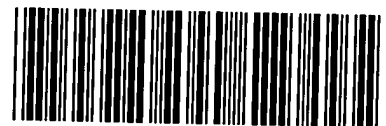


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Annual report and accounts 2018

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Carpetrigh is Europe's leading specialist floorcoverings retailer in the domestic home improvement sector.


Our primary business objective is to help customers transform their homes using our products and services, whether they choose to shop with us in-store or by using our online platforms.

Our multi-channel proposition will maximise value for our shareholders by delivering long-term sustainable growth in earnings per share and cash flow.

**We're honest and straightforward**

**We care about our customers and colleagues**

**We make it easy**



This Strategic Report was approved by the Board of Directors on 26 June 2018 and was signed on its behalf by Jeremy Sampson – Company Secretary and Legal Director.

## More online

This report, along with our other announcements and stakeholder information, can be found on our corporate website: [carpetright.plc.uk](http://carpetright.plc.uk)

## Strategic report

## Chairman's statement

**Bob Ivell**  
Chairman

## Overview

It has been an exceptionally challenging year for Carpetright, characterised by continued political and economic turbulence and a sharp downturn in consumer spending, most noticeably in the post-Christmas trading period. Despite the Group continuing to make progress in implementing the programme of strategic initiatives to extend the appeal of the brand, it became clear that it could no longer continue to withstand the significant legacy issues within its property estate.

After issuing a trading update on 1 March 2018, it became necessary for the Board to examine the feasibility of a range of options. These included the disposal of assets and additional sources of funding, intended to stabilise its financial position and rationalise its store estate.

Having felt that none of these alone would be sufficient, on 12 April 2018, the Company announced that it proposed to implement a Company Voluntary Arrangement or 'CVA', with a clear objective to establish a right-sized and right-rented estate of contemporary stores, complemented with a strong online offer to restore the viability of the Company. At the same time, it announced its intention, subject to and following the approval of the CVA, to raise net proceeds of not less than £60 million through a proposed Placing and Open Offer which was launched on 18 May 2018 and successfully concluded 8 June 2018.

The Board is confident that its brand investment and store refurbishment strategies have been, and will continue to be, successful in enabling the Company to respond to increased competition and a challenging macroeconomic environment. The proceeds from the Placing and Open Offer will give the Company the necessary resources to complete the restructuring and accelerate the recovery plan – both vital investments in Carpetright's future.

## Results and dividend

Total revenue for the year ended 28 April 2018 decreased by 3.0% to £443.8m (2017: £457.6m), reflecting further store closures as we continued to rationalise our estate. In challenging market conditions, UK like-for-like sales declined by 3.6% with an increase of 1.2% in the Rest of Europe. Underlying profit before tax decreased by 160.4% to a £8.7m loss (2017: £14.4m profit). After the impact of separately reported items, statutory loss before tax was £70.5m (2017: £0.9m profit). Underlying earnings per share decreased to a 6.8p loss (2017: 16.4p earnings per share) and basic earnings per share were 94.6p loss (2017: 1.0p earnings per share).

The Board continue to prioritise the use of cash for the fulfilment of the CVA, subsequent redundancies and in the acceleration of the strategy by investing further in the remaining store estate. As a result, it has taken the decision not to pay a final dividend (2017: £nil). Based on our current outlook we do not expect this position to change in the current financial year.

## The Board

The composition of the Board was unchanged in the year. Much of our time, in the first half, has been spent overseeing the implementation of multiple strategic initiatives, and latterly on overseeing the Company Voluntary Arrangement proposal and Placing and Open Offer. Further details of the Board's work can be found in the Directors' report starting on page 26 of this Annual Report.

## Our people

On behalf of the Board, I would like to offer thanks to the more than 3,000 colleagues working in our stores, distribution centre and support offices for their hard work and dedication across what has been a difficult year. I am truly sorry that the Group's proposed restructuring following the CVA and Placing and Open Offer will, inevitably, result in store closures and the loss of those valued colleagues who cannot be redeployed. Unfortunately, this is essential to protecting the remaining roles.

## Summary and outlook

We are expecting the consumer environment to remain equally testing in the year ahead as the uncertainties created by the UK's decision to leave the EU persist. Delivering a turnaround in these conditions is not easy, but we remain confident that the strategic plan we are implementing will ensure the business better capitalises on its market leading position and provides resilience against weaker trading conditions.

