the assumptions applied in the spread factors with reference to actual historical levels of claims and we have challenged the appropriateness of these factors to determine whether there is a solid basis for the assumptions used. We have tested the integrity of the revenue spreading model and the inputs into the model through recalculation.

- **Accounting for disposals:** The accounting treatment of disposals is significant to the accounts following the disposals of the PIXmania, Unieuro, and Turkish ElectroWorld businesses which have taken place during the year.

We have recomputed the loss on disposal recognised with reference to the relevant agreements and other third party information. We have assessed the judgements made in calculating the loss on disposal, including in relation to provisions and warranties, with reference to historical performance and other available information, and we have assessed the presentation of the results as discontinued operations.

- **Non-underlying items:** The Group has recorded non-underlying income and expenditure in respect of one-off items and transactions that are outside of the normal course of trading. The presentation and consistency of these items is a key judgement.

We reviewed the nature of non-underlying items and challenged management's judgements in this area. We assessed whether the non-underlying items are in line with the Group's accounting policy and that it has been applied consistently with previous accounting periods, including whether the reversal of any items originally recognised as non-underlying are appropriately classified as non-underlying items. We agreed the quantification of the non-underlying items to supporting documentation. We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items.

- **Inventory provisioning:** Inventory is a significant balance for the Group and there are a number of judgement areas including obsolescence and shrinkage provisioning.

We have performed testing of the controls around the inventory business cycle and have attended a sample of inventory counts at a number of stores and distribution centres across the Group which enables us to assess management's processes for monitoring stock. We performed audit tests to assess whether inventory is valued at the lower of cost and net realisable value. We reviewed, recalculated and assessed the inventory ageing and provisioning for reasonableness, including challenging the appropriateness of provisioning with reference to both historical and post year end performance and a review of the provision as a percentage of gross stock year on year. We have also considered the impact of range changes and other specific known areas of over-stock on the required provision calculation.

## Independent Auditor's Report (continued)

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- **Defined benefit pension assumptions:** The defined benefit pension liability is a significant balance with inherent judgements. As a result we have identified as a significant risk the review of actuarial valuations used in respect of the defined benefit scheme and the assessment of the appropriateness of the assumptions used with the key assumptions being the discount rate, inflation assumptions and mortality assumptions.

We have worked with pensions specialists to assess the appropriateness of the assumptions underlying the valuation of the pension deficit by reviewing the actuarial report and challenging each of the assumptions by comparison to available market data. We have confirmed the year end pension asset values to third party confirmations and checked the integrity of those confirmations by agreeing a sample back to independent data. We assessed the independence and competence of management's actuary.

The Audit Committee's consideration of these risks is set out on in the section entitled Key matters considered during the year of the Audit Committee's report.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £8 million, which is below 5% of underlying profit before tax. We use underlying profit before tax to provide a stable basis for materiality that reflects the focus of the users of the financial statements and is the primary key performance indicator used by management and the directors. This excludes the effect of separately disclosed non-underlying items, as these can be volatile, and in the opinion of the directors, provides a more comparable measure with similar organisations and is consistent with the profit measure most relevant to analysts and investors.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.3 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our group audit scope was focused on the audit work in the three key segments of the UK & Ireland, Nordics and Greece. The key components in each of these locations were all subject to full audit, which represented 100% of the Group's net assets, revenues and profit before tax. Our audit work at each location was executed at levels of materiality applicable to each individual entity which were lower than group materiality. Our group audit scope was determined by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. These components were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. We also tested the consolidation process.

The group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the group audit team visits each of the locations where the group audit scope was focused at least once a year and attended closing meetings in the UK, Greece and Norway in 2014. In years when we do not visit a significant component we will include the component audit team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

## Independent Auditor's Report (continued)

### **Matters on which we are required to report by exception** ***Adequacy of explanations received and accounting records***

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### ***Directors' remuneration***

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### ***Corporate Governance Statement***

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### ***Our duty to read other information in the Annual Report***

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Scope of the audit of the financial statements**

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. 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.



**Nicola Mitchell FCA**  
(Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
25 June 2014



Consolidated Income Statement

	Note	Year ended 30 April 2014			Year ended 30 April 2013 <sup>†</sup> Restated		
		Underlying* £million	Non-underlying* £million	Total £million	Underlying* £million	Non-underlying* £million	Total £million
<b>Continuing operations</b>							
<b>Revenue</b>	2,3	<b>7,217.6</b>	<b>0.1</b>	<b>7,217.7</b>	7,026.6	82.6	7,109.2
<b>Operating profit</b>	2,3	<b>202.8</b>	<b>(13.5)</b>	<b>189.3</b>	186.4	(35.8)	150.6
Loss on sale of business		–	–	–	–	(9.6)	(9.6)
Finance income		<b>2.9</b>	–	<b>2.9</b>	7.2	3.3	10.5
Finance costs		<b>(39.5)</b>	<b>(19.8)</b>	<b>(59.3)</b>	(42.6)	(22.3)	(64.9)
<b>Net finance costs</b>	5	<b>(36.6)</b>	<b>(19.8)</b>	<b>(56.4)</b>	(35.4)	(19.0)	(54.4)
<b>Profit before tax</b>		<b>166.2</b>	<b>(33.3)</b>	<b>132.9</b>	151.0	(64.4)	86.6
Income tax expense	7	<b>(50.5)</b>	<b>5.4</b>	<b>(45.1)</b>	(54.0)	10.3	(43.7)
Profit after tax – continuing operations		<b>115.7</b>	<b>(27.9)</b>	<b>87.8</b>	97.0	(54.1)	42.9
Loss after tax – discontinued operations	27	–	<b>(158.1)</b>	<b>(158.1)</b>	–	(215.3)	(215.3)
<b>Profit / (loss) after tax for the year</b>		<b>115.7</b>	<b>(186.0)</b>	<b>(70.3)</b>	97.0	(269.4)	(172.4)
<b>Attributable to:</b>							
<b>Continuing operations</b>							
Equity shareholders of the parent company		<b>115.7</b>	<b>(27.9)</b>	<b>87.8</b>	97.1	(54.1)	43.0
Non-controlling interests		–	–	–	(0.1)	–	(0.1)
<b>Discontinued operations</b>							
Equity shareholders of the parent company		–	<b>(157.3)</b>	<b>(157.3)</b>	–	(205.5)	(205.5)
Non-controlling interests		–	<b>(0.8)</b>	<b>(0.8)</b>	–	(9.8)	(9.8)
		<b>115.7</b>	<b>(186.0)</b>	<b>(70.3)</b>	97.0	(269.4)	(172.4)
<b>(Loss) / earnings per share (pence)</b>							
	8						
Basic – total				<b>(1.9)p</b>			(4.5)p
Diluted – total				<b>(1.9)p</b>			(4.5)p
Basic – continuing operations				<b>2.4p</b>			1.2p
Diluted – continuing operations				<b>2.3p</b>			1.2p
<b>Underlying earnings per share (pence)</b>							
	1,8						
Basic – continuing operations		<b>3.2p</b>			2.7p		
Diluted – continuing operations		<b>3.0p</b>			2.6p		

\* Underlying figures exclude the trading results of businesses exited, amortisation of acquired intangibles, net restructuring and business impairment charges and other one off, non-recurring items, profits / losses on sale of businesses, net interest on defined benefit pension schemes, net fair value remeasurements of financial instruments and, where applicable, discontinued operations. Such excluded items are described as 'Non-underlying'. Further information on these items is shown in notes 1, 2, 3, 4, 5, 7 and 27.

Businesses exited comprise businesses which have either been sold or closed. Certain businesses meet the criteria of discontinued operations as stipulated by IFRS 5 and are disclosed as such, whereas the remainder do not. Accordingly, despite all of the business exits having similar characteristics, the disclosures within non-underlying items differ across these businesses. Further information is shown in notes 2, 4 and 27.

† Results for the year ended 30 April 2013 have been restated for the impact of the amendment to IAS 19 'Employee Benefits', which is described further in note 1. Underlying figures for the year ended 30 April 2013 have been re-presented to exclude the trading results of businesses exited for which the decisions were made or executed in 2013/14.

## Consolidated Statement of Comprehensive Income and Expense

	Note	Year ended 30 April 2014 £million	Year ended 30 April 2013 Restated £million
<b>Loss for the year</b>		<b>(70.3)</b>	<b>(172.4)</b>
<i>Items that may be reclassified to the income statement in subsequent years</i>			
Cash flow hedges	22		
Fair value remeasurement (losses) / gains		<b>10.5</b>	(12.7)
(Gains) / losses transferred to carrying amount of inventories		<b>(15.1)</b>	5.4
Losses transferred to income statement (within cost of sales)		<b>10.1</b>	3.4
Net investment hedges	22		
Fair value remeasurement gains		<b>–</b>	0.9
Reclassification on disposal of overseas subsidiaries		<b>64.7</b>	–
Available for sale investments			
Fair value remeasurement gains		<b>0.1</b>	0.4
Income tax effects		<b>(1.5)</b>	0.8
Currency translation movements		<b>(135.7)</b>	32.5
		<b>(66.9)</b>	30.7
<i>Items that will not be reclassified to the income statement in subsequent years:</i>			
Actuarial gains / (losses) on defined benefit pension schemes – UK	21	<b>3.6</b>	(151.5)
– Overseas		<b>0.4</b>	1.6
Deferred tax on actuarial gains / (losses) on defined benefit pension schemes		<b>(13.8)</b>	31.6
Currency translation movements		<b>0.4</b>	(0.6)
		<b>(9.4)</b>	(118.9)
<b>Other comprehensive expense for the year (taken to equity)</b>		<b>(76.3)</b>	<b>(88.2)</b>
<b>Total comprehensive expense for the year</b>		<b>(146.6)</b>	<b>(260.6)</b>
<b>Attributable to:</b>			
Equity shareholders of the parent company		<b>(145.8)</b>	(250.4)
Non-controlling interests		<b>(0.8)</b>	(10.2)
		<b>(146.6)</b>	<b>(260.6)</b>

## Financial Statements

### Consolidated Balance Sheet

	Note	30 April 2014 £million	30 April 2013 £million
<b>Non-current assets</b>			
Goodwill	9	607.4	704.2
Intangible assets	10	50.9	66.4
Property, plant & equipment	11	330.5	434.0
Investments in associates	12	0.5	0.5
Trade and other receivables	14	13.6	20.6
Deferred tax assets	7	121.2	150.9
		<b>1,124.1</b>	<b>1,376.6</b>
<b>Current assets</b>			
Inventories	13	684.4	895.4
Trade and other receivables	14	267.1	304.5
Income tax receivable		6.1	5.4
Short term investments	15	1.4	2.4
Cash and cash equivalents	16	401.2	405.3
		<b>1,360.2</b>	<b>1,613.0</b>
Assets held for sale	27	30.8	15.1
<b>Total assets</b>		<b>2,515.1</b>	<b>3,004.7</b>
<b>Current liabilities</b>			
Bank overdrafts	17	–	(17.7)
Borrowings	17	–	(4.5)
Obligations under finance leases	18	(2.0)	(2.0)
Trade and other payables	19	(1,382.4)	(1,667.7)
Income tax payable		(51.4)	(70.4)
Provisions	20	(24.1)	(36.8)
		<b>(1,459.9)</b>	<b>(1,799.1)</b>
<b>Net current liabilities</b>		<b>(99.7)</b>	<b>(186.1)</b>
<b>Non-current liabilities</b>			
Borrowings	17	(246.9)	(245.4)
Obligations under finance leases	18	(91.6)	(96.0)
Retirement benefit obligations	21	(401.8)	(409.1)
Other payables	19	(239.1)	(262.5)
Deferred tax liabilities	7	(15.1)	(11.3)
Provisions	20	(16.1)	(26.1)
		<b>(1,010.6)</b>	<b>(1,050.4)</b>
Liabilities directly associated with assets classified as held for sale	27	(31.2)	(7.9)
<b>Total liabilities</b>		<b>(2,501.7)</b>	<b>(2,857.4)</b>
<b>Net assets</b>		<b>13.4</b>	<b>147.3</b>
<b>Capital and reserves</b>			
Called up share capital	23	91.5	90.7
Share premium account		179.3	172.7
Other reserves	23	(450.6)	(520.9)
Retained earnings		192.6	405.6
<b>Equity attributable to equity holders of the parent company</b>		<b>12.8</b>	<b>148.1</b>
Equity non-controlling interests		0.6	(0.8)
<b>Total equity</b>		<b>13.4</b>	<b>147.3</b>

The financial statements were approved by the directors on 25 June 2014 and signed on their behalf by:



**Sebastian James**  
Group Chief Executive



**Humphrey Singer**  
Group Finance Director

## Consolidated Cash Flow Statement

	Note	Year ended 30 April 2014 £million	Year ended 30 April 2013 Re-presented £million
<b>Operating activities – continuing operations</b>			
Cash generated from operations	* 26	367.0	406.9
Special contributions to defined benefit pension scheme	21	(20.0)	(20.0)
Income tax paid	*	(49.0)	(19.9)
<b>Net cash flows from operating activities</b>		<b>298.0</b>	<b>367.0</b>
<b>Investing activities – continuing operations</b>			
Purchase of property, plant & equipment and other intangibles	*	(79.7)	(75.9)
Purchase of subsidiaries		(0.1)	(0.2)
Sale of business		–	3.4
Interest received	*	4.3	16.8
Decrease in short term investments		1.1	5.3
Dividend received from associate		–	0.4
<b>Net cash flows from investing activities</b>		<b>(74.4)</b>	<b>(50.2)</b>
<b>Financing activities – continuing operations</b>			
Issue of ordinary share capital		7.4	3.6
Purchase of own shares		–	(0.3)
Capital element of finance lease payments		(1.8)	(2.1)
Interest element of finance lease payments	*	(5.8)	(6.0)
Decrease in borrowings due within one year		–	(160.0)
Increase in borrowings due after more than one year		–	97.1
Interest paid	*	(36.3)	(114.1)
<b>Net cash flows from financing activities</b>		<b>(36.5)</b>	<b>(181.8)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>			
Continuing operations	(i)	187.1	135.0
Discontinued operations	27	(163.9)	(57.7)
		<b>23.2</b>	<b>77.3</b>
<b>Reconciliation to items disclosed on the balance sheet</b>			
Cash and cash equivalents		401.2	405.3
Bank overdrafts		–	(17.7)
Cash and cash equivalents included in assets held for sale		8.8	–
		<b>410.0</b>	<b>387.6</b>
Cash and cash equivalents at beginning of year	(i) 26	387.6	301.0
Currency translation differences		(0.8)	9.3
<b>Cash and cash equivalents at end of year</b>	(i) 26	<b>410.0</b>	<b>387.6</b>
<b>Free Cash Flow</b>	(ii)	<b>200.5</b>	<b>207.8</b>

(i) For the purposes of this cash flow statement, cash and cash equivalents comprise those items disclosed as 'cash and cash equivalents' on the face of the balance sheet, less overdrafts, which are classified within current liabilities on the face of the balance sheet plus cash and cash equivalents included within assets held for sale on the face of the balance sheet.

(ii) Free Cash Flow comprises those items marked \* and comprises cash generated from / (utilised by) continuing operations before special pension contributions, less net finance expense, less income tax paid and net capital expenditure. The directors consider that 'Free Cash Flow' provides additional useful information to shareholders in respect of cash generation and is consistent with how business performance is measured internally.

Consolidated Statement of Changes in Equity

	Share capital £million	Share premium £million	Other reserves £million	Retained earnings £million	Sub-total £million	Non-controlling interests £million	Total equity £million
At 29 April 2012	90.3	169.5	(521.0)	652.6	391.4	12.6	404.0
Loss for the year	–	–	–	(172.4)	(172.4)	–	(172.4)
Other comprehensive income and expense recognised directly in equity	–	–	(1.9)	(76.1)	(78.0)	(10.2)	(88.2)
Total comprehensive income and expense for the year	–	–	(1.9)	(248.5)	(250.4)	(10.2)	(260.6)
Reduction in non-controlling interests	–	–	–	(2.0)	(2.0)	(6.1)	(8.1)
Non-controlling interests – increase in capital	–	–	–	–	–	2.9	2.9
Ordinary shares issued	0.4	3.2	–	–	3.6	–	3.6
Investment in own shares	–	–	(0.3)	–	(0.3)	–	(0.3)
Transfer	–	–	2.3	(2.3)	–	–	–
Share-based payments (including any related tax)	–	–	–	5.8	5.8	–	5.8
At 30 April 2013	90.7	172.7	(520.9)	405.6	148.1	(0.8)	147.3
Loss for the year	–	–	–	(70.3)	(70.3)	–	(70.3)
Other comprehensive income and expense recognised directly in equity	–	–	70.3	(145.8)	(75.5)	(0.8)	(76.3)
Total comprehensive income and expense for the year	–	–	70.3	(216.1)	(145.8)	(0.8)	(146.6)
Reduction in non-controlling interests	–	–	–	(2.7)	(2.7)	2.2	(0.5)
Ordinary shares issued	0.8	6.6	–	–	7.4	–	7.4
Share-based payments (including any related tax)	–	–	–	5.8	5.8	–	5.8
<b>At 30 April 2014</b>	<b>91.5</b>	<b>179.3</b>	<b>(450.6)</b>	<b>192.6</b>	<b>12.8</b>	<b>0.6</b>	<b>13.4</b>

At 30 April 2014, non-controlling interests (minority interests) comprise shareholdings in Dixons South-East Europe A.E.V.E. (Kotsovolos).

On 27 June 2013, the Group acquired the remaining 40% of Electro World İç ve Dış Ticaret A.Ş (Electroworld Turkey) for TL 2 (£1) in cash, bringing its stake in EW Turkey to 100%. The Group subsequently sold this business on 31 October 2013. On 7 August 2013 the Group acquired the remaining 0.8% of PIXmania S.A.S. (PIXmania) for €0.6 million (£0.5 million) in cash, bringing its stake in PIXmania to 100%. The Group subsequently also sold PIXmania on 31 December 2013. Both disposals are described further in note 27.



## Notes to the Consolidated Financial Statements

### 1 Accounting policies

#### 1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, IFRS issued by the International Accounting Standards Board and those parts of the Companies Act 2006 applicable to those companies reporting under IFRS. In considering the going concern basis for preparing the financial statements, the directors have considered the Company's objectives and strategy, the risks and uncertainties to achieving the objectives, and the review of business performance. The Group's liquidity and funding arrangements are described in notes 17 and 22(f) to the Financial Statements as well as in the consolidated cash flow statement and note 26. In consideration of this, the directors consider that the Group has significant covenant and liquidity headroom in its borrowing facilities for the foreseeable future. Accordingly, after reviewing the Company's expenditure commitments, current financial projections and expected future cash flows, together with the available cash resources and undrawn committed borrowing facilities, the directors have considered that adequate resources exist for the Company to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

The Group's income statement and segmental analysis identify separately underlying performance measures and non-underlying items. Underlying performance measures reflect an adjustment to total performance measures to exclude the impact of businesses exited / to be exited and other non-underlying items. Underlying performance measures comprise profits and losses incurred as part of the day-to-day ongoing retail activities of the Company and include profits and losses incurred on the disposal and closure of owned or leased properties that occur as part of the Group's annual retail churn. The profits or losses incurred on disposal or closure of owned or leased properties as part of a one off restructuring programme are excluded from underlying performance measures and are therefore included, among other items, within non-underlying items as described below. The directors consider 'underlying' performance measures to be a more accurate reflection of the ongoing trading performance of the Group and believe that these measures provide additional useful information for shareholders on the Group's performance and are consistent with how business performance is measured internally.

Non-underlying items comprise trading results of businesses exited / to be exited, amortisation of acquired intangibles, net restructuring and business impairment charges and other one off, non-recurring items, profits / losses on sale of investments or businesses, net interest on defined benefit pension schemes, fair value remeasurements of financial instruments and, where applicable, discontinued operations. Businesses exited / to be exited are those which do not meet the definition of discontinued operations as stipulated by IFRS 5. Items excluded from underlying results can evolve from one financial year to the next depending on the nature of reorganisation or one off type activities described above.

Underlying performance measures may not be directly comparable with other similarly titled measures or 'adjusted' revenue or profit measures used by other companies.

The principal accounting policies are set out below:

#### 1.2 Accounting convention and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired are included from the date on which power to control passes. The net assets of subsidiaries acquired are recorded at their fair values. The results of subsidiaries disposed of are included up to the effective date of disposal.

Associates are accounted for using the equity method of accounting from the date on which the power to exercise significant influence passes.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### 1.3 Revenue

Revenue comprises sales of goods and services excluding sales taxes. Revenue from sales of goods is recognised at the point of sale or, where later, upon delivery to the customer and is stated net of returns. Revenue earned from customer support agreements is recognised as such over the life of the agreement by reference to the stage of completion of the transaction at the balance sheet date.

#### 1.4 Other income, including non-operating income

Other income, which is incidental to the Group's principal activities of selling goods and services and accordingly is not recorded as part of revenue, is recognised when the Group obtains the right to consideration by performance of its contractual obligations. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognised when the right to receive payment has been established.

#### 1.5 Discontinued operations

A discontinued operation is a component of the Group which represents a significant separate line of business, either activity or market, which has been sold. Classification as a discontinued operation occurs upon disposal or earlier if beneficial title and risk has transferred to the purchaser and in the case of a business acquired exclusively with a view to subsequent disposal, on the date of acquisition.

Where the sale of a component of the Group is considered highly probable and the business is available for immediate sale in its present condition, it is classified as held for sale. Assets and liabilities held for sale are measured at the lower of carrying amount and fair value less costs to sell.

#### 1.6 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The determination of the classification of property leases is made by reference to the land and buildings elements separately. All leases not classified as finance leases are operating leases.

## Notes to the Consolidated Financial Statements (continued)

### **Finance leases**

Assets held under finance leases are capitalised at their fair value on acquisition or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease and depreciated over their estimated useful lives or the lease term if shorter. The corresponding obligation to the lessor is included in the balance sheet as a liability.

Lease payments are apportioned between finance charges and reduction of the lease obligation. Finance charges are charged to the income statement over the year of the lease in proportion to the capital element outstanding.

### **Operating leases**

Rentals payable under operating property leases are charged to the income statement on a straight line basis over the fixed term of the lease. At the end of the fixed term of leases, rental payments are reset to market rates, typically on an upwards only basis.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Where a lease forms part of a separate cash generating unit (CGU), such as a store or group of stores, and business indicators exist which could lead to the conclusion that the carrying value of the CGU is not supportable, the recoverable amount of the CGU is determined by calculating its value in use. The value in use is calculated by applying discounted cash flow modelling to management's projection of future profitability. If an impairment of a CGU has been identified such that the value in use is negative and a lease exists in that CGU, a provision for the onerous portion of the lease is made equal to the lower of the outstanding lease commitment and the negative present value of the CGU.

### **1.7 Translation of foreign currencies**

Transactions in foreign currencies are initially recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date. Exchange gains and losses arising on settlement or retranslation of monetary assets and liabilities are included in the income statement.

Assets and liabilities of overseas subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The results of overseas subsidiary undertakings are translated into sterling at the average rates of exchange during the year. Exchange differences resulting from the translation of the results and balance sheets of overseas subsidiary undertakings are charged or credited directly to retained earnings. Such translation differences become recognised in the income statement in the year in which the subsidiary undertaking is disposed.

As the cumulative translation differences for all foreign subsidiaries were deemed to be zero at the transition date to IFRS on 2 May 2004, upon disposal of a foreign subsidiary, any gain or loss arising will include only those foreign exchange gains or losses attributable to years after that date.

