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Carpetright plc

Annual report and accounts 2010

Europe's leading floor coverings retailer

Carpetright plc is Europe's leading specialist floor coverings retailer. Since the first store was opened in 1988 the business has followed a controlled store expansion programme developing both organically and, in recent years, through acquisition within the UK and other European countries.

The Group trades from 703 stores across Europe and employs approximately 4,000 staff. The Group is organised into two geographical regions, the UK & RoI (comprising the UK and the Republic of Ireland) and the Rest of Europe (comprising The Netherlands and Belgium).

Overview
Financial highlights

	52 weeks ending 1 May 2010	52 weeks ending 2 May 2009	Change
Revenue	**£516.6m**	£482.8m	7.0%
Underlying profit before tax	**£28.2m**	£17.2m	64.0%
Profit before tax	**£22.3m**	£16.7m	33.5%
Underlying earnings per share	**31.6p**	18.2p	73 6%
Basic earnings per share	**23.5p**	17.6p	33.5%
Dividend per share	**16.0p**	8 0p	100.0%

Where this review makes reference to Underlying these relate to profit/earnings before exceptional items

Business overview

Strong market positions and geographic regions

Close to
4,000
People

4
Countries

703
Sites

Store portfolio at 1 May 2010

UK & RoI	Sites	Sq ft
Standalone	537	4,689
Concessions	49	119
Total	**586**	**4,808**

Rest of Europe		
The Netherlands	89	1,063
Belgium	28	335
Total	**117**	**1,398**
Group total	**703**	**6,206**

UK
561
Stores

RoI
25
Stores

Netherlands
89
Stores

Belgium
28
Stores

Regional performance

UK & RoI	52 weeks ending 1 May 2010	52 weeks ending 2 May 2009
Revenue	**£425.2m**	£394.1m
Underlying operating profit	**£26.2m**	£15 6m
Trading space sq ft '000	**4,808**	4,632

Rest of Europe[1]		
Revenue	**£89.2m**	£85 7m
Underlying operating profit	**£9.6m**	£8 7m
Trading space sq ft '000	**1,398**	1,400

1 The Netherlands and Belgium only

Chairman's statement

Lord Harris of Peckham
Chairman and Chief Executive

Significant recovery in profitability

In a challenging year, I am pleased to report that Carpetright has delivered an improved performance The Group has grown sales and commenced the development of new revenue streams in the house building and insurance sectors, helping to deliver a significant recovery in profitability over the depressed level reported in the prior year

Total revenue for the 52 weeks ended 1 May 2010 increased by 7 0% to £516 6m Underlying profit before tax increased by 64 0% to £28 2m After the impact of exceptional items, reported profit before tax increased to £22 3m Underlying earnings per share have risen by 73 6% to 31 6p and basic earnings per share increased to 23 5p Our focus on debt reduction has delivered results, with strong free cash flow of £32 0m, reducing net debt by £25 8m to £71 3m

This solid performance has led the Board to recommend a final dividend of 8 0p per share Having previously paid an interim dividend of 8 0p per share the total dividend for the period will therefore be 16 0p per share, an increase of 100% on the previous year

These results have been delivered through a period of economic recession, with fears of unemployment and tax increases adversely affecting consumer confidence Throughout the period we continued to manage the business by exerting tight control over all costs, capital expenditure, stock and cash flow

Our businesses in the UK and Republic of Ireland have returned to growth, with underlying operating profits up 67 9% to £26 2m, although I recognise this is only the start of a journey to return to previous levels of profitability In Europe, our businesses in The Netherlands and Belgium have continued to grow with underlying operating profits up 10 3% to a record level of £9 6m During the year we took the decision to withdraw from trading in Poland Since its launch four years ago, the business had failed to establish sufficient trading momentum and critical mass, and the resulting performance had been disappointing This exit was completed by the year end

I would like to thank all our employees for their continued commitment, contribution and loyalty throughout the year It is people who make retail businesses and I believe we have a fantastic team of loyal, hard working staff at Carpetright It is this team which has collectively been responsible for the progress the Group has made and I look forward to working with them in the year ahead

Geoff Brady is leaving the Board on 31 August 2010 after three years I would like to thank him for his contribution over that period

Although we are planning for consumer demand across Europe to remain subdued, we have market leading positions in all our geographical areas with strong value led retail brands I believe this enables us to look confidently to the future as and when the economic conditions improve

Lord Harris of Peckham
Chairman and Chief Executive

Directors' report: Business review

The Directors present their Annual Report to the shareholders together with the audited financial statements for the financial year ended 1 May 2010. This report, together with the Chairman's Statement describe the results and activity for the period, future plans, trends and factors affecting the development, position and performance of the business.

Principal activities

Carpetright plc is Europe's leading specialist floor covering retailer, selling a wide range of carpets, rugs, vinyls and laminates together with associated accessories In addition, the product offering was extended to selling beds in the UK following the acquisition of Sleepright in December 2008

The Group trades from 703 stores organised and managed in two geographical segments These are the 'UK & RoI' (comprising the UK and the Republic of Ireland) and the 'Rest of Europe' (comprising The Netherlands and Belgium)

Business objective and strategies

The primary financial objective of the Group is to deliver long-term sustainable growth in earnings per share and cash flow We aim to achieve this through the following strategies

Primary focus on floor coverings
Ensuring we continually improve and develop our product ranges to provide consumers with a market leading product choice which offers great value, backed up by excellent customer service.

Develop a competitive bed proposition
To grow the sales of beds and associated products, following the same principles of choice, value and service

Manage our store portfolio
To grow our store base into local markets where we are not represented and to continually exploit opportunities which deliver better overall profitability

Expansion into European countries
To identify and pursue opportunities to grow Group profitability by extending the brand strengths across Europe

Reaching more customers through additional channels
To extend the reach of Carpetright's brand by growing sales through the insurance replacement market, becoming the preferred supplier of floor covering for new homes and developing our online business

We aim to act responsibly towards all our stakeholders, including customers, suppliers, employees and the communities in which we operate Our annual Corporate Responsibility Report is available at www carpetright plc uk with a summary of our approach on pages 13 and 14 of this report

Operational and financial review

Financial highlights

A summary of the reported financial results for the year ended 1 May 2010 is set out below

	2010 £m	2009 £m	Change
Revenue	**516.6**	482 8	7 0%
Underlying* operating profit	**34.1**	22 8	49 6%
Net finance charges	**(5.9)**	(5 6)	(5 4)%
Underlying* profit before tax	**28.2**	17 2	64 0%
Exceptional items	**(5.9)**	(0 5)	
Profit before tax	**22.3**	16 7	33 5%
Earnings per share (pence)			
underlying*	**31 6**	18 2	73 6%
basic	**23 5**	17 6	33 5%
Dividends per share (pence)	**16 0**	8 0	100 0%
Net debt	**(71.3)**	(97 1)	£25 8m

* Where this review makes reference to 'Underlying these relate to profit/earnings before exceptional items

Overview

Total sales increased by 7 0% to £516 6m, with all continuing businesses showing growth During the year, the Group opened 53 stores and closed 45 which gave a net increase of eight stores and a total store base of 703 The total store space grew by 0 8% to 6 2 million square feet

The return to sales growth of the UK & Republic of Ireland business was the key driver for the improvement in underlying operating profit to £34 1m, an increase of 49 6% on the last year Net finance charges were £0 3m higher at £5 9m, reflecting the full year impact of the refinancing arrangements completed in April 2009 These combined to generate an underlying profit before tax of £28 2m, an increase of 64 0% on the prior year

Exceptional charges totalled £5 9m (2009 £0 5m) and were principally a combination of the cost of exiting the Polish market and non-cash store impairment charges

As a result, profit before tax increased by 33 5% to £22 3m Basic earnings per share increased by 33 5% to 23 5p reflecting the increase in post tax earnings

Performance by business

For year to 1 May 2010

		Year on year growth		
	Total £m	Reported	Local currency	Like for like[1]
Revenue				
UK & RoI	425 2	7 9%	7 9%	3 1%
The Netherlands and Belgium	89 2	4 1%	(1 7%)	(1 0%)
Revenue excluding Poland	514 4	7 2%		
Poland	2 2	(26 7%)	(23 0%)	
Total revenue	**516 6**	**7.0%**		
Underlying operating profit[2]				
UK & RoI	26 2	67 9%	67 9%	
The Netherlands and Belgium	9 6	10 3%	4 9%	
Underlying profit excluding Poland	35 8	49 7%		
Poland	(1 7)	(13.3%)	(14 7%)	
Total underlying operating profit	**34.1**	**49.6%**		
Underlying operating profit %				
UK & RoI	6 2%	+2.2pp		
The Netherlands and Belgium	10 8%	+0 6pp		
Operating profit excluding Poland	7 0%	+1 9pp		
Poland	(77 3%)	n/a		
Total underlying operating profit	**6.6%**	**+1 9pp**		

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

2 Underlying operating profits – operating profit excluding exceptional items

UK & Republic of Ireland performance review

Key financial results

	2010 £m	2009 £m	Change
Revenue	**425.2**	394 1	7 9%
Like-for-like sales	**3.1%**	(13 5%)	
Gross profit	**263.7**	244 6	7 8%
Gross profit %	**62.0%**	62 1%	(0 1pp)
Underlying operating profit	**26.2**	15 6	67 9%
Underlying operating profit %	**6 2%**	4 0%	2 2pp

UK & RoI portfolio

	Store numbers				Sq ft ('000)	
	2 May 2009	Openings	Closures	1 May 2010	2 May 2009	1 May 2010
Standalone	510	36	(9)	**537**	4,516	**4,689**
Concessions	57	15	(23)	**49**	116	**119**
Total	**567**	**51**	**(32)**	**586**	**4,632**	**4,808**

In the UK & RoI, total revenue increased year-on-year by 7 9% to £425 2m The inclusion of Sleepright for its first full year contributed 2 0% of this increase We have opened 51 new stores adding 328k sq ft of selling space during the year Including the impact of 32 closures, this translated into net space growth of 176k sq ft, an increase of 3 8% since the start of the year

The year saw a return to positive sales growth in the first quarter which accelerated to double digit growth in the period up to December 2009 Sales since January were more subdued, resulting in a full year like-for-like performance of +3 1% This growth reflects an underlying recovery in mortgage approval figures and the impact of the contraction of a competitor in the UK, Allied Carpets, in the period since July 2009

The increase in UK sales has been predominantly carpet, where the proportion of cut length business has increased relative to the 'pay and take' roll stock The vinyl business has also grown Sales of laminate/wood categories have continued to decline, which we believe is a reflection of the growing customer appreciation of the benefits of vinyl and a trend back to carpet

The fragile state of the economy in the Republic of Ireland inevitably impacted our business there We remain committed to continuing to trade in this geographic market and, in the light of the prevailing economic conditions, have reduced our prices with the aim of increasing volumes

We believe much of Carpetright's success is attributed to our focus on offering the widest range of carpet at the keenest prices This view was supported during the year by externally conducted market research which indicated both strong recognition of the Carpetright brand and a strong association with being the 'first choice' for fitted carpet This research has also provided insight into areas for development As an example of activity being undertaken, we have independently assessed 536 independent fitters within the last year to ensure they are appropriately qualified to carry out their role on our behalf

In the Autumn of 2009 we re-launched our websites These offer the consumer the ability to order samples, book a consultation appointment and order products on-line The sites are generating over 40,000 unique visitors each week, which represents a powerful method of accessing and converting potential customers

The development and integration of the Sleepright bedding business continued throughout the year The focus has been on the product, promotional offers and reducing delivery times The introduction of beds to our offer presents an opportunity to capitalise on the accessibility of our store locations and grow sales per square foot

We have continued to focus on gaining additional sales through the insurance replacement business This has proved successful, with contracts secured from three of the largest domestic insurance providers in the country These contracts commenced during the year and, after positive feedback about the quality of our products and service, the volume of business through this channel, although still small relative to the Groups total revenue, continues to grow

During the year significant activity was devoted to developing an appropriate offer for the house builder market. This is for both the 'contract' side, where floor coverings are laid in communal areas, and by introducing a 'voucher' offer for individuals to select products for their own new home Although the sales to date have been minimal due to the longer lead time in the development of new homes, we believe we have the foundations to grow this significantly in the coming year

Gross profit increased by 7 8% to £263 7m, representing a gross profit margin of 62 0% (2009 62 1%) The introduction and development of beds into the product mix accounted for a 0 7 percentage point decline, as this part of the business operates on a lower gross margin than floor coverings The growth of the insurance business also had a dilutive effect of 0 4 percentage points This was offset by an improvement in the underlying floor covering margin of one percentage point, achieved

Operational and financial review continued

through a combination of management of promotions, negotiation with suppliers and increased productivity in the Purfleet cutting facility

The total UK & RoI cost base increased by 3 7% compared to last year to £237 5m This included the impact of the first full year of Sleepright, which accounted for 1 4% of the growth In like-for-like stores, the overall costs were level with the prior year Store payroll costs continue to be managed closely to the volume of sales, rent in like-for-like stores increased by a modest 2 2% reflecting a weakening of the property market in the current economic climate and we continued to increase our advertising spend which was up £1 1m to £11 4m, as we believe it continues to drive consumers to our stores

Underlying operating profit increased by 67 9% to £26 2m.

The Netherlands and Belgium performance review

Key financial results

	2010 £m	2009 £m	Change (Reported)	Change (Constant Currency)
Revenue	**89 2**	85 7	4 1%	(1 7%)
Like-for-like sales	**(1.0%)**	2 7%		
Gross profit	**51.6**	49 5	4 2%	(1 5%)
Gross profit %	**57.8%**	57 8%	Level	
Underlying operating profit	**9.6**	8 7	10 3%	4 9%
Underlying operating profit %	**10.8%**	10 2%	0 6pp	0 6pp

In The Netherlands and Belgium, total reported revenue increased year-on-year by 4 1% to £89 2m benefiting from a favourable move on exchange rates Sales in local currency declined 1 7% We opened two new stores adding 17k sq ft of selling space during the year The second of these was a trial of a 'sample only' store, which is trading ahead of our expectations and may provide an opportunity for future store growth Including the impact of one closure, this translated into net space decline of 2k sq ft, a decrease of 0 2% since the start of the year The number of stores trading at the end of the year was 117 (2009 116) Like-for-like sales in the first half declined by 3 6%, but an encouraging recovery in the second half resulted in a full year performance down only 1 0% Operationally, we have introduced new products and adapted our promotional offer to consumer demand, resulting in a growth in sales of both laminate and vinyl

Gross profit increased in both countries on the back of improved rebates and effective management of the promotional mix Reported operating costs increased by 2 9% to £42 0m, demonstrating the impact of the movement in exchange rates In local currency terms, costs declined by 2 8% despite inherent inflationary pressures on employment and occupancy costs This reflected the tight management control and focus on achieving efficiencies within the whole operation

The net result was an underlying operating profit of £9 6m, an increase of 10 3% In local currency terms, the underlying profit increased by 4 9%

Poland

The reported underlying loss in Poland was £1 7m, an increase of £0 2m on the previous year

As previously announced, following a review of the Polish business by the Board in the Autumn of 2009, the decision was taken to withdraw from trading in this market In the period since its launch four years ago, the business had failed to establish sufficient trading momentum and critical mass, and the resulting performance had been disappointing All the stores have now been closed. This has resulted in a non-recurring cost of £3 5m, which is a combination of a non-cash write down of the fixed assets to their realised value and other costs incurred specifically for the closure This is reported within exceptional items

Group financial review

Net finance costs and taxation

Net finance charges were £5 9m (2009 £5 6m) reflecting lower deposit rates on cash balances The effective tax rate on profits is 29 5% (2009 29 8%) This has decreased due to the impact of overseas tax movements

Exceptional items

The Group recorded a net charge of £5 9m (2009 £0 5m) in the year

We have continued to trade our property portfolio, although market conditions have made this more challenging A loss of £0 7m was incurred (2009 gain of £1 8m)

As a result of the challenging retail environment we have reviewed the carrying value of the store assets in our balance sheet The models used to value these assets include a number of assumptions relating to market growth and inflationary expectations The tests have led to a net impairment of £1 4m (2009 £0 9m) in relation to 13 stores, principally located in the Republic of Ireland In addition, there is one vacant leased property and two properties which are occupied by tenants at a rent below the head lease costs An onerous lease provision has been made on the basis of the difference between the expected inflows and outflows for these properties

As disclosed earlier, the costs of withdrawing from Poland total £3 5m The non-recurring pre-opening costs of the Purfleet cutting and distribution centre recognised in 2007/08 were over-provided by £1 1m and have been released

Exceptional items

	(Charge)/gain 2010 £m	2009 £m
Profit/(Loss) on disposal of properties	**(0 7)**	1 8
UK & RoI Store Impairment charge	**(1 4)**	(0 9)
UK & RoI Onerous leases	**(1 4)**	–
Poland Store Impairment Charge	**(1 8)**	–
Closure costs	**(1 7)**	–
Over-provision from pre-opening cost of Purfleet	**1 1**	–
Re-organisation cost of acquired businesses	**–**	(1 2)
Impairment of investment in joint venture	**–**	(0 2)
	(5 9)	(0 5)

Earnings per share

Basic earnings per share increased by 33 5% to 23 5 pence, reflecting a similar increase in post tax earnings Underlying earnings per share increased to 31 6 pence

Dividend

Whilst the underlying profitability has improved in 2009/10, there remains continued uncertainty on the economic outlook. Balancing these two facts, the Board believes it is appropriate to increase the final dividend for the year The Board has proposed a final dividend of 8 0 pence per share (2009 4 0 pence), bringing the full year dividend to 16 0 pence (2009 8 0 pence), a 100 0% increase The final dividend will be paid on 24 September 2010 to shareholders on the register on 10 September 2010 Dividend cover, based on basic earnings per share, is 1 5 times (2009 2 2 times)

Balance sheet and cash flow

The Group had net assets of £71 2m (2009 £67 2m) at the end of the year, an increase of £4 0m since 2 May 2009 The cash generative nature of the business in the year has been one of the strengths of the Group, with free cash flow of £32 0m generated in the period (2009 an outflow of £12 1m)

Cash flow

	2010 £m	2009 £m
Trading profit	**34 1**	**22.8**
Depreciation and other non-cash items	18 6	20 5
Exceptional items	(1 7)	(1 2)
(Increase)/Decrease in stock	1 5	2 7
(Increase)/Decrease in working capital	5 8	(18 6)
Cash generated from operations	**58.3**	**26.2**
Net interest paid	(6 8)	(5 5)
Corporation tax paid	(9 9)	(12.2)
Net capital expenditure	(9 6)	(20 6)
Free cash flow	**32 0**	**(12.1)**
Dividends paid	(8 1)	(22 8)
Other	1 9	(4 7)
Movement in net debt	**25 8**	**(39.6)**
Opening net debt	**(97 1)**	**(57.5)**
Closing net debt	**(71 3)**	**(97.1)**