While we cannot control external market conditions, we believe that a recapitalised Carpetright will ultimately be better for customers, suppliers, landlords, shareholders and colleagues. Alongside the fulfilment of the CVA, we have a wide-ranging programme of self-help measures on which to concentrate and we believe these have significant potential to improve the performance of the Group. I am confident that these will deliver long-term profitable growth for the benefit of our shareholders.

**Bob Ivell**  
Chairman

# Our market

## Overview

The Group has a specialist focus on the domestic floorcoverings markets in the UK, Netherlands, Belgium and the Republic of Ireland. The Group also offers a selected range of beds in the UK, and curtains and blinds in the UK, Netherlands and Belgium, giving access to other segments of the home furnishings sector.

## Clear market leader

The floorcoverings market in the UK and Europe is highly fragmented and the Group's competition is comprised primarily of a wide variety of independent local businesses and a number of national and regional DIY and specialist retailers. With respect to the UK in particular, the floorcoverings market is broken down into the following segments: national floorcoverings specialists such as ourselves, independents that are typically single store operations; and DIY & Furniture specialists.

Carpetright is the clear market leader with approximately 20 percent share of the estimated £2.0 billion per annum market for domestic floorcoverings in the UK for the calendar year to December 2018 (as estimated by GlobalData). By comparison, the next highest-ranking competitor had approximately 7 percent market share by value.

## Product ranges

Whilst carpet remains the dominant product category in floorcoverings, we have historically over-indexed on carpet product ranges relative to wider market preferences. We continue to redress this bias by substantially extending our offer in the hard flooring area to better reflect consumer tastes.

## Demand drivers

The segment is principally driven by three key factors: consumer confidence, consumer credit availability and housing market activity.

- **consumer confidence:** levels of consumer spending are influenced by general consumer confidence, which in turn is affected by several macroeconomic factors, including employment levels, economic growth, household disposable income and interest rates.
- **consumer credit availability:** floorcoverings, particularly in the context of refurbishment, typically involve a discretionary outlay by the consumer, such that the availability of consumer credit can facilitate premium purchases and upselling.

## – level of housing market activity:

retail demand for floorcoverings is influenced by the number of house moves which often gives rise to large volume purchases, and accordingly such purchases are underpinned by the strength of the prevailing housing market.

## Market conditions

Since 2016 UK disposable incomes and consumer confidence have declined, which has had a negative impact on UK consumer spending. The Directors believe this ongoing trend was a contributing factor to the significant deterioration in UK trading experienced by the Company in the 2018 post-Christmas trading period.

The Group is expecting the consumer environment to remain equally testing in the year ahead as the uncertainties created by the UK's decision to leave the EU persist.