### **1.8 Goodwill**

On acquisition of a subsidiary or associate, the fair value of the consideration is allocated between the identifiable net tangible and intangible assets / liabilities on a fair value basis, with any excess consideration representing goodwill. Goodwill in respect of subsidiaries is capitalised as goodwill on the balance sheet; goodwill relating to associates is capitalised in investments in associates as part of the carrying value of the associate.

Goodwill is not amortised, but instead is reviewed annually for impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary or associate the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

### **1.9 Intangible assets**

#### **Acquired intangibles**

Acquired intangibles comprise brand names purchased as part of acquisitions of businesses and are capitalised and amortised over their useful economic lives on a straight line basis. Acquired intangibles are stated at cost less accumulated amortisation and, where appropriate, provision for impairment in value or estimated loss on disposal. Amortisation is provided to write off the cost of assets on a straight line basis up to 30 years.

#### **Other intangible assets: computer software**

Computer software is capitalised on the basis of the costs incurred both to acquire and bring into use the specific software. Amortisation is provided to write off the cost of assets on a straight line basis over their estimated useful lives of between three and seven years. Costs associated with developing or maintaining computer software are recognised as an expense as incurred unless they increase the future economic benefits of the asset, in which case they are capitalised. Computer software is stated at cost less accumulated amortisation and, where appropriate, provision for impairment in value or estimated loss on disposal.

Internally generated computer software is capitalised at cost if the project is technically and commercially feasible and the economic benefits which are expected to be generated exceed one year. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortisation is provided to write off the cost of assets on a straight line basis between three and seven years.

## Notes to the Consolidated Financial Statements (continued)

### 1.10 Property, plant & equipment

Property, plant & equipment are stated at cost less accumulated depreciation and, where appropriate, provision for impairment in value or estimated loss on disposal. Depreciation is provided to write off the cost of the assets by equal instalments over their estimated useful lives. The rates used are:

Short leasehold property	– over the term of the lease
Freehold and long leasehold buildings	– between 1½% and 2½% per annum
Fixtures, fittings and equipment	– between 10% and 33⅓% per annum

No depreciation is provided on freehold and long leasehold land or on assets in the course of construction.

Property, plant & equipment are assessed on an ongoing basis to determine whether circumstances exist that could lead to the conclusion that the net book value is not supportable. Where assets are to be taken out of use, an impairment charge is levied. Where useful lives of assets are shortened, an estimate is made of their new lives and an accelerated depreciation charge is levied. Where the property, plant & equipment form part of a separate cash generating unit (CGU), such as a store or group of stores, and business indicators exist which could lead to the conclusions that the net book value is not supportable, the recoverable amount of the CGU is determined by calculating its value in use. The value in use is calculated by applying discounted cash flow modelling to management's projection of future profitability and any impairment is determined by comparing the net book value with the value in use.

### 1.11 Investments and other financial assets

The Group's financial assets comprise cash and cash equivalents, short term investments and those receivables which involve a contractual right to receive cash from external parties. Financial assets comprise all items shown in notes 14, 15 and 16 with the exception of prepayments. Under the classifications stipulated by IAS 39, short term investments and trade and other receivables (excluding derivative financial assets) are classified as 'available for sale' and 'loans and receivables', respectively. Cash and cash equivalents and derivative financial instruments, which are further described in notes 1.14 and 1.16, are classified as 'loans and receivables' and 'held for trading unless designated in a hedge relationship', respectively.

All purchases and sales of investments and other financial assets are recognised on the date that the Group becomes committed to make such purchase or sale ('the trade date').

#### Investment in associates

Associates are accounted for using the equity method of accounting from the date on which the power to exercise significant influence passes and are stated net of any impairment charges.

#### Short term investments

Investments are initially measured at fair value and then subsequently remeasured to fair value at each balance sheet date owing to occasional sales of such investments. The fair value of unlisted investments is estimated either by comparing recent arm's length transactions or by using discounted cash flow analysis or other modelling techniques. Gains and losses arising from revaluation at the balance sheet date are recognised directly in equity. For unlisted investments a

significant or prolonged decline in the fair value of the investment below its cost is considered evidence of impairment.

To the extent that any fair value losses are deemed permanent, such impairment is recognised in the income statement. Upon sale or impairment of the investments, any cumulative gains or losses held in equity are transferred to the income statement.

#### Trade and other receivables

Trade and other receivables (excluding derivative financial assets) are recorded at cost less an allowance for estimated irrecoverable amounts and any other adjustments required to align cost to fair value. The carrying amount of trade receivables is reduced through the use of a provision account. A provision for bad and doubtful debts is made for specific receivables when there is objective evidence that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Receivables that are not assessed individually for impairment are assessed for impairment on a collective basis using ageing analysis to determine the required provision. Bad debts are written off when identified.

### 1.12 Taxation

#### Current taxation

Current taxation is the expected tax payable on the taxable income for the year, using prevailing tax rates and adjusted for any tax payable in respect of previous years.

#### Deferred taxation

Deferred tax liabilities are 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 tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. No provision is made for tax which would have been payable on the distribution of retained profits of overseas subsidiaries or associated undertakings where it has been determined that these profits will not be distributed in the foreseeable future.

Deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted, or substantially enacted by the balance sheet date. Deferred tax balances are not discounted.

## Notes to the Consolidated Financial Statements (continued)

### 1.13 Inventories

Inventories are stated at the lower of average cost and net realisable value. Cost comprises direct purchase cost and those overheads that have been incurred in bringing the inventories to their present location and condition, both types of cost being measured using a weighted average cost formula. Net realisable value represents the estimated selling price less all estimated and directly attributable costs of completion and costs to be incurred in marketing, selling and distribution.

### 1.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, bank overdrafts and short term highly liquid deposits with a maturity of three months or less and which are subject to an insignificant risk of changes in value. Bank overdrafts, which form part of cash and cash equivalents for the purpose of the cash flow statement, are shown under current liabilities.

### 1.15 Borrowings and other financial liabilities

The Group's financial liabilities are those which involve a contractual obligation to deliver cash to external parties at a future date. Financial liabilities comprise all items shown in notes 17, 18 and 19 with the exception of other taxation and social security, deferred income from customer support agreements, other deferred income and other non-financial creditors. Under the classifications stipulated by IAS 39, borrowings, finance lease obligations and trade and other payables (excluding derivative financial liabilities) are classified as 'financial liabilities measured at amortised cost'. Derivative financial instruments, which are described further in note 1.16 below, are classified as 'held for trading unless designated in a hedge relationship'.

#### **Borrowings**

Borrowings are initially recorded at the consideration received less directly attributable transaction costs. Transaction costs are amortised through the income statement using the effective interest method and the unamortised balance is included as part of the related borrowing at the balance sheet date. A fair value adjustment is made to the borrowing where hedge accounting, as described in note 1.16 below, has been applied.

#### **Trade and other payables**

Trade and other payables (excluding derivative financial liabilities) are recorded at cost. Derivative financial instruments, which includes put options over equity held by minority shareholders, are initially recorded at fair value and then subsequently remeasured to fair value at each balance sheet date and are held within assets or liabilities as appropriate. Gains and losses arising from revaluation at the balance sheet date are recognised in the income statement unless the derivatives are designated as hedges and such hedges are proved to be effective.

### 1.16 Derivative financial instruments and hedge accounting

Derivative financial instruments held by the Group are initially recognised in the balance sheet at fair value within assets or liabilities as appropriate and then subsequently remeasured to fair value at each balance sheet date. Gains and losses arising from revaluation at the balance sheet date are recognised in the income statement unless the derivatives are designated as hedges and such hedges are proved to be effective.

Derivatives are classified as non-current assets or liabilities where a hedge relationship is identified and the remaining maturity of the hedged item is greater than 12 months from the balance sheet date. Derivatives are classified as current assets or liabilities in all other circumstances.

Fair values are derived from market values. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

#### **Hedge accounting**

The Group's activities expose it primarily to the financial risks associated with changes in interest rates and foreign currency exchange rates. The Group uses derivative financial instruments such as interest rate swaps, options, cross currency swaps and forward currency contracts to hedge these risks. The Group does not use derivative financial instruments for speculative purposes.

Where hedge accounting is to be applied, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting.

The accounting treatment of derivatives that qualify for hedge accounting is dependent on how they are designated. The different designations and accounting treatments are explained below:

#### **Fair value hedges**

The Group uses interest rate swaps to hedge the exposure to changes in the fair value of recognised assets and liabilities.

Derivative financial instruments that meet the 'fair value' hedging requirements are recognised in the balance sheet at fair value with corresponding fair value movements recognised within finance income / costs in the income statement. For an effective fair value hedge, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. To the extent that the designated hedge relationship is effective, such amounts in the income statement offset each other. As a result, only the ineffective element of any designated hedging relationship impacts the income statement. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of the hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.



## Notes to the Consolidated Financial Statements (continued)

### **Cash flow hedges**

The Group uses forward foreign exchange contracts to hedge the foreign currency exposure on inventory ordered and purchased and certain sales of inventory. It is Group policy to hedge between 80% and 100% of committed purchase orders and sales. At any point in time the Group also hedges up to 80% of its estimated foreign currency exposure in respect of forecast purchases and sales for the subsequent 12 months. Orders and purchases as well as sales are each considered to be separately hedged transactions.

Derivative financial instruments that qualify for such cash flow hedging are initially recognised on the balance sheet with gains and losses relating to the remeasurement of the effective portion of the hedge being deferred in equity. To the extent that such items are ineffectively hedged, gains or losses relating to the ineffective portion are recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss (i.e. when a purchase or sale is made). For inventory purchases, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of inventory. For sales, the gains or losses on the derivative that had previously been recognised in equity are included in the income statement in the year in which the sale is made.

### **Net investment hedges**

The Group uses cross currency forward contracts and cross currency swaps to hedge its currency risk on the translation of net investments in foreign entities. Gains and losses arising on the retranslation of the investments and the related derivatives are recognised in equity. However, this is on the basis that the hedging requirements of IAS 39 are met and the hedging relationship is effective. To the extent that such items are ineffectively hedged, gains or losses relating to the ineffective portion are recognised within the income statement.

### **1.17 Retirement benefit obligations**

Company contributions to defined contribution pension schemes and contributions made to state pension schemes for certain overseas employees are charged to the income statement on an accruals basis when employees have rendered service entitling them to the contributions.

For defined benefit pension schemes, the difference between the market value of the assets and the present value of the accrued pension liabilities is shown as an asset or liability in the consolidated balance sheet. The calculation of the present value is determined using the projected unit credit method. Differences between the actual and expected return on assets are recognised in the consolidated statement of comprehensive income and expense together with remeasurements arising from actuarial gains and losses. Such amounts are not reclassified to the income statement in subsequent years.

Defined benefit costs recognised in the income statement comprise mainly net interest expense or income with such interest being recognised within finance costs. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset taking into account any changes in the net defined benefit obligation during the year as a result of contribution or benefit payments.

### **1.18 Share-based payments**

The Group operates a variety of equity-settled share-based compensation plans. The plans comprise share option plans (with non-market performance conditions attached) and performance share award plans (with and without market performance conditions attached).

The awards are measured at fair value at the date of grant using either the Black Scholes model or Monte Carlo simulations. This fair value is expensed in the income statement on a straight line basis over the vesting period, based on an estimate of the number of shares that will eventually vest as adjusted for any service and non-market conditions.

### **1.19 Estimates, judgements and critical accounting policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Significant items subject to such assumptions and estimates include the useful lives of assets; the measurement and recognition of provisions; the recognition of deferred tax assets; and liabilities for potential corporation tax. Actual results could differ from these estimates and any subsequent changes are accounted for with an effect on income at the time such updated information becomes available. The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgements. These relate to revenue recognition, inventory valuation, onerous lease costs, the valuation of goodwill, acquired intangible assets and property, plant & equipment, share-based payments, post-retirement benefits and taxation, and are set out below.

### **Revenue recognition**

Revenue earned from the sale of customer support agreements is recognised over the term of the contracts when the Group obtains the right to consideration as a result of performance of its contractual obligations. Revenue in any one year is therefore recognised to match the proportion of the expected costs of fulfilling the Group's total obligations under the agreements. An estimate of the degree of performance of these contractual obligations is determined by reference to extensive historical claims data. Reliance on historical data assumes that current and future experience will follow past trends. The directors consider that the quantity and quality of data available provides an appropriate proxy for current trends.



## Notes to the Consolidated Financial Statements (continued)

### **Inventory valuation**

Inventories are valued at the lower of average cost and net realisable value. Cost comprises direct purchase cost and those overheads that have been incurred in bringing the inventories to their present location and condition, both types of cost being measured using a weighted average cost formula. Net realisable value represents the estimated selling price less all estimated and directly attributable costs of completion and costs to be incurred in marketing, selling and distribution. Net realisable value includes, where necessary, provisions for slow moving and damaged inventory. The provision represents the difference between the cost of stock and its estimated net realisable value, based on ageing. Calculation of these provisions requires judgements to be made which include forecast consumer demand, the promotional, competitive and economic environment and inventory loss trends.

### **Provisions and accruals for onerous leases**

If the Group vacates a store or other property prior to the expiry of the related lease, or a lease forms part of a separate CGU whereby the carrying value of that CGU is not considered supportable, it records a provision or accrual for the expected lease payments that the Group will incur prior to assignment or sublease of the property. Such a calculation requires a judgement as to the timing and duration of the expected vacant periods and the amount and timing of future potential sublease income. When making these judgements, the directors consider a number of factors, including the landlord, the location and condition of the property, the terms of the lease, the specific marketplace demand and the economic environment.

### **Goodwill, intangible assets and property, plant & equipment impairment reviews**

Goodwill is required to be valued annually to assess the requirement for potential impairment. Other assets are assessed on an ongoing basis to determine whether circumstances exist that could lead to the conclusion that the net book value of such assets is not supportable. Impairment testing on goodwill is carried out in accordance with the methodology described in note 9. Such calculations require judgement relating to the appropriate discount factors and long term growth prevalent in a particular market as well as short and medium term business plans. The directors draw upon experience as well as external resources in making these judgements.

In assessing impairment of intangible assets and property, plant & equipment, discounted cash flow methods are used as described in note 1.10. Judgement is required in determining the appropriate discount factors as well as the short and medium term business plans. As for goodwill, the directors draw upon experience and external resources in making these judgements.

### **Share-based payments**

The charge for share-based payments is calculated by estimating the fair value of the award at the date of grant using either the Binomial or Black Scholes option pricing model or the Monte Carlo simulation. The option valuation models used require highly subjective assumptions to be made including the future volatility of the Company's share price, expected dividend yields, risk-free interest rates, expected staff turnover and the likelihood of non-market vesting conditions being met. The directors draw upon a variety of external sources to aid in the determination of the appropriate data to use in such calculations.

### **Defined benefit pension schemes**

The surplus or deficit in the UK defined benefit pension scheme that is recognised through the consolidated statement of comprehensive income and expense is subject to a number of assumptions and uncertainties. The calculated liabilities of the scheme are based on assumptions regarding salary increases, inflation rates, discount rates and member longevity. Such assumptions are based on actuarial advice and are benchmarked against similar pension schemes.

### **Taxation**

Tax laws that apply to the Group's businesses may be amended by the relevant authorities, for example as a result of changes in fiscal circumstances or priorities. Such potential amendments and their application to the Group are monitored regularly and the requirement for recognition of any liabilities assessed where necessary. The Group is subject to income taxes in a number of different jurisdictions and judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, the Group recognises liabilities for anticipated taxes due based on best information available and where the anticipated liability is probable and estimable. Where the final outcome of such matters differs from the amounts initially recorded, any differences will impact the income tax and deferred tax provisions in the year to which such determination is made. Where the potential liabilities are not considered probable, the amount at risk is disclosed unless an adverse outcome is considered remote.

Deferred tax is recognised on taxable losses based on the expected ability to utilise such losses. This ability takes account of the business plans for the relevant companies, potential uncertainties around the longer term aspects of these business plans, any expiry of taxable benefits and potential future volatility in the local tax regimes.

### **1.20 New accounting standards and interpretations**

The following standards have been adopted by the Group for the first time in the current financial year:

- Amendment to IAS 19 'Employee benefits': The main effect of the amendment is to replace interest cost and expected return on plan assets with a single net interest amount which is calculated by applying the discount rate to the net defined benefit liability. As a result of the restatement, the net interest cost for 2012/13 increased by £5.7 million from £7.4 million to £13.1 million. There was no change in the net retirement benefit obligation nor on the Group's net assets.

In addition, the following new or amended accounting standards have been implemented in the current year, which have either had no impact on reported figures or only affect disclosure:

- the amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income requires items to be grouped on the basis of whether they may potentially be reclassified to the income statement in the future; and
- IFRS 13 'Fair value measurement' provides a single source of fair value measurement and disclosure requirements for use across all IFRSs.

### Notes to the Consolidated Financial Statements (continued)

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The following new standards and amendments to existing standards, which are applicable to the Group, are also effective, but at the present time are not expected to have any material effect, however may impact acquisitions in the future:

- IFRS 10 'Consolidated Financial Statements'; and
- IFRS 12 'Disclosure of Interests in Other Entities'

The following new standard, which is applicable to the Group, has been published but is not yet effective and has not yet been adopted by the EU:

- IFRS 9 'Financial Instruments'. This standard is the first step in the process to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and affects the accounting for financial assets.

Certain other amendments to existing standards and interpretations were issued during the year which either do not apply to the Group or are not expected to have any material effect.

#### 2 Segmental analysis

The Group's operating segments have been determined based on the information reported to the Board. This information is predominantly based on geographical areas which are either managed separately or have similar trading characteristics such that they can be aggregated together into one segment. The Group evaluates each operating segment based on underlying operating profits which excludes those items described in note 1.1.

On 5 September 2013, 10 October 2013 and 27 September 2013, the Group announced the sales of its Electroworld Turkey, Unieuro S.p.A. (Unieuro) and PIXmania S.A.S. (PIXmania) operations which subsequently completed on 31 October 2013, 29 November 2013 and 31 December 2013, respectively. All three businesses have been classified as discontinued operations and hence are now excluded from the reportable segments listed below. Electroworld Turkey and Unieuro were previously reported within the Southern Europe segment (which is now renamed 'Greece' to reflect its sole constituent). Further information on these sale transactions is set out in note 27. In addition, on 16 May 2014, the Group signed an agreement to sell its Electroworld operations in the Czech Republic and Slovakia. Accordingly these businesses have been classified as discontinued operations and excluded from the reportable segments listed below with the balance sheets being treated as assets held for sale as at 30 April 2014. As a result, the 'Northern Europe' division has been renamed 'Nordics'.

All segments are involved in the multi-channel sale of high technology consumer electronics, personal computers, domestic appliances, photographic equipment, communication products and related financial and after sales services. The principal categories of customer are retail, business to business (B2B) and online.

The Group's reportable segments have been identified as follows:

- UK & Ireland comprises electrical and computing retail chains as well as in-store B2B activities. The division is engaged predominantly in multi-channel retail sales, associated peripherals and services and related financial and after sales services. The division also includes operations in airports across Europe (the majority of which are in the UK), all of which are managed from the UK.
- Nordics operates in Norway, Sweden, Finland, Denmark, Iceland, Greenland and the Faroe Islands. The division engages in multi-channel retail sales and provides related product support services to its customers. It also engages in B2B sales of computer hardware, software and services. Across the region, the division operates a successful franchise business, typically in smaller markets.
- Greece comprises retail sales (including multi-channel sales) and provides related product support services to its customers. In addition, it engages in B2B sales of computer hardware, software and services and also has franchise operations.

Businesses exited: in respect of PC City Spain because of the closure rather than disposal of these operations, they do not meet the definition of discontinued operations as stipulated by IFRS 5. Equanet was sold rather than closed, however, because it did not form a major line of business under the definitions of IFRS 5, it also did not meet the definitions of discontinued operations.

## Notes to the Consolidated Financial Statements (continued)

## 2 Segmental analysis (continued)

## (a) Income statement

	2013/14				
	Underlying external revenue £million	Inter- segmental revenue £million	Total underlying revenue £million	Underlying profit / (loss) £million	Total profit / (loss) £million
UK & Ireland	4,148.6	66.9	4,215.5	141.0	133.9
Nordics	2,789.8	3.3	2,793.1	116.9	111.5
Greece	279.2	–	279.2	(10.5)	(11.5)
Eliminations	–	(70.2)	(70.2)	–	–
<b>Results before central costs and property losses</b>	<b>7,217.6</b>	<b>–</b>	<b>7,217.6</b>	<b>247.4</b>	<b>233.9</b>
Central costs				(19.2)	(19.2)
Property losses				(25.4)	(25.4)
<b>Operating profit</b>				<b>202.8</b>	<b>189.3</b>
Finance income				2.9	2.9
Finance costs				(39.5)	(59.3)
<b>Profit before tax for the year</b>				<b>166.2</b>	<b>132.9</b>

Total external revenue for the Group of £7,217.7 million includes £0.1 million relating to businesses exited.

*Reconciliation of underlying profit to total profit*

	2013/14							
	Underlying profit / (loss) £million	Businesses exited £million	Amortisation of acquired intangibles £million	Net restructuring charges £million	Business impairment charges £million	Other items £million	Non- operating items £million	Total profit / (loss) £million
UK & Ireland	141.0	–	–	(8.7)	–	1.6	–	133.9
Nordics	116.9	–	–	–	–	(5.4)	–	111.5
Greece	(10.5)	–	(0.7)	–	–	(0.3)	–	(11.5)
<b>Operating profit before central costs and property losses</b>	<b>247.4</b>	<b>–</b>	<b>(0.7)</b>	<b>(8.7)</b>	<b>–</b>	<b>(4.1)</b>	<b>–</b>	<b>233.9</b>
Central costs	(19.2)	–	–	–	–	–	–	(19.2)
Property losses	(25.4)	–	–	–	–	–	–	(25.4)
<b>Operating profit</b>	<b>202.8</b>	<b>–</b>	<b>(0.7)</b>	<b>(8.7)</b>	<b>–</b>	<b>(4.1)</b>	<b>–</b>	<b>189.3</b>
Finance income	2.9	–	–	–	–	–	–	2.9
Finance costs	(39.5)	–	–	–	–	–	(19.8)	(59.3)
<b>Profit before tax for the year</b>	<b>166.2</b>	<b>–</b>	<b>(0.7)</b>	<b>(8.7)</b>	<b>–</b>	<b>(4.1)</b>	<b>(19.8)</b>	<b>132.9</b>

## Notes to the Consolidated Financial Statements (continued)

## 2 Segmental analysis (continued)

	2012/13 Restated				
	Underlying external revenue £million	Inter- segmental revenue £million	Underlying revenue £million	Underlying profit / (loss) £million	Total profit / (loss) £million
UK & Ireland	4,014.5	47.3	4,061.8	113.3	84.4
Nordics	2,733.3	5.8	2,739.1	125.4	122.9
Greece	278.8	–	278.8	(11.0)	(13.1)
Eliminations	–	(53.1)	(53.1)	–	–
Results before central costs and property losses	7,026.6	–	7,026.6	227.7	194.2
Central costs				(16.9)	(19.2)
Property losses				(24.4)	(24.4)
Operating profit				186.4	150.6
Loss on sale of business				–	(9.6)
Finance income				7.2	10.5
Finance costs				(42.6)	(64.9)
Profit before tax for the year				151.0	86.6

Total external revenue for the Group of £7,109.2 million includes £82.6 million relating to businesses exited.