The Group's operating cash flow was positive at £58 3m (2009 £26 2m) The increase was predominantly attributable to the improved profitability Net capital expenditure was £9 6m (2009 £20 6m) This can be broken down into the following principal categories

	2010 £m	2009 £m
Core capital expenditure	**10.1**	12 0
Freehold properties	**–**	4 3
Acquisitions of new businesses	**–**	7 3
Proceeds from property disposals	**(0.5)**	(3 0)
	9 6	20 6

After the repayment of borrowings and payment of dividend, net debt decreased by £25 8m to £71 3m at the year end (2009 £97 1m)

Group financial review continued

Property
The Group owns a significant property portfolio, most of which is used for trading purposes These are estimated by management to have a market value of £139 5m at the year end (2009 £127 1m), compared to a net book value of £108 6m recorded in the financial statements

Pensions
At the year end, the Group had a deficit of £4 8m in relation to defined benefit pension arrangements (2009 £2 4m) The approach used to prepare the pension valuation is in line with current market practice and international accounting standards Following the triennial valuation in April 2008, a revised deficit funding schedule of around £0 3m per annum for seven years was agreed with the Trustees With effect from the 1 May 2010, the UK defined benefit scheme was closed to future accrual. This has been completed after a period of consultation with the affected employees and will reduce the Group's exposure accordingly

Current liquidity
At the year end the Group held cash balances of £8 3m (2009 £17 4m) in a combination of Sterling, Euros and Polish Zlotys

Gross bank borrowings at the balance sheet date were £75 5m (2009 £108 3m) of which £62 2m is term based, with the balance of £13 3m being drawn down from overdraft facilities The Group had further undrawn, committed facilities of £38 1m at the balance sheet date

The current banking facilities provide approximately £110m of debt capacity split between amortising loans, revolving credit facilities and overdrafts in a mixture of Sterling and Euro currencies The term of these facilities are to July 2012 and involved combined arrangement fees and legal costs of £1 5m Although paid in cash at the outset, these are being amortised over the life of the facility The facilities are accompanied by a number of covenants which are believed to be appropriate in the current economic climate The Group monitors actual and prospective compliance with these on a regular basis

Outlook
The last year has seen a growth in profit performance, despite challenging trading conditions Looking forward, we expect the consumer environment to remain difficult and have adapted our plans accordingly

Key performance indicators

We monitor our performance by reference to a limited number of indicators The key ones are

			2010	2009	2008
Store numbers	The number of stores trading.	UK & RoI	**586**	567	559
		The Netherlands & Belgium	**117**	116	105
Store space ('000 sq ft)	Store gross area, including both selling and warehouse space Space occupied by sublet tenants is excluded.	UK & RoI	**4,808**	4,632	4,471
		The Netherlands & Belgium	**1,398**	1,400	1,230
Like-for-like sales	Calculated as this year's net sales divided by last year's net sales for all stores that are at least 12 months old at the beginning of our financial year Stores closed during the year are excluded from both years No account is taken of changes to store size or the introduction of third party concessions Sales from insurance and house building contracts are supplied through the stores and included in their figures.	UK & RoI	**3 1%**	(13 5%)	(2 7%)
		The Netherlands & Belgium	**(1.0%)**	2 7%	6 7%
Gross profit %	Gross profit as a percentage of net sales.	UK & RoI	**62.0%**	62 1%	62 8%
		The Netherlands & Belgium	**57.8%**	57 7%	56 9%
Underlying operating profit %	Operating profit, excluding exceptional items, as a percentage of net sales	UK & RoI	**6.2%**	4 0%	12 8%
		The Netherlands & Belgium	**10.8%**	10 2%	10 2%
Net debt (£m)	The Groups overall net debt position at year end.		**71 4**	97 1	57 5

Principal risks and uncertainties

The Board has a policy of continuous identification and review of key business risks and oversees the development of processes to ensure that these risks are managed appropriately. In the day-to-day operation of our businesses and the development of the Group, both in existing and new markets, we face risks and uncertainties, some of which are unique to the sector in which we operate. The risk factors addressed below are those which we believe could adversely affect us, potentially impacting the operations, revenue, profit, cash flow or assets of the Group. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse affect on the Group.

We use our risk management process to identify, monitor, evaluate and escalate such issues as they emerge, enabling the Board to take appropriate action wherever possible in order to control them.

Economic and market conditions

The economy is a major influence on consumer spending with trends in housing transactions, consumer confidence, mortgage approvals, consumer debt levels and interest rates impacting consumer demand for discretionary spending on the home Uncertainty surrounding current economic conditions present a difficult trading outlook across our sector We remain committed to the measures implemented to date, to ensure the Group is appropriately managed in this environment

Business strategy development and implementation

If the Board adopts the wrong business strategy or does not implement its strategies effectively the business may suffer The Board needs to understand and properly manage strategic risk in order to deliver long-term growth for the benefit of all Carpetright's shareholders The Board holds an annual strategy review day and monitors agreed actions throughout the year

Employee risk

Carpetright's businesses depend on a high level of input from all levels of staff The employee risks are split between

- Management Risk - The Group relies on key personnel including the Executive Directors, Senior Managers and Store Managers Procedures are in place to identify and retain key personnel and the Board regularly reviews succession planning for senior roles
- Customer Service Risk – Carpetright customers expect and receive a high level of customer service The Group employs close to 4,000 staff, mostly based in stores, and uses the services of over 2,000 independent carpet fitters The Group continues to ensure that all staff are properly recruited, trained and rewarded so that high levels of customer service are maintained.

Entering new markets

Expansion into additional European countries provides the opportunity for substantial long-term growth and economic returns for shareholders This represents a good opportunity for the Group but exposes it to new cultural and regulatory risks Failure to identify, conduct appropriate due diligence and appropriately integrate acquisitions, particularly in new geographical markets, could have an adverse impact on the Group The Group only enters new markets where the Board believes the potential long-term growth and returns outweigh the risks

Cost inflation

The location of the principal carpet manufacturers in Europe means the Group is exposed to fluctuations in the value of the Euro The Group seeks to mitigate this risk by putting in place appropriate arrangements with manufacturers and proactively managing its selling prices to maintain margins

There are a number of significant cost pressures affecting all retailers Many of these costs are growing by more than the rate of inflation, putting continued pressure on operating margins The strategy of introducing space for beds/concessions, moving to smaller stores and driving benefits from our supply chain and IT investments helps mitigate some of the risk.

Supply chain and business continuity

Carpetright's revenues and cash flows are dependent on the continued operation of its cutting and distribution facilities Business continuity plans have been documented and arrangements made to mitigate significant risks arising

IT systems

Carpetright is dependent upon the continued availability and integrity of its computer systems. The systems implemented within the UK & RoI are more robust than those that were replaced and have improved the overall controls over data integrity The central systems are mirrored in a separate location as part of a systems business continuity plan By using the experience from the UK & RoI, similar system developments are planned for the European operation

Management of liquidity risk and financing

Carpetright is dependent on debt financing facilities to be available at a commercially viable rate We have introduced robust processes to ensure we effectively manage working capital and maintain ongoing measurement to ensure the Group can meet its financing requirements and is compliant with banking covenants

Principal risks and uncertainties continued

The Group's Treasury policy is intended to ensure that there are adequate financial resources for the development and growth of the business whilst financing its operations at the lowest cost and minimising foreign exchange and interest rate risk. The objective is to achieve this without operational disruption or recourse to complex financial instruments

The strategy and policies are approved by the Board The Group does not engage in speculative transactions The key financial risks relate to meeting debt repayments as they fall due, interest rate risk and limited foreign currency exposure

The Group's term based borrowings are a direct result of the acquisition of businesses in the UK and Europe and the strategic investment in new systems and the warehouse and cutting facility The borrowings are denominated in Sterling and Euros The Group anticipates that there will be sufficient Euro cash flow to pay both the interest on the Euro borrowings as well as the capital repayment amounts due over the life of the underlying loan The Group fixes the interest rate on at least 75% of term borrowings via interest rate swap arrangements to provide interest cost certainty and reduce risk.

Any current account deposits generated from the strong operational cash flows of the Group are invested in the currency in which they are received unless there is a clear need for conversion During the year the Group invested these deposits in a combination of overnight and longer-term investment graded accounts arranged via the Group's principal bankers in the countries in which it trades

Legislative and regulatory risk

Whilst Carpetright's industry is not regulated, Carpetright is always mindful of its legal and regulatory obligations The Group's Legal Director is responsible for identifying prospective changes to laws and regulations and to bring those changes to the appropriate forum so that the emerging risk can be addressed Of particular note are risks relating to health and safety, competition law and price promotion In each case the Company has developed clear policies and guidelines and, where necessary, a compliance programme to mitigate the risks

Employees

The Group employs approximately 4,000 people and is proud of being regarded as a responsible and respected employer.

Equal opportunities

The Board believes in creating throughout the Company a culture that is free from discrimination and harassment and will not permit or tolerate discrimination in any form The Group operates a whistleblowing hotline through a third-party provider enabling employees to raise matters of concern with the Company on a named, or anonymous, basis The Company gives full and fair consideration to applications for employment when these are received from disabled people and employs disabled people whenever suitable vacancies arise Should an employee become disabled while working for the Company, efforts are made to continue their employment and retraining is provided, if necessary

Training and development

Our training and development programmes are focused on giving our staff the skills they need to move up to new roles, enabling them to develop their careers and ensuring that there is a pipeline of talent within the Group

Employee engagement

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

Employee share ownership

The Directors believe it is in the interests of both the Group and the employees for staff to have an opportunity to invest in the Company's shares and operates two all-employee share schemes, namely an All Employee Share Ownership Plan and a Savings Related Share Option Scheme Approximately 580 employees participate in these schemes

Corporate social responsibility

Our Corporate Social Responsibility (CSR) policy is designed to meet the long-term expectations of our customers and other stakeholders and ensure the sustainable development of our business. It is clear that protecting the environment and running our business ethically makes good commercial sense and apart from improving the environment for both our staff and our customers, will also help us to enhance shareholder returns. Neil Page reports to the Board on CSR matters and co-ordinates the group's CSR policies and activities. He is supported by a team providing support and advice to develop the business policies and approach.

Our key measures within this area are

Issue	Indicator	2010	2009	Progress
Providing great service	Complaints per £1m of sales	**13 1**	13 6	3 7% fewer complaints
Developing committed people	% of employees with > 3 year service	**35%**	27%	29 6% improvement in staff retention
Creating a safe place to work and shop	Number of reportable accidents	**15**	11	A disappointing increase, although this remains below the long-term average of 31 pa
Respect for the environment	Energy efficiency – kWh/m² of sales space	**240.7**	249 2	3 4% less gas/electricity used
	Energy efficiency – km/litre of delivery fleet	**3 36**	3 35	0 3% increase in efficiency
	Recycling in tonnes	**2,131**	1,342	58 8% more polythene sheet and cardboard recycled

More detailed information, notably performance data and future targets, is available in our full CSR Report available to view at www.carpetright.plc.uk.

Over the last four years we have been developing and improving policies to cover the following

Providing great service

Our aim is to provide outstanding customer service by selling a comprehensive range of flooring products at the keenest prices, supported by excellent store staff and, where required, by organising a high quality carpet fitting service

We have now equipped mobile fitter training pods enabling us to offer all of our recommended fitters access to the Flooring Industry Trade Association (FITA) assessment and additional training where required to meet FITA's exacting standards We are now able to recommend over 2,600 registered fitters who have attained FITA qualifications, 536 of whom have attained the FITA fitting qualification in the past 12 months

We commissioned consumer research looking at the service offering in our stores and will continue to work on the findings over the next 12 months increasing service training in our stores

Developing committed people

We employ close to 4,000 people in stores, depots and offices throughout the UK & RoI and Europe Our aims are to ensure everyone has the right skills and knowledge to do their jobs, to offer our people a good range of incentives and benefits and to value and promote the diversity of our workforce

To ensure we understand our staff's expectations and fully take advantage of their experiences and opinions, we have conducted an employee survey in the UK & RoI and followed up the results with a series of 'Have Your Say' workshops where staff have had the opportunity to voice their concerns and contribute ideas towards the continuing development of the Carpetright brand The outcome of these workshops is still being evaluated but the business has already made significant changes as a result of the employee feedback and this will be an ongoing part of the company's people agenda

Staff stability is important to us as a measure of employee loyalty and satisfaction and we track retention rates continually

Sourcing great products

We are committed to buying great products from suppliers who operate in a responsible manner Our aims are to ensure suppliers are subject to vetting for satisfactory ethics and procedures, to insist our supply chain partners sign up to the Carpetright 'Codes of Conduct' and to ensure we act in a responsible and ethical manner

All of our suppliers have now signed up to compliance with our Ethical and Environmental policies We have additionally introduced a timber policy to ensure all timber floor covering products are manufactured from sustainable resources

Corporate social responsibility continued

Creating a safe place to work and shop

We are committed to achieving high standards of health and safety in all operational areas

We have reviewed our policies and procedures and implemented a new way of managing health and safety, particularly within our stores There were 15 reportable accidents in the period (2009 11), the largest proportion of which were manual handling related

We remain committed to eliminating all heavy manual handling from our stores Wherever possible, each of our branches has a pedestrian operated boom truck to unload and move carpet and vinyl deliveries and where it has not been possible to provide a truck we have arranged a series of nearby 'buddy' branches to accept deliveries We have also been involved in the design and development of a new lifting device to lift carpet onto roll stock stands and after successful trials have now ordered 200 of these devices to be delivered through 2010 – 2011 and anticipate ordering a further 200 the following year

Respect for the environment

We are committed to taking steps to control and minimise any damage our operations may cause to the environment through manufacturing processes, transport, energy usage and packaging In particular we are aware of the issue of climate change and we want to understand and minimise our carbon emissions

We have now calculated the carbon footprint of our UK and Republic of Ireland operation and will be in a position to publish that information once the methodology and calculations have been externally assured This information will be published on the corporate website when available

We are particularly proud of our recycling record and have improved this by almost 59% against the previous year All cardboard tubes and sheet polythene wrapping is now returned to our central distribution centre where it is compacted and sent for recycling This cardboard and polythene was previously sent to landfill

Donations

Charitable donations of £6,647 (2009 £nil) were made during the year No political donations were made (2009 £nil)

Director's report: Governance
Board of Directors

Lord Harris of Peckham (67)
Chairman and Chief Executive
Lord Harris is now in his 53rd year in carpet retailing and is one of the best known names in the business He was Chairman and Chief Executive of Harris Queensway plc from 1964 until the company was taken over in 1988 Lord Harris is a Non-Executive Director of Arsenal Holdings plc and Arsenal Football Club plc He was a Non-Executive Director of Great Universal Stores plc for 18 years until July 2004 and was a Non-Executive Director of Matalan Plc for two years until January 2007

Christian Sollesse (51)
Managing Director, UK and Republic of Ireland
Christian Sollesse joined Carpetright in 1995 having worked for many years in senior retail management roles in Harris Queensway and Harris Interiors Christian was appointed Sales Director in 1997 with responsibility for sales and retail management In June 2005 Christian was appointed Managing Director, UK and Republic of Ireland, taking responsibility for trading operations

Martin Harris (41)
Group Commercial Director
Martin Harris joined Carpetright in 1991, previously having been an Executive Director of Harveys Furnishing Group Limited Martin became Marketing Director in 1997, resigning to become a Non-Executive Director in 1998 In November 2002 Martin resumed Executive Director responsibilities as Buying Director and was appointed Commercial Director when he assumed responsibility for Marketing in 2003 Martin took on responsibility for supply chain and logistics in June 2005 and was responsible for the move to Carpetright's new central cutting and distribution centre and offices in early 2008

Neil Page (47)
Group Finance Director
Neil Page joined Carpetright in July 2008 as Group Finance Director Neil began his career with British Rail and Marks and Spencer He joined Superdrug in 1991, holding a variety of finance and operational positions before taking up the role of Finance and IT Director for AS Watson (Health & Beauty) UK Ltd in July 2002 He is an associate member of the Chartered Institute of Management Accountants

Baroness Noakes (61)
Non-Executive Director
Baroness Noakes, a chartered accountant, joined the Board in 2001 Baroness Noakes is a Non-Executive Director of Severn Trent plc and a trustee of the Thomson-Reuters Founders Share Company Previously she was with KPMG for 30 years and was the Senior Non-Executive Director of the Bank of England and a Non-Executive Director of Hanson plc and ICI plc Baroness Noakes chairs the Audit and Nomination Committees and is the Senior Independent Director

Simon Metcalf (67)·
Non-Executive Director
Simon Metcalf joined the Board in 2004 He is a chartered accountant and worked in corporate finance as a director of County Bank and its successor organisations for over 25 years, latterly as Vice Chairman of Hawkpoint Partners He is currently a Non-Executive Director of The Collinson Group, Professional Travel Insurance Limited and a number of other private companies He is a trustee of the Bankside Gallery Simon chairs the Remuneration Committee

Guy Weston (49)
Non-Executive Director
Guy Weston joined the Board in 2005 Guy began his career as a management tutor and business analyst before entering the food and beverage industry, working for R Twining & Co , Jacksons of Piccadilly and The Ryvita Company Currently Guy is Chairman of Heal's PLC and Wittington Investments Ltd, a Director of the Thrombosis Research Institute and a Trustee of the Garfield Weston Foundation

Geoff Brady (56)
Non-Executive Director
Geoff Brady joined the Board in March 2008 He has had a career of over 35 years in the retail sector including Chief Executive Officer of Allied Carpets plc, Managing Director of Daimler Chrysler Retail UK and Commercial Director of Superdrug plc He was a Deputy Chairman of Matalan Plc and a Non-Executive Director of Floors-2-Go Plc, prior to both companies' return to private ownership He is currently Non-Executive Chairman of both Robert Dyas and Harvey Jones Kitchens and a Non-Executive director of Saul D Harrison Plc

Corporate governance

The Group recognises the importance of high standards of corporate governance, and is committed to operating within an effective corporate governance framework through the operation of Board committees, internal procedures and Group policies This report, the Audit Committee Report and the Directors' Remuneration Report, explain how the Company has applied the principles set out in the UK Financial Reporting Council's 2008 Combined Code on Corporate Governance (the Combined Code)

The Board

The Board consists of four Executive and four Non-Executive Directors, brief biographies of whom can be found on page 15 Geoff Brady, one of the Non-Executive Directors, has announced his intention to stand down from the Board on 31 August 2010 A search is currently underway to appoint a replacement There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board and this is described in the section concerning the Nomination Committee on page 17