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

**UK floorcoverings market size<sup>1</sup>**

**GfK consumer confidence index<sup>2</sup>**

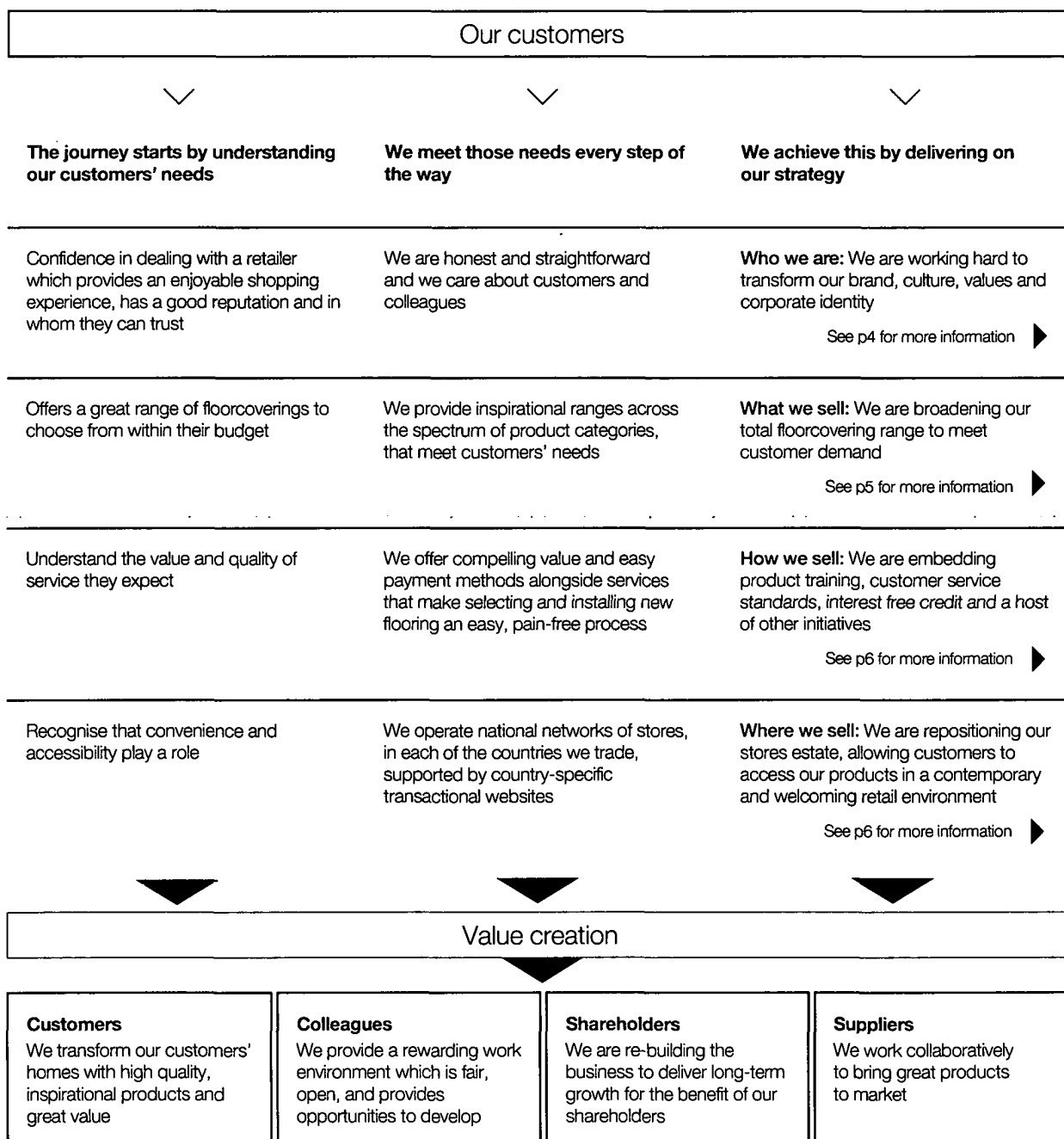
**UK floorcoverings market by category<sup>3</sup>**

**UK housing transactions<sup>4</sup>**

Sources: 1. GlobalData, 2. GfK, 3. GlobalData, 4. HMRC

# Our business model

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



# Chief Executive's review

**Wilf Walsh**  
Chief Executive

"Completing the turnaround will take time and the road ahead remains a challenging one – but we now have the resources to fully fund our revised business plan."

It has been a very difficult financial year for our business. After a disappointing first half, our Boxing Day sale started and never really got going. With significantly increased competition and signs of a slowdown in consumer spending this left us exposed, particularly given our historically oversized and over-rented estate.

While our multiple strategic initiatives to modernise, and improve the business continue to deliver substantial improvements to our KPIs and customer perception, we were ultimately unable to carry the weight of a long tail of underperforming stores on uneconomic legacy rents. Profit warnings and a continued trend of slow trading meant that we were clearly going to be in the position of making a financial loss at the end of financial year 2018 and this left us in the unenviable position of needing to consider a much more radical restructuring via a Company Voluntary Arrangement (CVA) and recapitalisation of the business.

Our historic property issues have always been the major challenge and I have made no secret of this in our previous Annual Reports and Accounts.

Our historical approach of seeking assignments of leases, negotiating with landlords and offering incentives on a case-by-case basis to exit sites was no longer viable and, in the end, we were timed out on this project once we experienced a severe downturn in trade post-Christmas – I discuss this in more detail under "Where we sell it".

None of this changes our strategy which is focusing exclusively on:

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

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

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

## Who we are

We are the clear market leader in floorcoverings in the UK with a significant double-digit market share.

## 2018 Market share

Source: GlobalData, Feb 2018

We are also, by quite some way, the leader in terms of brand awareness, with a prompted brand awareness of 89% and a spontaneous brand awareness of 63%, compared to only 78% and 19% respectively for our closest competitor.