*Reconciliation of underlying profit to total profit*

	2012/13 Restated							
	Underlying profit / (loss) £million	Businesses exited £million	Amortisation of acquired intangibles £million	Net restructuring charges £million	Business impairment charges £million	Other items £million	Non- operating items £million	Total profit / (loss) £million
UK & Ireland	113.3	–	(0.3)	(22.9)	(6.6)	0.9	–	84.4
Nordics	125.4	–	–	–	(2.5)	–	–	122.9
Greece	(11.0)	–	(0.7)	–	–	(1.4)	–	(13.1)
Operating profit before central costs and property losses	227.7	–	(1.0)	(22.9)	(9.1)	(0.5)	–	194.2
Central costs	(16.9)	(0.4)	–	(1.9)	–	–	–	(19.2)
Property losses	(24.4)	–	–	–	–	–	–	(24.4)
Operating profit	186.4	(0.4)	(1.0)	(24.8)	(9.1)	(0.5)	–	150.6
Loss on sale of business	–	–	–	–	–	–	(9.6)	(9.6)
Finance income	7.2	0.3	–	–	–	–	3.0	10.5
Finance costs	(42.6)	–	–	–	–	–	(22.3)	(64.9)
Profit before tax for the year	151.0	(0.1)	(1.0)	(24.8)	(9.1)	(0.5)	(28.9)	86.6

## Notes to the Consolidated Financial Statements (continued)

## 2 Segmental analysis (continued)

## (b) Geographical analysis

Revenues are allocated to countries according to the entity's country of domicile. Revenue generated by the UK business was £3,997.7 million (2012/13 £3,949.6 million). Revenue by destination is not materially different to that shown by domicile.

Non-current assets comprise property, plant & equipment, goodwill, intangible assets, investments in associates and non-current trade and other receivables. Non-current assets held by the UK were £258.6 million (2013 £318.8 million). Non-current assets held by Nordics were £692.0 million (2013 £763.6 million) and comprised predominantly goodwill (as disclosed in note 9) which has not been allocated to individual countries.

## (c) Balance sheet

	2014				
	Segment assets £million	Investment in associates £million	Total segment assets £million	Segment liabilities £million	Net assets / (liabilities) £million
UK & Ireland	2,128.5	–	2,128.5	(1,250.0)	878.5
Nordics	1,042.7	0.5	1,043.2	(397.9)	645.3
Greece	131.0	–	131.0	(126.9)	4.1
Central	606.2	–	606.2	(2,106.2)	(1,500.0)
Continuing operations	3,908.4	0.5	3,908.9	(3,881.0)	27.9
Discontinued operations	32.4	–	32.4	(46.9)	(14.5)
Eliminations	(1,426.2)	–	(1,426.2)	1,426.2	–
	<b>2,514.6</b>	<b>0.5</b>	<b>2,515.1</b>	<b>(2,501.7)</b>	<b>13.4</b>

	2013 Re-presented				
	Segment assets £million	Investment in associates £million	Total segment assets £million	Segment liabilities £million	Net assets / (liabilities) £million
UK & Ireland	2,096.0	–	2,096.0	(1,269.5)	826.5
Nordics	1,162.5	0.5	1,163.0	(517.5)	645.5
Greece	140.2	–	140.2	(128.5)	11.7
Central	823.5	–	823.5	(2,107.1)	(1,283.6)
Continuing operations	4,222.2	0.5	4,222.7	(4,022.6)	200.1
Discontinued operations	361.8	–	361.8	(414.6)	(52.8)
Eliminations	(1,579.8)	–	(1,579.8)	1,579.8	–
	<b>3,004.2</b>	<b>0.5</b>	<b>3,004.7</b>	<b>(2,857.4)</b>	<b>147.3</b>

Central assets and liabilities predominantly comprise intersegment balances, cash and cash equivalents, borrowings, net retirement benefit obligations, derivative financial instruments and tax assets and liabilities.



Notes to the Consolidated Financial Statements (continued)

2 Segmental analysis (continued)

(d) Other information

	2013/14				
	Additions				
	Intangible assets £million	Property, plant & equipment £million	Depreciation £million	Amortisation £million	Share-based payments £million
UK & Ireland	3.6	28.4	72.0	7.8	2.6
Nordics	10.4	27.7	24.7	5.8	1.1
Greece	0.6	1.2	5.5	1.2	0.3
Central	–	0.1	0.1	–	1.3
Continuing operations	14.6	57.4	102.3	14.8	5.3
Discontinued operations	1.8	4.9	8.2	1.5	(0.2)
	<b>16.4</b>	<b>62.3</b>	<b>110.5</b>	<b>16.3</b>	<b>5.1</b>

	2012/13 Re-presented				
	Additions				
	Intangible assets £million	Property, plant & equipment £million	Depreciation £million	Amortisation £million	Share-based payments £million
UK & Ireland	5.9	46.8	69.5	8.6	2.3
Nordics	6.7	22.8	25.0	4.6	0.5
Greece	0.4	1.6	5.9	1.3	0.1
Central	–	0.1	0.1	–	0.7
Continuing operations	13.0	71.3	100.5	14.5	3.6
Discontinued operations	5.0	11.2	16.0	7.2	0.5
	<b>18.0</b>	<b>82.5</b>	<b>116.5</b>	<b>21.7</b>	<b>4.1</b>

## Notes to the Consolidated Financial Statements (continued)

## 3 Revenue and operating profit

	2013/14			2012/13 Re-presented		
	Underlying £million	Non- underlying £million	Total £million	Underlying £million	Non- underlying £million	Total £million
Revenue	7,217.6	0.1	7,217.7	7,026.6	82.6	7,109.2
Cost of sales	(6,678.3)	–	(6,678.3)	(6,512.0)	(68.6)	(6,580.6)
Gross profit	539.3	0.1	539.4	514.6	14.0	528.6
Distribution costs	(83.1)	–	(83.1)	(90.5)	(2.3)	(92.8)
Administrative expenses	(228.0)	(13.6)	(241.6)	(213.3)	(47.5)	(260.8)
Other operating charge	(25.4)	–	(25.4)	(24.4)	–	(24.4)
Operating profit	202.8	(13.5)	189.3	186.4	(35.8)	150.6

Non-underlying items comprise amortisation of acquired intangibles of £0.7 million (2012/13 £1.0 million), included within administrative expenses. Such items are described further in note 4. Included within underlying cost of sales, distribution costs and administrative expenses is amortisation of other intangibles of £9.8 million, £0.5 million and £3.7 million, respectively (2012/13 £8.2 million, £1.5 million and £3.9 million, respectively).

	2013/14			2012/13 Re-presented		
	Underlying £million	Businesses exited £million	Total £million	Underlying £million	Businesses exited £million	Total £million
Sale of goods	6,782.4	–	6,782.4	6,626.3	80.8	6,707.1
Revenue from services	435.2	0.1	435.3	400.3	1.8	402.1
	7,217.6	0.1	7,217.7	7,026.6	82.6	7,109.2

Revenue from services predominantly comprises those relating to customer support agreements, delivery and installation, product repairs and product support.

	2013/14			2012/13 Re-presented		
	Underlying £million	Businesses exited £million	Total £million	Underlying £million	Businesses exited £million	Total £million
Inventories recognised as an expense	5,350.1	–	5,350.1	5,273.4	71.7	5,345.1
Cost of inventory write-down	25.1	–	25.1	25.7	0.2	25.9
Rentals paid under operating leases:						
Plant and machinery	8.5	–	8.5	6.7	–	6.7
Property – non-contingent rent	292.3	–	292.3	298.1	0.4	298.5
Property – contingent rent	17.9	–	17.9	15.8	–	15.8
Rentals received under operating leases:						
Property – subleases	(4.1)	–	(4.1)	(4.5)	–	(4.5)

	2013/14	2012/13
	£million	Re-presented £million
Auditor's remuneration		
Audit services – Group financial statements	0.5	0.5
– Subsidiary financial statements	0.4	0.3
Total audit fees	0.9	0.8
Non-audit services pursuant to legislation	0.2	0.3
Other	0.1	–
Total fees paid to the auditor	1.2	1.1

In addition to the above fees, £0.1 million of audit fees were paid to the auditor in respect of the discontinued operations (2012/13 £0.3 million).

Notes to the Consolidated Financial Statements (continued)

4 Non-underlying items

	Note	Year ended 30 April 2014 £million	Year ended 30 April 2013 Restated £million
Included in operating profit:			
Businesses exited	(i)	–	(0.4)
Amortisation of acquired intangibles		(0.7)	(1.0)
Net restructuring charges	(ii)	(8.7)	(24.8)
Business impairment charges	(iii)	–	(9.1)
Other items	(iv)	(4.1)	(0.5)
		<b>(13.5)</b>	<b>(35.8)</b>
Loss on sale of business			
	(v)	–	(9.6)
Included in net finance costs:			
Businesses exited	(i)	–	0.3
Net non-cash finance costs on defined benefit pension schemes	(vi)	(17.1)	(13.1)
Net fair value remeasurements of financial instruments	(vii)	–	(1.9)
Accelerated amortisation of facility fees	(viii)	(2.0)	–
2012 Bonds and 2015 Notes redemption costs and fees	(viii)	–	(4.3)
Finance lease interest on onerous lease	(ix)	(0.7)	–
		<b>(19.8)</b>	<b>(19.0)</b>
Total impact on profit / (loss) before tax		<b>(33.3)</b>	<b>(64.4)</b>
Tax on other non-underlying items		<b>5.4</b>	<b>10.3</b>
Total impact on profit / (loss) after tax		<b>(27.9)</b>	<b>(54.1)</b>

(i) Businesses exited: comprises the trading results of exited businesses where they do not meet the criteria under IFRS 5 for separate disclosure as discontinued operations and comprise:

- Equanet, which was sold in March 2013 and which constituted the majority of the B2B activities of the UK & Ireland division; and
- PC City Spain which was closed in June 2011 whereby these activities comprise the unwinding of residual deferred income and related costs.

Discontinued operations, which comprise the results of Electroworld Turkey, Unieuro, PIXmania and Central Europe (comprising Electroworld Czech Republic and Electroworld Slovakia) are shown separately after post-tax results in accordance with IFRS 5 and are described further in note 8.

(ii) Net restructuring charges – strategic reorganisation:

	Year ended 30 April 2014 £million	Year ended 30 April 2013 Re-presented £million
Asset impairments	(8.7)	(5.6)
Property charges	–	(14.3)
Other charges	–	(4.9)
	<b>(8.7)</b>	<b>(24.8)</b>

Year ended 30 April 2014:

Charges comprise asset impairments of other intangibles work in progress in respect of UK system costs which, following a revision in the Group's systems strategy as a result of the disposals of businesses which have occurred during the year have been concluded as no longer having value.

Year ended 30 April 2013:

Charges related predominantly to the reorganisation of the remaining retained UK B2B operations following the sale of Equanet for which the charges were £22.9 million. The charges related mainly to an onerous operating lease which was retained in respect of these sold operations together with related fixed asset write offs.

## Notes to the Consolidated Financial Statements (continued)

## 4 Non-underlying items (continued)

## (iii) Business impairment charges:

	Year ended 30 April 2014	Year ended 30 April 2013 Re-presented
	£million	£million
Goodwill	–	(6.6)
Other assets	–	(2.5)
	–	(9.1)

Year ended 30 April 2013:

Related to the impairment of goodwill of a small UK B2B operation following the reorganisation and significant reduction in the UK & Ireland's B2B operations following the sale of Equanet as well as the full write down of the investment in an associate following continued declining results.

## (iv) Other items comprise the following:

	Year ended 30 April 2014	Year ended 30 April 2013 Re-presented
	£million	£million
Investment remeasurement	(5.4)	–
UK Riot related income	1.6	0.9
Exceptional charges	(0.3)	(1.4)
	(4.1)	(0.5)

The investment remeasurement relates to an increase in deferred consideration payable on a business acquired in the Nordics in 2011/12 following better than expected actual and forecast trading. UK Riot related income comprises insurance recoveries in respect of charges incurred in 2011/12.

## (v) Loss on sale of business:

Year ended 30 April 2013:

On 28 March 2013, the Group completed the disposal of its Equanet B2B operations (Equanet) to Kelway (UK) Limited for consideration of £4.2 million. The loss on disposal is analysed as follows:

	£million
Net assets disposed:	
Goodwill	10.7
Other assets	1.7
	12.4
Loss on disposal	(9.6)
Consideration and costs	2.8
Consideration	4.2
Disposal fees and exit costs	(1.4)
Consideration and costs	2.8

As described in note (i), above, the disposal did not satisfy the requirements of IFRS 5 for treatment as a discontinued operation and accordingly the loss on disposal has been included within 'continuing' operations.

(vi) Net non-cash financing costs on defined benefit pension schemes: Under IAS 19 'Employee Benefits', the net interest charge on defined benefit pension schemes is calculated by applying the corporate bond yield rates applicable on the last day of the previous financial year and to the net defined benefit liability. Corporate bond yield rates vary over time which in turn creates volatility in the income statement and balance sheet and results in a non-cash remeasurement cost which can be volatile due to corporate bond yield rates prevailing on a particular day and is also unrepresentative of the actual investment gains or losses made or the liabilities paid and payable. Consistent with a number of other companies, the accounting effects of these non-cash revaluations of net defined benefit pension liabilities have been excluded from underlying earnings.

## Notes to the Consolidated Financial Statements (continued)

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### 4 Non-underlying items (continued)

(vii) Net fair value remeasurement gains and losses on revaluation of financial instruments: items excluded from underlying finance income and expense represent the gains and losses arising from the revaluation of derivative financial instruments under methodologies stipulated by IAS 39 compared with those on an accruals basis (the basis upon which all other items in the financial statements are prepared). Such a treatment is a form of revaluation gain or loss created by an assumption that the derivatives will be settled before their maturity.

Such gains and losses are unrealised and in the directors' view also conflict with both the commercial reasons for entering into such arrangements as well as Group Treasury policy whereby early settlement in the majority of cases would amount to speculative use of derivatives.

(viii) Year ended 30 April 2014:

On 19 May 2014, the Group signed a new revolving credit facility agreement (the New Facility) for £150 million. The New Facility is described further in notes 17 and 32. The New Facility replaced the pre-existing facility of £200 million and has triggered the acceleration of the amortisation of fees related to this facility which would otherwise have been charged evenly over the period to the pre-existing facility's maturity in June 2015 and which have therefore been charged in 2013/14.

Year ended 30 April 2013:

On 20 September 2012, the Group repurchased £15.6 million in nominal amount of its 6.125% Guaranteed Bonds due November 2012 (the 2012 Bonds) as well as £49.4 million in nominal amount of its 8.75% Guaranteed Notes due August 2015 (the 2015 Notes). The latter repurchase was funded by part of a new issue of £150 million 8.75% Guaranteed Notes due September 2017 (the 2017 Notes).

As a result of the repurchases of the 2012 Bonds and 2015 Notes, charges were incurred relating to the acceleration of the amortisation of fees from the 2012 Bonds and the 2015 Notes which would otherwise have been charged evenly over the period to the 2012 Bonds' maturity in November 2012 and the 2015 Notes' maturity in August 2015, together with a redemption premium.

(ix) Other finance charges relate to onerous finance lease interest costs in respect of the reorganisation of the UK B2B operations which occurred in 2012/13 as described in (ii).



Notes to the Consolidated Financial Statements (continued)

5 Net finance costs

	Note	2013/14 £million	2012/13 Restated £million
Bank and other interest receivable:			
Non-underlying: businesses exited	*	–	0.3
Underlying	(ii)	2.9	7.2
Fair value remeasurement gains on financial instruments	* (iv)	–	3.0
Finance income		2.9	10.5
6.125% Guaranteed Bonds 2012 interest and related charges		–	(4.9)
8.75% Guaranteed Notes 2015 interest and related charges		(9.5)	(11.4)
8.75% Guaranteed Notes 2017 interest and related charges		(13.9)	(8.5)
Bank loans, overdrafts and other finance charges	(iii)	(11.0)	(11.8)
Finance lease interest payable:			
Non-underlying	*	(0.7)	–
Underlying		(5.1)	(6.0)
Net interest expense on defined benefit obligations	*	(17.1)	(13.1)
Fair value remeasurement losses on financial instruments	* (iv)	–	(4.9)
Accelerated amortisation of facility fees	*	(2.0)	–
2012 Bonds and 2015 Notes redemption costs and fees	*	–	(4.3)
Finance costs		(59.3)	(64.9)
<b>Total net finance costs</b>		<b>(56.4)</b>	<b>(54.4)</b>
<b>Underlying total net finance costs</b>	(i)	<b>(36.6)</b>	<b>(35.4)</b>

(i) Underlying total net finance costs exclude items marked \*. See note 4 for a description of such items. Net finance costs for the businesses exited comprise bank and other interest receivable and interest on bank loans and overdrafts.

(ii) Bank and other interest receivable comprise:

	2013/14 £million	2012/13 £million
Interest on cash and cash equivalents and short term investments	1.5	1.7
Exchange gains	1.4	–
Derivative interest income	–	5.5
	2.9	7.2

Derivative interest income includes amounts relating to the remeasurement of financial instruments on an accruals basis. Included within net exchange gains and derivative interest income is a loss of £19.0 million and an income of £nil, respectively (2012/13 £nil and an income of £2.8 million, respectively) from financial instruments not in a designated hedging relationship under the rules stipulated by IAS 39.

Notes to the Consolidated Financial Statements (continued)

**5 Net finance costs (continued)**

(iii) Bank loans, overdrafts and other interest payable comprise:

	2013/14 £million	2012/13 £million
Interest on bank loans and overdrafts	(11.0)	(7.6)
Exchange losses	–	(0.8)
Derivative interest expense	–	(3.4)
	<b>(11.0)</b>	<b>(11.8)</b>

Included within exchange losses are losses of £nil million (2012/13 losses of £8.0 million) which is a natural offset for gains arising from financial instruments not in a formal designated hedging relationship under the rules stipulated by IAS 39.

Derivative interest expense includes amounts relating to the remeasurement of financial instruments on an accruals basis. Included within derivative interest expense is a £nil charge (2012/13 £3.4 million) from financial instruments not in a designated hedging relationship under the rules stipulated by IAS 39.

(iv) Fair value remeasurement gains and losses on financial instruments include losses of £nil (2012/13 £2.4 million) which are not in a designated hedging relationship under the rules stipulated by IAS 39.

(v) Interest income of £1.4 million (2012/13 £2.0 million) and expense of £42.2 million (2012/13 £38.9 million) is included within net finance costs relating to financial assets and liabilities, respectively not held at fair value through the Income Statement.

**6 Employees**

Staff costs for the year were:

	2013/14 £million	2012/13 Re-presented £million
Wages and salaries	631.6	628.1
Social security costs	67.6	66.4
Other pension costs	17.9	19.3
	<b>717.1</b>	<b>713.8</b>

The average number of employees, including part-time employees, was:

	2013/14 Number	2012/13 Re-presented Number
UK & Ireland	21,420	20,162
Nordics	8,798	8,147
Greece	1,750	1,681
Central	432	682
	<b>32,400</b>	<b>30,672</b>

The average number of employees for Central includes 1 (2012/13 300) relating to businesses exited which in 2012/13 were previously reported within the divisions to which the businesses related.

## Notes to the Consolidated Financial Statements (continued)

## 7 Tax

## (a) Income tax expense

	2013/14 £million	2012/13 Restated £million
<b>Current tax</b>		
UK corporation tax at 22.84% <sup>(ii)</sup> (2012/13 23.92%)	13.7	0.3
Overseas taxation	18.0	31.7
Adjustment in respect of earlier years:		
UK corporation tax	(0.2)	–
Overseas taxation	–	(0.9)
	<b>31.5</b>	<b>31.1</b>
<b>Deferred tax</b>		
Current year		
– underlying	21.5	15.5
– non-underlying	*	(10.3)
Adjustment in respect of earlier years:		
UK corporation tax	(4.0)	6.4
– underlying	*	2.2
– non-underlying	*	–
Overseas taxation	1.5	1.0
	<b>13.6</b>	<b>12.6</b>
<b>Income tax expense – continuing operations</b>	<b>45.1</b>	<b>43.7</b>
<b>Underlying income tax expense – continuing operations</b>	(i) <b>50.5</b>	<b>54.0</b>

(i) Underlying income tax expense excludes those items marked \*. Further information on these items is shown in note 4.

(ii) The UK corporation tax rate for the year was 23% for the period up to 31 March 2014 and 21% thereafter (2012/13 24% for the period up to 31 March 2013 and 23% thereafter).

A reconciliation of the notional to the actual income tax expense is set out below:

	2013/14			2012/13		
	Underlying £million	Non- underlying* £million	Total £million	Underlying £million	Non- underlying* £million	Total £million
Profit before tax	166.2	(33.3)	132.9	151.0	(64.4)	86.6
Tax on profit at UK statutory rate of 22.84% (2012/13 23.92%)	38.0	(7.6)	30.4	36.1	(15.4)	20.7
Non-qualifying depreciation	2.7	–	2.7	2.8	–	2.8
Differences in effective overseas taxation rates	2.8	–	2.8	4.0	(0.2)	3.8
Non-deductible charges	0.3	(1.0)	(0.7)	1.2	4.0	5.2
Non-taxable losses / (gains) on property disposals	2.5	(0.1)	2.4	0.5	–	0.5
Overseas deferred tax not recognised	(0.7)	0.1	(0.6)	0.3	–	0.3
Adjustment in respect of earlier years	(2.7)	2.2	(0.5)	6.4	–	6.4
Effect of changes in statutory tax rates	6.1	(0.9)	5.2	1.7	(0.2)	1.5
Other differences	1.5	1.9	3.4	1.0	1.5	2.5
<b>Income tax expense</b>	<b>50.5</b>	<b>(5.4)</b>	<b>45.1</b>	<b>54.0</b>	<b>(10.3)</b>	<b>43.7</b>

The effective tax rate on underlying earnings of 30.4% (2012/13 35.8%) has decreased compared to the prior year mainly due to an increase in the proportion of taxable profits vs non-deductible expenses. For this reason, together with the decrease in statutory corporation tax rates in the UK and Norway, the rate is expected to decrease further in future years.

The Group has total unrecognised deferred tax assets relating to tax losses of £50.0 million (2012/13 £207.7 million) of which £2.1 million (2012/13 £151.5 million) have no time restriction over when they can be utilised. The Group has unrecognised deferred tax assets relating to time restricted tax losses of £47.9 million (2012/13 £56.2 million) for which the weighted average period over which they can be utilised is eight years (2012/13 eight years).

## Notes to the Consolidated Financial Statements (continued)

## 7 Tax (continued)

## (b) Deferred tax

	Accelerated capital allowances £million	Retirement benefit obligations £million	Losses carried forward	Other timing differences £million	Total £million
At 29 April 2012	32.9	64.5	30.1	7.5	135.0
(Charged) / credited to income statement	(15.5)	(1.4)	(15.8)	13.5	(19.2)
Credited to equity	–	31.6	–	2.6	34.2
Disposals	0.3	–	(10.9)	0.6	(10.0)
Currency retranslation	(0.5)	–	0.3	(0.2)	(0.4)
At 30 April 2013	17.2	94.7	3.7	24.0	139.6
(Charged) / credited to income statement	(4.2)	0.1	(0.7)	(8.8)	(13.6)
Charged to equity	–	(13.8)	–	(0.7)	(14.5)
Transfer to assets held for sale	(0.4)	–	(2.8)	(1.5)	(4.7)
Currency retranslation	0.4	(0.2)	(0.2)	(0.7)	(0.7)
<b>At 30 April 2014</b>	<b>13.0</b>	<b>80.8</b>	<b>–</b>	<b>12.3</b>	<b>106.1</b>

Summary of assets and liabilities as disclosed:

	2014 £million	2013 £million
Deferred tax assets	121.2	150.9
Deferred tax liabilities	(15.1)	(11.3)
	<b>106.1</b>	139.6

Analysis of deferred tax relating to items (charged) / credited to equity in the year:

	2013/14 £million	2012/13 £million
Actuarial (gains) / losses on defined benefit pension schemes	(13.8)	31.6
Net (losses) / gains on revaluation of cash flow hedges	(1.5)	0.9
Net gains on hedges of net investments	–	(0.1)
Credited to comprehensive expense	(15.3)	32.4
Share-based payments	0.8	1.8
	<b>(14.5)</b>	34.2

As a result of share disposals, allowable losses have been incurred which are available for offset against certain future chargeable gains. A deferred tax asset has not been recognised in respect of these losses as it is considered that there is insufficient evidence that chargeable gains will arise.