Guy Weston and Christian Sollesse both retire from office, having completed three years service since last being re-elected to the Board and, being eligible, both offer themselves for re-election at the forthcoming Annual General Meeting ('AGM') Baroness Noakes retires from office, having completed nine years service as a Non-Executive Director, and offers herself for re-election at the AGM

The Board believes that the current structure of the Board is of an appropriate size and structure to manage the Group in an effective and successful manner

The Non-Executive Directors of the Company play a key governance role and bring an extra dimension to the Board's deliberations The Board has considered the independence of each Non-Executive Director against the criteria specified in the Combined Code and determined that each remains fully independent The Board in particular considered the independence of Baroness Noakes, who is considered by the Board to be independent in character and judgment notwithstanding that she has served as a Director of the Company for more than nine years from the date of her first election

Under the Company's Articles of Association every Director will submit himself or herself for re-election every third year Additionally, under the Company's Articles of Association and in accordance with the Combined Code, every Non-Executive Director who has served as a Director for nine years or more is subject to annual re-election as a Director

The position of Chairman is combined with the role of Chief Executive The Board does not at present consider it necessary to separate the two roles The Chairman is one of the leading figures in the industry both in the UK and Europe and the Board believe that it is in shareholders' interests that he should be seen to take the leading role in the Company's affairs He also has extensive listed company experience at board level The Chairman was a member of the Nomination Committee during the year under review, and he attends the Remuneration and Audit Committee meetings by invitation The Board recognises that with a combined Chairman and Chief Executive the role of the Senior Independent Director ('SID') is of enhanced importance In particular, the SID plays a significant role in determining the Board agenda and Board appraisal process and in ensuring that any issues raised by the Non-Executive Directors are fully dealt with Baroness Noakes has been the SID since June 2004

A process of evaluation of the Board and its Audit and Remuneration Committees has been undertaken The exercise to evaluate the performance of the Board was led by the SID, and those of the Audit and Remuneration Committees was led by the chairmen of those committees The results of these assessments have been considered by the Board and confirmed the strength of leadership within the business and a sound governance framework

The Non-Executive Directors generally meet privately with the Chairman and Chief Executive at least twice each year The Non-Executive Directors meet, with no Executive Directors present, at least once each year inter alia to review the performance of the Chairman and Chief Executive

The full Board met six times during the year with full attendance Six meetings are scheduled for the current year

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

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

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

Board committees

The Board has three Committees, each of which has written terms of reference which are available on the Company's corporate website (www carpetright plc uk)

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

The role of the **Audit Committee**, its members and details of how it carried out its duties are set out in the Audit Committee report on page 19

The role of the **Remuneration Committee**, its members and details of how it carried out its duties are set out in the Directors' remuneration report on pages 20 to 24

The **Nomination Committee** is chaired by Baroness Noakes and its other members are Lord Harris and Guy Weston The Committee met three times during the year with full attendance

The role of the Nomination Committee is to identify and nominate candidates for the approval of the Board, to fill vacancies and make recommendations to the Board on Board composition and balance External search consultants assist in the search process for all new Board appointees The Committee considers the skills and competencies of the existing Directors when drawing up a specification for new appointments and is ensuring that the development needs of Executive Directors and other senior managers are addressed appropriately

The Committee also considers whether Directors due to retire by rotation should be recommended for re-appointment, and whether the appointment of Non-Executive Directors reaching the end of their three-year term should be renewed Committee members do not vote on their own reappointment

Risk Management and Internal Controls

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness In order to fulfil this responsibility and safeguard shareholder investment and the Company's and the Group's assets, the Directors have established an organisational framework with clear operational procedures, lines of responsibility and delegated authority which has operated throughout the year under review and up to the date of approval of the Annual Report and Financial Statements

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

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

The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Directors The Board has established an Executive Directors' Group ('EDs Group') comprising the Executive Directors and senior managers who review key risk and control issues The EDs Group meets quarterly

Several key processes exist within the Group to ensure a sound system of internal control which is described below

Identification of business risks

The Board is responsible for identifying the major business risks faced by the Group, and determining a suitable response The EDs Group identifies and assesses risks to the Group's medium-term strategy The EDs Group directs both the UK and European Risk Management Committees to address each of the identified risks, formulate a mitigation strategy and assess the likely impact of such risk occurring, and provides regular reports to the Audit Committee

The UK Risk Management Committee and the European Risk Management Committee each comprise a small number of the senior management team as regular members, who are able to call on the expertise of other managers as required Each Committee, which meets at least quarterly, regularly reviews the risk management and control process within its territory and considers the response to the significant risks which have been identified by management and others and monitors the maintenance of a control environment directed towards the proper management of risk. Both risk management committees report to the EDs Group

Additionally there are working groups covering Corporate Responsibility, Stock Management and Business Continuity and, in Europe, Health and Safety These report to the UK Risk Management Committee or the European Risk Management Committee as appropriate

The principal risks and uncertainties affecting the business are set out on pages 11 and 12

Health and safety

Enforcing the health and safety policy is a high priority for management and fully descriptive manuals are available to all staff, supported by a training programme for stores, distribution centres and the central support office Risk assessments are undertaken for all procedures and safe systems of work devised for all procedures involving physical risk. Failure to adhere to safe systems of work or following unsafe working practices will be subject to review and, if necessary, disciplinary proceedings Health and safety issues are included as part of the internal audit review of all premises

Internal audit

The internal audit function

- works to develop, improve and embed risk management tools and processes within the business operations,
- undertakes its work, both on central functions and in the field, based on a risk assessment model,
- ensures that business risks are identified, managed and regularly reviewed by management at all levels of the Group and that Directors are periodically appraised of key risks,
- provides the Audit Committee and the Board with objective assurance on the control environment across the Group, and
- monitors adherence to the Group's key policies and principles

Corporate governance continued

Planning
The Group's planning process underpins the development of the annual budget. The budget is reviewed and approved formally by the Board Actual performance is reported on a monthly basis and measured against the budget and the prior year and a detailed explanation of significant variances is provided Key performance indicators are monitored weekly

Control procedures
The Group has control procedures designed to provide a complete and accurate record of financial transactions, to ensure correct accounting and to minimise the possible exposure to fraudulent transactions The Board believes that the measures taken, including physical controls, separation of duties and management reviews provide suitable assurance Any issues raised by the Group's auditors or the internal audit function are fully reviewed and considered

Statement of Compliance
During the period ended 1 May 2010 the Company complied with the provisions set out in section 1 of the Combined Code except provision A 2 1 as the roles of Chairman and Chief Executive are combined, an explanation for which is set out above The Board does not at present consider it necessary to separate the two roles

Audit Committee report

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Company The terms of reference are regularly reviewed by the Audit Committee and are then referred to the Board for approval These are available at www carpetright plc uk

The Audit Committee is chaired by Baroness Noakes, who has recent and relevant financial experience, and its other members are Simon Metcalf and Geoff Brady, both of whom are independent Non-Executive Directors The Committee met four times during the year with full attendance

At the invitation of the Committee, the Chairman and Chief Executive, the Group Finance Director, the Head of Internal Audit and representatives from the external auditors regularly attended meetings Other Directors and senior managers also attend if required There were also regular private meetings with the external and internal auditors without management present

The Audit Committee has an agenda linked to events in the Group's financial calendar During the period ended 1 May 2010, the Audit Committee discharged its responsibilities by

- reviewing the Group's draft annual results announcement and financial statements and the interim statement prior to Board approval and reviewing the external auditors detailed reports thereon,
- reviewing the consistency of and any changes to the Group's accounting policies, the application of appropriate accounting standards and methods used to account for significant or unusual transactions,
- reviewing the independence, objectivity and effectiveness of the external auditors and, on the basis of that review, recommending to the Board their reappointment at the AGM,
- reviewing the Group's Corporate and Social responsibility report,
- approving the audit fees paid to the external auditors and reviewing the application of the policy on non-audit work performed by them together with the non-audit fees payable to them,
- reviewing the external auditors' plan for the audit of the Group's accounts, and approving the terms of engagement for the audit,
- reviewing the process for ensuring that senior management confirm that they have supplied the auditors with relevant audit information,
- reviewing the internal audit plan, monitoring the delivery of that plan during the year and reviewing the effectiveness of the internal audit function,
- reviewing the work of the ED's Group, which oversees the identification and management of the risks to the business, together with reports on the Group's systems of internal control, and reporting the results of this review to the Board,
- reviewing its terms of reference and effectiveness, and
- reviewing the whistleblowing policy and relevant items reported under that policy

The Audit Committee and Board place great emphasis on the independence and objectivity of the Group's auditors, PricewaterhouseCoopers LLP, when performing their role in the Group's reporting to shareholders The external auditors report to the Audit Committee annually on their independence from the Company

The Audit Committee reviews independence, objectivity and performance of the auditors annually, including the annual report on the auditors produced by the Audit Inspection Unit of the Financial Reporting Council On the basis of that review, the Audit Committee recommends the reappointment of the auditors to the Board

PricewaterhouseCoopers LLP have been auditors to the Company since 2005 when they were appointed following a competitive tender

The Board has also adopted a formal policy on the Company's relationship with its auditor in respect of non-audit work. The auditors may only provide such services provided that such advice does not conflict with their statutory responsibilities and ethical guidance The Audit Committee Chairman's pre-approval is required before the Company uses non-audit services that exceed financial limits set out by that policy Details of the auditor's remuneration for audit work and non-audit fees for the periods ended 1 May 2010 are disclosed in note 3 to the Financial Statements

The Statement of Directors' Responsibilities in relation to the accounts is set out on pages 27 to 28 The Statement by the Auditors on their responsibilities in respect of the accounts is contained in their report on page 67

The Chairman of the Audit Committee will be available at the Annual General Meeting

Directors' remuneration report

This report is made by the Board on the recommendation of the Remuneration Committee The first part of the report provides details of the Remuneration Committee and remuneration policy The second part provides details of the remuneration, pensions and share plan interests of the Directors for the 52 weeks ended 1 May 2010

Remuneration Committee

The Remuneration Committee is chaired by Simon Metcalf and its other members are Guy Weston and Geoff Brady, all of whom are independent Non-Executive Directors and served throughout the course of the year The Committee met four times during the year with full attendance

At the invitation of the Committee, the Chairman and Chief Executive, Group Finance Director and Group Human Resources Director regularly attend Committee meetings The Committee considers their views when reviewing the remuneration of the Executive Directors and Senior Executives They are not involved in discussions concerning their own remuneration

The responsibilities of the Committee include

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

The Committee's terms of reference are available on the Company's website (www carpetright plc uk)

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial Over the course of the year, the Committee was advised by the Hay Group and Hewitt New Bridge Street The Committee's advisers attended one of the four Committee meetings and received copies of the relevant papers for all meetings Neither Hay nor Hewitt New Bridge Street provided other services to the Company Hay Group and Hewitt New Bridge Street are signatories to the Code of Conduct for Remuneration Advisers

Remuneration policy

The Committee's policy is to provide remuneration packages for the Executive Directors which include an appropriate balance between the fixed and variable elements of pay, and which reflect their responsibilities relative to the size and nature of the business It is committed to ensuring the management teams are rewarded for delivering the Company's growth plans and long-term shareholder value The Committee aims to set levels of fixed pay that are competitive within the market within which it competes for talent and short- and long-term incentive opportunity at a level that is sufficient to motivate Executives to achieve the Company's short- and long-term goals without encouraging inappropriate behaviours

Currently, for on-target performance, approximately half of total remuneration is fixed and half is performance related

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour More generally, the Committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking

Remuneration review

Since the publication of last year's report on Director's remuneration, the Committee has

- formally adopted the changes to the Long-Term Incentive Plan which were approved by shareholders at the 2009 AGM,
- held a review of the Remuneration Committee's remuneration advisers,
- conducted a review of the remuneration arrangements of the Executive Directors and senior Executives,
- determined the bonus award for the 2010 financial year,
- approved the salary increases for the Executive Directors and other Senior Executives for 2010,
- reviewed its own terms of reference, and
- conducted its annual evaluation of its own performance

Components of remuneration

The main remuneration components for the Executive Directors comprise basic salary, incentive plans, pensions and benefits which are set out below

i) Basic salary

Basic salary for each Executive Director is determined by the Committee, taking account of the responsibilities, performance and experience of the individual The Committee also reviews other Senior Executives salaries taking similar factors into account The Committee considers salary levels in comparable companies by referring to relevant pay data in the UK Retail Sector, in companies with annual sales revenues of around £500m and a market capitalisation of around £600m When reviewing the salaries of the Executive Directors, the Committee also has regard to the impact on the cost of pension provision and pay and conditions elsewhere in the Group In particular, the Committee takes account of the level of salary increases awarded to other employees of the Group when deciding on increases for Executive Directors

The Executive Directors' basic salaries were not increased in 2009, consistent with the level applied to management and central staff The Committee approved the following basic salaries for the Executive Directors in 2010

- Martin Harris has been a key contributor to the Board and in May 2008, he voluntarily declined his approved salary increase and consequently this represents his first increase since May 2007 His basic salary was increased to £280,000 per annum (previously £253,853 10 7% uplift)

- Since his appointment in July 2008, Neil Page has delivered an excellent contribution to the Group and developed into an extremely able Group Finance Director of a publicly listed company The Committee considers his salary was no longer commensurate with his role and increased experience and has increased his basic salary to £280,000 per annum (previously £260,000 7 7% uplift)
- The basic salaries of Lord Harris and Christian Sollesse are left unchanged at £481,832 per annum and £280,000 per annum respectively

The above changes result in the total annual salary increase for the Executive Directors being 3 6% The combined annual salary increase for all central staff and management was 2 8%

ii) Annual incentives

Executive Directors are eligible to receive an annual performance bonus The bonus is a proportion of salary based on the achievement of the annual budgeted profit The maximum bonus opportunity for Executive Directors in the financial year just ended was 120% of basic salary, with 70% of salary payable for on-target performance The performance targets for 2010 were set by reference to budgeted levels of profit before tax A bonus of 36 7% will be paid, which is 30 6% of the bonus opportunity (2009 0%), reflecting the very stretching nature of the profit performance targets set for 2010 Bonuses are paid in cash and do not form part of the Directors' pensionable earnings

iii) Long-term incentives

Executive Directors and other Senior Executives are eligible to participate in the Company's Long-Term Incentive Plan (the 'LTIP') Awards under the LTIP consist of conditional awards of shares that vest three years after grant to the extent that performance conditions have been met over a three year performance period Awards under the LTIP are capped at 300% of salary per annum, however, the Committee's policy is to operate within a normal maximum of 100% of salary per annum for awards to Executive Directors The LTIP was not operated in 2007 or 2008 and, in order to address this absence the 2009 award was made at 200% of salary The Remuneration Committee has decided that award levels will revert to 100% of salary for 2010

Awards made in 2009 were subject to stretching performance conditions requiring growth in the Company's underlying Earnings per Share ('EPS') before exceptional items EPS was chosen as it provides strong alignment with returns to shareholders None of the 2009 awards vest if growth in EPS is less than 25% per annum over the three financial years measured from the financial year immediately preceding the year in which the award is granted For growth of 25% per annum, 30% of the award vests and for growth of 50% per annum, all of the award vests For growth between these two points between 30% and 100% vests on a sliding scale

Following the remuneration review, the Committee has determined that the 2010 award will again be subject to an EPS growth performance condition based on growth in the Company's underlying EPS before exceptional items In light of the significantly higher level of profit achieved in 2010 than in 2009, which results in a higher base point from which EPS growth will be measured under the plan, the Committee has revised the EPS growth targets for the 2010 awards None of the 2010 awards vest if growth in EPS is less than 17 5% per annum over the three financial years measured from the financial year immediately preceding the year in which the award is granted For growth of 17 5% per annum, 25% of the award vests and for growth of 35% per annum, all of the award vests For growth between these two points between 25% and 100% vests on a sliding scale In setting these revised targets the Committee satisfied itself that the revised targets were at least as challenging in the current environment as those set for the 2009 awards and has reduced the threshold award down to 25% from 30% reflecting current market and best practice

The Chairman and Chief Executive voluntarily declined an award under the plan for 2009 and has indicated he will do so again in 2010 It is the Company's current policy that awards under the LTIP will be satisfied using shares purchased in the market

iv) Pensions

For the 2010 Financial Year, Martin Harris and Christian Sollesse were members of the Carpetright plc Pension Plan, which is a contributory defined benefit scheme The Company reviewed its pension policy during the year and as a result closed the Plan to all future accruals from 30 April 2010 As a result of this review, Executive Directors are offered an allowance of 20% of their base salary to fund their own pension provision The individual is able to choose whether this allowance is paid to the Company's defined contribution Group Personal Pension Plan ('GPPP') Martin Harris now takes his allowance as a salary supplement Christian Sollesse has split his allowance between a contribution to the GPPP scheme and a salary supplement

During the year, Neil Page received an allowance of 20% of his base salary which was paid in to the GPPP and this arrangement has continued Lord Harris has been receiving a salary supplement equivalent to the Company's contributions to the Plan on his behalf During the year, this was £18,349 and this ceased on 30 April 2010

v) Benefits

The Executive Directors are eligible for car benefits, life assurance and private medical cover

Shareholding guidelines

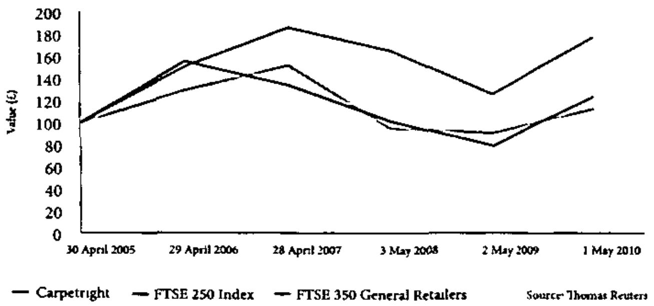
The Committee intends to introduce share ownership guidelines to create greater alignment with the interests of shareholders and to be consistent with one of the objectives of the incentive framework. The Committee has proposed that all Executive Directors should build up a shareholding in the Company over a five-year period starting from 2010 that is equal to their annual basic salary and maintain it thereafter At the year end, Lord Harris, Martin Harris and Christian Sollesse were all above this level Neil Page, who joined on 14 July 2008, held 9,318 shares and based on the year end share price of 868p, this represented 28 9% of his salary

Directors' remuneration report continued

Performance graph

The graph below shows the TSR performance of an investment of £100 in Carpetright plc shares over the last five years compared to an equivalent investment in the FTSE mid-250 Index and the FTSE 350 General Retail Index, which the Directors believe to be the most suitable broad comparators

Total shareholder return



This graph shows the value, by the 1 May 2010, of £100 invested in Carpetright plc on 30 April 2005 compared with that of £100 invested in the FTSE 250 Index or the FTSE 350 General Retailers Index The other points plotted are the values at intervening financial year-ends