People know who we are, and the challenge is to improve consideration of Carpetright, increase footfall to our stores and to convert prospective shoppers into customers who choose to spend their hard-earned disposable income with us. Flooring is an infrequent purchase for most people and getting it right is hugely important.

Refurbishment of the store estate and introduction of our new branding and contemporary store-fit remained a major focus during the year, although there was

a significant reduction in capital spending activity post-Christmas. By the end of April 2018, we had 227 stores in the UK trading under the new brand identity, some 55% of the estate, and we completed 28 refurbishments during the year.

Investment in our store estate has been crucial – our properties had been chronically underinvested for years and we have been implementing a programme of activity to get it fit for purpose and to create a modern shopping environment for our customers. The strategic sense of this rationale is evident in the numbers, with refurbished stores outperforming the un-invested estate.

This work ranged from introducing new signage and a sample area for carpet in stores that make a smaller profit, through to full refurbishment of larger, highly profitable stores, or stores where we are tackling new competition. Coupled with a bold "Free Fitting" offer to our customers, it clearly had a positive impact on our ability to compete at a local level.

The introduction of our new 'Graphite' store-fit is proving successful in generating sales growth. As a group, our refurbished stores delivered like-for-like sales growth of 9.2% higher than the un-invested estate (including stores refurbished expressly to meet new competition this figure would be 4.3% growth). We are aiming to have completed the remainder of the UK estate with some form of additional investment by the end of the CVA period in 2021 with the most profitable stores as a priority.

There is no doubt that the publicity surrounding the restructuring process over recent months has had an impact on trade. For customers we are planning an extensive brand relaunch in Autumn 2018 which will emphasise that as clear market leader, we are here to stay.

For colleagues we have used Fuse, our social learning and communications platform, to keep them fully informed and engaged during the process, no matter how difficult it has been, especially around the closure of 81 trading stores before the end of September 2018. At the time of writing, we have managed to redeploy 31% of affected colleagues and hope to exceed this figure.

## What we sell

Extensive market research explains how consumer tastes are changing and they tell us what they want to buy for their home transformations. Hard flooring continues to become more popular and more innovations to product are taking place in this sector. Even in such a difficult trading year we saw sales in the category grow by 9.2% like-for-like in the UK. This area represents a big opportunity to grow our overall market share in floorcoverings.

### Market

### Carpetright

Source: GlobalData (excludes Tiles)

With impressive support from our suppliers, we are working hard on a co-ordinated package of initiatives to grow our share of this market and to make Carpetright as famous for hard flooring as it is for carpets, specifically:

- Range Authority. We are introducing an increased number of products across all categories from vinyl through to engineered wood
- Developing our own label brand "Tegola" across the category
- Creating new extended hard flooring zones after a successful in-store trial
- Increasing training for staff via Fuse, our internal platform to get colleagues to "expert" level
- Ensuring there is adequate third-party fitting capacity available where we install hard flooring units
- An extended online range offer

In our core carpet business, we have extended the number of exclusives this year by adding a new partnership with Country Living magazine in addition to our established partnerships with House Beautiful magazine and the Kosset brand with its unique "stain free for life" product.

We are a broad church, whether customers are looking for basic carpet in our "Essential Value" range or shopping for premium branded wool products manufactured in the UK – Carpetright can satisfy all budgets and tastes. We update our ranges twice a year to ensure we are keeping up to speed with changing tastes and trends. For 2018 we will be launching our own label "Soft Sensations" as well as a new home-carpet tile proposition.

The beds category was introduced in 2009 primarily as a means to utilise excess store space. While last year we believed that we had a significant opportunity to grow the Beds category with a complete re-ranging and product change – it simply did not materialise and it has been a poor trading year. We are not top of mind for customers when it comes to bed retailing and it is now clear that a brand extension of any significance is going to be difficult to achieve.

## Strategic report continued

### Chief Executive's review continued

Nonetheless, we still believe there is some scope for the "Sleepright" brand but only where the size of the store allows us to stock a significant range. We are happy to concentrate on the established beds brands that people know versus other retailers that are vertically integrated with their own brands, as well as competing aggressively on price as a cash-generation opportunity. To this end, we will launch the "Essential Value" proposition in beds, as well as strengthening our sub £500 offer.