The UK corporation tax rate will fall to 20% from 1 April 2015 and accordingly UK deferred tax has been computed at this rate. The deferred tax asset not recognised, measured at the standard rate of 20% (2013 23%), is not less than £250.3 million (2013 £288.0 million). Where permitted, certain deferred tax assets and liabilities have been offset for financial reporting purposes.

Notes to the Consolidated Financial Statements (continued)

8 Earnings per share

	2013/14 £million	2012/13 Restated £million
<b>Basic and diluted (loss) / earnings</b>		
Total (continuing and discontinued operations)	<b>(69.5)</b>	(162.5)
Discontinued operations	<b>157.3</b>	205.5
Continuing operations	<b>87.8</b>	43.0
<b>Adjustments</b>		
Non-underlying items	<b>33.3</b>	64.4
Tax on non-underlying items	<b>(5.4)</b>	(10.3)
<b>Total adjustments (net of taxation)</b>	<b>27.9</b>	54.1
<b>Underlying basic and diluted earnings</b>	<b>115.7</b>	97.1
	Million	Million
<b>Weighted average number of shares for:</b>		
Basic and underlying basic (loss) / earnings	<b>3,648.7</b>	3,616.5
Diluted loss – total (continuing and discontinued operations)	† <b>3,648.7</b>	3,616.5
Underlying diluted earnings – continuing operations	† <b>3,648.7</b>	3,616.5
Underlying diluted earnings	† <b>3,799.9</b>	3,696.4
<b>Potentially dilutive shares under employee share option and ownership schemes</b>	† <b>151.2</b>	79.9
	Pence	Pence
<b>Basic (loss) / earnings per share</b>		
Total (continuing and discontinued operations)	<b>(1.9)</b>	(4.5)
Adjustment in respect of discontinued operations	<b>4.3</b>	5.7
Continuing operations	<b>2.4</b>	1.2
Adjustments (net of taxation)	<b>0.8</b>	1.5
<b>Underlying basic earnings per share</b>	<b>3.2</b>	2.7
<b>Diluted (loss) / earnings per share</b>		
Total (continuing and discontinued operations)	<b>(1.9)</b>	(4.5)
Adjustment in respect of discontinued operations	<b>4.2</b>	5.7
Continuing operations	<b>2.3</b>	1.2
Adjustments (net of taxation)	<b>0.7</b>	1.4
<b>Underlying diluted earnings per share</b>	<b>3.0</b>	2.6

† In accordance with IAS 33, the weighted average number of shares for the calculation of diluted (loss) / earnings per share does not include potentially dilutive shares if they would decrease the loss per share.

Basic and diluted earnings per share are based on the profit for the year attributable to equity shareholders. Underlying earnings per share are presented in order to show the underlying performance of the Group. Adjustments used to determine underlying earnings are described further in note 4.



## Notes to the Consolidated Financial Statements (continued)

## 9 Goodwill

	2014 £million	2013 £million
<b>Cost</b>		
At beginning of year	1,489.8	1,443.8
Additions	–	1.1
Disposals	(6.8)	(12.7)
Transfer to assets held for sale	(697.6)	–
Currency retranslation	(88.9)	57.6
<b>At end of year</b>	<b>696.5</b>	<b>1,489.8</b>
<b>Impairment</b>		
At beginning of year	785.6	703.1
Non-underlying impairment		
Continuing operations	–	6.6
Discontinued operations	–	45.2
Disposals	(6.6)	–
Transfer to assets held for sale	(670.1)	–
Currency retranslation	(19.8)	30.7
<b>At end of year</b>	<b>89.1</b>	<b>785.6</b>
<b>Net book value at the end of the year</b>	<b>607.4</b>	<b>704.2</b>

**(a) Carrying value**

The carrying value of goodwill comprises the following businesses:

	2014 £million	2013 £million
Elkjøp Nordic AS (Elkjøp)	607.4	676.5
Unieuro S.p.A. (Unieuro)	–	27.7
	<b>607.4</b>	<b>704.2</b>

2013/14:

The transfer to assets held for sale relates to Unieuro and PIXmania which were sold during the year as described further in note 27.

Following the impairment of a UK B2B operation in 2012/13, it has been determined that the underlying business assets and branding are no longer identifiable and as a result the goodwill has been treated as disposed.

2012/13:

The disposals predominantly comprised the Equanet business which is described further in note 4.

The non-underlying impairment charges in respect of continuing operations comprised a small UK B2B operation following reorganisation as a result of the sale of Equanet. Further details of the impairment charge is shown in note 4.

Notes to the Consolidated Financial Statements (continued)

9 Goodwill (continued)

(b) Impairment testing

As required by IAS 36, goodwill is subject to annual impairment reviews. These reviews are carried out using the following criteria:

- business acquisitions generate an attributed amount of goodwill;
- the manner in which these businesses are run and managed is used to determine the 'Cash Generating Unit' (CGU) grouping as defined in IAS 36 'Impairment of Assets';
- the recoverable amount of each CGU group is determined based on calculating its value in use (VIU);
- the VIU is calculated by applying discounted cash flow modelling to management's own projections covering a five year period;
- cash flows beyond the five year period are extrapolated using a long term growth rate equivalent to the relevant market's Gross Domestic Product (GDP); and
- the VIU is then compared to the carrying amount in order to determine whether impairment has occurred.

The key assumptions used in calculating value in use are:

- management's five year projections;
- the growth rate beyond five years; and
- the pre-tax adjusted discount rate.

The five year projections, which have been approved by management, have been prepared using risk adjusted strategic plans which have regard to the relative performance of competitors and knowledge of the current market together with management's views on the future achievable growth in market share and impact of the committed initiatives. The cash flows which derive from these five year projections include ongoing capital expenditure required to develop and upgrade the store network in order to maintain and operate the businesses and to compete in their markets. In forming the five year projections, management draws on past experience as a measure to forecast future performance.

Key assumptions used in determining the five year projections comprise the growth in sales and costs over this period. The compound annual growth rate in sales and costs can rise as well as fall year on year depending not only on the year five targets, but also on the current financial year base. These targets, when combined, accordingly drive the resulting profit margins and the profit in year five of the projections which is in turn used to calculate the terminal value in the VIU calculation. Historical amounts for the businesses under impairment review as well as from other parts of the Group are used to generate the values attributed to these assumptions.

The growth rate beyond five years is based on the GDP for the territories in which these businesses operate. The discount rates applied to cash flows are based on the Group's weighted average cost of capital having regard to the strategic five year plans themselves already being risk adjusted to take account of specific risks in the relevant market or region.

The Group's only goodwill balance is in respect of Elkjøp and the values attributed to these assumptions are as follows:

	2014	2013
Compound annual growth in sales	6.1%	6.6%
Compound annual growth in costs	6.0%	6.6%
Growth rate beyond five years	2.4%	2.5%
Pre-tax discount rate	11.2%	10.7%

(c) Sensitivities

A sensitivity analysis had been performed on each of the base case assumptions used for assessing the goodwill with other variables held constant. Consideration of sensitivities to key assumptions can evolve from one financial year to the next.

The directors have concluded that in the case of Elkjøp there are no reasonably possible changes in any key assumption which would cause the carrying amount of goodwill to exceed its value in use.

## Notes to the Consolidated Financial Statements (continued)

## 10 Intangible assets

	Acquired intangibles £million	Other intangibles			Total £million
		Software (externally acquired) £million	Software (internally generated) £million	Sub-total £million	
<b>Cost</b>					
At 29 April 2012	82.3	141.6	75.3	216.9	299.2
Additions	–	12.4	5.6	18.0	18.0
Disposals	(3.5)	(0.4)	(4.8)	(5.2)	(8.7)
Transfer to assets held for sale	(3.3)	–	–	–	(3.3)
Currency retranslation	3.1	2.4	0.7	3.1	6.2
At 30 April 2013	78.6	156.0	76.8	232.8	311.4
Additions	–	12.9	3.5	16.4	16.4
Disposals	–	(2.8)	(10.7)	(13.5)	(13.5)
Transfer to assets held for sale	(45.7)	(12.0)	(11.8)	(23.8)	(69.5)
Currency retranslation	(2.2)	(5.5)	(0.3)	(5.8)	(8.0)
<b>At 30 April 2014</b>	<b>30.7</b>	<b>148.6</b>	<b>57.5</b>	<b>206.1</b>	<b>236.8</b>
<b>Amortisation</b>					
At 29 April 2012	38.3	103.7	59.1	162.8	201.1
Charge for the year – underlying	–	10.8	6.7	17.5	17.5
– non-underlying	4.2	–	–	–	4.2
Non-underlying impairment	25.1	–	1.9	1.9	27.0
Disposals	(3.5)	(0.2)	(3.9)	(4.1)	(7.6)
Transfer to assets held for sale	(1.5)	–	–	–	(1.5)
Currency retranslation	1.5	2.1	0.7	2.8	4.3
At 30 April 2013	64.1	116.4	64.5	180.9	245.0
Charge for the year – underlying	–	10.4	5.2	15.6	15.6
– non-underlying	0.7	–	–	–	0.7
Non-underlying impairment	–	7.0	–	7.0	7.0
Disposals	–	(1.5)	(10.1)	(11.6)	(11.6)
Transfer to assets held for sale	(45.7)	(10.4)	(8.5)	(18.9)	(64.6)
Currency retranslation	(1.8)	(4.3)	(0.1)	(4.4)	(6.2)
<b>At 30 April 2014</b>	<b>17.3</b>	<b>117.6</b>	<b>51.0</b>	<b>168.6</b>	<b>185.9</b>
<b>Net book value</b>					
<b>At 30 April 2014</b>	<b>13.4</b>	<b>31.0</b>	<b>6.5</b>	<b>37.5</b>	<b>50.9</b>
At 30 April 2013	14.5	39.6	12.3	51.9	66.4

Acquired intangibles comprise the brand name of Kotsovolos, for which the value is £13.4 million (2013 £14.5 million) and for which the remaining life of this asset is 20 years. Included in net book value of other intangibles are assets under construction of £8.8 million (2013 £16.1 million).

In 2013/14, the transfer to assets held for sale related to Electroworld Turkey, Unieuro and PIXmania operations which have since been sold as well as the Group's Central European operations following the announcement on 19 May 2014 that the Group had signed an agreement to sell these operations. All of these sale transactions are further discussed in notes 27 and 32 (2012/13 related to the Group's sale of Webhallen as discussed further in note 27).

## Notes to the Consolidated Financial Statements (continued)

## 11 Property, plant &amp; equipment

	2014			2013		
	Land and buildings £million	Fixtures, fittings and equipment £million	Total £million	Land and buildings £million	Fixtures, fittings and equipment £million	Total £million
<b>Cost</b>						
At beginning of year	152.2	1,189.8	1,342.0	153.1	1,202.2	1,355.3
Additions	–	62.3	62.3	–	82.5	82.5
Disposals	(3.9)	(67.5)	(71.4)	(1.2)	(114.0)	(115.2)
Transfer to assets held for sale	(0.9)	(164.1)	(165.0)	–	(2.0)	(2.0)
Reclassification	(0.7)	0.7	–	–	–	–
Currency retranslation	(0.7)	(26.0)	(26.7)	0.3	21.1	21.4
<b>At end of year</b>	<b>146.0</b>	<b>995.2</b>	<b>1,141.2</b>	<b>152.2</b>	<b>1,189.8</b>	<b>1,342.0</b>
<b>Depreciation</b>						
At beginning of year	70.1	837.9	908.0	57.4	817.5	874.9
Charge for the year	5.1	105.4	110.5	5.5	111.0	116.5
Impairment – underlying	1.2	–	1.2	–	–	–
– non-underlying	–	1.7	1.7	7.9	4.2	12.1
Disposals	(0.3)	(65.0)	(65.3)	(0.6)	(108.5)	(109.1)
Transfer to assets held for sale	(0.6)	(126.6)	(127.2)	–	(1.0)	(1.0)
Currency retranslation	(0.6)	(17.6)	(18.2)	(0.1)	14.7	14.6
<b>At end of year</b>	<b>74.9</b>	<b>735.8</b>	<b>810.7</b>	<b>70.1</b>	<b>837.9</b>	<b>908.0</b>
<b>Net book value at end of year</b>	<b>71.1</b>	<b>259.4</b>	<b>330.5</b>	<b>82.1</b>	<b>351.9</b>	<b>434.0</b>
<b>Included in net book value</b>						
Land not depreciated	5.1	–	5.1	6.5	–	6.5
Assets in the course of construction	–	6.7	6.7	–	17.7	17.7
Assets held under finance leases	55.3	–	55.3	59.7	3.0	62.7

No additions related to finance leases (2012/13 £0.9 million). Legal title for these leased assets remains with the lessor.

In 2013/14, the transfer to assets held for sale related to Electroworld Turkey, Unieuro and PIXmania operations which have since been sold as well as the Group's Central European operations following the announcement on 19 May 2014 that the Group had signed an agreement to sell these operations. All of these sale transactions are further discussed in notes 27 and 32 (2012/13 related to the Group's sale of Webhallen as discussed further in note 27).

## 12 Investments in associates

	2014 £million	2013 £million
At beginning of year	0.5	3.5
Non-underlying impairment	–	(2.5)
Transfer of associate to subsidiary undertakings	–	(0.3)
Dividend	–	(0.4)
Currency retranslation	–	0.2
<b>At end of year</b>	<b>0.5</b>	<b>0.5</b>

The Group's share of post-tax results of associates comprise shareholdings in several different enterprises in the Nordic region, none of which are significant.

2012/13:

The non-underlying impairment related to weakness in the results and long term outlook for the Group's 40% stake in F-Group such that the directors concluded that a full impairment was required.

The transfer of associate to subsidiary undertakings related to previous small associate shareholdings which became subsidiaries following the acquisition of the remaining shares during the year.

Notes to the Consolidated Financial Statements (continued)

13 Inventories

	2014 £million	2013 £million
Finished goods and goods for resale	708.3	928.7
Provision for obsolete and slow moving goods	(23.9)	(33.3)
	<b>684.4</b>	895.4

14 Trade and other receivables

	Note	2014		2013	
		Current £million	Non-current £million	Current £million	Non-current £million
Trade debtors		168.1	6.2	197.6	4.6
Provision for bad and doubtful debts		(19.0)	–	(25.0)	–
		<b>149.1</b>	<b>6.2</b>	172.6	4.6
Derivative financial instruments	22	6.1	–	4.3	–
Other debtors		30.1	7.3	40.7	15.7
Prepayments		64.2	0.1	63.3	0.3
Accrued income		17.6	–	23.6	–
		<b>267.1</b>	<b>13.6</b>	304.5	20.6

The majority of trade and other receivables are non-interest bearing and are generally on 30 to 90 day terms. The balance comprises both B2B receivables and consumer credit receivables with no material individual balances. The total financial assets included within trade and other receivables are £216.4 million (2013 £261.5 million). The carrying amount of trade and other receivables approximates fair value with no concentration of credit risk.

The Group's trade debtors included the following amounts which are past due at the end of the year and for which the Group has not provided for owing to the amounts being considered recoverable:

	2014 £million	2013 £million
Up to six months past due	19.0	24.9
Six to 12 months past due	0.9	1.4
Over 12 months past due	–	0.2
	<b>19.9</b>	26.5

Movements on the provision for bad and doubtful debts are as follows:

	2014 £million	2013 £million
At beginning of year	25.0	24.8
Charge for the year	7.9	5.6
Utilisation of provision	(5.1)	(5.3)
Reclassified to assets held for sale	(9.0)	–
Currency retranslation	0.2	(0.1)
<b>At end of year</b>	<b>19.0</b>	25.0

The Group does not hold any collateral as security over receivables balances.

15 Short term investments

	2014 £million	2013 £million
Floating rate notes	1.4	2.4

Floating rate notes have a nominal value of £1.5 million (2013 £2.5 million) and have an average expected maturity of 5.4 years (2013 13.8 years). Floating rate notes have an effective yield of 0.91% (2013 0.99%). Such items are classified as 'available for sale' under the classification requirements of IFRS 13 'Fair value measurement'.

## Notes to the Consolidated Financial Statements (continued)

## 16 Cash and cash equivalents

	2014 £million	2013 £million
Cash at bank	122.5	107.3
Money market deposits	278.7	298.0
	<b>401.2</b>	<b>405.3</b>

Cash at bank earns interest at floating rates based either on daily bank deposit rates or central bank lending rates. Money market deposits are made for varying periods of up to 90 days with an average maturity of 18 days (2013 31 days). The carrying amount of money market deposits approximates their fair value.

## 17 Borrowings

	2014 £million	2013 £million
<b>Current</b>		
Bank overdrafts	–	17.7
Other borrowing	–	4.5
	–	22.2
<b>Non-current</b>		
8.75% Guaranteed Notes 2015	99.6	98.8
8.75% Guaranteed Notes 2017	147.3	146.6
	<b>246.9</b>	<b>245.4</b>

Bank overdrafts are repayable on demand.

On 19 May 2014, the Group signed a new revolving credit facility agreement (the New Facility) for £150 million. The New Facility, which has a maturity date of 30 June 2018, with an option to extend to 30 June 2019, replaces the previous Amended Facility of £200 million which had a maturity date of 30 June 2015. The Amended Facility was originally for £300 million (amending and restating a previous revolving credit facility agreement for £360 million) and reduced to £225 million in September 2012 and to £200 million in August 2013. The key terms of the New Facility have similarities to the Amended Facility, however, with reduced levels of fees and a reduced number of financial covenants. Drawings under the New Facility bear interest at LIBOR plus a margin of 2.25% (the Amended Facility 3.50%). A commitment fee is incurred on undrawn amounts. As at 30 April 2014, there were no drawings under the Amended Facility (2013 £nil).

The carrying amount of current borrowings approximates their fair value.

On 20 September 2012, the Group repurchased £49.4 million in nominal amount of its 8.75% Guaranteed Notes 2015 (the 2015 Notes). This repurchase was funded by part of a new issue of £150 million 8.75% Guaranteed Notes 2017 (the 2017 Notes) and for which the proceeds were received on 19 September 2012.

The remaining 2015 Notes are denominated in sterling with a nominal value of £100.6 million (2013 £100.6 million). The 2017 Notes are denominated in sterling with a nominal value of £150 million. Both the 2015 Notes and the 2017 Notes require payment of interest semi-annually and as at 30 April 2014 were guaranteed by a number of UK and Irish subsidiary undertakings of the Group, including DSG Retail Limited. From 19 May 2014, when the New Facility came into effect, the number of subsidiary undertakings providing a guarantee was reduced, but still includes DSG Retail Limited. Both the 2015 Notes and the 2017 Notes are listed on the London Stock Exchange and unless previously redeemed or purchased and cancelled they will be redeemed at par on 3 August 2015 and 15 September 2017, respectively. Both the 2015 Notes and the 2017 Notes may be redeemed in whole or in part at their principal amount plus accrued interest by providing 30 to 60 days' notice to the Noteholders. They may also be purchased in the open market by any company within the Group and in either circumstance any unmatured coupons will be cancelled and may not be re-issued or re-sold. In the event of a specific change of control event, each Noteholder has an option to require Dixons Retail plc to redeem or, at the option of Dixons Retail plc, purchase (or procure the purchase of) any of the 2015 Notes or 2017 Notes held by such Noteholder at a cash price equal to 101% of their principal amount together with interest accrued. The value of the 2015 Notes excludes accrued interest of £2.1 million (2013 £2.2 million) and the value of the 2017 Notes excludes accrued interest of £1.6 million (2013 £1.6 million), included in trade and other payables.

Further information concerning fair value, hedging and ensuing interest rate and currency profiles relating to the 2015 Notes and the 2017 Notes is included in note 22.



## Notes to the Consolidated Financial Statements (continued)

## 18 Obligations under finance leases

	2014		2013	
	Minimum lease payments £million	Present value of minimum lease payments £million	Minimum lease payments £million	Present value of minimum lease payments £million
Amounts due:				
Within one year	8.0	7.5	9.0	8.3
In more than one year and not more than five years	33.0	26.5	34.6	27.9
In more than five years	122.8	59.6	130.7	61.8
	163.8	93.6	174.3	98.0
Less future finance charges	(70.2)	–	(76.3)	–
Present value of lease obligations	93.6	93.6	98.0	98.0
Less amounts due within one year	(2.0)	(2.0)	(2.0)	(2.0)
Amounts due after more than one year	91.6	91.6	96.0	96.0

The majority of finance leases relate to properties in the UK where obligations are denominated in sterling and remaining lease terms vary between 11 and 22 years. The effective borrowing rate on individual leases ranged between 5.51% and 8.15% (2013 between 5.51% and 8.15%). 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.

The fair value of the Group's lease obligations approximates their carrying amount.

## 19 Trade and other payables

	Note	2014		2013	
		Current £million	Non-current £million	Current £million	Non-current £million
Trade creditors		841.4	–	1,064.0	–
Other taxation and social security		134.2	–	138.6	–
Derivative financial instruments	22	3.4	–	5.5	–
Other creditors		37.0	15.2	64.7	21.8
Accruals		210.2	78.9	245.0	85.5
Deferred income – customer support agreements		126.4	145.0	116.3	154.5
Deferred income – other		29.8	–	33.6	0.7
		1,382.4	239.1	1,667.7	262.5

Included in other creditors and accruals is £57.7 million (2013 £60.0 million) relating to other non-financial liabilities. The total financial liabilities included in trade and other payables are £1,128.4 million (2013 £1,426.5 million). The carrying amount of trade and other payables approximates their fair value.

## Notes to the Consolidated Financial Statements (continued)

## 20 Provisions

	2014			2013		
	Property related £million	Severance and other £million	Total £million	Property related £million	Severance and other £million	Total £million
At beginning of year	40.1	22.8	62.9	31.1	7.1	38.2
Additions	–	26.3	26.3	18.5	25.7	44.2
Transfer to liabilities directly associated with assets held for sale	(10.9)	(9.4)	(20.3)	–	(0.4)	(0.4)
Utilisation	(8.4)	(20.6)	(29.0)	(10.0)	(9.8)	(19.8)
Currency retranslation	0.1	0.2	0.3	0.5	0.2	0.7
<b>At end of year</b>	<b>20.9</b>	<b>19.3</b>	<b>40.2</b>	<b>40.1</b>	<b>22.8</b>	<b>62.9</b>
<b>Analysed as:</b>						
Current	4.8	19.3	24.1	14.0	22.8	36.8
Non-current	16.1	–	16.1	26.1	–	26.1
	<b>20.9</b>	<b>19.3</b>	<b>40.2</b>	<b>40.1</b>	<b>22.8</b>	<b>62.9</b>

2013/14: Additions relate to restructuring and business impairment charges which are described further in note 4. Property related provisions mainly comprise onerous lease contracts. Transfer to liabilities held for sale relate to PIXmania and Unieuro whereby the transfer occurred on 31 October 2013.