Service contracts

It is the Company's policy to employ Executive Directors under contracts with an indefinite term subject to termination by notice given by either party, normally of 12 months If the Company terminates employment without giving full notice to the Director, the Company has the option to either

- pay damages calculated by reference to common law principles, including an obligation on the Director to mitigate loss, or
- to make a payment in lieu of notice calculated by reference to basic salary and benefits only Other than in the case of Martin Harris, this payment would be reduced or terminated if alternative employment was secured during the notice period and there is a requirement to mitigate loss

The Executive Directors' service contracts became effective on the following dates

	Contract Date	Notice Period
Lord Harris	20 November 2006	12 months
Martin Harris	30 June 2003	12 months
Neil Page	2 March 2009	12 months
Christian Sollesse	20 November 2006	12 months

External appointments

Executive Directors retain remuneration from outside non-Executive directorships During the year Lord Harris waived his fees payable by Arsenal Holdings plc and Arsenal Football Club plc, totalling £25,000 Martin Harris received £13,333 as a Non-Executive Director of Harris Ventures Limited

Non-Executive Directors

Non-Executive Directors do not have service contracts They are appointed for an initial three year period and in accordance with the Articles of Association will submit him/herself for re-election every third year Every Non-Executive Director who has served as a Director for nine years or more is subject to annual re-election

The Non-Executive Directors' letters of appointment became effective on the following dates

	Appointment date	Date of Re-appointment	Unexpired term at the date of this report
Geoff Brady	1 March 2007	19 February 2010	2 months
Simon Metcalf	1 June 2004	24 June 2010	35 months
Baroness Noakes	1 February 2001	19 February 2010	7 months
Guy Weston	1 February 2005	17 January 2008	7 months

The fees of the Non-Executive Directors are determined by the Board It is the Board's policy to set these fees according to the recommendations made by the Chairman and Chief Executive and the Group Finance Director who make such recommendations with reference to external data on fee levels in similar businesses and having taken account of the responsibilities of individual Directors and their expected annual time commitment The Non-Executive Directors are not eligible for any of the Company's variable pay arrangements

The fees of the Non-Executive Directors were last reviewed in June 2010 As a result of this review the fees of the Non-Executive Directors were unchanged

The following section provides details of the remuneration, pension and share plan interests of the Directors for the 52 week period ended 1 May 2010 and has been audited

i) Directors' emoluments

The remuneration of the Directors for the year was a follows

	Notes	Salary/Fees £000	Bonus £000	Pension Supplement £000	Benefits £000	Total 2010 £000	Total 2009 £000
Lord Harris	1, 2	482	193	18	44	737	532
Martin Harris		254	102	–	33	389	285
Neil Page	3, 4	260	149	–	27	436	231
Christian Sollesse	5	280	112	–	36	428	315
Geoff Brady		36	–	–	–	36	36
Simon Metcalf		41	–	–	–	41	41
Baroness Noakes		51	–	–	–	51	51
Guy Weston		36	–	–	–	36	36
Total 2010		**1,440**	**556**	**18**	**140**	**2,154**	
Total 2009	6	1,706	–	18	148		1,872

1 Highest paid Director
2 Lord Harris receives a salary supplement in lieu of pension of £18,349
3 Neil Page received a cash bonus of £45 000 on the first anniversary of his appointment in lieu of bonus arrangements from his previous employer
4 Neil Page s remuneration in 2009 reflects his service from the date of his appointment on 14 July 2008 to 2 May 2009
5 In addition Christian Sollesse received a payment of £200,000 during the year from Harris Ventures Limited a shareholder whose shares are included within Lord Harris declared shareholding. This was the final payment under this arrangement
6 Totals include payments to Directors who left the Board before the start of the financial year
7 No emoluments were waived during the period.

ii) Long-term incentive plans

The table below shows the conditional 2009 awards granted under this plan, which would be released if the Company achieves maximum vesting:

	Date of Grant	Maximum Share Award	Share Price at date of Award Pence	First exercise date	Last exercise date
Martin Harris	18 Sept 2009	59,480	853	Sept 2012	Mar 2013
Neil Page	18 Sept 2009	60,961	853	Sept 2012	Mar 2013
Christian Sollesse	18 Sept 2009	65,650	853	Sept 2012	Mar 2013

For the award made in September 2006, an absolute earnings per share ('EPS') performance and a relative total shareholder return ('TSR') performance against a peer group, over a three year period each determined one half of the award

Total Shareholder Returns

Peer Group Ranking	Vested Award (% of salary)
50th percentile and below	0%
51st percentile	12%
75th percentile or greater	40%

Earnings per Share

Annualised performance	Vested Award (% of salary)
Below RPI + 3%	0%
RPI + 3%	12%
RPI + 5%	40%

Vesting of the TSR-based award achieved 26 4%, the EPS target was not achieved The following table shows the options which vested from this award The awards were made based on a share price of £11 45

	Number Originally Awarded	Lapsed Number	Vested Number	Value at Vesting Date £	Gain £
Lord Harris	31,580	23,243	8,337	70,323	70,239
Martin Harris	16,788	12,356	4,432	37,384	37,340
Christian Sollesse	17,117	12,599	4,518	38,109	38,064

Directors' remuneration report continued

iii) Sharesave options

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

	As at 2 May 2009	Granted during year	Lapsed during year	As at 1 May 2010	Exercise price pence	First exercise date	Last exercise date
Lord Harris	5,491	–	–	5,491	295	Apr 2014	Oct 2014
Martin Harris	5,491	–	–	5,491	295	Apr 2014	Oct 2014
Neil Page	5,491	–	–	5,491	295	Apr 2014	Oct 2014
Christian Sollesse (1)	5,491	–	–	5,491	295	Apr 2014	Oct 2014

1 An option of 5,491 shares was also granted to Mrs Caroline Sollesse, an employee of the Company

2 The market price of Carpetright shares was 868 pence on 1 May 2010 (2 May 2009 565 pence) During the period ended 1 May 2010, the shares of Carpetright plc traded between a low of 553 pence and a high of 985 pence

iv) All Employee Share Ownership Plan

Carpetright operates an AESOP under which staff may contribute up to £125 per month from pre-tax salary to purchase Carpetright shares All of the Executive Directors participate in the AESOP, contributing £125 per month

v) Directors' Pensions Benefits

Only the Executive Directors' basic salaries are pensionable During the year, Martin Harris and Christian Sollesse were members of the Carpetright plc Pension Plan, which is a defined benefit scheme (subject to a notional earnings cap as published by HMRC)

Details of pensions earned by the Executive Directors are shown below

	Accrued Pension				Transfer Value		
	Pension accrued at 1 May 2010	Increase in accrued pension during the year	Increase in pension during the year net of inflation (1)	Cost to the Plan of the increase in pension in excess of contributions	As at 1 May 2010 (4)	As at 2 May 2009	Increase in transfer value net of Directors contributions (2)
	£000 pa	£000 pa	£000	£000	£000	£000	£000
Lord Harris (3)	28	1	1	–	524	517	7
M J Harris	16	3	3	31	203	153	44
C G Sollesse	34	3	4	59	594	491	97

1 The cost to the Plan of the increase represents the incremental value to the Director of his service during the period calculated on service to 30 April 2010 It is based on the increase in accrued pension net of inflation after deducting the Director s contribution

2 The total change in value includes the effects of fluctuations in the transfer value due to factors beyond the control of the Company and the Directors, such as stock market movements It is calculated after deducting Directors contributions

3 Lord Harris has been in receipt of pension since September 2007

4 The transfer value basis was changed during the year

On 30 April 2010 the Carpetright plc pension plan closed to future accrual

Employer contributions of £52,000 (2009 £39,000) were made to the defined contribution scheme in relation to Neil Page's service during the year

Shareholder Approval

A resolution to approve the Remuneration Report is being proposed at the Annual General Meeting The Chairman of the Remuneration Committee will be available at the Annual General Meeting

By order of the Board

Simon Metcalf
Chairman of the Remuneration Committee
28 June 2010

Other information

Directors' Interests

The beneficial interests of the Directors and their immediate families in the ordinary shares of the Company are set out below

	1 May 2010	2 May 2009
Lord Harris	12,567,874	12,649,321
Martin Harris	3,964,447	3,939,809
Neil Page	9,318	6,077
Christian Sollesse	42,396	39,312
Geoff Brady	1,000	1,000
Simon Metcalf	2,000	2,000
Baroness Noakes	32,225	32,225
Guy Weston	12,000	12,000

In addition, Lord Harris has a non-beneficial interest in 229,514 shares (2009 209,514) 139,000 of these shares are included within Martin Harris's beneficial interests The Executive Directors have an indirect interest in 17,869 shares held in trust under the Long-Term Incentive Plan ('LTIP') Save as disclosed in this section, none of the Directors has any non-beneficial interests in the shares of the Company

Between 1 May 2010 and the date of this report 32 shares have been purchased for each of Lord Harris and Christian Sollesse, and 33 shares have been purchased for each of Martin Harris and Neil Page and under the Company's All Employee Share Ownership Plan ('AESOP') In addition, 33 shares were purchased for Mrs Sollesse under the AESOP and these form part of Christian Sollesse's beneficial holding There have been no other changes to the above shareholdings

Save as disclosed herein, no Director had a material interest in any contract or arrangement with the Company during the year, other than through their respective service contracts

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

	Lease and concession agreement payments made		Lease and concession agreement payments received		Supplies of goods/ services payments made	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Clacton Property Investments Ltd	233	156	-	-	-	-
Edinburgh Retail LLP	441	457	-	-	-	-
Glenrothes Retail LLP	187	187	-	-	-	-
Greenock Retail Ltd	225	225	-	-	-	-
Harris Ventures Ltd	199	261	375	-	59	57
Hull Unit Trust	354	354	-	-	-	-
Islandview Properties Ltd	248	272	-	-	-	-
Neath Retail LLP	150	150	-	-	-	-
Wick Retail Ltd	54	54	-	-	-	-

As at 1 May 2010 the Group owed related parties £nil (2009 £719)

Directors' indemnity arrangements

The Company has provided qualifying third-party indemnities for the benefit of each Director and former Director who held office during the 2009/10 financial year The Company has also purchased and maintained Directors' and Officers' liability insurance throughout 2009/10

Creditors' payment policy

While the Group does not follow any formal code or standard on payment practice, it agrees terms and conditions for its business transactions when orders for goods and services are placed, and includes the relevant terms in contracts where appropriate These arrangements are adhered to when making payments subject to the terms and conditions being met by suppliers The number of trade creditor days outstanding at the period end for the Company was 57 days (2009 56 days)

Significant agreements – change of control

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

- a term loan and revolving facilities agreement dated 19 March 2008, as amended and restated on both 25 September 2008 and 24 April 2009 for term loans of €23 5 million and £33 million and a revolving credit facility of £45 million, which provides that on a change of control all lenders' commitments are cancelled and all outstanding loans, together with accrued interest, will become immediately due and payable,

Other information continued

Significant agreements – change of control continued

- a €5 million term loan agreement dated 4 July 2005, subject to an addendum roll over agreement dated 6 June 2008, which provides that if there is a substantial change in ownership the bank is entitled to accelerate repayment of the loan, and
- under the Company's all-employee and discretionary share schemes, a change of control of the Company would normally be a vesting event, facilitating the exercise or transfer of awards, subject to any relevant performance conditions being satisfied

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

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

Share capital

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

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

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

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

Shares acquired through Carpetright's employee share schemes rank equally with all other ordinary shares in issue and have no special rights The Trustee of the Company's Employee Benefit Trust ('EBT') has waived its rights to dividends on shares held by the EBT and does not exercise its right to vote in respect of such shares Shares held in trust on behalf of participants in the All Employee Share Ownership Plan are voted by the Trustee as directed by the participants Details of share-based payments, including information regarding the shares held by the EBT can be found in notes 24 and 25 to the financial statements on page 60 and 61

Substantial shareholdings

As at 28 June 2010, the Company has been notified of the following substantial shareholdings, other than those of the Directors, in the issued share capital of the Company

	Number of shares held	Total number of shares held	Percentage of shares held
The Olayan Group		10,099,000	15 0%
Harris Associates Inc		5,380,062	8 0%
Cascade Investments LLP		3,427,957	5 1%
Franklin Templeton Institutional, LLC		3,358,053	5 0%
Artisan Partners LP		3,358,107	5 0%
MF Global UK Ltd		3,276,576	4 9%
A R Bull, as a trustee jointly with			
Lord Harris [1]	48,000		
Lord Harris and P J Saunders [2]	59,000		
C W Harris and P Scott	10,000		
A H Palmer and E A O'Keeffe	1,750,000		
D J Stockwell and S L Harris	957,500	2,824,500	4 2%
A H Palmer and E A O'Keeffe [3]		873,000	1 3%

1 These shares are also included in Lord Harris's non beneficial holding reported on page 25

2 These shares are also included in Martin Harris s beneficial holdings and Lord Harris s non-beneficial holdings reported on page 25

3 Of these shares, 793,000 are held on behalf of Martin Harris and so are also included in his reported holding on page 25 These shares are in addition to the shares held jointly with Mr Bull The total number of shares in which Ms Palmer and Mr O'Keeffe have a non beneficial interest is 2,623 000 representing 3 9% of the issued share capital

Investor relations

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

All shareholders will have at least 20 working days' notice of the Annual General Meeting As required by the Code the Board will, at the 2010 Annual General Meeting, announce the proxy votes in favour of and against each resolution following a vote by a show of hands, and the votes cast will be posted on the corporate website

Authority to purchase own shares

At the 2009 Annual General Meeting shareholders gave the Company renewed authority to purchase a maximum of 6,721,755 shares of one penny each This resolution remains valid until the date of this year's Annual General Meeting. As at 1 May 2010, the Directors had not used this authority The Company's present intention is to cancel any shares acquired under such authority, unless purchased to satisfy outstanding awards under employee share incentive plans A resolution seeking renewal of the authority will be proposed at this year's Annual General Meeting.

Annual General Meeting

The 2010 Annual General Meeting of the Company will be held on 9 September 2010 at Harris House, Purfleet Bypass, Purfleet, Essex RM19 1TT at 12 00 noon A full description of the business to be conducted at the meeting is set out in the separate Notice of Annual General Meeting

The Statement of Directors' responsibilities

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

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

In preparing those financial statements, the Directors are required to

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

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

The Directors are responsible for the maintenance and integrity of the Company's websites (www carpetright.co uk and www carpetright.plc.uk) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Going concern

The Directors confirm that, after reviewing expenditure commitments, expected cash flows and borrowing facilities, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next financial year and the foreseeable future For this reason they continue to adopt the going concern basis in preparing the financial statements Further details of the Group's liquidity are detailed in the financial review on page 10

Disclosure of information to auditors

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

Other information continued

Responsibility Statement

We confirm that to the best of our knowledge

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

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

By order of the Board

Lord Harris
Chairman and Chief Executive
28 June 2010

Financial statements
Consolidated income statement

for 52 weeks ended 1 May 2010

	Notes	Group 52 weeks to 1 May 2010 £m	Group 52 weeks to 2 May 2009 £m
Revenue	2	516 6	482 8
Cost of sales		(200 6)	(187 0)
Gross profit	2	316 0	295 8
Other operatıng ıncome		2 4	1 8
Admınıstratıon expenses		(290 2)	(275 3)
Operatıng profit	2, 3	28 2	22 3
Operatıng profit before exceptıonal ıtems	2	34 1	22 8
Exceptıonal ıtems	2, 5	(5 9)	(0 5)
Fınance costs	6	(6 8)	(7 2)
Fınance ıncome	6	0 9	1 6
Profit before tax		22 3	16 7
Tax	7	(6 5)	(4 9)
Profit for the financıal perıod attrıbutable to equıty shareholders of the Company		15 8	11 8
Basıc earnıngs per share	9	23 5	17 6
Dıluted earnıngs per share	9	23 5	17 6

All materıal ıtems ın the ıncome statement arıse from contınuıng operatıons

Consolidated statement of comprehensive income

for 52 weeks ended 1 May 2010

	Group 52 weeks to 1 May 2010 £m	Group 52 weeks to 2 May 2009 £m
Profit for the financıal perıod	15 8	11 8
Actuarıal loss on defined benefit pensıon scheme	(3 0)	(1 1)
Faır value loss ın respect of cash flow hedges	-	(2 3)
Exchange gaın/(loss) ın respect of hedged equıty ınvestments	(1 7)	7 2
Tax on components of other comprehensıve ıncome	0 6	0 2
Other comprehensıve ıncome for the perıod	(4 1)	4 0
Total comprehensıve ıncome for the perıod attrıbutable to equıty shareholders of the Company	11 7	15 8

The notes on pages 33 to 65 form an ıntegral part of the financıal statements

Consolidated statement of changes in equity

for 52 weeks ended 1 May 2010

Group

	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 3 May 2008	0 7	15 4	(0 2)	0 1	4 7	–	53 6	74 3
Total comprehensive income for the financial period	–	–	–	–	7 2	(2 3)	10 9	15 8
Purchase of own shares by Employee Share Trust	–	–	(0 2)	–	–	–	–	(0 2)
Transfer of Treasury shares to participants	–	–	0 3	–	–	–	(0 3)	–
Share-based payments and related tax	–	–	–	–	–	–	0 1	0 1
Dividends paid to Group shareholders	–	–	–	–	–	–	(22 8)	(22 8)
At 2 May 2009	0 7	15 4	(0 1)	0 1	11 9	(2 3)	41 5	67 2
Total comprehensive income for the financial period	–	–	–	–	(1 7)	1 1	12 3	11 7
Purchase of own shares by Employee Share Trust	–	–	(0 2)	–	–	–	–	(0 2)
Transfer of Treasury shares to participants	–	–	0 1	–	–	–	(0 1)	–
Share-based payments and related tax	–	–	–	–	–	–	0 6	0 6
Dividends paid to Group shareholders	–	–	–	–	–	–	(8 1)	(8 1)
At 1 May 2010	0 7	15 4	(0 2)	0 1	10 2	(1 2)	46 2	71 2