#### How we sell

We are constantly testing and retesting our strategy after such a difficult period and firmly believe that a consistent focus on key elements in the customer sales journey to increase conversion and average transaction values remains the correct approach, specifically:

- Interest Free Credit (up to four years) grew to 19% participation at the end of the financial year. While our average transaction value was £382 in 2018, under IFC this grows to £1,387.
- Customer satisfaction is essential – especially the recommendations needed to generate repeat business. Our "Do We Measure Up" score means that 76% of our customers are "highly satisfied", while a further 20% are "satisfied". 71% who experience our Home Flooring Surveyors and 65% of those who deal with third party fitters who are established under our "Which Trusted Trader" accreditation are also "highly satisfied". We remain focused on driving these metrics higher, particularly those in the latter area where we should be getting higher scores. In simple terms, "highly satisfied" customers spend 3.4 times more on average and are significantly more likely to recommend Carpetright.

- Value and our all-embracing proposition that we are "Never Beaten on Price" is a key element in our heritage and we will always match a quote on the same product from any of our competitors. Similarly, while "50% off" appears to be the default promotion proposition for most big-ticket retailers – added value such as half price underlay and other enhancements are vital to attract people into store. Selling the right product, with underlay and associated accessories as well as offering our "Uplift and Disposal" service, is key to growing ATV.

#### Where we sell

As indicated above, our legacy property issue is now being tackled via a CVA that was confirmed, without any landlord challenge, in June 2018. The stores have been split into three categories the details of which are as follows:

Category A – 195 sites comprising of 176 trading stores and 19 warehouses. These stores average £22,500 per week in sales, have a rent to sales ratio of 15.4% and individually each make a good profit. These leases are only compromised by moving to monthly rent payments.

Category B of which:

B1 – 82 stores, average sales of £13,200 per week, have a rent to sales ratio of 18.8% and make a small profit but insufficient to cover their supporting overhead. The CVA compromise is a 30% rent reduction for three years.

B2 – 31 stores, average sales of £12,200 per week, have a rent to sales ratio of 20.7% and are marginally profitable. The CVA compromise is a 50% rent reduction for three years.

Category C – 92 sites, comprising of 81 trading stores, 1 warehouse and 10 closed/sublet stores with average sales per week of £11,500 and rent to sales ratio of 28.9%. These do not make any profit contribution. The compromise is a 50% rent reduction with the option to exit these stores on or after 23 September 2018.

While some landlords have been critical of CVA processes generally, we received approval on our approach from the British Property Federation and the Pension Protection Fund exercised the creditor rights of the Carpetright pension scheme in order to vote in favour of the CVA proposal. Reluctantly, a CVA was genuinely our only viable option and we look forward to building profitable relationships with landlords over the three-year period of the CVA and beyond.

We have a clear line of sight on refurbishing the profitable Category A stores and will take a prudent look at the Category B store list given that we have welcome flexibility on those leases during the three-year CVA period.

In the Rest of Europe, we opened six stores and closed nine, including three relocations during the year, to leave a total of 135 stores (2017: 138 stores). Consequently, we now trade from 1,331,000 sq ft of retail space (2017: 1,360,000 sq ft), a 2.1% reduction year-on-year. Short term leases are sensibly the norm in the Netherlands and Belgium where the average lease length is 2.9 years (2017: 2.8 years) and just 1.5 years (2017: 1.8 years) respectively. However, for the loss-making Republic of Ireland business this period is 4.2 years (2017: 5.2 years), reflecting the uncommercial long-term deals entered into during our over-ambitious expansion into this market from 2001 to 2008.



Online is key to this business in the short and medium term. The sad demise this year of a number of traditional retailers is partially down to the fact that they were not "Amazon proof" and most of the products they sell could be chosen online and delivered to the home the next day. While choosing floor coverings is not such an easy sell online we are not being complacent and the key elements to our digital strategy are:

- Improving consideration of Carpetright as customers research an inspirational and easy to navigate website alongside increased marketing spend on search engine optimisation, pay per click and video on demand. In terms of marketing budgets these formats are rapidly taking over from the decline in traditional press consumption and this trend is across all demographic groups.
- Improve the instore experience by using digital technology and consolidating the benefits on our new online platform and system change to Microsoft Dynamics 365. Using Artificial Intelligence, we will deliver customer service automation with personalised content and recommendations currently being utilised to great effect elsewhere in the retail sector.
- Acknowledging that some customers will not want to visit a retail store ever – ensure that we have the online capability allowing them to measure their home accurately, choose products, along with associated accessories with confidence and complete the end to end experience without needing to visit a retail outlet or talk to a human being.