Of the amounts included within non-current liabilities remaining at 30 April 2014, the majority are expected to be utilised within the next ten years.

## 21 Retirement and other post-employment benefit obligations

	2014 £million	2013 £million
Retirement benefit obligations – UK	(399.8)	(406.4)
– Nordics	(2.0)	(2.7)
	<b>(401.8)</b>	<b>(409.1)</b>

The Group operates a number of defined contribution and defined benefit pension schemes.

The principal scheme which operates in the UK includes a funded defined benefit section whose assets are held in a separate trustee administered fund. The scheme is valued by a qualified actuary at least every three years and contributions are assessed in accordance with the actuary's advice. Since 1 September 2002, the defined benefit section of the scheme has been closed to new entrants and on 30 April 2010 was closed to future accrual with automatic entry into the defined contribution section being offered to those active members of the defined benefit section at that time. Membership of the defined contribution section is offered to eligible employees.

In the Nordics division, the Group operates small funded secured defined benefit pension schemes, which are also closed to future accrual, with assets held by a life insurance company as well as an unsecured pension arrangement. In addition, contributions are made to state pension schemes. The net movement in the obligation comprises a charge to operating profit of £0.5 million (2012/13 £0.9 million) with the remaining movements relating to the benefits paid in the period, actuarial gains / (losses) and currency retranslation. In Greece, the Group also provides other post-employment benefits which are governed by statute. These benefits are unfunded.

**(a) Defined contribution pension schemes**

The pension charge in respect of defined contribution schemes was £17.3 million (2012/13 £16.9 million).

## Notes to the Consolidated Financial Statements (continued)

**21 Retirement and other post-employment benefit obligations (continued)****(b) UK Defined benefit pension scheme – actuarial valuation and assumptions**

A full actuarial valuation of the scheme was last carried out as at 31 March 2010 and showed a shortfall of assets compared with liabilities of £239.0 million. A 'recovery plan' based on this valuation, agreed with the trustee, commenced in 2010/11 with special contributions of £12.0 million, rising to £20.0 million for 2012/13 and 2013/14. Contributions rise to £25.0 million for 2014/15 and will rise approximately annually thereafter to £35.0 million by 2020/21. The next triennial valuation as at 31 March 2013 is still underway and its results are expected within the first half of 2014/15.

The principal actuarial assumptions as at 31 March 2010 were:

		Rate per annum
Discount rate for accrued benefits	– Pre-retirement	6.4%
	– Post-retirement	5.1% – 5.3%
Rate of increase to pensions	– Guaranteed Minimum Pension	0% – 2.8%
	– Pension in excess of Guaranteed Minimum Pension	2.4% – 4.1%
Inflation		3.7%

At 31 March 2010, the market value of the scheme's investments was £672.0 million and, based on the above assumptions, the value of the assets was sufficient to cover 74% of the benefits accrued to members with the liabilities amounting to £911.0 million.

**(c) UK Defined benefit pension scheme – IAS 19**

The following summarises the components of net defined benefit expense recognised in the consolidated income statement, the funded status and amounts recognised in the consolidated balance sheet and other amounts recognised in the statement of comprehensive income. The methodologies set out in IAS 19 are different from those used by the scheme actuaries in determining funding arrangements.

**(i) Principal assumptions adopted**

The assumptions used in calculating the expenses and obligations are set by the directors after consultation with the independent actuaries.

	2014	2013
<b>Rates per annum</b>		
Discount rate	<b>4.4%</b>	4.3%
Rate of increase in pensions in payment / deferred pensions (pre / post April 2006 accrual)	<b>3.0%/2.0%</b>	3.2%/2.1%
Inflation	<b>3.3%</b>	3.3%

The Group uses demographic assumptions underlying the last formal actuarial valuation of the scheme as at 31 March 2010. In particular, post-retirement mortality has been assumed to follow the standard mortality tables 'S1' All Pensioners tables published by the CMI, based on the experience of Self-Administered Pension Schemes (SAPS) from 2000 to 2006 with medium cohort improvements up to 2009 and multipliers of 105% for males and 110% for females. In addition, an allowance has been made for future improvements in longevity by using the new CMI 2009 Core projections with a long term rate of improvement of 1.5% per annum for men and 1.0% per annum for women. Applying such tables results in an average expected longevity of between 87.2 years and 88.9 years for men and between 88.3 years and 89.5 years for women (2013 between 87.2 years and 88.8 years for men and between 88.6 years and 89.7 years for women) for those reaching 65 over the next 15 years.

**(ii) Amounts recognised in consolidated income statement**

	2013/14	2012/13
	£million	Restated £million
Net interest expense on defined benefit obligation	<b>17.0</b>	13.1

**(iii) Amounts recognised in the consolidated statement of comprehensive income and expense**

	2013/14	2012/13
	£million	Restated £million
Remeasurement of defined benefit obligation – actuarial gains / (losses) arising from:		
changes in financial assumptions	<b>44.0</b>	(221.2)
experience adjustments	<b>5.9</b>	9.6
change in demographic assumptions	<b>(22.4)</b>	–
Remeasurement of scheme assets:		
Actual return on plan assets (excluding amounts included in net interest expense)	<b>(23.9)</b>	60.1
	<b>3.6</b>	(151.5)
Cumulative actuarial loss	<b>(424.4)</b>	(428.0)

Notes to the Consolidated Financial Statements (continued)

21 Retirement and other post-employment benefit obligations (continued)

(iv) Amounts recognised in the consolidated balance sheet

	2014 £million	2013 £million
Present value of defined benefit obligations	<b>(1,219.1)</b>	(1,225.2)
Fair value of plan assets	<b>819.3</b>	818.8
Net obligation	<b>(399.8)</b>	(406.4)

Changes in the present value of the defined benefit obligation:

	2014 £million	2013 £million
Opening obligation	<b>1,225.2</b>	991.8
Interest cost	<b>52.0</b>	50.8
Remeasurements in other comprehensive income – actuarial (gains) / losses arising from changes in:		
financial assumptions	<b>(44.0)</b>	221.2
experience	<b>(5.9)</b>	(9.6)
demographic assumptions	<b>22.4</b>	–
Benefits paid	<b>(30.6)</b>	(29.0)
Closing obligation	<b>1,219.1</b>	1,225.2

The weighted average maturity profile of the defined benefit obligation at the end of the year is 20 years (2013 21 years).

Changes in the fair value of the scheme assets:

	2014 £million	2013 Restated £million
Opening fair value	<b>818.8</b>	729.9
Interest income	<b>35.0</b>	37.8
Employer special contributions	<b>20.0</b>	20.0
Remeasurements in other comprehensive income:		
Actual return on plan assets (excluding interest income)	<b>(23.9)</b>	60.1
Benefits paid	<b>(30.6)</b>	(29.0)
Closing fair value	<b>819.3</b>	818.8

Analysis of scheme assets:

		2014 £million	2013 £million
UK equities	– Listed	–	58.8
	– Unlisted	–	3.0
Overseas and global equities	– Listed	<b>232.3</b>	155.0
	– Unlisted	<b>170.2</b>	171.6
Diversified growth	– Listed	<b>5.8</b>	3.0
	– Unlisted	<b>26.0</b>	26.6
Multi-asset credit funds	– Listed	<b>25.6</b>	23.6
	– Unlisted	<b>47.3</b>	50.1
Emerging market multi-asset funds	– Listed	<b>0.7</b>	2.7
	– Unlisted	<b>42.9</b>	45.3
Private equity	– Unlisted	<b>25.1</b>	33.4
Property	– Unlisted	<b>162.0</b>	169.3
Index-linked gilts	– Listed	<b>68.7</b>	69.2
Corporate bonds	– Listed	<b>11.6</b>	6.0
Cash and cash instruments	– Unlisted	<b>1.1</b>	1.2
Other	– Unlisted	<b>819.3</b>	818.8

The investment strategy of the scheme is determined by the independent Trustee through advice provided by an independent investment consultant. The scheme invests in a diverse range of asset classes as set out above with matching assets primarily comprising holdings in inflation linked gilts and corporate bonds.

Actual return on the scheme assets was a gain of £11.1 million (2012/13 gain of £97.9 million).

## Notes to the Consolidated Financial Statements (continued)

**21 Retirement and other post-employment benefit obligations (continued)****(v) Sensitivities**

The value of the UK defined benefit pension scheme assets is sensitive to market conditions, particularly equity values which comprise approximately 67% of the scheme's assets. Changes in assumptions used for determining retirement benefit costs and liabilities may have a material impact on the 2012/13 income statement and the balance sheet. The main assumptions are the discount rate, the rate of inflation and the assumed mortality rate. The following table provides an estimate of the potential impacts of each of these variables if applied to the current year consolidated income statement and balance sheet.

	Net finance costs		Net deficit	
	2013/14	2012/13 Restated	2014	2013
	£million	£million	£million	£million
<b>Positive / (negative) effect</b>				
Discount rate: 0.25% increase	1.7	1.3	59.5	62.5
Inflation rate: 0.25% increase <sup>†</sup>	(2.1)	(2.4)	(46.6)	(53.5)
Mortality rate: 1 year increase	(1.6)	(1.4)	(35.5)	(36.2)

<sup>†</sup> The increase in scheme benefits provided to members on retirement is subject to an inflation cap.

**(d) Other post-employment benefits – IAS 19**

The Group offers other post-employment benefits to employees in overseas territories, in particular in Greece. At 30 April 2014 the net obligation in relation to these benefits was £3.0 million (2013 £12.6 million). The net movement in the obligation comprises a charge to operating profit of £0.5 million (2012/13 £1.5 million) with the remaining movements relating to the benefits paid in the year, actuarial gains / (losses), amounts in respect of discontinued operations and currency retranslation.

**22 Financial instruments****(a) Financial risk management objectives and policies**

Treasury operations are managed centrally within policies approved by the Board and are subject to periodic independent internal and external reviews. Group Treasury reports regularly to the Tax & Treasury Committee and as required, to the Board. The major treasury risks to which the Group is exposed relate to market risks (movements in foreign exchange and interest rates), liquidity risk and credit risk. Areas where risks are most likely to occur are evaluated regularly. The Group uses financial instruments and derivatives to manage these risks in accordance with defined policies. Throughout the year under review, in accordance with Group policy, no speculative use of derivatives, foreign exchange or other instruments was permitted.

The Group's accounting policies in relation to derivatives are set out in note 1.16.

**Exchange rate risk**

The Group is exposed to exchange movements on recognised assets and liabilities, overseas earnings and translated values of foreign currency assets and liabilities. The Group's principal translation currency exposures are the euro, Swedish krona and Norwegian krone. Taking into account the cost of hedging, the Group's policy is to match, in whole or in part, currency earnings with related currency costs and currency assets with currency liabilities through the use of appropriate hedging instruments.

The Group is also exposed to certain transactional currency exposures. Such exposures arise from purchases in currencies other than in the functional currency of the entity. The Group's principal transactional currency exposures are the US dollar and euro. It is Group policy to minimise the currency exposures on such purchases through the use of appropriate hedging instruments such as forward exchange contracts. Such contracts are designed to cover exposures ranging from one month to one year.

**Interest rate risk**

The principal interest rate risks of the Group arise in respect of sterling cash, investments and sterling borrowings. Potential exposure to interest rate movements is mitigated by the Group's policy to match to the extent possible the profile of interest payments with that of its interest receipts.

**Liquidity risk**

It is Group policy to maintain a balance of funds, borrowings, committed bank and other facilities sufficient to meet anticipated short term and long term financial requirements. In applying this policy the Group continuously monitors forecast and actual cash flows against the maturity profiles of financial assets and liabilities. Uncommitted facilities are used if available on advantageous terms. It is Group Treasury policy to ensure that a specific level of committed facilities is always available based on forecast working capital requirements.

Cash forecasts identifying the Group's liquidity requirements are produced and are stress tested for different scenarios including, but not limited to, reasonably possible decreases in profit margins and increases in interest rates on the Group's borrowing facilities and the weakening of sterling against other functional currencies within the Group.

## Notes to the Consolidated Financial Statements (continued)

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### 22 Financial instruments (continued)

#### **Credit risk**

The Group's exposure to credit risk on liquid funds, investments (mainly bank deposits and floating rate notes) and derivative financial instruments arises from the risk of non-performance of counterparties, with a maximum exposure equal to the book value of these assets. The Group limits its exposure to credit risk through application of Group Treasury policy which limit the credit exposure to counterparties with a Moody's long term credit rating below A1, bank financial strength rating below C and short term credit rating below P2. The Group also has policies that limit the amount of credit exposure to any single financial institution. The Group continuously reviews the credit quality of counterparties, the limits placed on individual credit exposures and categories of investments. The Group does not anticipate non-performance of counterparties and believes it is not subject to material concentration of credit risk given the policies in place.

The Group's receivable balances comprise a large number of individually small amounts from unrelated customers, spread across diverse industries and geographical areas. Concentration of risk is therefore limited and maximum exposure is equal to the book value of receivables. Sales to retail customers are made predominantly in cash or via major credit cards. It is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. New credit customers are assessed using an external rating report which is used to establish a credit limit. Such limits are reviewed periodically on both a proactive and reactive basis, for example, when a customer wishes to place an order in excess of their existing credit limit. Receivable balances are monitored regularly with the result that the Group's exposure to bad debts is not significant. Management therefore believe that there is no further credit risk provision required in excess of the normal provision for doubtful receivables.

#### **Capital risk management**

It is the Group's policy to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Group is subject to certain externally imposed capital requirements in the form of banking covenants involving borrowing ratios which it met throughout the year.

The Board has delegated responsibility for routine capital expenditure to a Capital Committee, which has approval responsibility for: Group long term and budgeted capital spend, setting capital assessment criteria, new store capital approval, subsidiary company funding, business acquisitions, business disposals and contingent liabilities such as guarantees. The Committee also approves routine statutory and internal delegated powers of authority in relation to capital expenditure.

The Group considers the manner in which funds are distributed to shareholders by assessing the performance of the business, the level of available net funds and the short to medium term strategic plans concerning future capital spend as well as the need to meet banking covenants and borrowing ratios. Such assessment will influence the level of dividends payable as well as consideration from time to time of market purchases of the Group's own shares.

The Group monitors available net funds on a regular basis and this is affected by Free Cash Flow (which is defined on the face of the cash flow statement) and is one of the Group's key performance indicators.

#### **(b) Fair values of financial assets and liabilities**

For receivables and payables classified as financial assets and liabilities in accordance with IAS 32, fair value is estimated to be equivalent to book value. These values are shown in notes 14 and 19, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in notes 1.11 and 1.15.

For those financial assets and liabilities which bear either a floating rate of interest or no interest, fair value is estimated to be equivalent to book value. These values are shown in note 22(d).

The fair value of the 2015 Notes is £109.9 million (2013 £112.4 million). The 2015 Notes are carried at amortised cost. Excluded from the fair value is £2.1 million (2013 £2.2 million) of accrued interest which is included in trade and other payables.

The fair value of the 2017 Notes is £174.8 million (2013 £169.1 million). The 2017 Notes are carried at amortised cost. Excluded from the fair value is £1.6 million (2013 £1.6 million) of accrued interest which is included in trade and other payables.

Fair value of derivatives is predominantly determined using observable market data such as interest rates and foreign exchange rates. As such, derivatives are classified as 'Level 2' under the requirements of IFRS 13 'Fair value measurement'.



## Notes to the Consolidated Financial Statements (continued)

## 22 Financial instruments (continued)

Fair values of derivatives by designation

	2014		
	Trade and other receivables – current £million	Trade and other payables – current £million	Total £million
Derivatives held to manage the currency exposure of:			
Financial assets and liabilities	1.3	(1.9)	(0.6)
Future transactions occurring within one year	4.8	(1.5)	3.3
	6.1	(3.4)	2.7
	2013		
	Trade and other receivables – current £million	Trade and other payables – current £million	Total £million
Derivatives held to manage the currency exposure of:			
Financial assets and liabilities	2.9	(1.9)	1.0
Future transactions occurring within one year	1.4	(3.6)	(2.2)
	4.3	(5.5)	(1.2)

Derivative financial instruments comprise forward and swap foreign currency contracts.

**(c) Hedging activities**

The Group manages exposures that arise on purchases and sales denominated in foreign currencies predominantly by entering into forward and swap foreign exchange currency contracts. It also uses forwards and swaps to manage its foreign exchange translation exposure.

The Group has designated financial instruments as hedges under IAS 39 as follows:

**Fair value hedges**

During 2012/13, the Group held interest rate swaps with a notional value of £250 million whereby the Group received a fixed interest rate of 6.125% and paid a floating rate of interest based on LIBOR and which matured in November 2012. The Group designated £125 million as fair value hedges for the 6.125% Guaranteed Bonds 2012 (the 2012 Bonds) which had the same critical terms. A fair value loss on the interest rate swaps of £2.4 million was recognised in the income statement offset by an equivalent fair value gain on the 2012 Bonds. Hedge ineffectiveness of £0.2 million was recorded in the income statement. The Group held the remaining £125 million of these swaps to act as an economic hedge for the 2015 Notes until August 2012. These swaps were not designated as hedges under IAS 39.

**Cash flow hedges**

At 30 April 2014 the Group had forward and swap foreign exchange contracts in place with a notional value of £498.9 million (2013 £381.3 million) that are designated and effective as cash flow hedges. These contracts are expected to cover exposures ranging from one month to one year. The fair value movement on these currency derivatives which has been taken to equity in the year amounts to a £10.5 million gain (2012/13 £12.7 million loss). In respect of contracts which matured during the year, gains of £15.1 million and losses of £10.1 million have been transferred out of equity into inventory and out of equity into operating profit, respectively (2012/13 losses of £5.4 million and losses of £3.4 million).

No hedge ineffectiveness was recorded in the income statement (2012/13 £nil).

**Hedge of net investment in foreign operations**

During 2012/13, the Group held forward foreign exchange contracts which, combined with cross currency swaps, acted as a hedge against €100 million of euro denominated net investments in foreign operations. These contracts mature in November 2012 and gains and losses on the retranslation of these derivatives were transferred to equity to offset any gains or losses on translation of the net investments in the foreign operations. No hedge ineffectiveness was recorded in the income statement.

## Notes to the Consolidated Financial Statements (continued)

## 22 Financial instruments (continued)

## (d) Interest rate profile of financial assets and financial liabilities by currency

The following table sets out the interest rate exposure of the financial assets and liabilities of the Group. The financial instruments not included in the table are non-interest bearing and are therefore not subject to interest rate risk.

	2014				
	Sterling £million	Euro £million	US dollar £million	Other currencies £million	Total £million
<b>Cash and cash equivalents and short term investments:</b>					
Floating rate	156.2	39.5	13.4	43.9	253.0
Fixed rate	158.4	–	–	–	158.4
	<b>314.6</b>	<b>39.5</b>	<b>13.4</b>	<b>43.9</b>	<b>411.4</b>
<b>Borrowings:</b>					
Floating rate	–	–	–	–	–
Fixed rate	(246.9)	–	–	–	(246.9)
Obligations under finance leases:					
Fixed rate	(93.6)	–	–	–	(93.6)
	<b>(340.5)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(340.5)</b>
Net funds	<b>(25.9)</b>	<b>39.5</b>	<b>13.4</b>	<b>43.9</b>	<b>70.9</b>
	2013				
	Sterling £million	Euro £million	US dollar £million	Other currencies £million	Total £million
<b>Cash and cash equivalents and short term investments:</b>					
Floating rate	55.2	55.8	21.2	36.4	168.6
Fixed rate	239.1	–	–	–	239.1
	<b>294.3</b>	<b>55.8</b>	<b>21.2</b>	<b>36.4</b>	<b>407.7</b>
<b>Borrowings:</b>					
Floating rate	–	(6.1)	–	(11.6)	(17.7)
Fixed rate	(245.4)	–	–	(4.5)	(249.9)
Obligations under finance leases:					
Fixed rate	(95.3)	(1.2)	–	(1.5)	(98.0)
	<b>(340.7)</b>	<b>(7.3)</b>	<b>–</b>	<b>(17.6)</b>	<b>(365.6)</b>
Net funds	<b>(46.4)</b>	<b>48.5</b>	<b>21.2</b>	<b>18.8</b>	<b>42.1</b>

Floating rate cash and cash equivalents and short term investments relates to cash at bank and floating rate notes. Cash at bank earns interest at floating rates based either on daily bank deposit rates or central bank lending rates. Fixed rate cash and cash equivalents and short term investments are predominantly money market deposits (as shown in note 16) and earn interest at an average effective rate of 0.40% (2013 0.42%).

Floating rate borrowings in 2013 comprised bank overdrafts. The weighted average effective interest rate on bank overdrafts approximated 5.7%.

Until November 2012, the Group held interest rate swaps with a nominal value of £250 million. During the period to maturity of these swaps, the Group received a fixed interest rate of 6.125% and paid floating rates of LIBOR plus margins which ranged from 1.68% to 2.37%. The Group's currency swaps had a nominal value of £200 million, which also matured in November 2012, and received LIBOR plus a margin and paid EURIBOR plus a margin. During the period to maturity of these swaps, the sterling floating rates ranged from 1.58% to 2.06% and the euro floating rates ranged from 1.31% to 2.14%.

Amounts in respect of other currencies relate to funds held within subsidiary companies operating in the Nordics and Central Europe.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

## Notes to the Consolidated Financial Statements (continued)

## 22 Financial instruments (continued)

## (e) Sensitivity analysis

The following analysis, required by IFRS 7, shows the sensitivity of profit before tax and total equity to changes in specified market variables on monetary assets and liabilities and derivative financial instruments as listed below. As a consequence, the sensitivity reflects the position as at 30 April 2014 and 30 April 2013, and is not necessarily representative of actual or future outcomes.

Changes in exchange rates affect the Group's profit before tax due to changes in the value of monetary assets and liabilities and derivative financial instruments. Changes in exchange rates affect the Group's total equity due to changes in the fair value of derivatives designated as cash flow hedges and net investment hedges. The table below shows the Group's sensitivity to a reasonably possible change in the Group's key currencies of US dollar, euro, Swedish krona and Norwegian krone with other variables held constant. A 10% decrease would have an equal and opposite effect.

	2014		2013	
	Effect on underlying profit before tax increase / (decrease) £million	Effect on total equity increase / (decrease) £million	Effect on underlying profit before tax increase / (decrease) £million	Effect on total equity increase / (decrease) £million
<b>Change in exchange rates:</b>				
US dollar + 10%	(0.5)	2.0	(0.3)	1.6
Euro + 10%	(0.9)	28.6	(18.5)	–
Swedish krona + 10%	(0.7)	(23.9)	2.6	(7.7)
Norwegian krone + 10%	(1.4)	(7.3)	–	(7.9)

Changes in interest rates affect the Group's profit before tax, mainly due to the impact of floating rate borrowings, cash and derivative financial instruments. The Group's principal floating rate interest rate exposures are based on LIBOR and EURIBOR. The numbers below show the sensitivity to a reasonably possible change in interest rates (uniform across all currencies), with other variables held constant. A 1% decrease would have an equal and opposite effect. A 1% increase in interest rates would increase profit before tax and equity by £1.2 million (2012/13 a £0.5 million decrease in profit before tax and equity).

The following assumptions were made in calculating the sensitivity analysis:

- The balance of borrowings, investments and the derivative portfolio are all held constant for the whole year.
- All cash flow hedges are assumed to be highly effective.
- Changes in the carrying value of derivative financial instruments that are not in hedging relationships arising from movements in interest rates and exchange rates only affect the income statement to the extent that they are not offset by changes in an underlying transaction.