Company

	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 3 May 2008	0 7	15 4	(0 2)	0 1	2 5	–	53 9	72 4
Profit for the financial period	–	–	–	–	–	–	8 4	8 4
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	–	(1 1)	(1 1)
Fair value loss in respect of cash flow hedges	–	–	–	–	–	(2 3)	–	(2 3)
Exchange loss in respect of hedged equity investments	–	–	–	–	(5 1)	–	–	(5 1)
Tax on components of other comprehensive income	–	–	–	–	–	–	0 2	0 2
Other comprehensive income for the period	–	–	–	–	(5 1)	(2 3)	(0 9)	(8 3)
Total comprehensive income for the financial period	–	–	–	–	(5 1)	(2 3)	7 5	0 1
Purchase of own shares by Employee Share Trust	–	–	(0 2)	–	–	–	–	(0 2)
Transfer of Treasury shares to participants	–	–	0 3	–	–	–	(0 3)	–
Share-based payments and related tax	–	–	–	–	–	–	0 1	0 1
Dividends paid to Group shareholders	–	–	–	–	–	–	(22 8)	(22 8)
At 2 May 2009	0 7	15 4	(0 1)	0 1	(2 6)	(2 3)	38 4	49 6
Profit for the financial period	–	–	–	–	–	–	1 9	1 9
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	–	(3 0)	(3 0)
Fair value gain/(loss) in respect of cash flow hedges	–	–	–	–	–	1 1	(1 1)	–
Exchange gain in respect of hedged equity investments	–	–	–	–	0 3	–	–	0 3
Tax on components of other comprehensive income	–	–	–	–	–	–	0 6	0 6
Other comprehensive income for the period	–	–	–	–	0 3	1 1	(3 5)	(2 1)
Total comprehensive income for the financial period	–	–	–	–	0 3	1 1	(1 6)	(0 2)
Purchase of own shares by Employee Share Trust	–	–	(0 2)	–	–	–	–	(0 2)
Transfer of Treasury shares to participants	–	–	0 1	–	–	–	(0 1)	–
Share-based payments and related tax	–	–	–	–	–	–	0 6	0 6
Dividends paid to Group shareholders	–	–	–	–	–	–	(8 1)	(8 1)
At 1 May 2010	0 7	15 4	(0 2)	0 1	(2 3)	(1 2)	29 2	41 7

The notes on pages 33 to 65 form an integral part of the financial statements

Consolidated balance sheet

as at 1 May 2010

	Notes	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Assets					
Non-current assets					
Intangible assets	10	67 2	71 2	16 1	16 2
Property, plant and equipment	11	149 5	164 7	97 8	105 8
Investment property	12	26 1	25 3	7 7	7 5
Investment in subsidiary undertakings	13	-	-	36 4	39 1
Deferred tax assets	21	2 9	3 3	-	-
Trade and other receivables	15	1 4	1 3	51 2	61 7
Total non-current assets		247 1	265 8	209 2	230 3
Current assets					
Inventories	14	41 3	43.2	32 4	31 7
Trade and other receivables	15	38 1	34 4	31 1	26 2
Cash and cash equivalents	16	8 3	17 4	3 6	10 5
Total current assets		87 7	95 0	67 1	68 4
Total assets		334 8	360 8	276 3	298 7
Liabilities					
Current liabilities					
Trade and other payables	17	(114 2)	(110 8)	(95 8)	(88 6)
Obligations under finance leases	18	(0 1)	(0 9)	(0 1)	(0 9)
Borrowings and overdrafts	19	(22 2)	(17 1)	(17 9)	(5 5)
Current tax liabilities		(5 6)	(5 7)	(4 7)	(4 2)
Total current liabilities		(142 1)	(134 5)	(118 5)	(99 2)
Non-current liabilities					
Trade and other payables	17	(34 2)	(31 5)	(43 9)	(35 6)
Obligations under finance leases	18	(2 9)	(3 0)	(1 9)	(2 0)
Borrowings	19	(53 3)	(91 2)	(49 0)	(88 5)
Derivative financial instruments	23 (iii)	(1 1)	(2 3)	(1 1)	(2 3)
Provisions for liabilities and charges	20	(1 8)	(0 8)	(1 8)	(0 8)
Deferred tax liabilities	21	(23 4)	(27 9)	(13 6)	(18 3)
Retirement benefit obligations	22 (i) (a) (2)	(4 8)	(2 4)	(4 8)	(2 4)
Total non-current liabilities		(121 5)	(159 1)	(116 1)	(149 9)
Total liabilities		(263 6)	(293 6)	(234 6)	(249 1)
Net assets		71 2	67 2	41 7	49 6
Equity					
Share capital	24	0 7	0 7	0 7	0 7
Share premium	24	15 4	15 4	15 4	15 4
Treasury shares	24	(0 2)	(0 1)	(0 2)	(0 1)
Other reserves		55 3	51 2	25 8	33 6
Total equity attributable to equity shareholders of the Company		71 2	67 2	41 7	49 6

The notes on pages 33 to 65 form an integral part of the financial statements

These financial statements from pages 29 to 65 were approved by the Board of Directors on 28 June 2010 and were signed on its behalf by

Lord Harris of Peckham **Neil Page**
Directors

Consolidated statement of cash flow

for 52 weeks ended 1 May 2010

	Notes	Group 52 weeks to 1 May 2010 £m	Group 52 weeks to 2 May 2009 £m	Company 52 weeks to 1 May 2010 £m	Company 52 weeks to 2 May 2009 £m
Cash flows from operating activities					
Profit before tax		22 3	16 7	6 0	11 4
Adjusted for					
Depreciation and amortisation	2, 3	19 1	20 4	15 3	16 2
(Profit)/loss on property disposals		0 7	(1 8)	0 7	(1 8)
Exceptional non-cash items		3 5	1 1	12 7	1 1
Other non-cash items		(0 5)	0 1	(0 5)	0 1
Net finance costs	6	5 9	5 6	5 6	4 7
Operating cash flows before movements in working capital		51 0	42 1	39 8	31 7
(Increase)/decrease in inventories		1 5	2 7	(0 8)	(0 6)
(Increase)/decrease in trade and other receivables		(3 8)	(0 9)	(4 8)	(9 4)
Increase/(decrease) in trade and other payables		9 6	(17 7)	11.9	(13 9)
Cash generated by operations		58 3	26 2	46 1	7 8
Interest paid		(7 0)	(6 2)	(6 5)	(5 5)
Corporation taxes paid		(9 9)	(12 2)	(7 5)	(8 3)
Net cash generated from operating activities		41 4	7 8	32.1	(6 0)
Cash flows from investing activities					
Proceeds on disposal of property, plant and equipment and investment property		0 5	3 0	0 5	3 0
Purchases of intangible assets		(1 1)	(2 0)	(1.1)	(2 0)
Purchases of property, plant and equipment and investment property		(9 0)	(14 3)	(7.4)	(9 3)
Acquisition of businesses net of cash acquired		-	(7 3)	-	(1 5)
Interest received		0 2	0 7	-	0 7
Net cash used in investing activities		(9 4)	(19 9)	(8 0)	(9 1)
Cash flows from financing activities					
Purchase of Treasury shares by Employee Share Trust		(0 2)	(0 2)	(0 2)	(0 2)
Repayment of borrowings		(43 6)	(20 5)	(35.5)	(13 3)
New loans advanced		2 7	72 0	-	69 0
Inter-company loans		-	-	5.1	-
Repayment of obligations under finance leases		(0 9)	(0 8)	(0 9)	(0 8)
Dividends paid to Group shareholders	8	(8 1)	(22 8)	(8 1)	(22 8)
Net cash used in financing activities		(50 1)	27 7	(39 6)	31 9
Net increase/(decrease) in cash and cash equivalents in the period		(18 1)	15 6	(15 5)	16 8
Cash and cash equivalents at the beginning of the period		13 0	(2 2)	10 5	(5 3)
Exchange differences		0 1	(0 4)	(0 4)	(1 0)
Cash and cash equivalents at the end of the period	16, 29	(5 0)	13 0	(5.4)	10 5

The notes on pages 33 to 65 form an integral part of the financial statements

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

Notes to the accounts

1 Principal accounting policies

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

Basis of preparation

The financial statements of the Group are made up to the Saturday nearest to 30 April The financial year for 2010 represents the 52 weeks ended 1 May 2010 The comparative financial year for 2009 was 52 weeks ended 2 May 2009

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

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments, pension assets and liabilities and share-based payments which are measured at fair value The principal accounting policies set out below have been consistently applied to all periods presented unless otherwise stated

Basis of consolidation

The consolidated financial statements include the Company and its subsidiary undertakings The acquisition of subsidiaries is accounted for using the purchase method The results of subsidiaries acquired or disposed of in the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal respectively

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

Changes to accounting standards

The following new standards and amendments to standards, which are mandatory for the first time in the financial year beginning 3 May 2009, are relevant for the Group

IAS 1 (revised)	Presentation of financial statements	Requires non-owner changes in equity to be shown in either one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income) The Group has elected to present two statements Owner changes in equity are required to be shown in a statement of changes in equity
IFRS 2 (amendment)	Share-based payments – vesting conditions and cancellations	Clarifies the vesting conditions that are service conditions and performance conditions only Other features that are not vesting conditions are required to be included in the grant date fair value This has had no material impact on the results presented
IFRS 8	Operating segments	IFRS 8 replaces IAS 14 'Segment reporting' It requires a 'management approach' under which segmental information is presented on the same basis as that used for internal reporting purposes The Chief Operating decision maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the Board of Directors As a result of IFRS 8 The Netherlands is being shown as a separate operating segment with the remainder of what was previously reported as 'Rest of Europe' being included under 'all other segments'

Where applicable comparative amounts have been restated to conform with current presentation

The following amendment to a standard which is mandatory for the first time in the financial year beginning 3 May 2009, is relevant but was already applied by the Group

IAS 23, 'Borrowing costs (revised)'

The following amendments to standards and IFRIC interpretations, which are mandatory for the first time in the financial year beginning 3 May 2009, are either not currently relevant or material for the Group

IAS 32 (amendment), 'Puttable financial instruments and obligations arising on liquidation',
IAS 39 (amendment), 'Financial instruments Recognition and measurement',
IAS 39 and IFRS 7 (amendment), 'Reclassification of financial assets',
IFRIC 13, 'Customer loyalty programmes',
IFRIC 14, 'IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction', and
IFRIC 15, 'Agreements for the construction of real estate'

Notes to the accounts continued

1 Principal accounting policies continued

Exchange differences

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

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

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

Segment reporting

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

Revenue

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

Share-based payments

The Group issues equity-settled share-based payments to certain employees The fair value of the employee services received in exchange for the grant of options is recognised as an expense and is calculated using Black-Scholes and Monte-Carlo models The value of the charge is adjusted to reflect expected and actual levels of options vesting The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and performance conditions that are included in the assumptions about the number of options which are expected to become exercisable

At each balance sheet date the Group revises its estimates of the number of options which are expected to become exercisable It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the vesting period.

Impairment

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

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount

Non-financial assets other than goodwill that suffer an impairment are reviewed for possible reversal of impairment at each reporting date

Other operating income

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

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

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

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

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

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

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

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

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity Goodwill is not amortised, but is reviewed for impairment at least annually Any impairment is recognised immediately in the income statement and is not subsequently reversed On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal

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

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

Brands	20 years
Computer software	7 years

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

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

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

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

Notes to the accounts continued

1 Principal accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Actuarial gains and losses are recognised in full, directly in equity in the period in which they occur and are presented in other comprehensive income

Other income and expenses associated with the defined benefit scheme are recognised in the income statement

The pension cost of defined contribution schemes is charged in the income statement as incurred

Financial instruments

Derivative financial instruments
Derivative financial instruments ('derivatives') are used to manage risks arising from changes in foreign currency exchange rates and changes in interest rates In accordance with its Treasury policy, the Group does not enter into derivatives for speculative purposes

Derivatives are stated at their fair value The fair value of interest rate contracts is the estimated amount that the Group would receive or pay to terminate them at the balance sheet date, taking into account prevailing interest rates

Changes in the fair value of derivatives which do not qualify for hedge accounting are recognised in the income statement as they arise

Hedge accounting
Changes in the fair value of derivatives that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and any ineffective portion is recognised immediately in the income statement When the asset or liability for the hedged transaction is recognised in the balance sheet, the associated gain or loss on the hedging instrument previously recognised in other comprehensive income is included in the carrying amount of the hedged asset or liability Gains or losses realised on cash flow hedges are then recognised in the income statement in the same period as the hedged item

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting At that time, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the income statement.

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

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

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

1 Principal accounting policies continued

Critical estimates and judgments continued

Retirement benefits

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

New standards and interpretations

New standards and interpretations of existing standards that are not yet effective and have not been early adopted by the Group

At 1 May 2010 the following new standards and interpretations and amendments to existing standards, which are expected to be relevant to the Group and have an impact on the financial statements, were issued but not yet effective

- IFRS 3 (revised), 'Business combinations', (effective for periods beginning on or after 1 July 2009) The revised standard harmonises business combination accounting with US GAAP The standard will continue to apply the acquisition method to business combinations but with certain significant changes All payments to purchase a business will be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income Goodwill and non-controlling interests may be calculated on a gross or net basis All transaction costs will be expensed The Group will apply IFRS 3 (revised) prospectively to all business combinations from 2 May 2010
- IAS 27 (revised), 'Consolidated and separate financial statements', (effective for periods beginning on or after 1 July 2009) The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and specifies the accounting when control is lost The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 2 May 2010
- IAS 38 (amendment), 'Intangible assets', (effective for periods beginning on or after 1 July 2009) The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives The Group will apply IAS 38 (amendment) prospectively to business combinations from 2 May 2010
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', (effective for periods beginning on or after 1 July 2009) The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations It also clarifies that the general requirements of IAS 1 still apply The Group will apply IFRS 5 (amendment) prospectively from 2 May 2010
- IFRS 9, 'Financial instruments', (effective for periods beginning on or after 1 January 2013) The standard sets out how an entity should classify and measure financial assets The Group will apply IFRS 9 when it becomes effective
- IFRIC 16, 'Hedges of net investment in a foreign operation', IFRIC 17, 'Distribution of non-cash assets to owners' and IFRIC 18 'Transfer of assets from customers' all effective for periods beginning on or after 1 July 2009 and IFRIC 19 'Extinguishing financial liabilities with equity instruments', effective for periods beginning on or after 1 July 2010 will be applied by the Group when they become effective but are not expected to have any impact on the financial statements

2 Segmental analysis

The operating segments have been determined based on reports reviewed by the Board that are used to make strategic decisions The Group's business comprises only a retail business and the Board considers that business on the basis of the four geographic units of the UK and Republic of Ireland (UK & RoI), The Netherlands, Belgium and Poland Neither Belgium nor Poland is significant enough to meet the quantitative thresholds to require separate reporting and they have been aggregated as 'All other segments'

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

The segment information provided to the Board for the reportable segments for the 52 weeks ended 1 May 2010 is as follows

	52 weeks to 1 May 2010				52 weeks to 2 May 2009			
	UK & RoI £m	The Netherlands £m	All other segments £m	Group £m	UK & RoI £m	The Netherlands £m	All other segments £m	Group £m
Gross Revenue	428 8	65 5	25 9	520 2	397 3	63 6	25 1	486 0
Inter-segment revenue	(3 6)	-	-	(3 6)	(3 2)	-	-	(3 2)
Revenues from external customers	425 2	65 5	25 9	516 6	394 1	63 6	25 1	482 8
Gross profit	263 7	38 3	14 0	316 0	244 6	37 2	14 0	295 8
Underlying operating profit	26 2	7 8	0 1	34 1	15 6	7 6	(0 4)	22 8
Exceptional items	(2 4)	-	(3 5)	(5 9)	0 3	(0 7)	(0 1)	(0 5)
Operating profit	23 8	7 8	(3 4)	28 2	15 9	6 9	(0 5)	22 3
Finance income	0 9	-	-	0 9	1 5	0 1	-	1 6
Inter-company interest	-	(0 1)	0 1	-	0 2	-	(0 2)	-
Finance costs	(6 6)	(0 1)	(0 1)	(6 8)	(6 4)	(0 6)	(0 2)	(7 2)
Profit before tax	18 1	7 6	(3 4)	22 3	11.2	6 4	(0 9)	16 7
Tax	(4 3)	(1 8)	(0 4)	(6 5)	(1 8)	(2 9)	(0 2)	(4 9)
Profit for the financial period	13 8	5 8	(3 8)	15 8	9 4	3 5	(1 1)	11 8
Segment Assets								
Segment assets	244 3	78 1	33 1	355 5	256 0	87 2	29 1	372 3
Inter-segment balances	(11 4)	(0 1)	(9 2)	(20 7)	(10 5)	(0 2)	(0 8)	(11 5)
Balance sheet total assets	232 9	78 0	23 9	334 8	245 5	87 0	28 3	360 8
Segment Liabilities								
Segment liabilities	(232 9)	(23 9)	(27 5)	(284 3)	(248 7)	(36 8)	(19 6)	(305 1)
Inter-segment balances	5 2	5 6	9 9	20 7	-	4 2	7 3	11 5
Balance sheet total liabilities	(227 7)	(18 3)	(17 6)	(263 6)	(248 7)	(32 6)	(12 3)	(293 6)
Other segmental items								
Depreciation and amortisation	15 5	2 6	1 0	19 1	16 6	2 5	1 3	20 4
Additions to non-current assets	6 5	0 7	0 9	8 1	14 3	1 5	0 7	16 5

Carpetright plc is domiciled in the UK. The Group's revenue from external customers in the UK is £416 5m (2009 £381 8m) and the total revenue from external customers from other countries is £100 1m (2009 £101 0m) The total of non-current assets (other than financial instruments and deferred tax assets) located in the UK is £175 8m (2009 £179 6m) and the total of those located in other countries is £89 0m (2009 £94 4m)

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

Notes to the accounts continued

3 Operating profit, analysis of costs by nature

Operating profit is stated after charging/(crediting)

	Notes	Group 2010 £m	Group 2009 £m
Rental income earned on investment property		(2 6)	(2 0)
Cost of inventories recognised as an expense in cost of sales		175 6	167 8
Operating lease rentals			
Minimum lease payments in respect of land and buildings		93 0	91 8
Minimum lease payments in respect of plant and machinery		1 7	1 7
Sublease rental income		(4 0)	(5 4)
Auditors' remuneration			
Fees payable to the Company's auditor for the audit of the Company's annual financial statements		0 3	0 3
Staff costs	4	106 6	101 6
Impairment of fixed assets	5		
Charged in administration expenses		3 2	0 9
Amortisation of intangible assets	10		
Charged in administration expenses		3 6	3 5
Depreciation of property, plant and equipment	11		
Owned assets			
Charged in cost of sales		-	0 1
Charged in administration expenses		14 4	15 5
Under finance leases			
Charged in cost of sales		0 7	0 7
Charged in administration expenses		0 1	0 1
Depreciation of investment property	12		
Charged in administration expenses		0 3	0 4
Charged in other operating income		-	0 1

4 Staff costs

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

	Group 2010 Number	Group 2009 Number	Company 2010 Number	Company 2009 Number
Stores	3,115	3,030	2,532	2,406
Central support office and warehouse	379	381	329	330
	3,494	3,411	2,861	2,736