## Summary

The three headwinds of our legacy property estate, increased competition and a downturn in consumer spending all combined to make 2017/18 a year to put behind us.

The CVA and recapitalisation offers us the significant chance to rebuild as a profitable market leader with outstanding brand awareness and we do not intend to miss this opportunity.

We will not be diverted from our plan to transform the Carpetright business. The four main planks of our strategy remain relevant and finally we have comprehensively tackled our significant and ultimately, debilitating property issues.

The support received for our successful £65m gross fundraising after the period end is a strong signal that a recapitalised market leader will be better for consumers, investors, suppliers and ultimately for landlords as we shall be investing in the profitable stores that we are retaining.

My thanks, as ever, go to our store and store support office colleagues who have remained positive, loyal and stoic throughout a difficult year – their hard work and dedication during a very testing time have been much appreciated. Similarly, my Board colleagues have been clear minded, decisive and incredibly supportive.

Completing the turnaround will take time and the road ahead remains a challenging one – but we now have the resources to fully fund our revised business plan. Implementation of the CVA is well underway and the 92 closures will be complete by end September. As well as being demanding, the duration of this process means that the benefits will not be fully seen during 2018/19 and will only begin to take effect in the second half. However, we do believe that we now have a bedrock in place of a largely right sized and right rented retail estate supported by plans to develop a compelling digital offer that will see us grow profitable market share over the next few years.

For almost thirty years we've satisfied more customers than any other flooring retailer – so here's to thirty more as the nation's favourite.

We are Carpetright.

**Wilf Walsh**  
Chief Executive Officer

# Measuring our performance

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

Like-for-like sales % growth	Gross profit percentage	Underlying EBITDA	Net Promoter Score (NPS)	Operating cash flow
<b>Definition</b> Calculated as this year's sales divided by last year's sales for all stores that are at least 12 months old at the beginning of the financial year.  Stores closed during the year are excluded from both years (calculated in local currency).	<b>Definition</b> Gross profit as a percentage of revenue (calculated in local currency).	<b>Definition</b> Underlying EBITDA means underlying earnings before interest, taxation, depreciation and amortisation.	<b>Definition</b> Net Promoter Score (NPS) is a measure of a customer's willingness to recommend our service to others in terms of Satisfaction and Loyalty calculated by subtracting the percentage of Detractors from the percentage of Promoters.	<b>Definition</b> This measure is determined by taking underlying operating profit and adding back non-cash items and any movements in working capital.
<b>Rationale</b> Maximising like-for-like sales opportunities drives cash inflow. This KPI also measures the health of our core retail estate and reflects customer reaction to our products, proposition and price.	<b>Rationale</b> Gross profit is an important indicator of the Group's financial performance. It reflects our ability to source effectively, run an efficient supply chain, and promote and deliver the correct mix of products to maximise cash margin.	<b>Rationale</b> Underlying EBITDA is used to analyse the Group's core operating profitability before non-operating expenses and non-cash charges (depreciation and amortisation).	<b>Rationale</b> Customer Satisfaction and Loyalty are important indicators of the success, or not, of the Customer Journey, our colleague interaction and our range of products and services.	<b>Rationale</b> The Group's ability to finance its future investment, pay corporation taxes, pay interest on its borrowings and make returns to shareholders is aided by strong cash flows from its operations.
<b>Performance UK (%)</b>	<b>Performance UK (%)</b>	<b>Group (£m)</b>	<b>Performance UK (%)</b>	<b>Group (£m)</b>

Rest of Europe (%)

Rest of Europe (%)

# Financial review

In the first half of the financial year the Group delivered an increase in revenue of 2.6%, however, we then experienced a significant deterioration in UK trading, most notably in the post-Christmas trading period. The consequence was a decline in revenue in the second half of 8.3%, resulting in a full year decrease of 3.0% to £443.8m (2017: £457.6m).

Our continued focus on rationalising and repositioning the store portfolio saw the Group open ten stores and close 29 during the year, which gave a net decrease of 19 stores, including four relocations. The total store base numbered 545 at year end (2017: 564), with total store space declining by 2.8% to 4.9 million square feet during the period.