## Notes to the Consolidated Financial Statements (continued)

## 22 Financial instruments (continued)

## (f) Liquidity risk

The tables below analyse the Group's contractual undiscounted cash flows payable under financial liabilities (excluding finance lease liabilities, which are shown in note 18) and derivative assets and liabilities into their maturity groupings. The tables include both principal and interest flows.

	2014				
	Contractual undiscounted cash flows				
	Within one year £million	In more than one year but not more than five years £million	In more than five years £million	Total £million	Carrying value £million
<b>Non-derivative financial liabilities:</b>					
Bank overdrafts	-	-	-	-	-
Other borrowings	-	-	-	-	-
Trade and other payables	(1,066.5)	(37.0)	(17.7)	(1,121.2)	(1,125.0)
8.75% Guaranteed Notes 2015	(8.8)	(105.0)	-	(113.8)	(99.6)
8.75% Guaranteed Notes 2017	(13.1)	(182.8)	-	(195.9)	(147.3)
	<b>(1,088.4)</b>	<b>(324.8)</b>	<b>(17.7)</b>	<b>(1,430.9)</b>	<b>(1,371.9)</b>
<b>Derivative contracts:</b>					
Inflows	1,022.8	-	-	1,022.8	1,022.7
Outflows	(1,020.1)	-	-	(1,020.1)	(1,020.0)
	<b>2.7</b>	<b>-</b>	<b>-</b>	<b>2.7</b>	<b>2.7</b>

	2013				
	Contractual undiscounted cash flows				
	Within one year £million	In more than one year but not more than five years £million	In more than five years £million	Total £million	Carrying value £million
<b>Non-derivative financial liabilities:</b>					
Bank overdrafts	(17.7)	-	-	(17.7)	(17.7)
Other borrowings	(4.5)	-	-	(4.5)	(4.5)
Trade and other payables	(1,352.9)	(43.2)	(21.1)	(1,417.2)	(1,421.0)
8.75% Guaranteed Notes 2015	(8.8)	(118.2)	-	(127.0)	(98.8)
8.75% Guaranteed Notes 2017	(13.1)	(196.0)	-	(209.1)	(146.6)
	<b>(1,397.0)</b>	<b>(357.4)</b>	<b>(21.1)</b>	<b>(1,775.5)</b>	<b>(1,688.6)</b>
<b>Derivative contracts:</b>					
Inflows	912.9	-	-	912.9	911.6
Outflows	(914.1)	-	-	(914.1)	(912.8)
	<b>(1.2)</b>	<b>-</b>	<b>-</b>	<b>(1.2)</b>	<b>(1.2)</b>

The carrying value of trade and other payables includes accrued interest on the 2015 Notes of £2.1 million (2013 £2.2 million), and interest on the 2017 Notes of £1.7 million (2013 £1.6 million) and interest on other borrowings of £nil (2013 £nil). The Group reviews regularly its available cash resources and undrawn committed borrowing facilities required to fulfil its objectives and strategy. Cash flow forecasts are prepared covering a five year period and these are updated annually. Shorter term forecasts are reviewed and monitored on a regular basis in varying degrees of granularity including, in some cases, daily review. These forecasts are used in determining both the level of borrowings required for funding purposes as well as planning for repayments of borrowings either at their maturity or sooner where practical. An appropriate level of headroom is maintained to provide against unexpected outflows or an unforeseen downturn in trading.

Further details of committed borrowing facilities are shown in note 17.

## Notes to the Consolidated Financial Statements (continued)

## 23 Share capital and reserves

## (a) Called up share capital

	2014 £million	2013 £million
<b>Authorised</b>		
4,980,252,496 (2013 4,980,252,496) ordinary shares of 2.5p each	<b>124.5</b>	124.5
<b>Allotted and fully paid</b>		
3,661,057,753 (2013 3,629,747,975) ordinary shares of 2.5p each	<b>91.5</b>	90.7

During the year 31,309,778 shares (2012/13 19,361,368) were issued in respect of options exercised under employee share option and ownership schemes.

## (b) Other reserves

	Merger reserve £million	Capital redemption reserve £million	Investment in own shares £million	Hedging reserve £million	Revaluation reserve £million	Total £million
At 29 April 2012	(386.1)	5.0	(2.3)	(135.2)	(2.4)	(521.0)
Other comprehensive income and expense recognised directly in equity	–	–	–	(2.2)	0.3	(1.9)
Investment in own shares	–	–	(0.3)	–	–	(0.3)
Transfer to retained earnings	–	–	2.3	–	–	2.3
At 30 April 2013	(386.1)	5.0	(0.3)	(137.4)	(2.1)	(520.9)
Other comprehensive income and expense recognised directly in equity	–	–	–	70.2	0.1	70.3
Investment in own shares	–	–	–	–	–	–
Transfer to retained earnings	–	–	–	–	–	–
<b>At 30 April 2014</b>	<b>(386.1)</b>	<b>5.0</b>	<b>(0.3)</b>	<b>(67.2)</b>	<b>(2.0)</b>	<b>(450.6)</b>

The balance shown on the merger reserve arose on the group reconstruction which occurred during 1999/00. The group reconstruction took the form of introducing a new parent company above the existing group and the merger reserve represents the difference between the capital structure of the new parent company and that of the former parent company.

Own shares held by the Group represent shares in the Company held by Dixons Retail Employee Share Trust (the Trust), further details of which are given in note 24. The transfer to retained earnings relates to shares subsequently issued to employees by the Trust.

## (c) Cumulative foreign exchange reserves within retained earnings

Included within retained earnings are exchange differences resulting from the translation of the results and balance sheets of overseas subsidiary undertakings, which have been charged or credited directly to equity. The following table shows a reconciliation of such amounts:

	2014 £million	2013 £million
At beginning of year	<b>306.2</b>	274.0
Currency translation movements	<b>(72.7)</b>	32.2
Cumulative foreign exchange differences transferred to income statement on disposals	<b>(62.6)</b>	–
At end of year	<b>170.9</b>	306.2

## Notes to the Consolidated Financial Statements (continued)

**24 Employee share ownership trusts**

The trustee of Dixons Retail Employee Share Trust (the Trust) is the Sanne Trust Company Limited. The costs of funding and administering the Trust are charged to the income statement in the year to which they relate. Shareholders' funds are reduced by the net book value of shares held in the Trust.

Historically, the Trust has held shares in the Company for the purposes of satisfying potential awards to specified executive directors and senior employees under the Group's share plans. The number of shares held by the Trust, which are shown in the table below, remain held for potential awards under outstanding plans.

	2014			2013		
	Market value £million	Nominal value £million	Number	Market value £million	Nominal value £million	Number
Investment in own shares	0.4	0.1	877,524	0.5	0.1	1,332,769

Sanne Trust Company Limited has waived all dividends except for a total payment of 1 penny at the time any dividend is paid. The mid-market price of a share as at 30 April 2014 was 44.9 pence (2013 35.1pence).

**25 Share-based payments**

	Note	2013/14 £million	2012/13 Re-presented million
<b>Amounts charged to operating profit</b>			
Share-based payments – equity settled †	(a)	5.3	3.6

† Of the total charge, £0.1 million (2012/13 £0.1 million) was settled in cash.

**(a) Equity settled****Share option plans***Employee Share Option Scheme (ESOS) and Executive Share Option Plan (ESOP)*

Options have historically been granted to executive directors and other employees on the basis of management grade. In September 2008, the Group adopted a new share option plan (ESOP) which replaced the existing scheme (ESOS). Options granted after this date have only been granted under the new ESOP. The ESOS and ESOP permit making awards with a market value on the date of grant of not more than twice the recipients' salary and three times in exceptional circumstances. Vesting of options is based upon remaining in service with the Group over a three year period, unless specific circumstances apply to a participant as determined by the Remuneration Committee. Depending on grade, vesting may also be dependent on various performance measures as agreed by the Remuneration Committee at the date of grant. For options granted in 2012/13, vesting is also dependent on the level of EPS achieved at the end of a three year period. Options are generally exercisable between three and ten years from the date of grant.

Options issued under this plan included Reward Sacrifice options offered to senior executives in September 2009 which did not have any performance conditions. During the year, there were no new awards under this plan.



## Notes to the Consolidated Financial Statements (continued)

## 25 Share-based payments (continued)

## Save As You Earn (SAYE)

The Group offers to all of its UK and Irish employees, having completed the relevant period of service, share-based savings plans whereby amounts may be contributed up to a specified limit per plan and per employee. Three year plans have been offered annually, with exercise prices set at up to a 20% discount to the market share price on the date of grant. Exercise is conditional upon employees remaining employed by the Group for the full term of the plan unless specific circumstances apply to a participant as determined by the Rules of the Scheme. Employees can choose to withdraw their contributions in full from the plan at any time, together with any interest earned. Options are generally exercisable up to six months from the date of vesting.

Details of equity settled share option plans outstanding during the year are as follows:

	Note	2013/14		2012/13	
		Number	Weighted average exercise price	Number	Weighted average exercise price
At beginning of year		<b>152,978,743</b>	<b>£0.23</b>	233,376,101	£0.25
Granted during the year	(i)	<b>12,748,653</b>	<b>£0.32</b>	25,759,726	£0.15
Lapsed / forfeited during the year		<b>(66,337,073)</b>	<b>£0.27</b>	(86,795,716)	£0.26
Exercised during the year	(ii)	<b>(31,179,025)</b>	<b>£0.23</b>	(19,361,368)	£0.19
<b>At end of year</b>	(iii), (iv)	<b>68,211,298</b>	<b>£0.21</b>	152,978,743	£0.23

	2013/14	2012/13
(i) weighted average fair value of options granted during the year	<b>£0.21</b>	£0.07
(ii) weighted average share price at the date of exercise	<b>£0.46</b>	£0.27
(iii) weighted average remaining contractual life for options outstanding	<b>3.5 years</b>	5.5 years
(iv) range of exercise prices for options outstanding	<b>£0.09 – £0.32</b>	£0.09 – £0.45
Number of options exercisable at year end	<b>20,835,237</b>	47,003,782

The fair value of equity settled share option plans granted is estimated as at the date of grant using the Black Scholes option pricing models taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the models used based on information prevailing at the date of grant:

	2013/14	2012/13
Dividend yield	<b>0%</b>	0%
Historical and expected volatility	<b>47%</b>	48% – 75%
Risk-free interest rate	<b>0.65%</b>	0.2% – 0.8%
Expected remaining life of options	<b>3.0 years</b>	3.0 – 5.0 years
Weighted average share price	<b>£0.46</b>	£0.16

The expected volatility reflects the assumption that the historical volatility is indicative of future trends. Actual outcome may differ from these assumptions. The expected remaining life of the options is based on historical data and is not necessarily indicative of the actual exercise patterns that may occur.

## Notes to the Consolidated Financial Statements (continued)

## 25 Share-based payments (continued)

**Other equity settled share plans***Performance Share Plan (PSP) and Retention and Recruitment Share Plan*

Up to 2010/11, PSP shares were provisionally awarded to executive directors and certain other participating senior executives and were based upon performance measured in terms of the Total Shareholder Return (TSR) achieved by the Company.

Since 2011/12, PSP shares have been provisionally awarded to executive directors and other senior executives. Vesting of these awards is based upon remaining in service with the Group over a three or four year period. For awards to executive directors in 2011/12, vesting is also dependent on the level of EPS achieved at the end of a three year period and TSR performance based on constituents of the FTSE 250 Index (comprising FTSE 101-350 companies) excluding investment trusts. In 2012/13, for all awards to executive directors and some awards to other senior executives, vesting is also dependent on absolute share price with an EPS underpin. In 2013/14 for all awards to executive directors and some awards to other senior executives, vesting is also dependent on TSR performance on the same terms as the 2011/12 awards and EPS performance achieved at the end of a three year period.

Details of LTIP and PSP equity settled share-based payments outstanding during the year are as follows:

	Note	2013/14 Number	2012/13 Number
At beginning of year		<b>101,512,897</b>	39,583,061
Provisionally awarded during the year	(i)	<b>17,907,952</b>	72,487,435
Lapsed / forfeited during the year		<b>(20,483,411)</b>	(9,709,044)
Exercised / released / vested during the year		–	(848,555)
<b>At end of year</b>	(ii)	<b>98,937,438</b>	101,512,897
<b>Outstanding awards vested at end of year</b>		–	–
		2013/14	2012/13
(i) weighted average fair value of awards awarded during the year		<b>£0.44</b>	£0.13
(ii) weighted average remaining contractual life for awards outstanding		<b>3.1 years</b>	2.0 years

Shares under the Retention and Recruitment Share Plan (Reward Shares) were granted to a limited number of executives in July 2008, August 2011, February 2012 and March 2013 and do not have any performance conditions. During the year no shares (2012/13 358,809 shares) were granted, no shares (2012/13 none) lapsed and 130,753 shares (2012/13 130,753 shares) vested. The number of shares outstanding at the end of the year is 432,218 (2012/13 562,971).

The fair value of such other equity settled share plans granted is estimated as at the date of grant using the option pricing models listed below as well as taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the models used based on information prevailing at the date of grant:

	2013/14		2012/13	
	PSP	Reward Shares	PSP	Reward Shares
Option pricing model	<b>Monte Carlo</b>	<b>Black Scholes</b>	Monte Carlo	Black Scholes
Dividend yield	<b>0%</b>	<b>0%</b>	0%	0%
Historical and expected volatility	<b>47%</b>	<b>N/A</b>	45% – 46%	N/A
Risk-free interest rate	<b>0.6%</b>	<b>N/A</b>	0.2% – 0.6%	N/A
Expected life of awards	<b>3 years</b>	<b>3 years</b>	3 – 4 years	3 years
Weighted average share price	<b>£0.46</b>	<b>£0.46</b>	£0.18	£0.35

## Notes to the Consolidated Financial Statements (continued)

## 25 Share-based payments (continued)

## (b) Additional SAYE, ESOS, ESOP, LTIP and PSP information

During the year 12,748,653 options under the employee share option schemes were granted to 3,672 employees at an exercise price of £0.32. In addition, 17,907,952 PSP shares were provisionally granted to 889 employees. At 30 April 2014 options outstanding for accounting purposes amounted to 68,211,298 shares (2013 152,978,743) and PSP shares outstanding amounted to 98,937,438 shares (2013 101,512,897), analysed as follows:

Date of grant	SAYE		Date of grant	ESOS and ESOP		Date of grant	PSP
	Exercise price Pence	Number		Exercise price Pence	Number		
3 Aug 2010	20.23	8,897	11 Jul 2008	27.63	15,196,474	3 Aug 2011	23,839,248
22 Jul 2011	13.01	14,298,928	16 Dec 2008	9.20 – 10.85	1,091,587	8 Dec 2011	507,144
23 Jul 2012	14.18	15,414,600	23 Jul 2009	23.95	1,234,572	29 Jun 2012	23,476,660
24 Jul 2013	32.45	11,833,963	28 Sep 2009	28.43	3,303,707	16 Jul 2012	27,700,345
			29 Jun 2012	17.51	5,828,570	10 Dec 2012	3,384,179
						24 Jan 2013	2,393,910
						24 Jul 2013	17,635,952
		41,556,388			26,654,910		98,937,438

## 26 Notes to the cash flow statement

## (a) Reconciliation of operating loss to net cash inflow from operating activities

	2013/14 £million	2012/13 Re-presented £million
Operating profit / (loss) – including discontinued operations	34.4	(50.9)
Operating loss – discontinued operations	154.9	201.5
Operating profit – continuing operations	189.3	150.6
Amortisation of acquired intangibles	0.7	1.0
Amortisation of other intangibles	14.1	13.5
Depreciation	102.3	100.5
Share-based payment charge	5.3	3.6
Loss on disposal of property, plant & equipment	6.7	4.7
Increase in non-underlying provisions	–	19.2
Non-underlying impairments and other non-cash items	14.1	14.7
Utilisation of non-underlying provisions	(6.8)	(5.8)
Operating cash flows before movements in working capital	325.7	302.0
Movements in working capital:		
Decrease / (increase) in inventories	7.4	(19.0)
(Increase) / decrease in trade and other receivables	(13.4)	12.6
Increase in trade and other payables	47.3	111.3
	41.3	104.9
<b>Cash generated from operations – continuing operations</b>	<b>367.0</b>	<b>406.9</b>

## Notes to the Consolidated Financial Statements (continued)

## 26 Notes to the cash flow statement (continued)

## (b) Analysis of net debt

		1 May 2013 £million	Cash flow £million	Other non-cash movements £million	Currency translation £million	30 April 2014 £million
Cash and cash equivalents	(i)	405.3	5.5	–	(0.8)	410.0
Bank overdrafts		(17.7)	17.7	–	–	–
		387.6	23.2	–	(0.8)	410.0
Short term investments		2.4	(1.1)	–	0.1	1.4
Borrowings due within one year	(ii)	(4.5)	4.5	–	–	–
Borrowings due after more than one year	(ii)	(245.4)	–	(1.5)	–	(246.9)
Obligations under finance leases	(ii)	(98.0)	2.6	2.0	(0.2)	(93.6)
		(347.9)	7.1	0.5	(0.2)	(340.5)
Net funds		42.1	29.2	0.5	(0.9)	70.9
		29 April 2012 £million	Cash flow £million	Other non-cash movements £million	Currency translation £million	30 April 2013 £million
Cash and cash equivalents	(i)	316.8	78.7	–	9.8	405.3
Bank overdrafts		(15.8)	(1.4)	–	(0.5)	(17.7)
		301.0	77.3	–	9.3	387.6
Short term investments		7.3	(5.3)	0.4	–	2.4
Borrowings due within one year	(ii)	(162.5)	155.5	2.5	–	(4.5)
Borrowings due after more than one year	(ii)	(147.8)	(97.1)	(0.5)	–	(245.4)
Obligations under finance leases	(ii)	(102.0)	4.7	(0.9)	0.2	(98.0)
		(412.3)	63.1	1.1	0.2	(347.9)
Net (debt) / funds		(104.0)	135.1	1.5	9.5	42.1

Restricted funds, which predominantly comprise funds held under trust to fund potential customer support agreement liabilities were £103.3 million (2013 £110.2 million). Net debt excluding restricted funds totalled £(32.4) million (2013 £(68.1) million).

- (i) Cash and cash equivalents are presented as a single class of assets on the face of the consolidated balance sheet. For the purposes of the consolidated cash flow, cash and cash equivalents comprise those amounts presented on the consolidated balance sheet as cash and cash equivalents, less bank overdrafts (which are disclosed separately on the consolidated balance sheet and as disclosed in note 17) and including cash and cash equivalents which are disclosed as part of assets held for sale.
- (ii) Borrowings and obligations under finance leases include amounts which are included within liabilities directly associated with assets held for sale. Cash flows relating to borrowings and obligations under finance leases include amounts included within cash flows from discontinued operations.

## Notes to the Consolidated Financial Statements (continued)

**27 Assets held for sale and discontinued operations**

On 5 September 2013, the Group announced the sale of its Electroworld Turkey operations to Bimeks, one of the leading specialist electrical retailers in Turkey, whereby the sale subsequently completed on 31 October 2013.

On 10 October 2013, the Group announced the sale of its Unieuro operations which subsequently completed on 29 November 2013. The details of the transaction were such that the Group together with the shareholders of SGM Distribuzione s.r.l. (SGM) (which trades as Marco Polo in Italy (Marco Polo)) formed a new entity, Italian Electronics Holdings s.r.l. (IEH), that now indirectly owns both Unieuro and Marco Polo. Rhône Capital was the controlling shareholder of Marco Polo and is now the controlling shareholder of IEH. Under the terms of the agreement, the Group left Unieuro with €25 million of cash and has invested €7.5 million in the form of a loan note. The Group now owns a 15% share in IEH with the shareholders of SGM holding the remaining 85%.

On 27 September 2013, the Group announced the sales of its PIXmania operations to mutares A.G. (mutares), a German listed industrial holding company which subsequently completed on 31 December 2013. As part of its purchase, mutares has developed a robust plan to build on PIXmania's pure play e-commerce operations as well as to further develop its market leading software platform. In order to support this plan, and to provide ongoing funding for PIXmania, the Group provided £59 million (€69 million) of ring-fenced capital immediately prior to the sale transaction.

On 16 May 2014, the Company signed an agreement to sell its Electroworld operations in the Czech Republic and Slovakia (Central Europe) as described further in note 32 and accordingly has classified their assets and liabilities as held for sale as at 30 April 2014 owing to the sale being highly probable under the definitions stipulated in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

All four businesses have been classified as discontinued operations with the prior year having been re-presented on a consistent basis.

In respect of the year ended 30 April 2013, as previously reported, on 22 April 2013 and 7 May 2013, the Group announced that it had agreed to dispose of its Webhallen and PLS operations in Sweden and France, respectively and accordingly classified their assets and liabilities as held for sale owing to the sales being highly probable under the definitions stipulated in IFRS 5. The sales completed on 30 August 2013 and 7 May 2013, respectively and as the results formed part of PIXmania, are now shown within discontinued operations.

**(a) Loss after tax – discontinued operations**

	Note	Year ended 30 April 2014 £million	Year ended 30 April 2013 Re-presented £million
Loss after tax from discontinued operations	(i)	<b>(42.1)</b>	(215.3)
Net loss on disposals <sup>†</sup>	(ii)	<b>(116.0)</b>	–
<b>Loss after tax – discontinued operations</b>		<b>(158.1)</b>	(215.3)

<sup>†</sup> The net loss on disposals includes a gain of £0.4 million in respect of Electroworld Hungary which was sold in May 2009 whereby the gain represents a release of surplus accrual following final settlements of warranty claims.