The aggregate employment costs of employees and Directors were as follows

	Notes	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Wages and salaries (including short-term employee benefits)		94 7	89 9	75 2	71 5
Social security costs		9 6	9 1	7 2	6 9
Post employment benefits					
Defined benefit		(0 2)	0 5	(0 2)	0 5
Defined contribution		2 0	2 0	0 8	0 6
Share-based payments	25	0 5	0 1	0 5	0 1
		106 6	101 6	83 5	79 6

Wages and salaries include short-term employee benefits as defined in IAS 19, with the exception of costs associated with the Group's pension schemes Post employment benefits include costs associated with the Group's pension schemes with the exception of net interest costs and the actuarial gain on the defined benefit pension scheme The net £0 2m credit (2009 £0 5m cost) relating to the defined benefit pension schemes are included in administration expenses Share-based payments comprise the cost of awards in respect of employee share schemes in accordance with IFRS 2 These costs are explained in note 25

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

	Group 2010 £m	Group 2009 £m
Salaries (including short-term employee benefits)	3 9	2 9
Social security costs	0 5	0 4
Post employment benefits	0 3	0 3
Share-based payments	0 5	0 1
	5 2	3 7

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

During the year the Executive Directors realised gains totalling £0 2m on the vesting of the 2006 Long-Term Incentive Plan (2009 £0 1m) Details of these gains, share options and other Directors' remuneration are disclosed in the Directors' remuneration report on pages 20 to 24, which form part of these financial statements

Notes to the accounts continued

5 Exceptional items

	Group 2010 £m	Group 2009 £m
Disclosed in the income statement		
Profits/(loss) on property disposals	(0 7)	1 8
UK & RoI impairment of property, plant and equipment (see note 11)	(1 4)	(0 9)
Onerous lease provision	(1 4)	-
Poland		
Impairment of property, plant and equipment (see note 11)	(1 8)	-
Closure costs	(1 7)	-
Over provision for pre-opening costs of Purfleet	1 1	-
Post acquisition reorganisation of new businesses	-	(1 2)
Impairment of investment in Joint venture	-	(0 2)
	(5 9)	(0 5)

The onerous lease provision relates to three properties in the UK that are not trading and are either empty or leased at below the passing rent The provision covers the period until full cost recovery is expected

The costs relating to Poland reflect the impairment of assets to disposal value and the costs of closure of the 11 stores trading at the start of the year

The exceptional pre-opening costs of the cutting and distribution centre recognised in 2007/8 were over-provided by £1 1m which has been released

The post acquisition reorganisation costs of the new businesses are primarily redundancy and other costs arising from the integration of the support functions into Carpetright

6 Net finance costs

	Group 2010 £m	Group 2009 £m
Finance costs		
Interest on borrowings and overdrafts	(4 9)	(5 3)
Fees amortisation	(0 5)	(0 5)
Interest on obligations under finance leases	(0 2)	(0 2)
Interest on pension scheme obligations (note 22)	(1 0)	(1 0)
Other interest payable	(0 2)	(0 2)
	(6 8)	(7 2)
Finance income		
Interest on cash and cash equivalents	-	0 5
Expected return on pension scheme assets (note 22)	0 9	1 0
Other interest receivable	-	0 1
	0 9	1 6
Net finance costs	(5 9)	(5 6)

7 Tax

(i) Analysis of the charge in the period

	Group 2010 £m	Group 2009 £m
UK current tax	4 4	2 0
Overseas current tax	1 6	2 1
Total current tax	6 0	4 1
UK deferred tax	(0 1)	(0 6)
Overseas deferred tax	0 6	1 4
Total deferred tax	0 5	0 8
Total tax charge in the income statement	6 5	4 9

Tax of £0 4m has been credited to the income statement (2009 £0 1m credit) in respect of exceptional items

(ii) Reconciliation of profit before tax to total tax

	Group 2010 £m	Group 2009 £m
Profit before tax	22 3	16 7
Tax charge at UK Corporation Tax rate of 28 0% (2009 28 0%)	6 2	4 7
Adjusted for the effects of		
Overseas tax rates	(0 3)	(0 2)
Non-qualifying depreciation	0 9	0 7
Foreign exchange movements on foreign deferred tax	-	0 3
Other permanent differences	0 3	(0 3)
Adjustments in respect of prior periods	(0 6)	(0 3)
Total tax charge in the income statement	6 5	4 9

The weighted average annual effective tax rate for the period is 29 5% (2009 29 8%) This decrease arises primarily from one off credits in the year offset by overseas tax movements

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

	Group 2010 £m	Group 2009 £m
Deferred tax on actuarial gains, recognised in other comprehensive income	0 6	0 2
Deferred tax on share-based payments	0 1	0 1
Total tax recognised in equity	0 7	0 3

Notes to the accounts continued

8 Dividends

Group and Company	2010 Pence per share	2010 £m	2009 Pence per share	2009 £m
Prior year final dividend paid	4 0	2 7	30 0	20 1
Current year interim dividend paid	8 0	5 4	4 0	2 7
	12 0	8 1	34 0	22 8

The Directors propose a final dividend of 8 0 pence per share amounting to £5 4m (2009 4 0 pence per share, £2 7m) which is not included as a liability in these financial statements Subject to approval by the shareholders at the Annual General Meeting, the proposed dividend will be paid on 24 September 2010 to shareholders who are on the register of members on 10 September 2010

This would take the 2010 interim and final dividend payments to 16 0 pence amounting to £10 8m (2009 8 0 pence, £5 4m)

9 Earnings per share

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

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

	2010 Earnings £m	2010 Weighted average number of shares Millions	2010 Earnings per share Pence	2009 Earnings £m	2009 Weighted average number of shares Millions	2009 Earnings per share Pence
Basic earnings per share	15 8	67 2	23 5	11 8	67 2	17 6
Effect of dilutive share options	0 1	0 4	–	0 1	0 4	–
Diluted earnings per share	15 9	67 6	23 5	11 9	67 6	17 6

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

	52 weeks ended 1 May 2010 Pence	52 weeks ended 2 May 2009 Pence
Basic earnings per share	23 5	17 6
Adjusted for the effect of exceptional items		
Exceptional items	8 7	0 7
Tax thereon	(0 6)	(0 1)
Underlying earnings per share	31 6	18 2

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

10 Intangible assets

Group

	Goodwill £m	Computer software £m	Brands £m	Total £m
Cost				
At 3 May 2008	45 3	21 8	0 1	67 2
Exchange differences	2 7	–	–	2 7
Acquisition of subsidiaries	7 4	–	–	7 4
Additions	–	2 0	–	2 0
Disposals	–	(0 3)	–	(0 3)
At 2 May 2009	55 4	23 5	0 1	79 0
Exchange differences	(0 7)	–	–	(0 7)
Additions	–	0 3	–	0 3
Disposals	–	(0 1)	–	(0 1)
At 1 May 2010	54 7	23 7	0 1	78 5
Accumulated amortisation and impairment				
At 3 May 2008	0 5	3 9	0 1	4 5
Amortisation	–	3 5	–	3 5
Disposals	–	(0 2)	–	(0 2)
At 2 May 2009	0 5	7 2	0 1	7 8
Exchange differences	–	(0 1)	–	(0 1)
Amortisation	–	3 6	–	3 6
At 1 May 2010	0 5	10 7	0 1	11 3
Net book value				
At 1 May 2010	54 2	13 0	–	67 2
At 2 May 2009	54 9	16 3	–	71 2

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

Group goodwill comprises purchased goodwill in respect of the Sleepright business in December 2008, £2 9m, the Ben de Graaff business in July 2008, £4 9m, Carpetworld in March 2008, £6 9m, Storeys in May 2007, £15 3m, the Mays business in June 2005, £4 7m and The Netherlands and Belgian businesses in 2002, £19 5m Goodwill is allocated to the cash generating units to which it relates

Goodwill is impaired if the carrying amount exceeds the recoverable amount The recoverable amount is the higher of fair value less costs to sell and the value in use In the absence of a recent market transaction the recoverable amount is determined from value in use calculations These calculations are based on 10 year profit projections, the same period used by the Group for appraising the potential of business acquisitions, adjusted for non-cash items, planned working capital movements and capital expenditure The cash flow projections for the initial three year period are based on financial budgets and plans approved by the Board The key drivers are like-for-like sales growth, gross margin percentage and anticipated cost inflation Cashflows beyond the plan period are extrapolated at a constant growth rate of 2 5% (2009 2 5%) The growth rate is in line with long-term growth rates of the countries in which the Group operates The pre-tax discount rate applied to cash flow projections is 8 3% (2009 9 6%) and is based on the Group's weighted average cost of capital adjusted to reflect the risks of the businesses acquired Based on these calculations goodwill is not impaired. An increase of 1% in the discount rate would not change the outcome of these calculations An increase of 3% in the discount rate would be required before any material impairment of goodwill would be indicated

Notes to the accounts continued

10 Intangible assets continued

Company

	Goodwill £m	Computer software £m	Brands £m	Total £m
Cost				
At 3 May 2008	–	21 7	0 1	21 8
Additions	–	2 0	–	2 0
Disposals	–	(0 3)	–	(0 3)
At 2 May 2009	–	23 4	0 1	23 5
Additions	3 1	0 3	–	3 4
At 1 May 2010	3 1	23 7	0 1	26 9
Accumulated amortisation and impairment				
At 3 May 2008	–	3 9	0 1	4 0
Amortisation	–	3 5	–	3 5
Disposals	–	(0 2)	–	(0 2)
At 2 May 2009	–	7 2	0 1	7 3
Exchange differences	–	(0 1)	–	(0 1)
Amortisation	–	3 6	–	3 6
At 1 May 2010	–	10 7	0 1	10 8
Net book value				
At 1 May 2010	3 1	13 0	–	16 1
At 2 May 2009	–	16 2	–	16 2

Company goodwill comprises purchased goodwill arising on the transfer of businesses from subsidiaries to the Parent Company in respect of Carpetworld £0 8m and Sleepright £2 3m

Overview
Directors' report Business review
Directors' report Governance
Financial statements

11 Property, plant and equipment

Group

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
Cost						
At 3 May 2008	71 9	17 3	20 8	93 3	39 9	243 2
Exchange differences	4 6	–	0 2	1 5	3 4	9 7
Additions	3 7	–	0 2	8 1	2 5	14 5
Acquisition of subsidiaries	–	–	–	0 4	–	0 4
Transfer to investment property	(3 1)	–	–	–	–	(3 1)
Disposals	–	–	(0 9)	(10 6)	(2 1)	(13 6)
At 2 May 2009	77 1	17 3	20 3	92 7	43 7	251 1
Exchange differences	(0 9)	–	(0 1)	(0 4)	(0 8)	(2 2)
Additions	–	0 4	0 6	6 3	0 5	7 8
Transfer between asset class	(0 9)	0 9	–	–	–	–
Transfer to investment property	(2 5)	–	–	(0 2)	–	(2 7)
Disposals	–	–	(0 8)	(4 1)	(1 2)	(6 1)
At 1 May 2010	72 8	18 6	20 0	94 3	42 2	247 9
Accumulated depreciation and impairment						
At 3 May 2008	4 0	1 5	7 2	40 6	24 1	77 4
Exchange differences	0 4	0 1	0 1	1 2	2 2	4 0
Impairment	–	–	0 1	0 8	–	0 9
Depreciation	1 2	0 5	1 3	8 6	4 8	16 4
Transfer to investment property	(0 2)	–	–	–	–	(0 2)
Disposals	–	–	(0 4)	(9 9)	(1 8)	(12 1)
At 2 May 2009	5 4	2 1	8 3	41 3	29 3	86 4
Exchange differences	(0 1)	(0 1)	–	(0 3)	(0 6)	(1 1)
Impairment	0 7	–	0 8	1 6	0 1	3 2
Depreciation	1 2	0 5	1 0	7 9	4 6	15 2
Transfer to investment property	(0 8)	–	–	(0 1)	–	(0 9)
Disposals	–	–	(0 6)	(2 6)	(1 2)	(4 4)
At 1 May 2010	6 4	2 5	9 5	47 8	32 2	98 4
Net book value						
At 1 May 2010	66 4	16 1	10 5	46 5	10 0	149 5
At 2 May 2009	71 7	15 2	12 0	51 4	14 4	164 7

The impairment of property, plant and equipment relates to a net movement on 13 loss making stores in UK & RoI and 11 Polish stores

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cost	9 5	13 4	2 8	6 7
Accumulated depreciation and impairment	(1 9)	(4 4)	(1 4)	(4 1)
Net book value	7 6	9 0	1 4	2 6

Included in Group and Company assets held under finance leases are plant and machinery with a net book value of £nil (2009 £1.2m), the Company includes buildings with a net book value of £1 4m (2009 £1 4m) and the Group £7 6m (2009 £7 8m)

Notes to the accounts continued

11 Property, plant and equipment continued

Company

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
Cost						
At 3 May 2008	31 0	10 8	20 7	81 6	18 1	162 2
Exchange differences	–	–	0 2	0 3	0 2	0 7
Additions	1 0	–	0 2	7 1	1 3	9 6
Transfer (to)/from subsidiaries	(1 5)	–	–	0 6	–	(0 9)
Disposals	–	–	(0 9)	(10 4)	(2 1)	(13 4)
At 2 May 2009	**30 5**	**10 8**	**20 2**	**79 2**	**17 5**	**158 2**
Exchange differences	(0 1)	–	(0 1)	(0 2)	(0 1)	(0 5)
Additions	–	0 4	0 6	5 4	–	6 4
Transfer to Investment property	(0 3)	–	–	–	–	(0 3)
Disposals	–	–	(0 7)	(1 6)	(0 5)	(2 8)
At 1 May 2010	**30 1**	**11 2**	**20 0**	**82 8**	**16 9**	**161 0**
Accumulated depreciation and impairment						
At 3 May 2008	1 0	1 5	7 3	32 2	8 6	50 6
Exchange differences	–	–	0 1	0 2	–	0 3
Impairment	–	–	0 1	0 8	–	0 9
Depreciation	0 2	0 2	1 2	8 4	2 6	12 6
Disposals	–	–	(0 4)	(9 8)	(1 8)	(12 0)
At 2 May 2009	**1 2**	**1 7**	**8 3**	**31 8**	**9 4**	**52 4**
Exchange differences	–	–	–	(0 2)	(0 1)	(0 3)
Impairment	–	–	0 7	0 6	0 1	1 4
Depreciation	0 3	0 2	1 0	7 3	2 9	11 7
Disposals	–	–	(0 5)	(1 0)	(0 5)	(2 0)
At 1 May 2010	**1 5**	**1 9**	**9 5**	**38 5**	**11 8**	**63 2**
Net book value						
At 1 May 2010	**28 6**	**9 3**	**10 5**	**44 3**	**5 1**	**97 8**
At 2 May 2009	29 3	9 1	11 9	47 4	8 1	105 8

12 Investment property

While investment property has not been independently valued the Directors consider that the value of such properties for the Group is approximately £32m (2009 approximately £25m) and for the Company is not significantly different to book value in either year Operating expenses attributable to investment properties are incurred directly by tenants under tenant-repairing leases

	Group £m	Company £m
Cost		
At 3 May 2008	22 2	7 9
Exchange differences	2 0	–
Transfer from property, plant and equipment	3 1	–
At 2 May 2009	**27 3**	**7 9**
Exchange differences	(0 6)	(0 1)
Transfer from property, plant and equipment	2 7	0 3
At 1 May 2010	**29 4**	**8 1**
Accumulated depreciation and impairment		
At 3 May 2008	1 2	0 3
Exchange differences	0 1	–
Transfer from property, plant and equipment	0 2	–
Depreciation	0 5	0 1
At 2 May 2009	**2 0**	**0 4**
Exchange differences	0 1	–
Transfer from property, plant and equipment	0 9	–
Depreciation	0 3	–
At 1 May 2010	**3 3**	**0 4**
Net book value		
At 1 May 2010	**26 1**	**7 7**
At 2 May 2009	25 3	7 5

13 Investment in subsidiary undertakings

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affect the figures of the Group All of the Group's subsidiary undertakings are included in the consolidated accounts

	Country of incorporation and operation	Principal activity	Percentage of ordinary shares held directly	Percentage of ordinary shares held indirectly
Carpetright of London Limited	Great Britain	Holding	100%	
Melford Commercial Properties Limited	Great Britain	Property	100%	
Carpetland NV	Belgium	Retail		100%
Infradis Real Estate NV	Belgium	Property		100%
Carpetland BV	The Netherlands	Retail		100%
Fontainebleau Vastgoed BV	The Netherlands	Property		100%
Carpetright Poland Sp Z o o	Poland	Retail	100%	

Company

	2010 £m	2009 £m
Cost		
At the beginning of the period	39 1	40 1
Exchange differences	–	0 4
Acquisition of shares in subsidiaries	–	0 7
Transfer to subsidiary undertakings	–	(2 1)
Impairment of investment in Carpetright Poland Sp Z o o	(2 7)	–
At the end of the period	**36 4**	**39 1**

Notes to the accounts continued

14 Inventories

Group and Company inventories are held in the form of finished goods for resale Write downs of stock values to net realisable value during the current and comparative periods are immaterial

15 Trade and other receivables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Non-current				
Receivables from subsidiaries	–	–	49 8	60 4
Prepayments and accrued income	1 4	1 3	1 4	1 3
	1 4	1 3	51 2	61 7
Current				
Trade receivables	8 1	5 6	3 2	4 2
Less provision for impairment	(0 6)	(0 8)	(0 4)	(0 6)
	7 5	4 8	2 8	3 6
Other receivables	6 4	5 4	6 1	4 7
Prepayments and accrued income	24 2	24.2	22 2	17 9
	38 1	34 4	31 1	26 2
Total trade and other receivables	39 5	35 7	82 3	87 9

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

Provision for impairment

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
At the beginning of the period	(0 8)	(0 6)	(0 6)	(0 5)
Receivables written off against the provision in the period	–	0 7	–	0 7
(Increase)/decrease in the provision in the period	0 2	(0 9)	0 2	(0 8)
	(0 6)	(0 8)	(0 4)	(0 6)

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Major insurance companies	3 3	2 3	3 3	2 3
Property rent debtors	1 6	1 8	1 6	1 8
Other debtors	1 5	1 2	1 1	0 5
Retail customers	7 5	4 9	2 9	3 7
Trade and other receivables	13 9	10 2	8 9	8 3

Balances from retail customers are considered to have little credit risk as they are primarily settled by cash or major credit card and must be settled prior to the goods being collected from/delivered by the store

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Neither past due nor impaired	5 6	3 5	5 3	3 5
30 to 60 days	0 3	1 0	0 3	1 0
60 to 90 days	–	–	–	–
Over 90 days	0 5	0 8	0 5	0 1
Non-retail trade and other receivables	6 4	5 3	6 1	4 6