**(i) Loss after tax from discontinued operations**

The loss after tax from discontinued operations comprises trading losses and is analysed as follows:

	Year ended 30 April 2014				
	Electroworld Turkey £million	Unieuro £million	PIXmania £million	Central Europe £million	Total £million
Revenues	<b>71.6</b>	<b>284.3</b>	<b>193.7</b>	<b>133.4</b>	<b>683.0</b>
Expenses	<b>(75.7)</b>	<b>(299.3)</b>	<b>(205.5)</b>	<b>(141.4)</b>	<b>(721.9)</b>
Operating loss	<b>(4.1)</b>	<b>(15.0)</b>	<b>(11.8)</b>	<b>(8.0)</b>	<b>(38.9)</b>
Net finance costs	<b>(1.5)</b>	<b>(0.4)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(2.2)</b>
Loss before tax	<b>(5.6)</b>	<b>(15.4)</b>	<b>(12.0)</b>	<b>(8.1)</b>	<b>(41.1)</b>
Income tax	–	–	<b>(0.4)</b>	<b>(0.6)</b>	<b>(1.0)</b>
Loss after tax from discontinued operations	<b>(5.6)</b>	<b>(15.4)</b>	<b>(12.4)</b>	<b>(8.7)</b>	<b>(42.1)</b>

## Notes to the Consolidated Financial Statements (continued)

## 27 Assets held for sale and discontinued operations (continued)

## (a) Loss after tax – discontinued operations (continued)

## (i) Loss after tax from discontinued operations (continued)

	Year ended 30 April 2013				
	Electroworld Turkey £million	Unieuro £million	PIXmania £million	Central Europe £million	Total £million
Revenues	170.7	516.0	500.3	143.1	1,330.1
Expenses	(180.5)	(520.3)	(682.9)	(147.9)	(1,531.6)
Operating loss	(9.8)	(4.3)	(182.6)	(4.8)	(201.5)
Net finance costs	(3.9)	(0.7)	(1.4)	–	(6.0)
Loss before tax	(13.7)	(5.0)	(184.0)	(4.8)	(207.5)
Income tax	–	4.1	(13.1)	1.2	(7.8)
Loss after tax from discontinued operations	(13.7)	(0.9)	(197.1)	(3.6)	(215.3)

## (ii) Net loss on disposals

The losses on disposals which have completed comprise Electroworld Turkey, Unieuro and PIXmania and are analysed as follows:

	Electroworld Turkey £million	Unieuro £million	PIXmania £million	Total £million
Goodwill, intangible assets and property, plant & equipment	8.9	50.9	11.2	71.0
Inventories	19.5	116.7	33.9	170.1
Other assets	5.2	16.3	25.1	46.6
Cash and cash equivalents	0.8	9.5	62.8	73.1
	34.4	193.4	133.0	360.8
Liabilities	(24.2)	(174.6)	(93.1)	(291.9)
Net assets disposed	10.2	18.8	39.9	68.9
Loss on disposal	(12.5)	(24.9)	(56.8)	(94.3)
	(2.3)	(6.1)	(17.0)	(25.4)
Consideration receivable / (payable)	0.4	(1.2)	(7.5)	(8.3)
Disposal fees and exit costs	(1.2)	(3.4)	(10.4)	(15.0)
Cumulative foreign exchange differences transferred from equity	(1.5)	(1.5)	0.9	(2.1)
	(2.3)	(6.1)	(17.0)	(25.4)

The losses on disposal include impairment charges applied to certain assets sold (specifically goodwill, intangible assets and property, plant & equipment) down to their fair value less costs to sell together with any adjustments to liabilities sold to facilitate the sale transactions. In calculating the losses on disposal, consideration has been given to any potential liabilities arising from warranties given to the purchasers with liabilities having been adjusted as deemed appropriate and any remaining exposures remaining as contingent on the outcome of the matters to which they relate but which in most cases expire within 12 months.

Disposal fees comprise mainly advisors' fees and reorganisation costs necessary to facilitate the sale transactions.

In addition to the above figures, the loss on disposal recorded in respect of Central Europe was £22.1 million and relates to the difference between the consideration expected to be received and net assets held for sale including any impairment of assets down to their anticipated net realisable value on completion less any accrued costs to sell.



Notes to the Consolidated Financial Statements (continued)

27 Assets held for sale and discontinued operations (continued)

(b) Assets held for sale and liabilities directly associated with assets held for sale

	30 April 2014 £million	30 April 2013 £million
Intangible assets and property, plant & equipment	–	1.8
Inventories	18.7	10.2
Other assets	3.3	3.1
Cash and cash equivalents	8.8	–
<b>Total assets held for sale</b>	<b>30.8</b>	<b>15.1</b>
Current liabilities	(31.2)	(7.3)
Non-current liabilities	–	(0.6)
Liabilities directly associated with assets held for sale	(31.2)	(7.9)
<b>Net (liabilities) / assets held for sale</b>	<b>(0.4)</b>	<b>7.2</b>

Net liabilities held for sale as at 30 April 2014 comprise Central Europe (2013 net assets held for sale comprised Webhallen and PLS as described in (a) above).

(c) Cash flows from discontinued operations

	Year ended 30 April 2014 £million	Year ended 30 April 2013 Re-presented £million
Operating activities	(163.2)	(34.5)
Investing activities	6.3	(24.6)
Financing activities	(7.0)	1.4
	<b>(163.9)</b>	<b>(57.7)</b>

28 Capital commitments

	2013/14 £million	2012/13 £million
Contracted for but not provided for in the accounts	35.5	33.0

29 Contingent liabilities

	2013/14 £million	2012/13 £million
Contingent liabilities	2.2	3.5

In addition to the figures shown in the table above, contingent liabilities also exist in respect of lease covenants relating to premises assigned to third parties as well as certain other covenants to financial institutions in the event of default by third parties to both the Group and these institutions.

30 Operating lease commitments

	2014		2013	
	Land and buildings £million	Other assets £million	Land and buildings £million	Other assets £million
Total undiscounted future committed payments due:				
Within one year	317.7	6.2	359.5	8.3
Between two and five years	1,159.5	14.4	1,266.3	6.1
After five years	1,105.2	1.1	1,275.7	–
	<b>2,582.4</b>	<b>21.7</b>	<b>2,901.5</b>	<b>14.4</b>

Operating lease commitments represent rentals payable for retail, distribution and office properties, as well as vehicles, equipment and office equipment. Contingent rentals are payable on certain retail store leases based on store revenues.

The above figures include committed payments under onerous lease contracts for which provisions or accruals exist on the balance sheet, including those for businesses exited / to be exited.

Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases was £27.1 million (2013 £25.4 million).

Notes to the Consolidated Financial Statements (continued)

**31 Related party transactions**

Transactions between Group undertakings, which are related parties, have been eliminated on consolidation and accordingly are not disclosed.

Transactions between Group undertakings and associates comprised sales of goods of £8.8 million (2012/13 £11.2 million).

In addition to the charitable donations disclosed in the Corporate Responsibility Report, the Group via its registered charitable trust, the DSG international Foundation (the Foundation), also made charitable donations of £66,000 (2012/13 £1,350). The Company is the sole benefactor of the Foundation, the principal beneficiaries of which are concerned with education, community affairs, health and disabilities, heritage and the environment.

On 10 August 2012, the Group announced that it had acquired a further 22.0% of PIXmania, a company previously controlled by the Group, which was held by Steve Rosenblum and Jean-Emile Rosenblum together with close family members and companies controlled by them. Steve and Jean-Emile Rosenblum resigned on the date of the acquisition, and up until this point were the President and Vice President of PIXmania, respectively. In 2012/13, in connection with their management roles with respect to PIXmania up to the date of the acquisition, Steve and Jean-Emile Rosenblum received management fees of €87,000 (£71,000). Steve and Jean-Emile Rosenblum own buildings which are occupied and leased by PIXmania. During 2012/13, up until their exit from the business, total rental payments of €290,000 (£237,000) were charged in relation to these properties.

**Remuneration of directors and key management personnel**

The remuneration of non-executive directors, executive directors, and members of the senior management team, who are the key management personnel of the Group, is set out below.

	2013/14 £million	2012/13 £million
Short term employee benefits	6.2	5.8
Share-based payments	1.7	1.1

Remuneration of the directors is as follows:

	Note	2013/14 £million	2012/13 £million
Emoluments	(i)	3.5	3.4
LTIP payments	(ii)	0.7	—
		<b>4.2</b>	<b>3.4</b>

(i) Emoluments include £0.3 million in respect of pension contributions. Pension contributions comprise the Group's contribution together with the salary supplement which is based on the difference between basic salary and the scheme earnings cap set by the Company. This additional amount was 20% for Sebastian James, Humphrey Singer and Katie Bickerstaffe.

(ii) LTIP payments comprise those vesting in respect of 2013/14 with performance conditions which were achieved, but excludes LTIPs which were not subject to performance conditions and which amounted to £1.4 million.

## Notes to the Consolidated Financial Statements (continued)

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### 32 Post balance sheet events

On 15 May 2014, the boards of Dixons Retail plc (Dixons) and Carphone Warehouse Group plc (Carphone) announced that they had reached agreement on the terms of a recommended all-share merger of Dixons and Carphone (the Merger), which is to be implemented by way of a scheme of arrangement of Dixons (the Scheme). The new merged entity is proposed to be named Dixons Carphone plc (Dixons Carphone). The Merger will result in each of Dixons' and Carphone's Shareholders holding exactly 50 per cent. of Dixons Carphone on a fully diluted basis taking into account existing share options and award schemes for both companies.

Under the terms of the Merger, Dixons shareholders will receive 0.155 of a new Dixons Carphone share in exchange for each Dixons share. Completion is subject to shareholder approval, but is expected to take place in the summer of 2014. In addition to shareholder approval, the Merger will be conditional on, amongst other things, the sanction of the Scheme by the Court and relevant anti-trust clearances being received.

The Merger will be put to Dixons shareholders at the Court Meeting and at the Dixons General Meeting. In order to become effective, the Scheme must be approved by a majority in number of the Dixons shareholders voting at the Court Meeting, either in person or by proxy, representing at least three-quarters in value of the Dixons shares voted at the Court Meeting. In addition, special resolutions implementing the Scheme and approving the related capital reduction must be passed by Dixons shareholders representing at least three-quarters of votes cast at the Dixons General Meeting.

Carphone and Dixons have put in place appropriate banking facilities to ensure that Dixons Carphone will have a strong financial profile following completion, which will enable the combined group to retain flexibility whilst reviewing its optimal capital structure going forward.

The merged entity will create a leader in European consumer electricals, mobiles, connectivity and related services. The boards of Dixons and Carphone believe that the Merger will deliver significant value to shareholders through a combination of enhanced commercial opportunities and operating synergies of at least £80 million on a recurring basis, which are expected to be delivered in full in the financial year 2017/18. The combined group will also have the opportunity to achieve significant additional value from growth opportunities arising from the Merger. The integration of the two businesses will be managed by a dedicated integration team, bringing together the best relevant capabilities of both businesses, with the aim of facilitating a smooth integration.

Documentation setting out details of the proposed merger and seeking shareholder approval is expected to be issued to shareholders on or around 26 June 2014.

On 16 May 2014, the Company signed an agreement to sell its Electroworld operations in the Czech Republic and Slovakia (Central Europe) to NAY a.s., a leading electrical specialist retailer in the region. The transaction is expected to complete within the first half of 2014/15. The operations comprise 26 specialist electrical retail stores. Following completion, which remains subject to certain normal conditions including competition authority clearance, the Group expects to receive a small deferred cash consideration spread over three years.

On 19 May 2014, the Group signed a new revolving credit facility agreement (the New Facility) for £150 million. The New Facility, which has a maturity date of 30 June 2018, but has an option to extend to 30 June 2019, replaces previous Amended Facility of £200 million which had a maturity date of 30 June 2015. The New Facility is described in further detail in Note 17.

## Financial Statements

### Company Balance Sheet

	Note	30 April 2014 £million	30 April 2013 £million	28 April 2012 £million
<b>Non-current assets</b>				
Investments	C3	1,736.8	1,731.7	1,727.6
Property, plant & equipment	C4	–	–	–
		<b>1,736.8</b>	<b>1,731.7</b>	<b>1,727.6</b>
<b>Current assets</b>				
Trade and other receivables	C5	30.7	19.3	11.7
Cash and cash equivalents	C6	139.4	161.4	72.9
		<b>170.1</b>	<b>180.7</b>	<b>84.6</b>
<b>Total assets</b>		<b>1,906.9</b>	<b>1,912.4</b>	<b>1,812.2</b>
<b>Current liabilities</b>				
Bank overdrafts	C7	(85.4)	(86.5)	(86.0)
Borrowings	C7	–	–	(162.3)
Trade and other payables	C8	(308.1)	(421.7)	(381.2)
Provisions	C9	(6.7)	(3.0)	–
		<b>(400.2)</b>	<b>(511.2)</b>	<b>(629.5)</b>
<b>Net current liabilities</b>		<b>(230.1)</b>	<b>(330.5)</b>	<b>(544.9)</b>
<b>Non-current liabilities</b>				
Borrowings	C7	(246.9)	(245.4)	(147.8)
		<b>(246.9)</b>	<b>(245.4)</b>	<b>(147.8)</b>
<b>Total liabilities</b>		<b>(647.1)</b>	<b>(756.6)</b>	<b>(777.3)</b>
<b>Net assets</b>		<b>1,259.8</b>	<b>1,155.8</b>	<b>1,034.9</b>
<b>Capital and reserves</b>				
Called up share capital	C10	91.5	90.7	90.3
Share premium account		179.3	172.7	169.5
Investment in own shares		(0.3)	(0.3)	(2.3)
Capital redemption reserve		5.0	5.0	5.0
Profit and loss account		984.3	887.7	772.4
<b>Equity shareholders' funds</b>		<b>1,259.8</b>	<b>1,155.8</b>	<b>1,034.9</b>

The financial statements were approved by the directors on 25 June 2014 and signed on their behalf by:



**Sebastian James**  
Group Chief Executive



**Humphrey Singer**  
Group Finance Director

## Company Cash Flow Statement

	Note	Year ended 30 April 2014 £million	Year ended 30 April 2013 £million
<b>Operating activities</b>			
Cash (utilised by) / generated from operations	C11	<b>(140.5)</b>	25.9
<b>Net cash flows from operating activities</b>		<b>(140.5)</b>	25.9
<b>Investing activities</b>			
Dividend received		<b>150.0</b>	175.0
Interest received		<b>0.7</b>	10.4
<b>Net cash flows from investing activities</b>		<b>150.7</b>	185.4
<b>Financing activities</b>			
Issue of ordinary share capital		<b>7.4</b>	3.6
Purchase of own shares		<b>-</b>	(0.3)
Decrease in borrowings due within one year		<b>-</b>	(160.0)
Increase in borrowings due after more than one year		<b>-</b>	97.1
Interest paid		<b>(38.5)</b>	(63.7)
<b>Net cash flows from financing activities</b>		<b>(31.1)</b>	(123.3)
<b>(Decrease) / increase in cash and cash equivalents</b>	† C11	<b>(20.9)</b>	88.0
Cash and cash equivalents at beginning of year	† C11	<b>74.9</b>	(13.1)
<b>Cash and cash equivalents at end of year</b>	† C11	<b>54.0</b>	74.9

† For the purposes of this cash flow statement, cash and cash equivalents comprise those items disclosed as 'cash and cash equivalents' on the face of the balance sheet, less overdrafts, which are classified within current liabilities on the face of the balance sheet. A reconciliation to the balance sheet amounts is shown in note C11.

Company Statement of Changes in Equity

	Share capital £million	Share premium £million	Capital redemption reserve £million	Investment in own shares £million	Retained earnings £million	Total equity £million
At 29 April 2012	90.3	169.5	5.0	(2.3)	772.4	1,034.9
Profit for the year	–	–	–	–	113.5	113.5
Ordinary shares issued	0.4	3.2	–	–	–	3.6
Investment in own shares	–	–	–	(0.3)	–	(0.3)
Transfer	–	–	–	2.3	(2.3)	–
Share-based payments	–	–	–	–	4.1	4.1
At 30 April 2013	90.7	172.7	5.0	(0.3)	887.7	1,155.8
Profit for the year	–	–	–	–	91.5	91.5
Ordinary shares issued	0.8	6.6	–	–	–	7.4
Share-based payments	–	–	–	–	5.1	5.1
<b>At 30 April 2014</b>	<b>91.5</b>	<b>179.3</b>	<b>5.0</b>	<b>(0.3)</b>	<b>984.3</b>	<b>1,259.8</b>

As permitted by section 408 of the Companies Act 2006, no income statement for the Company is included in these financial statements.

Own shares held by the Company represent shares in the Company held by Dixons Retail Employee Share Trust, further details of which are given in notes 23(b) and 24 to the Group Financial Statements.



## Notes to the Company Financial Statements

### C1 Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU, IFRSs issued by the International Accounting Standards Board and those parts of the Companies Act 2006 applicable to those companies reporting under IFRSs. Accounting policies have been consistently applied throughout the current and preceding years.

After making due enquiry, on the basis of current financial projections, the directors are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The Company's accounting policies in relation to operating leases, share-based payments, translation of foreign currencies, property, plant & equipment, taxation and derivative financial instruments are set out in note 1 to the Group Financial Statements. Other accounting policies which are specific to the Company are set out below.

#### (a) Share-based payments

Where the Company has granted rights to its equity to employees of subsidiary undertakings in relation to equity-settled, share-based payment arrangements the contribution to the subsidiary undertakings is recognised as an additional investment.

#### (b) Investments

Investments are stated at cost, less any provision for impairment in value.

#### (c) Post-retirement benefits

It is not practical to allocate the underlying assets and liabilities of the defined benefit section of the pension scheme to the Company on a consistent and reasonable basis. The Company has therefore accounted for its contributions to the defined benefit section of the scheme as if it were a defined contribution scheme.

The Company's contributions to the defined contribution section of the pension scheme are charged to the income statement on an accruals basis as they become payable.

### C2 Directors' and auditor's remuneration

Details of directors' remuneration, share interests, share options, pensions and other entitlements, which form part of these financial statements, are given in the parts of the directors' Remuneration Report which are described as having been audited. Fees paid to the auditor in respect of their audit of the Company were £0.1 million (2012/13 £0.1 million).

### C3 Investments

Investments in subsidiary undertakings

	2014 £million	2013 £million
<b>Cost</b>		
At beginning of year	1,731.7	1,727.6
Movement in the year	5.1	4.1
<b>At end of year</b>	<b>1,736.8</b>	<b>1,731.7</b>

Details of the principal subsidiary undertakings are set out in note C16.

### C4 Property, plant & equipment

Fixtures, fittings and equipment

	2014 £million	2013 £million
<b>Cost</b>		
At beginning and end of year	0.5	0.5
<b>Depreciation</b>		
At beginning and end of year	0.5	0.5
<b>Net book value</b>		
At beginning and end of year	-	-

## Notes to the Company Financial Statements (continued)

## C5 Trade and other receivables

	2014 £million	2013 £million	2012 £million
Amounts due from subsidiary undertakings	29.9	13.1	0.2
Derivative financial instruments	–	–	9.0
Other debtors	0.4	0.2	0.5
Prepayments	0.4	6.0	2.0
	<b>30.7</b>	<b>19.3</b>	<b>11.7</b>

Further information on derivative financial instruments is provided in note C13.

The majority of other receivables are non-interest bearing and are generally on 60 day terms. The total financial assets included within trade and other receivables are £30.3 million (2013 £13.3 million and 2012 £9.7 million). The carrying amount of trade and other receivables approximates fair value. There were no past due or impaired balances at the end of the year (2013 and 2012 £nil).

## C6 Cash and cash equivalents

	2014 £million	2013 £million	2012 £million
Money market deposits	139.4	161.4	72.9

Cash at bank earns interest at floating rates based either on daily bank deposit rates or central bank lending rates.

## C7 Borrowings and overdrafts

	2014 £million	2013 £million	2012 £million
<b>Current</b>			
Bank overdrafts	85.4	86.5	86.0
6.125% Guaranteed Bonds 2012	–	–	162.3
	<b>85.4</b>	<b>86.5</b>	<b>248.3</b>
<b>Non-current</b>			
8.75% Guaranteed Notes 2015	99.6	98.8	147.8
8.75% Guaranteed Notes 2017	147.3	146.6	–
	<b>246.9</b>	<b>245.4</b>	<b>147.8</b>

Bank overdrafts are subject to a pooling arrangement with other Group companies and are repayable on demand.

On 20 September 2012, the Company repurchased £15.6 million in nominal amount of the 6.125% Guaranteed Bonds 2012 (the 2012 Bonds). The remaining 2012 Bonds were repaid on the redemption date of 15 November 2012. Also on this date, the Group repurchased £49.4 million in nominal amount of its 8.75% Guaranteed Notes 2015 (the 2015 Notes). This repurchase was funded by part of a new issue of £150 million 8.75% Guaranteed Notes 2017 (the 2017 Notes) and for which the proceeds were received on the same date.

On 19 May 2014, the Company signed a new revolving credit facility agreement (the New Facility) for £150 million. The New Facility, which has a maturity date of 30 June 2018, with an option to extend to 30 June 2019, replaces the previous Amended Facility of £200 million which had a maturity date of 30 June 2015. There were no drawings on these facilities in either the current or comparative financial periods. Further details on the New Facility, the Amended Facility, the 2015 Notes and the 2017 Notes are provided in notes 17, 22 and 32 to the Group Financial Statements.

Notes to the Company Financial Statements (continued)

**C8 Trade and other payables**

	2014 £million	2013 £million	2012 £million
Amounts due to subsidiary undertakings	296.9	410.9	365.2
Accruals	11.2	10.8	16.0
	<b>308.1</b>	<b>421.7</b>	<b>381.2</b>

The total shown equals the total financial liabilities. The carrying amount of trade and other payables approximates their fair value.

**C9 Provisions**

	2014 £million	2013 £million	2012 £million
At beginning of year	3.0	–	–
Additions	11.2	4.1	–
Utilisation	(7.5)	(1.1)	–
At end of year	<b>6.7</b>	<b>3.0</b>	<b>–</b>

Additions during the year relate predominantly to costs associated with disposal transactions which are described further in note 27 to the Group Financial Statements.

**C10 Share capital**

Called up share capital

	2014 £million	2013 £million	2012 £million
<b>Authorised</b>			
4,980,252,496 (2013 and 2012 4,980,252,496) ordinary shares of 2.5p each	124.5	124.5	124.5
<b>Allotted and fully paid</b>			
3,661,057,753 (2013 3,629,747,975, 2012 3,610,386,607) ordinary shares of 2.5p each	91.5	90.7	90.3

During the year 31,309,778 shares (2012/13 19,361,368) were issued in respect of options exercised under employee share option and ownership schemes.

**C11 Notes to the cash flow statement**

**(a) Reconciliation of operating loss to net cash inflow from operating activities**

	2013/14 £million	2012/13 £million
Operating loss	(15.5)	(5.9)
Increase in non-underlying provisions	11.2	4.1
Utilisation of non-underlying provisions	(7.5)	(1.1)
Operating cash flows before movements in working capital	(11.8)	(2.9)
Movements in working capital:		
Increase in trade and other receivables	(15.1)	(18.0)
(Decrease) / increase in trade and other payables	(113.6)	46.8
	<b>(128.7)</b>	<b>28.8</b>
<b>Cash (utilised by) / generated from operations</b>	<b>(140.5)</b>	<b>25.9</b>

## Notes to the Company Financial Statements (continued)

## C11 Notes to the cash flow statement (continued)

## (b) Analysis of net debt

	1 May 2013 £million	Cash flow £million	Other non-cash movements £million	30 April 2014 £million
Cash and cash equivalents <sup>†</sup>	161.4	(22.0)	–	139.4
Bank overdrafts	(86.5)	1.1	–	(85.4)
	74.9	(20.9)	–	54.0
Borrowings due after more than one year	(245.4)	–	(1.5)	(246.9)
	(245.4)	–	(1.5)	(246.9)
Net debt	(170.5)	(20.9)	(1.5)	(192.9)
	29 April 2012 £million	Cash flow £million	Other non-cash movements £million	30 April 2013 £million
Cash and cash equivalents <sup>†</sup>	72.9	88.5	–	161.4
Bank overdrafts	(86.0)	(0.5)	–	(86.5)
	(13.1)	88.0	–	74.9
Borrowings due within one year	(162.3)	160.0	2.3	–
Borrowings due after more than one year	(147.8)	(97.1)	(0.5)	(245.4)
	(310.1)	62.9	1.8	(245.4)
Net debt	(323.2)	150.9	1.8	(170.5)

<sup>†</sup> Cash and cash equivalents are represented as a single class of assets on the face of the balance sheet. For the purposes of the cash flow, cash and cash equivalents comprise those amounts represented on the balance sheet as cash and cash equivalents, less bank overdrafts (which are disclosed separately on the balance sheet and as disclosed in note C7).

## C12 Post-retirement benefits

The Company maintains a pension scheme for eligible employees in the UK comprising both a defined benefit and defined contribution section. The defined benefit section is a funded scheme with assets held in a separate trustee administered fund. The scheme is valued by a qualified actuary at least every three years and contributions are assessed in accordance with the advice of independent qualified actuaries so as to spread the pension cost over the normal expected service lives of members. Since 1 September 2002, the defined benefit section of the scheme has been closed to new entrants and on 30 April 2010 was closed to future accrual with automatic entry into the defined contribution section being offered to those active members of the defined benefit section at that time. Membership of the defined contribution section is offered to all eligible employees.

A full actuarial valuation of the scheme was last carried out as at 31 March 2010 and showed a shortfall of assets compared with liabilities of £239.0 million. A 'recovery plan' based on this valuation has been agreed with the trustee and commenced in 2010/11 with special contributions of £12.0 million, rising to £20.0 million for 2012/13 and 2013/14. Contributions rise to £25.0 million for 2014/15 and will rise approximately annually thereafter to £35.0 million by 2020/21. The next triennial valuation as at 31 March 2013 has commenced and its results are expected within the first half of 2014/15.

At 31 March 2010, the market value of the scheme's investments was £672.0 million and, based on the above assumptions, the value of the assets was sufficient to cover 74% of the benefits accrued to members with the liabilities amounting to £911.0 million. The valuation of the defined benefit section for the purposes of IAS 19 showed a gross pension deficit (before deferred tax) of £399.8 million (2013 £406.4 million and 2012 £261.9 million). Further particulars of the scheme are disclosed in note 21 to the Group Financial Statements.

## Notes to the Company Financial Statements (continued)

**C13 Financial instruments****(a) Financial risk management objectives and policies**

The Company is exposed to liquidity, interest rate, exchange, credit and capital risks and adopts the same approach to the management of these risks as the Group as set out in the Directors' Report and in note 22 to the Group Financial Statements.

**(b) Fair values of financial assets and liabilities**

For receivables and payables classified as financial assets and liabilities in accordance with IAS 32, fair value is estimated to be equivalent to book value. These values are shown in notes C5 and C8, respectively. The categories of financial assets and liabilities and their related accounting policy are set out in notes 1.11 and 1.15 to the Group Financial Statements.

For those financial assets and liabilities which bear either a floating rate of interest or no interest, fair value is estimated to be equivalent to book value. These values are shown in note C13 (d).

Included in trade and other receivables is £nil (2013 £nil and 2012 £9.0 million) relating to interest rate swaps held to hedge fair value interest rate risk. See note C13 (c) for further details.

The Company has previously used swaps to manage its interest rate exposure. Further details on the Company's interest rate swaps are included in note 22(d) to the Group Financial Statements.

**(c) Hedging activities**

The Company has previously managed exposures that arise on interest rates by entering into interest rate swaps. Further information on fair value hedging is set out in note 22(c) to the Group Financial Statements.

**(d) Interest rate profile of financial assets and financial liabilities by currency**

The following table sets out the interest rate exposure of the financial assets and liabilities of the Company:

	2014	2013	2012
	Sterling £million	Sterling £million	Sterling £million
Cash and cash equivalents:			
Floating rate	102.2	28.4	72.9
Fixed rate	37.2	133.0	–
	<b>139.4</b>	<b>161.4</b>	<b>72.9</b>
Borrowings:			
Floating rate	(85.4)	(86.5)	(336.1)
Fixed rate	(246.9)	(245.4)	(60.0)
	<b>(332.3)</b>	<b>(331.9)</b>	<b>(396.1)</b>
Net debt	<b>(192.9)</b>	<b>(170.5)</b>	<b>(323.2)</b>

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Floating rate cash and cash equivalents relate to money market deposits (as shown in note C6).

Fixed rate borrowings comprise the 2015 Notes and the 2017 Notes (2012 and 2011 the unhedged part of the 2012 Bonds and the 2015 Notes). Floating rate borrowings include bank overdrafts, fixed rate bonds / notes after taking into account the effect of interest rate swaps entered into by the Company and drawings under the Amended Facility (2012 and 2011 the £360 million Facility). The weighted average effective interest rate on bank overdrafts approximated 1.5% (2012/13 1.5%). Further details on fixed and floating rate borrowings are shown in notes 17 and 22 to the Group Financial Statements.

**(e) Sensitivity analysis**

The following analysis, required by IFRS 7, shows the sensitivity of profit before tax and total equity to changes in interest rates on derivative financial instruments and certain monetary items. The sensitivity analysis reflects the position as at 30 April 2014 and 30 April 2013, respectively, and is not necessarily representative of actual or future outcomes.

Changes in interest rates affect the Company's loss before tax, mainly due to the impact of floating rate borrowings, cash and derivative financial instruments. The Company's principal floating rate interest rate exposures are based on LIBOR. The following sensitivity analysis shows a reasonably possible change in interest rates (uniform across all currencies), with other variables held constant and the corresponding decrease would have an equal and opposite effect. A 1% increase in interest rates would have a negative effect on profit before tax and equity of £2.0 million (2012/13 a £3.2 million negative effect on profit before tax and equity). Assumptions used in calculating the sensitivity analysis are set out in note 22(e) to the Group Financial Statements.

Notes to the Company Financial Statements (continued)

C13 Financial instruments (continued)

(f) Liquidity risk

The table below analyses the Company's contractual undiscounted cash flows payable under financial liabilities and derivative assets into their maturity groupings. The table includes both principal and interest flows:

	2014			
	Contractual undiscounted cash flows			
	Within one year £million	In more than one year but not more than five years £million	Total £million	Carrying value £million
Non-derivative financial liabilities:				
Bank overdrafts	(85.4)	–	(85.4)	(85.4)
Trade and other payables	(304.3)	–	(304.3)	(308.1)
8.75% Guaranteed Notes 2015	(8.8)	(105.0)	(113.8)	(99.6)
8.75% Guaranteed Notes 2017	(13.1)	(182.8)	(195.9)	(147.3)
	<b>(411.6)</b>	<b>(287.8)</b>	<b>(699.4)</b>	<b>(640.4)</b>
2013				
	Contractual undiscounted cash flows			
	Within one year £million	In more than one year but not more than five years £million	Total £million	Carrying value £million
Non-derivative financial liabilities:				
Bank overdrafts	(86.5)	–	(86.5)	(86.5)
Trade and other payables	(417.9)	–	(417.9)	(421.7)
8.75% Guaranteed Notes 2015	(8.8)	(118.2)	(127.0)	(98.8)
8.75% Guaranteed Notes 2017	(13.1)	(196.0)	(209.1)	(146.6)
	<b>(526.3)</b>	<b>(314.2)</b>	<b>(840.5)</b>	<b>(753.6)</b>
2012				
	Contractual undiscounted cash flows			
	Within one year £million	In more than one year but not more than five years £million	Total £million	Carrying value £million
Non-derivative financial liabilities:				
Bank overdrafts	(86.0)	–	(86.0)	(86.0)
Trade and other payables	(373.5)	–	(373.5)	(381.1)
6.125% Guaranteed Bonds 2012	(169.8)	–	(169.8)	(162.3)
8.75% Guaranteed Notes 2015	(13.1)	(182.9)	(196.0)	(147.8)
	<b>(642.4)</b>	<b>(182.9)</b>	<b>(825.3)</b>	<b>(777.2)</b>
Derivative contracts:				
Inflows	263.4	–	263.4	263.4
Outflows	(254.4)	–	(254.4)	(254.4)
	9.0	–	9.0	9.0

The carrying value of trade and other payables includes accrued interest on the 2012 Bonds of £nil (2013 £nil and 2012 £4.4 million), accrued interest of £2.1 million on the 2015 Notes (2013 £2.2 million and 2012 £3.2 million), accrued interest of £1.7 million on the 2017 Notes (2013 £1.6 million and 2012 £nil) and accrued interest on overdrafts of £nil (2013 £nil and 2012 £nil).



Notes to the Company Financial Statements (continued)

**C13 Financial instruments (continued)**

**(g) Credit risk**

The Company's exposure to credit risk is discussed in note 22(a) to the Group Financial Statements. The Company's receivable balances mainly consist of amounts due from subsidiary undertakings. Further information on the Company's exposure to significant concentration of credit risk on receivables from subsidiary undertakings is set out in note C15.

**C14 Contingent liabilities**

	2014 £million	2013 £million	2012 £million
Contingent liabilities	<b>0.2</b>	1.9	2.3

**C15 Related parties**

During the year the Company entered into transactions, in the ordinary course of business, with other related parties as follows:

	2013/14 £million	2012/13 £million
Subsidiary undertakings:		
Recharge of costs	<b>13.5</b>	12.8
Interest paid	<b>(12.1)</b>	(17.9)
Dividends received	<b>150.0</b>	175.0

Recharge of costs relates to management charges for services provided to other Group companies.

Included within amounts repayable to subsidiaries are loans of £282.1 million (2013 £395.2 million and 2012 £351.0 million) with maturity of one month, but renewable on a rolling basis, which bear interest at 1.5% (2012/13 4.25%). The Company also has fixed loans of £13.2 million (2013 £14.2 million and 2012 £14.2 million) which have no maturity date and bear no interest.

**C16 Principal subsidiary undertakings**

The directors consider that to give full particulars of all Group undertakings would lead to a statement of excessive length. A full list of Group undertakings is attached to the latest annual return. The following information relates to those subsidiary undertakings forming part of continuing operations, which unless otherwise stated, are engaged in retail activities, whose results or financial position, in the opinion of the directors, principally affect the consolidated financial statements of the Group at 30 April 2014:

DSG international Holdings Limited – UK <sup>†</sup>	El-Giganten AS – Denmark
DSG Retail Ireland Limited – Ireland	El-Giganten AB – Sweden
DSG Retail Limited – UK	Elkjøp Nordic AS – Norway
Dixons South-East Europe A.E.V.E. – Greece (99.2%)	Gigantti OY – Finland

<sup>†</sup> A direct subsidiary undertaking of Dixons Retail plc and a holding company.

Unless otherwise indicated, principal subsidiary undertakings are wholly-owned. All Group undertakings operate in their country of incorporation.

### Notes to the Company Financial Statements (continued)

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#### **C17 Post-balance sheet events**

On 15 May 2014, the boards of Dixons Retail plc (Dixons) and Carphone Warehouse Group plc (Carphone) announced that they had reached agreement on the terms of a recommended all-share merger of Dixons and Carphone (the Merger), which is to be implemented by way of a scheme of arrangement of Dixons. The new merged entity is proposed to be named Dixons Carphone plc (Dixons Carphone). The Merger will result in each of Dixons' and Carphone's shareholders holding exactly 50 per cent. of Dixons Carphone on a fully diluted basis taking into account existing share options and award schemes for both companies.

Under the terms of the Merger, Dixons shareholders will receive 0.155 of a new Dixons Carphone share in exchange for each Dixons share. Completion is subject to shareholder approval, but is expected to take place in the summer of 2014. In addition to shareholder approval, the Merger will be conditional on, amongst other things, the sanction of the Scheme by the Court and relevant anti-trust clearances being received.

The Merger will be put to Dixons shareholders at the Court Meeting and at the Dixons General Meeting. In order to become effective, the Scheme must be approved by a majority in number of the Dixons shareholders voting at the Court Meeting, either in person or by proxy, representing at least three-quarters in value of the Dixons shares voted at the Court Meeting. In addition, special resolutions implementing the Scheme and approving the related capital reduction must be passed by Dixons shareholders representing at least three-quarters of votes cast at the Dixons General Meeting.

Carphone and Dixons have put in place appropriate banking facilities to ensure that Dixons Carphone will have a strong financial profile following completion, which will enable the combined group to retain flexibility whilst reviewing its optimal capital structure going forward.

The merged entity will create a leader in European consumer electricals, mobiles, connectivity and related services. The boards of Dixons and Carphone believe that the Merger will deliver significant value to shareholders through a combination of enhanced commercial opportunities and operating synergies of at least £80 million on a recurring basis, which are expected to be delivered in full in the financial year 2017/18. The combined group will also have the opportunity to achieve significant additional value from growth opportunities arising from the Merger. The integration of the two businesses will be managed by a dedicated integration team, bringing together the best relevant capabilities of both businesses, with the aim of facilitating a smooth integration.

Documentation setting out details of the proposed merger and seeking shareholder approval is expected to be issued to shareholders on or around 26 June 2014.

On 16 May 2014, the Company signed an agreement to sell its Electroworld operations in the Czech Republic and Slovakia (Central Europe) to NAY a.s., a leading electrical specialist retailer in the region. The transaction is expected to complete within the first half of 2014/15. The operations comprise 26 specialist electrical retail stores. Following completion, which remains subject to certain normal conditions including competition authority clearance, the Group expects to receive a small deferred cash consideration spread over three years.

On 19 May 2014, the Company signed a new revolving credit facility agreement (the New Facility) for £150 million. The New Facility, which has a maturity date of 30 June 2018, but has an option to extend to 30 June 2019, replaces previous Amended Facility of £200 million which had a maturity date of 30 June 2015. The New Facility is described in further detail in Note 17.

## Five Year Record

## Consolidated Income Statement

	2013/14 £million	2012/13 £million	2011/12 <sup>(6)</sup> £million	2010/11 <sup>(6)</sup> £million	2009/10 <sup>(6)</sup> £million
<b>Underlying revenue<sup>(1)</sup></b>	<b>7,217.6</b>	7,026.6	6,521.4	6,393.9	6,506.0
<b>Percentage change</b>	<b>2.7%</b>	7.7%	2.0%	(1.7)%	
<b>Underlying operating profit / EBIT<sup>(2)</sup></b>	<b>202.8</b>	186.4	158.1	142.8	154.2
Underlying net finance costs <sup>(1)</sup>	<b>(36.6)</b>	(35.4)	(33.4)	(33.5)	(36.3)
<b>Underlying profit before tax<sup>(1)</sup></b>	<b>166.2</b>	151.0	124.7	109.3	117.9
<b>Percentage change</b>	<b>10.1%</b>	21.1%	14.1%	(7.3)%	
Businesses exited / to be exited	–	(0.4)	(4.4)	(10.3)	(3.1)
Acquired intangibles amortisation	<b>(0.7)</b>	(1.0)	(1.1)	(1.1)	(1.2)
Net restructuring charges	<b>(8.7)</b>	(24.8)	(9.7)	(17.1)	(5.6)
Business impairment charges	–	(9.1)	(36.5)	(145.3)	–
Changes in pension benefits	–	–	–	–	33.4
Other items	<b>(4.1)</b>	(0.5)	35.6	(12.9)	–
Loss on sale of business	–	(9.6)	–	–	–
Non-underlying financing items	<b>(19.8)</b>	(19.0)	(11.3)	(8.4)	(8.8)
<b>(Loss) / profit before tax – continuing operations</b>	<b>132.9</b>	86.6	97.2	(85.8)	132.6
Income tax expense	<b>(45.1)</b>	(43.7)	(54.6)	(26.1)	(24.6)
<b>(Loss) / profit after tax – continuing operations</b>	<b>87.8</b>	42.9	42.6	(111.9)	108.0
Loss after tax – discontinued operations	<b>(158.1)</b>	(215.3)	(205.5)	(133.4)	(50.7)
<b>(Loss) / profit for the year / period</b>	<b>(70.3)</b>	(172.4)	(162.9)	(245.3)	57.3
<b>Underlying diluted earnings per share (pence)<sup>(1)</sup></b>	<b>3.0p</b>	2.6p	2.2p	2.1p	2.5p
<b>Percentage change</b>	<b>15.4%</b>	18.2%	4.8%	(16.0)%	

## Consolidated Cash Flow

	2013/14 £million	2012/13 £million	2011/12 £million	2010/11 £million	2009/10 £million
Underlying profit before tax <sup>(1)</sup>	<b>166.2</b>	151.0	124.7	109.3	117.9
Depreciation and amortisation	<b>116.4</b>	114.0	117.3	118.6	109.4
Working capital movements	<b>41.3</b>	104.9	16.7	37.9	35.8
Taxation	<b>(49.0)</b>	(19.9)	(25.1)	(23.7)	(31.4)
Net capital expenditure	<b>(79.7)</b>	(75.9)	(10.7)	(192.9)	(146.6)
Other (incl. settlement of historical currency hedges)	<b>12.1</b>	(60.5)	(15.5)	6.6	(60.2)
<b>Free Cash Flow before restructuring items<sup>(3)</sup></b>	<b>207.3</b>	213.6	207.4	55.8	24.9
Net restructuring and other one off items	<b>(6.8)</b>	(5.8)	(36.3)	(22.4)	(33.3)
<b>Free Cash Flow<sup>(4)</sup></b>	<b>200.5</b>	207.8	171.1	33.4	(8.4)
<b>Closing net debt</b>	<b>70.9</b>	42.1	(104.0)	(206.8)	(220.6)
Less restricted funds <sup>(5)</sup>	<b>(103.3)</b>	(110.2)	(114.0)	(120.3)	(78.9)
<b>Unrestricted net debt<sup>(5)</sup></b>	<b>(32.4)</b>	(68.1)	(218.0)	(327.1)	(299.5)

## Notes:

- (1) Underlying figures exclude the effects of trading results of businesses exited, amortisation of acquired intangibles, net restructuring and business impairment charges and other one off, non-recurring items, profits / losses on sale of investments or businesses, net interest on defined benefit pension schemes, net fair value remeasurements of financial instruments, and where applicable, discontinued operations.
- (2) EBIT equates to underlying operating profit.
- (3) Free Cash Flow before restructuring items includes dividend payments to non-controlling interests (minority shareholders).
- (4) Free Cash Flow relates to continuing operations and comprises net cash flow generated from operations before special pension contributions, less net finance expense, less income tax and net capital expenditure.
- (5) Unrestricted net debt comprises cash and cash equivalents, short term investments and borrowings and excludes restricted funds, which predominantly comprises funds held under trust to fund potential customer support agreement liabilities.
- (6) The three financial years 2009/10, 2010/11 and 2011/12 have not been restated to reflect the amendment to IAS 19. The effect of this would be to increase the non-underlying finance charges presented above.

## Five Year Record (continued)

## Consolidated Balance Sheet

	2014 £million	2013 £million	2012 £million	2011 £million	2010 £million
<b>Non-current assets</b>					
Goodwill	607.4	704.2	740.7	970.8	1,116.5
Intangible assets	50.9	66.4	98.1	113.1	130.7
Tangible assets	330.5	434.0	480.4	583.7	541.0
Other non-current assets	135.3	172.0	182.3	216.4	253.8
	<b>1,124.1</b>	<b>1,376.6</b>	<b>1,501.5</b>	<b>1,884.0</b>	<b>2,042.0</b>
<b>Current assets</b>					
Inventories	684.4	895.4	874.2	960.9	972.6
Other current assets	273.2	309.9	346.6	387.3	397.0
Short term investments	1.4	2.4	7.3	10.5	8.5
Cash and cash equivalents	401.2	405.3	316.8	334.7	295.7
	<b>1,360.2</b>	<b>1,613.0</b>	<b>1,544.9</b>	<b>1,693.4</b>	<b>1,673.8</b>
Assets held for sale	30.8	15.1	–	–	–
<b>Total assets</b>	<b>2,515.1</b>	<b>3,004.7</b>	<b>3,046.4</b>	<b>3,577.4</b>	<b>3,715.8</b>
<b>Current liabilities</b>					
Bank overdrafts	–	(17.7)	(15.8)	(5.6)	(4.9)
Other borrowings	–	(4.5)	(162.5)	(130.0)	(98.5)
Obligations under finance leases	(2.0)	(2.0)	(3.1)	(3.1)	(2.4)
Other current liabilities	(1,433.8)	(1,738.1)	(1,634.7)	(1,692.7)	(1,652.9)
Provisions	(24.1)	(36.8)	(18.6)	(44.4)	(22.3)
	<b>(1,459.9)</b>	<b>(1,799.1)</b>	<b>(1,834.7)</b>	<b>(1,875.8)</b>	<b>(1,781.0)</b>
<b>Net current liabilities</b>	<b>(99.7)</b>	<b>(186.1)</b>	<b>(289.8)</b>	<b>(182.4)</b>	<b>(107.2)</b>
<b>Non-current liabilities</b>					
Borrowings	(246.9)	(245.4)	(147.8)	(315.3)	(321.4)
Obligations under finance leases	(91.6)	(96.0)	(98.9)	(98.0)	(97.6)
Retirement benefit obligations	(401.8)	(409.1)	(266.0)	(247.3)	(266.8)
Other non-current liabilities	(254.2)	(273.8)	(275.4)	(348.6)	(344.4)
Provisions	(16.1)	(26.1)	(19.6)	(15.9)	(29.5)
	<b>(1,010.6)</b>	<b>(1,050.4)</b>	<b>(807.7)</b>	<b>(1,025.1)</b>	<b>(1,059.7)</b>
Liabilities associated with assets classified as held for sale	(31.2)	(7.9)	–	–	–
<b>Total liabilities</b>	<b>(2,501.7)</b>	<b>(2,857.4)</b>	<b>(2,642.4)</b>	<b>(2,900.9)</b>	<b>(2,840.7)</b>
<b>Net assets</b>	<b>13.4</b>	<b>147.3</b>	<b>404.0</b>	<b>676.5</b>	<b>875.1</b>
Equity shareholders' funds	12.8	148.1	391.4	653.5	846.5
Equity non-controlling interests	0.6	(0.8)	12.6	23.0	28.6
<b>Total equity</b>	<b>13.4</b>	<b>147.3</b>	<b>404.0</b>	<b>676.5</b>	<b>875.1</b>

### Other Shareholder Information

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#### Registered office

Maylands Avenue, Hemel Hempstead, Hertfordshire HP2 7TG, UK (United Kingdom). Registered in England, company no. 3847921. [www.dixonsretail.com](http://www.dixonsretail.com)

#### Registrars and transfer office

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Tel: 0871 664 0300 (calls cost 10p per minute plus network extras; lines are open 8.30am – 5.30pm Monday to Friday). If calling from abroad the number is +44 20 8639 3399. The website address is: [www.capitaassetservices.com](http://www.capitaassetservices.com)

#### Joint brokers

Citigroup Global Markets, Barclays.

#### Shareholder enquiries

Shareholders can access shareholding details over the internet via our Registrar's secure portal at [www.capitashareportal.com](http://www.capitashareportal.com)

As well as checking name, address and shareholding details in the Shareholder Help section, you can download change of address, dividend mandate and stock transfer forms. This is a secure site and you will need to register first. Please follow the simple instructions on the website. So that the system can validate your enquiries an Investor Code is required.

This is a numerical account number and can be found on your share certificate.

#### Share dealing service

On-line and telephone share dealing services are available to shareholders through our Registrars, providing easy access and simple to use services. There is no need to pre-register and the facilities allow you to trade in 'real time' and at a known price which will be given to you at the time you give your instruction.

In order to deal via these facilities you will need your Investor Code (see above) as well as stating your surname, full postcode and date of birth. Details of the on-line dealing service are available on [www.capitadeal.com](http://www.capitadeal.com) and the telephone dealing service is on 0871 664 0384 (calls cost 10p per minute plus network extras; lines are open 8.00am – 4.30pm Monday to Friday).

#### Unsolicited mail

The Company is obliged to make its share register available to third parties on payment of a prescribed fee. This may result in shareholders receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail you should write to: The Mailing Preference Service, FREEPOST 29, LON20771, London, W1E 0ZT or register on their website at [www.mpsonline.org.uk](http://www.mpsonline.org.uk)

#### ShareGift

The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. Details of the scheme are available on the ShareGift website: [www.sharegift.org](http://www.sharegift.org)

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**If you would like this Annual Report and Accounts or any other shareholder documentation in an alternative format, please send a request to [corporate.affairs@dixonsretail.com](mailto:corporate.affairs@dixonsretail.com) or telephone 00 44 (0)344 800 2030**



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# DIXONS RETAIL

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