16 Cash and cash equivalents

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash at bank and in hand	8 3	17 4	3 6	10 5
Cash and cash equivalents on the balance sheets	8 3	17 4	3 6	10 5
Bank overdrafts (note 19)	(13 3)	(4 4)	(9 0)	–
Cash and cash equivalents in the cash flow statements	(5 0)	13 0	(5 4)	10 5

17 Trade and other payables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Current				
Trade payables	62 8	60 4	52 6	49 0
Other taxes and social security	13 2	9 1	10 1	8 1
Accruals and deferred income	38 2	41 3	33 1	31 5
	114 2	110 8	95 8	88 6
Non-current				
Accruals and deferred income	34 2	31 5	34 2	31 5
Payable to subsidiaries	–	–	9 7	4 1
	34 2	31 5	43 9	35 6
Total trade and other payables	148 4	142 3	139 7	124 2

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

18 Obligations under finance leases

	Minimum lease payments				Present value of minimum lease payments			
	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Amounts payable within one year	0 3	1 2	0 2	1 1	0 1	0 9	0 1	0 9
Amounts payable between one and five years	1 2	1 2	1 0	1 0	0 3	0 4	0 3	0 4
Amounts payable after five years	6 0	6 3	2 3	2 5	2 6	2 6	1 6	1 6
	7 5	8 7	3 5	4 6	3 0	3 9	2 0	2 9
Less future finance charges	(4 5)	(4 8)	(1 5)	(1 7)				
Present value of obligations under finance leases	3 0	3 9	2 0	2 9				
Current	0 1	0 9	0 1	0 9				
Non-current	2 9	3 0	1 9	2 0				

The Group leases certain properties under finance leases The average lease term is 20 years (2009 21 years) for properties The vehicle leases ended during the current financial year Minimum lease payments are discounted at the rate inherent in the leases Interest rates are fixed at the contract date All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments

Notes to the accounts continued

19 Borrowings and overdrafts

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Current				
Unsecured overdraft	13 3	4 4	9 0	–
Borrowings				
Secured	8 9	12 7	8 9	5 5
Borrowings and overdrafts	22 2	17 1	17 9	5 5
Non-current				
Borrowings				
Secured	49 0	88 5	49 0	88 5
Unsecured	4 3	2 7	–	–
Borrowings	53 3	91 2	49 0	88 5
	75 5	108 3	66 9	94 0

Secured borrowings are denominated in Sterling and Euros and are secured on certain of the Group's freehold properties

The effective interest rates at the year end are as follows

	Group 2010 %	Group 2009 %	Company 2010 %	Company 2009 %
Overdrafts	3 4	3 3	3 9	3 3
Borrowings	3 8	4 7	3 9	4 9

The maturity profile of borrowings and overdrafts are as follows

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Amounts payable within one year	22 2	17 1	17 9	5 5
Amounts payable between one and two years	12 2	9 0	12 2	9 0
Amounts payable between two and five years	41 1	82 2	36 8	79 5
	75 5	108 3	66 9	94 0

The maturity analysis is grouped by when the debt is contracted to mature rather than by repricing dates

20 Provisions for liabilities and charges

Group and Company	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m
At the beginning of the period	0 6	0 2	0 8
Added during the period	1 4	–	1 4
Utilised during the period	(0 3)	(0 1)	(0 4)
At the end of the period	1 7	0 1	1 8

Onerous lease provisions are expected to be used over periods of up to 10 years Reorganisation provisions are expected to be used within the 2010/11 financial year

21 Deferred tax assets and liabilities

	Notes	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Recognised in the income statement					
Accelerated capital allowances		9 4	9 4	4 9	5 7
Fair value of acquired property, plant and equipment		3 0	3 2	–	–
Rollover relief		10 7	14 5	10 6	13 8
Short-term temporary differences		(0 3)	(0 1)	(0 7)	(0 5)
Tax losses		(0 6)	(0 9)	(0 4)	(0 6)
Recognised in other comprehensive income					
Retirement benefit obligation	22(i)(a)(8)	(1 3)	(0 7)	(1 3)	(0 7)
Recognised directly in equity					
Share-based payments		(0 2)	(0 1)	(0 2)	(0 1)
Acquisition of subsidiaries					
Fair value of acquired property, plant and equipment		1 4	1 4	0 7	0 7
Rollover relief		1 2	1 2	–	–
Short-term temporary differences		0 1	–	–	–
Gross deferred tax liabilities		23 4	27 9	13 6	18 3
Recognised in the income statement					
Tax losses		(2 9)	(3 3)	–	–
Gross deferred tax assets		(2 9)	(3 3)	–	–
Net deferred tax liabilities		20 5	24 6	13 6	18 3

The gross movement on the deferred tax account is as follows

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
At the beginning of the period	24 6	25 7	18 3	20 6
Charged/(credited) to income statement (note 7)	0 5	0 8	(0 1)	(0 6)
Transferred to current tax	(3 9)	(1 6)	(3 9)	(1 4)
Recognised in other comprehensive income (note 7)	(0 6)	(0 2)	(0 6)	(0 2)
Credited directly to equity (note 7)	(0 1)	(0 1)	(0 1)	(0 1)
At the end of the period	20 5	24 6	13 6	18 3

At the reporting date, the Group had unused tax losses of £8 8m (2009 £10 1m) which can be carried forward indefinitely and are available for offset against future profits A deferred tax asset of £2 9m (2009 £3 3m) has been recognised in respect of these losses

Deferred tax assets of £2 7m (2009 £1 9m) were available for offset against deferred tax liabilities of £26 1m (2009 £29 8m) hence the Group's deferred tax liabilities as at 1 May 2010 is £23 4m (2009 £27 9m)

Notes to the accounts continued

22 Retirement benefit obligations

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

(i) Defined benefit schemes

(a) UK defined benefit schemes

The Company operated a funded defined benefit pension scheme providing benefits based on final pensionable pay for its employees and has assumed the liability for the scheme previously operated by Storey Carpets Ltd (Storeys) The Company scheme was closed to defined benefit service accrual on 30 April 2010 and has been closed to new members since 31 March 2006 The Storeys scheme is also closed to new members and has no active members The assets of the schemes are held separately from those of the Company The assets of the Company scheme are invested in a Managed Fund operated by SEI Contributions are determined by a qualified actuary using the projected unit method The most recent actuarial review was at 6 April 2008 when the actuarial value of the assets represented 79% of the benefits accrued to members after allowing for expected future increases in earnings A deficit reduction plan has been agreed with the Trustees under which £0 3m per annum in additional contributions is being paid to the fund The assets of the Storeys scheme are held in independently managed funds The most recent actuarial review of the Storeys scheme was at 1 March 2008 when the actuarial value of the assets represented 84% of the benefits accrued to members The numbers set out below are the aggregate of the two schemes

The assets and liabilities of the schemes were valued on an IAS 19 basis at 1 May 2010 by a qualified actuary

1) Key assumptions used

	2010 %	2009 %
Expected rate of salary increases	n/a	3 7
Expected rate of pension increases	3 3	2 9
Deferred pension revaluation	3 6	–
Discount rate	5 5	6 8
Expected rate of inflation	3 6	2 9
Expected return on scheme assets	6 5	6 7

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice The assumptions used for future life expectancy of members of the scheme are derived from industry standard tables Specifically the S1NMA table (2009 S1NMA table) with medium cohort improvement has been used for male pensioners and the S1NFA table (2009 S1NFA table) with medium cohort improvement for female pensioners projected by year of birth

The most significant assumptions are the expected return on scheme assets, salary increases and the discount rate, of which the most sensitive assumption is the discount rate If this assumption increased or decreased by 0 1% the defined benefit obligation would change by £0 2m (2009 £0 2m)

2) The amount included in the balance sheet arising from the Group and Company's obligations in respect of the defined benefit scheme is as follows

	2010 £m	2009 £m
Present value of pension scheme obligations	21 1	14 7
Fair value of pension scheme assets	(16 3)	(12 3)
Retirement benefit obligations recognised in the balance sheet	**4 8**	**2 4**

3) The amounts recognised in the income statement in respect of the defined benefit pension scheme are as follows

	2010 £m	2009 £m
Current service cost recognised in administration expenses (note 4)	0 3	0 5
Curtailment gain recognised in administration expenses (note 4)	(0 5)	–
Interest cost on pension scheme obligations recognised in finance costs (note 6)	1 0	1 0
Expected return on pension scheme assets recognised in finance income (note 6)	(0 9)	(1 0)
Total recognised in the income statement	**(0 1)**	**0 5**

22 Retirement benefit obligations continued

4) Reconciliation of movement in net pension deficit

	2010 £m	2009 £m
Opening balance	(2 4)	(1 3)
Total recognised in the income statement	0 1	(0 5)
Contributions	0 5	0 5
Actuarial loss recognised in other comprehensive income	(3 0)	(1 1)
Closing balance	(4 8)	(2 4)

5) The amounts recognised in other comprehensive income in respect of the defined benefit pension scheme are as follows

	2010 £m	2009 £m
Actuarial gain/(loss) on plan assets	2 8	(3 7)
Experience adjustment on liabilities	-	(0 8)
Change in assumptions underlying present value of liabilities	(5 8)	3 4
Total	(3 0)	(1 1)
Cumulative total	(3 0)	–

6) Movements in the pension scheme obligations are as follows

	2010 £m	2009 £m
Opening balance	14 7	16 1
Current service cost	0 3	0 5
Curtailment gain	(0 5)	-
Interest on pension scheme obligations	1 0	1 0
Actuarial (gain)/loss recognised in other comprehensive income	5 8	(2 6)
Benefits paid	(0 4)	(0 4)
Employee contributions	0 2	0 1
Closing balance	21 1	14 7

7) Movements in the fair value of the pension scheme assets are as follows

		2010 £m		2009 £m
Opening balance		12 3		14 8
Expected return on pension scheme assets	0 9		1 0	
Actuarial gain/(loss) recognised in other comprehensive income	2 8		(3 7)	
Actual return on assets		3 7		(2 7)
Employer contributions		0 5		0 5
Employee contributions		0 2		0 1
Benefits paid		(0 4)		(0 4)
Closing balance		16 3		12 3

Notes to the accounts continued

22 Retirement benefit obligations continued

8) The assets in the pension scheme and the expected rates of return are

	2010			2009			2008		
	Long term expected rate of return %	£m	Category of asset as a proportion of total %	Long term expected rate of return %	£m	Category of asset as a proportion of total %	Long term expected rate of return %	£m	Category of asset as a proportion of total %
Equities	7 4	9 2	56 4	7 1	7 0	56 9	7 5	8 6	58 1
Bonds	5 0	2 3	14 1	5 5	2 1	17 1	5 5	2 5	16 9
Property	7 4	0 1	0 6	n/a	–	–	n/a	–	–
Cash	4 4	0 3	1 9	0 5	0 1	0 8	5 0	0 1	0 7
Annuities	5 5	4 4	27 0	6 8	3 1	25 2	6 5	3 6	24 3
Fair value of pension scheme assets		16 3	100 0		12 3	100 0		14 8	100 0
Present value of pension scheme obligations		(21 1)			(14 7)			(16 1)	
Retirement benefit obligations		(4 8)			(2 4)			(1 3)	
Related deferred tax asset		1 3			0 7			0 5	
		(3 5)			(1 7)			(0 8)	

The long-term return on equities is assumed to be 3 8% in excess of inflation (2009 4 0%) The rate of return on bonds is assumed to be in line with the yield on AA-rated corporate bonds

9) History of experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of scheme assets	16 3	12 3	14 8	8 5	8 2
Present value of defined benefit obligations	(21 1)	(14 7)	(16 1)	(10 3)	(9 7)
Liability recognised in the balance sheet	(4 8)	(2 4)	(1 3)	(1 8)	(1 5)
Experience adjustments on pension scheme obligations	–	(0 8)	(0 2)	(0 1)	0 4
Percentage of pension scheme obligations (%)	–	(5 4)%	(1 2)%	(1 0)%	4 1%
Experience adjustments on pension scheme assets	2 8	(3 7)	(1 5)	(0 4)	1 3
Percentage of pension scheme assets (%)	17 2%	(30 1)%	(10 1)%	(4 7)%	15 9%

Contributions of £0 3m are expected to be paid into these pension schemes during 2010/11

(b) Multi-employer scheme
The Group's Dutch subsidiary participates in a multi-employer run industry pension scheme which has arrangements similar to those of a defined benefit scheme It is not possible to identify the Group's share of the underlying assets and liabilities of the scheme, and therefore in accordance with IAS 19, the Group has taken the exemption for multi-employer pension schemes not to disclose pension scheme assets and liabilities Accordingly, although this scheme is a defined benefit scheme it is treated as a defined contribution scheme recognising the contributions payable in each period in the income statement Under the terms of the scheme the scheme deficit is recovered through increased contributions from participating members At the period end the Group was unable to obtain a valuation of the industry scheme's full surplus or deficit Contributions charged to the income statement amounted to £1 1m (2009 £1 1m)

(ii) Defined contribution schemes

The Company launched a Group Personal Pension Plan in April 2006 The assets of the scheme are held separately from those of the Company and are invested by Scottish Life Contributions for the period amounted to £0 8m (2009 £0 8m)

In addition, the Group operates defined contribution pension schemes for subsidiary companies in Belgium and The Netherlands The Group makes contributions into the schemes, the assets of which are held separately from those of the Group and are invested by local insurance companies The contributions by the Group to industry collective schemes were £0 1m (2009 £0 1m)

23 Financial instruments

(i) Financial risk management objectives and policies

Risk management

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

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

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

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with a minimum AA credit rating The maximum amount of credit risk is represented by the carrying amounts of financial assets

(b) Liquidity risk
The Group finances its operations from a mix of retained profits and bank borrowings achieved through term loans, revolving credit agreements and overdraft facilities Daily cash balances are forecast and surplus cash is placed on treasury deposit with the Group's bankers at commercial rates All counterparties have minimum AA credit ratings

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

Group	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 1 May 2010					
Interest bearing loans and borrowings, including derivatives	23 3	12 2	41 1	-	76 6
Finance leases	0 1	0 1	0 3	2 5	3 0
Trade and other payables	92 4	–	–	–	92 4
	115 8	12 3	41 4	2 5	172 0
At 2 May 2009					
Interest bearing loans and borrowings, including derivatives	18 5	9 9	82 2	–	110 6
Finance leases	0 9	0 2	0 2	2 6	3 9
Trade and other payables	94 4	–	–	–	94 4
	113 8	10 1	82 4	2 6	208 9
Company					
At 1 May 2010					
Interest bearing loans and borrowings, including derivatives	19 0	12 2	36 8	-	68 0
Finance leases	0 1	0 1	0 3	1 5	2 0
Trade and other payables	89 0	–	-	–	89 0
	108 1	12 3	37 1	1 5	159 0
At 2 May 2009					
Interest bearing loans and borrowings, including derivatives	6 9	9 9	79 5	-	96 3
Finance leases	0 9	0 2	0 2	1 6	2 9
Trade and other payables	79 6	–	–	–	79 6
	87 4	10 1	79 7	1 6	178 8

Committed overdraft facilities are renewable annually and amounts undrawn were £2 4m and €1 0m (2009 £10 0m and €8 7m) The Company has committed facilities to July 2012 These facilities comprise a £33 0m amortising term loan, a €23 5m amortising term loan and a £45 0m revolving credit facility There are a number of covenants which commit the Group to maintaining certain rates of fixed charge cover, leverage and cash flow cover The Company is, and is expected to remain, in compliance with these covenants The revolving credit facility had an undrawn amount of £35 0m (2009 £5 0m)

Notes to the accounts continued

23 Financial instruments continued

(c) Foreign exchange risk

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

If the closing Sterling-Euro rate had been 0 01 points lower in the period the exchange difference reported in the statement of comprehensive income would have been £0 6m higher (2009 £0 4m higher) At 1 May 2010 if Sterling had weakened/strengthened by 10% against the Euro profit after tax for the year would have been £0 3m higher/lower as a result of the translation of the Euro denominated businesses

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

	Euro 2010	Euro 2009	Zloty 2010	Zloty 2009
Average rate	1 13	1 19	4 71	4 53
Closing rate	1 15	1 12	4 50	4 89

(d) Interest rate risk

The Group has various borrowings bearing interest at a margin over LIBOR or EURIBOR rates Group policy is to manage interest rate risk by purchasing interest rate swap agreements to hedge at least 75% of term loans The remainder is liable to interest at prevailing interest rates

In accordance with IFRS 7, the Group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of hedging instruments in place at 1 May 2010 and 2 May 2009 respectively Consequently analysis relates to the situation at those dates and is not representative of the years then ended The following assumptions were made

- balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move,
- gains or losses are recognised in equity or the income statement in line with the accounting policies set out in note 1, and
- cash flow hedges were effective

Based on the Group's net debt position at the year end a 1% change in interest rates would affect the Group's profit before tax by approximately £0 3m (2009 £0 4m)

The interest rate profile of the financial assets and liabilities of the Group, after the impact of interest rate swaps is as follows

	2010					2009				
	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m
Sterling	0 3	3 6	–	8 9	12 5	3 1	10 6	–	8 3	18 9
Euro	1 2	4 6	–	4 7	9 3	0 5	6 3	–	1 9	8 2
Zloty	–	0 1	–	–	0 1	–	0 5	–	–	0 5
Total financial assets		8 3	–	13 6	21 9		17 4	–	10 2	27 6
Sterling	3 2	(26 3)	(34 1)	(78 0)	(138 4)	2 7	22 9	56 2	75 6	154 7
Euro	3 3	(4 7)	(14 5)	(14 0)	(33 2)	3 5	18 6	16 8	17 9	53 3
Zloty	–	–	–	(0 4)	(0 4)	–	–	–	0 9	0 9
Total financial liabilities		(31 0)	(48 6)	(92.4)	(172 0)		41 5	73 0	94 4	208 9

Capital management

The Group aims to maximise shareholder value by maintaining an appropriate debt/equity capital structure It uses a number of mechanisms to manage debt equity levels, as appropriate, in the light of economic and trading conditions and the future capital investment requirements of the business

23 Financial instruments continued

(ii) Fair value of financial assets and liabilities

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

The fair values of financial assets and liabilities, together with their carrying amounts are

	Group 2010		Group 2009		Company 2010		Company 2009	
	Nominal value £m	Carrying and fair value £m	Nominal value £m	Carrying and fair value £m	Nominal value £m	Carrying value and fair value £m	Nominal value £m	Carrying value and fair value £m
At cost								
Cash and cash equivalents	-	8 3	-	17 4	-	3 6	-	10 5
Loans and receivables at amortised cost								
Trade and other receivables	-	13 6	-	10 2	-	58 8	-	68 7
Total financial assets	-	21 9	-	27 6	-	62 4	-	79 2
Financial liabilities at amortised cost								
Borrowings and overdrafts	-	(75 5)	-	(108 3)	-	(66 9)	-	(94 0)
Finance lease obligations	-	(3 0)	-	(3 9)	-	(2 0)	-	(2 9)
Financial liabilities at cost								
Trade and other payables	-	(92 4)	-	(94 4)	-	(89 0)	-	(79 6)
Derivative financial instruments used for hedging								
Interest rate swaps	42 7	(1 1)	66 8	(2 3)	42 7	(1 1)	66 8	(2 3)
Total financial liabilities	42 7	(172 0)	66 8	(208 9)	42 7	(159 0)	66 8	(178 8)
Net financial liabilities	42 7	(150 1)	66 8	(181 3)	42 7	(96 6)	66 8	(99 6)

Determination of fair values

The fair values of derivatives are estimated using future cash flows discounted at risk-adjusted discount rates based on market yield curves The carrying values of all other financial assets and liabilities are deemed to reflect fair value

(iii) Derivative financial instruments

The Group has various Euro and Sterling-denominated borrowings which bear interest at floating rates Interest on the Sterling borrowing is charged at LIBOR plus a margin The Euro-denominated borrowings bear interest at the prevailing EURIBOR rate plus a margin Interest rate swaps were purchased to fix approximately 75% of the floating interest charges on term debt due within the next two years at fixed rates of interest ranging from 3 52% to 5 25% (2009 3 21% to 5 25%) The maturity profiles of the interest rate swaps are set to terminate prior to the underlying hedged borrowings

Derivative financial instruments are not purchased for speculative purposes

Non-current liabilities	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Interest rate swaps – cash flow hedges	(1 1)	(2 3)	(1 1)	(2 3)

Notes to the accounts continued

23 Financial instruments continued

(iv) Hedge accounting

(a) Cash flow hedges

Interest rate swaps denominated in Euros and Sterling have been executed to hedge the Group's exposure to changes in floating interest rates in respect of approximately 75% of the Group's term loans Hedge documentation is put in place at inception of all hedging relationships Effectiveness tests are performed at each reporting date

Interest rate swaps are measured at fair value under IAS 39 Changes in fair value are posted to other comprehensive income in respect of the portion of the hedges which satisfy the criteria to be effective hedges Charges or credits relating to the portion which does not satisfy these criteria are recognised directly in the income statement

Cash flows in respect of the interest rate swaps are generally expected to occur at the same dates as the cash flows of the underlying hedged items.

(b) Net investment hedges

Euro-denominated borrowings are designated as hedging instruments of Euro-denominated net assets of the Group's foreign operations in order to protect the Group from currency risk in respect of the Group's Euro-denominated foreign operations Borrowing balances are carried at amortised cost which approximates fair value since borrowings bear interest at the prevailing floating rate The carrying value of borrowings amounted to €22 3m (2009 €23 5m)

24 Share capital

Ordinary shares of 1p each	2010 £	2009 £
Authorised – 100,000,000 (2009 100,000,000)	1,000,000	1,000,000

Group and Company	Number of allotted, called up and fully paid ordinary shares Millions	Share capital £m	Share premium £m	Treasury shares £m	Total £m
At 3 May 2008	67 2	0 7	15 4	(0 2)	15 9
Purchase of own shares by Employee Share Trust	–	–	–	(0 2)	(0 2)
Transfer of Treasury shares to participants	–	–	–	0 3	0 3
At 2 May 2009	67 2	0 7	15 4	(0 1)	16 0
Purchase of own shares by Employee Share Trust	–	–	–	(0 2)	(0 2)
Transfer of Treasury shares to participants	–	–	–	0 1	0 1
At 1 May 2010	67 2	0 7	15 4	(0 2)	15 9

The Group's LTIP was established to grant contingent right to shares Such grants are made on recommendation by the Group's Remuneration Committee Shares are purchased by a Trust and held until they are used to satisfy the LTIP awards As required by IAS 32 such shares are classified as Treasury shares and accordingly are deducted from total equity attributable to equity shareholders of the parent The assets, liabilities, income and costs of the LTIP and Trust are included in both the Company and the consolidated financial statements During the period the Trust purchased 16,500 ordinary shares for £0 1m At the year end the trust held 17,869 (2009 23,543) ordinary shares of 1p each with a market value of £0 2m (2009 £0 1m)

The Group also operates a share option scheme under which shares are issued to satisfy share option awards that are exercised

25 Share-based payments

Included within administration expenses is £0 5m (2009 £0 1m) in respect of equity-settled share-based payments

The Group's employee share schemes are described below and additional detail is disclosed in the Directors' remuneration report on pages 20 to 24 Scheme participants are either Directors of the Company or employees of the Group The costs associated with the schemes are accounted for in the Company's accounts

(i) LTIP

Under this scheme participants may receive annual awards in the form of contingent entitlements to Company shares These entitlements are equity-settled through the purchase of existing shares by the administering Trust The shares vest three years after award if participants remain with the Group during the vesting period and the Group meets targeted levels of total shareholder return ('TSR') and earnings per share ('EPS') growth The performance conditions are fully described in the Directors' remuneration report in the section titled Long-Term Incentive Plan

During the period contingent entitlements to 227,608 shares were awarded (2009 nil) The charge recognised in the income statement in respect of all LTIP awards is £0 4m (2009 £0 1m) The fair values of the awards are determined using a Monte-Carlo or Black-Scholes simulation model which takes account of the performance conditions described in the preceding paragraph The fair value per share is based on the expected number of shares that will vest LTIP shares do not earn dividends during the vesting period The Group's LTIP is administered by Equity Trust (Jersey) Limited

Reconciliation of movements in the periods ended 1 May 2010

	LTIP 2009		LTIP 2006		LTIP 2005	
	Number options 000s	Fair value £m	Number options '000s	Fair value £m	Number options 000s	Fair value £m
Outstanding at 3 May 2008	–	–	101 8	0 3	121 5	0 5
Vested	–	–	–	–	(47 1)	(0 2)
Expired	–	–	–	–	(74 4)	(0 3)
Outstanding at 2 May 2009	–	–	101 8	0 3	–	–
Granted	227 6	1 8	–	–	–	–
Forfeited	–	–	(17 8)	–	–	–
Vested	–	–	(22 2)	(0 1)	–	–
Expired	–	–	(61 8)	(0 2)	–	–
Outstanding at 1 May 2010	227 6	1 8	–	–	–	–
Exercisable at 1 May 2010	–	–	–	–	–	–
Exercisable at 2 May 2009	–	–	–	–	–	–

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

Valuation assumptions	LTIP 2009 award	LTIP 2006 award	LTIP 2005 award
Fair value per share	776	773	693
Share price at grant (pence)	853	1,177	926
Exercise price (pence)	1 0	1 0	1 0
Expected volatility (%)[1]	46 3	23 0	22 2
Vesting period (years)	3 0	3 0	3 0
Dividend yield (%)	3 1	4 2	5 1
Risk free interest rate (%)	2 0	4 9	4 2
Possibility of ceasing employment before vesting (%)	–	–	5 0

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

Notes to the accounts continued

25 Share-based payments continued

(ii) Savings Related Share Option Scheme ('SAYE')

Three and five year SAYE schemes were introduced in 2004 Employees and Executive Directors are invited to subscribe for options over shares in the Company at a 20% discount The options are exercisable within six months from the third or fifth anniversary of the grant date The entitlement to share options is equity-settled Funds for the purchase of Company shares are built up through the contribution of a maximum of £250 per month from salary During the period options were granted over 67,003 shares in respect of a three year and five year award exercisable between April and October 2013, and April and October 2015 respectively The 2010 tranche of share options are exercisable at 753 pence per share (2009 295 pence per share) There are no vesting conditions other than continued employment with the Group until the respective exercise dates Share options were valued using a Black-Scholes option-pricing model The fair value per share is based on the expected number of shares that will vest The cost charged to the income statement in respect of this scheme is £0 1m (2009 £nil)

Reconciliation of movements in the periods ended 1 May 2010

	SAYE 2010		SAYE 2009		SAYE 2008		SAYE 2007		SAYE 2006		SAYE 2005	
	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr
	Number options '000s	Number options '000s	Number options 000s	Number options '000s	Number options 000s	Number options '000s	Number options 000s	Number options '000s	Number options '000s	Number options 000s	Number options '000s	Number options '000s
Outstanding at 3 May 2008	–	–	–	–	140 6	159 4	14 9	15 4	15 0	16 6	53 1	63 0
Granted	–	–	403 5	329 1	–	–	–	–	–	–	–	–
Forfeited	–	–	(5 7)	–	(108 9)	(130 6)	(6 7)	(7 3)	(4 1)	(8 0)	(53 1)	(20 7)
Outstanding at 2 May 2009	–	–	397 8	329 1	31 7	28 8	8 2	8 1	10 9	8 6	–	42 3
Granted	37 6	29 4	–	–	–	–	–	–	–	–	–	–
Forfeited	(1 1)	(0 4)	(33 3)	(18 7)	(8 1)	(3 6)	(2 0)	(2 4)	(10 9)	(0 9)	–	(3 4)
Outstanding at 1 May 2010	36 5	29 0	364 5	310 4	23 6	25 2	6 2	5 7	–	7 7	–	38 9
Exercisable at 1 May 2010	–	–	–	–	–	–	6 2	–	–	–	–	38 9
Exercisable at 2 May 2009	–	–	–	–	–	–	–	–	10 9	–	–	–

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

	SAYE 2010		SAYE 2009		SAYE 2008		SAYE 2007		SAYE 2006		SAYE 2005	
Valuation assumptions	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr
Fair value per share (pence)	333	331	95	81	148	132	322	352	256	265	274	295
Share price at grant (pence)	941	941	474	474	723	723	1,237	1,237	1,072	1,072	1,126	1,126
Exercise price (pence)	753	753	295	295	618	618	1,040	1,040	840	840	901	901
Expected volatility (%)[1]	47 4	38 7	42 4	35 2	33 6	29 7	19 9	21 6	22 7	22 9	22 7	23 6
Vesting period (years)	3 1	5 1	3 1	5 1	3 1	5 1	3 1	5 1	3 1	5 1	3 1	5 1
Dividend yield (%)	3 1	3 1	6 8	6 8	7 2	7 2	3 8	3 8	4 4	4 4	3 9	3 9
Risk free interest rate (%)	3 1	3 1	2 2	2 6	4 1	4 1	5 5	5 3	4 4	4 3	4 6	4 6
Possibility of ceasing employment before vesting (%)	40	50	40	50	40	50	40	50	40	50	40	50

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

25 Share-based payments continued

(iii) All Employee Share Ownership Plan ('AESOP')
Under this scheme staff are invited to contribute up to £125 per month from pre-tax salary to purchase Company shares The Group does not incur a share-based payment charge in respect of this scheme since the Company shares are acquired at market value and are not subject to an accumulation period

26 Capital and other financial commitments

Capital commitments at 1 May 2010 for which no provision has been made in the accounts relate to the acquisition of tangible and intangible assets, and are

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Authorised and contracted	1 8	2 5	1 4	2 1

27 Operating lease commitments

At 1 May 2010 the future minimum lease payments in respect of land and buildings and other assets under operating leases are

Group

	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable				
Amounts payable within one year	91 6	1 6	87 0	1 5
Amounts payable between one and five years	334 5	2 2	321 0	3 1
Amounts payable after five years	548 6	–	584 5	–
	974 7	3 8	992 5	4 6

Company

	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable				
Amounts payable within one year	84 3	1 3	79 5	1 2
Amounts payable between one and five years	320 5	1 7	309 0	2 7
Amounts payable after five years	545 5	–	583 0	–
	950 3	3 0	971 5	3 9

Operating lease payments are negotiated for an average of 10 years (2009 11 years) The Group enters into sublease agreements in respect of some of its operating leases for stores At the reporting date the Group had contracted with tenants for future minimum operating sublease receipts amounting to £13 9m (2009 £15 7m)

28 Contingent liabilities

The Group has no material contingent liabilities at 1 May 2010

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

Notes to the accounts continued

29 Movement in cash and net debt

Group

	2009 Total £m	Cash flow £m	Exchange differences £m	Revaluation £m	2010 Total £m
Cash and cash equivalents in the balance sheet	17 4				8 3
Bank overdrafts	(4 4)				(13 3)
Cash and cash equivalents in the cash flow statement	13 0	(18 1)	0 1	-	(5 0)
Borrowings					
Current borrowings	(12 7)				(8 9)
Non-current borrowings	(91 2)				(53 3)
	(103 9)	40 9	0 8	-	(62 2)
Obligations under finance leases					
Current obligations under finance leases	(0 9)				(0 1)
Non-current obligations under finance leases	(3 0)				(2 9)
	(3 9)	0 9	-	-	(3 0)
Derivative financial instruments	(2 3)	-	-	1 2	(1 1)
Net debt	(97 1)	23 7	0 9	1 2	(71 3)

	2008 Total £m	Cash flow £m	Exchange differences £m	Revaluation £m	2009 Total £m
Cash and cash equivalents in the balance sheet	8 9				17 4
Bank overdrafts	(11 1)				(4 4)
Cash and cash equivalents in the cash flow statement	(2 2)	15 6	(0 4)	-	13 0
Borrowings					
Current borrowings	(11 3)				(12 7)
Non-current borrowings	(39 3)				(91 2)
	(50 6)	(51 5)	(1 8)	-	(103 9)
Obligations under finance leases					
Current obligations under finance leases	(0 8)				(0 9)
Non-current obligations under finance leases	(3 9)				(3 0)
	(4 7)	0 8	-	-	(3 9)
Derivative financial instruments	-	-	-	(2 3)	(2 3)
Net debt	(57 5)	(35 1)	(2 2)	(2 3)	(97 1)

Company

	2009 Total £m	Cash flow £m	Exchange differences £m	Revaluation £m	2010 Total £m
Cash and cash equivalents in the balance sheet	10 5				3 6
Bank overdrafts	-				(9 0)
Cash and cash equivalents in the cash flow statement	10 5	(15 5)	(0 4)	-	(5 4)
Borrowings					
Current borrowings	(5 5)				(8 9)
Non-current borrowings	(88 5)				(49 0)
	(94 0)	35 5	0 6	-	(57 9)
Obligations under finance leases					
Current obligations under finance leases	(0 9)				(0 1)
Non-current obligations under finance leases	(2 0)				(1 9)
	(2 9)	0 9	-	-	(2 0)
Derivative financial instruments	(2 3)	-	-	1 2	(1 1)
Net debt	(88 7)	20 9	0 2	1 2	(66 4)

29 Movement in cash and net debt continued

Company

	2008 Total £m	Cash flow £m	Exchange differences £m	Revaluation £m	2009 Total £m
Cash and cash equivalents in the balance sheet	3 2				10 5
Bank overdrafts	(8 5)				-
Cash and cash equivalents in the cash flow statement	(5 3)	16 8	(1 0)	-	10 5
Borrowings					
Current borrowings	(3 0)				(5 5)
Non-current borrowings	(35 1)				(88 5)
	(38 1)	(55 7)	(0 2)	-	(94 0)
Obligations under finance leases					
Current obligations under finance leases	(0 8)				(0 9)
Non-current obligations under finance leases	(2 9)				(2 0)
	(3 7)	0 8	-	-	(2 9)
Derivative financial instruments	-	-	-	(2 3)	(2 3)
Net debt	(47 1)	(38 1)	(1 2)	(2 3)	(88 7)

30 Related parties

Group

Related party transactions with the Directors are disclosed in the Directors' Report on page 25

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

Contributions to pension schemes are disclosed in note 22 Costs incurred by the Group to administer pension schemes amounted to less than £0 1m in both 2009 and 2010

Company

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

	Sales of goods £m	Amounts due from related parties £m	Amounts due to related parties £m
Subsidiary undertakings			
2009/10	3 6	49 8	9 7
2008/9	3 2	60 4	4 1

The Company guaranteed bank and other borrowings of subsidiary undertakings amounting to £8 6m (2009 £7 1m)

31 Events after the balance sheet date

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance Act (No 2) 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by April 2014 are expected to be enacted separately each year and would have the effect of reducing the deferred tax liability provided at 1 May 2010 The Directors do not anticipate that these changes will materially change the deferred tax position presented in these financial statements

Group five year financial summary

	2010 £m	2009 £m	2008 £m	2007 £m	2006 restated £m
Summarised income statements					
Revenue	**516 6**	482 8	521 5	475 9	451 4
Gross profit	**316 0**	295 8	323 1	290 8	270 6
Operating profit	**28 2**	22 3	60 8	68 8	66 2
Underlying operating profit	**34 1**	22 8	63 4	59 5	58 7
Net finance costs	**(5 9)**	(5 6)	(1 3)	(1 8)	(2 0)
Underlying profit before tax	**28 2**	17 2	62 1	57 7	56 7
Exceptional items	**(5 9)**	(0 5)	(2 6)	9 3	7 5
Profit before tax	**22 3**	16 7	59 5	67 0	64 2
Tax on ordinary activities	**(6 5)**	(4 9)	(16 7)	(20 7)	(20 1)
Profit for the financial period	**15 8**	11 8	42 8	46 3	44 1
Extracts from balance sheets					
Non-current assets	**247 1**	265 8	254 2	184 9	180 4
Net assets	**71 2**	67 2	74 3	68 0	56 0
Net debt	**(71 3)**	(97.1)	(57 5)	(6 9)	(29 1)
Ratios and statistics					
Number of stores at period end	**703**	695	675	621	538
Total space (sq ft – gross) '000	**6,206**	6,155	5,816	5,397	5,027
Gross margin (%)	**61 2%**	61 3%	62 0%	61 1%	59 9%
Underlying operating margin (%)	**6 6%**	4 7%	12 2%	12 5%	13 0%
Operating margin (%)	**5 5%**	4 6%	11 7%	14 5%	14 7%
Underlying earnings per share (pence)	**31 6p**	18 2p	63 5p	58 3p	57 5p
Basic earnings per share (pence)	**23 5p**	17 6p	63 2p	68 2p	65 0p
Dividends per share (pence)	**16 0p**	8 0p	52 0p	50 0p	49 0p

Independent auditors' report to the members of Carpetright plc

We have audited the financial statements of Carpetright plc for the 52 week period ended 1 May 2010 which comprise the Group and Company Balance Sheets, the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Cash Flow Statements, the Group and Company Statements of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, 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 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

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

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 Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 1 May 2010 and of the Group's profit and Group's and Parent Company's cash flows for the period then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 27, in relation to going concern, and
- the parts of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 June 2010

Calendar

2010	
Q1 interim management statement	4 August
Annual General Meeting	9 September
First-half trading update	27 October
First-half ends	30 October
Interim results announcement	14 December

2011	
Q3 interim management statement	2 February
Second-half trading update	27 April
Year ends	30 April

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