Underlying EBITDA declined to £6.4m (2017: £28.6m), a combination of the lower revenue, a reduced gross margin and higher expenses. The margin was impacted by higher product costs in the UK as a result of the depreciation of Sterling against the euro, promotional measures taken to address competition and the inevitable disruption to trade resulting from the adverse publicity surrounding the restructuring. Expenses increased by £2.4m, consisting of a rise in the Rest of Europe, primarily as a result of exchange rate movements, being partially offset by savings in the UK, further details of which are disclosed in the individual business unit reviews below.

Depreciation and amortisation charges were £12.3m (2017: £12.2m). The net impact of the effects noted above resulted in a Group underlying operating loss of £5.9m (2017: £16.4m profit).

Net finance charges were £0.8m higher than the prior year at £2.8m, the increase being driven by higher average drawings of banking facilities and amortisation fees associated with the shareholder loan agreed in March 2018.

Separately reported items totalled £61.8m (2017: £13.5m). The primary drivers of this charge were the poor trading conditions and the impact of this on the impairment of goodwill; freehold property valuations; and assets in loss making stores, alongside the costs of restructuring activity. Further detail on these costs can be found below.

Taking into account separately reported items, the statutory loss before tax for the period was £70.5m (2017: £0.9m profit) and basic loss per share of 94.6p (2017: 1.0p earnings per share).

The Group ended the year with net debt of £53.0m (2017: £9.8m), reflecting the material fall in operating profit, an adverse movement in working capital as suppliers reacted to restructuring announcements and the continued investment in the store refurbishment programme.

	2018 £m	2017 £m	Change
Revenue	443.8	457.6	(3.0%)
Underlying EBITDA	6.4	28.6	(77.6%)
Depreciation and amortisation	(12.3)	(12.2)	(0.8%)
Net finance charges	(2.8)	(2.0)	(40.0%)
Underlying (loss)/profit before tax	(8.7)	14.4	–
Separately reported items	(61.8)	(13.5)	–
(Loss)/profit before tax	(70.5)	0.9	–
(Loss)/Earnings per share (pence)			
Underlying	(6.8p)	16.4p	–
Basic	(94.6p)	1.0p	–
Net debt	(53.0)	(9.8)	£43.2m higher

## Neil Page

Chief Financial Officer

## Strategic report continued

## Financial review continued

### UK – Performance review

#### The key financial results for the UK were:

	2018 £m	2017 £m	Change
Revenue	360.4	381.0	(5.4%)
Like-for-like revenue	(3.6%)	(0.5%)	
Gross profit	206.1	225.6	(8.6%)
Gross profit %	57.2%	59.2%	(2.0ppts)
Costs (excluding depreciation & amortisation)	(203.2)	(204.7)	0.7%
Costs (excluding depreciation & amortisation) %	(56.4%)	(53.7%)	(2.7ppts)
Underlying EBITDA	2.9	20.9	(86.1%)
Underlying EBITDA %	0.8%	5.5%	(4.7ppts)

#### The UK portfolio is now as follows:

	Store numbers				Sq ft ('000)	
	29 April 2017	Openings	Closures	28 April 2018	29 April 2017	28 April 2018
<b>Total</b>	<b>426</b>	<b>4</b>	<b>(20)</b>	<b>410</b>	<b>3,691</b>	<b>3,577</b>

After a positive first half of the financial year with like-for-like sales growth of 0.7%, the significant downturn in trading conditions experienced post-Christmas resulted in a second half decline of 7.8%. The combined result was a full year like-for-like sales decline of 3.6% (2017: down 0.5%).

We opened four stores and closed 20 stores during the period, including one relocation. This translated into a net space decline of 114,000 sq ft, a decrease of 3.1%. At the year end the average store size was 8,724 sq ft (2017: 8,664 sq ft).

Gross profit decreased by £19.5m to £206.1m, representing 57.2% of sales, a decrease of 200 basis points. This decline in margin rate reflects a combination of:

- an adverse impact of 80bps from the fall in Sterling to euro exchange rate on imported goods for resale. The average EUR/GBP rate in 2017 was 5.8% lower year on year at €1.13 (2017: €1.20);
- measures to address intensified competition in selected stores, an adverse impact of 70bps;
- a dilutive impact of 20bps from product categories which attract lower average gross margins; and
- an adverse impact of 30bps from a combination of the increase in underlying floorcovering margin through improved sourcing and selected price increases, offset by enhanced promotions to combat the negative consumer sentiment associated with the Group's restructuring activity.

The margin will be impacted in the first half of the next financial year as we commence the store closure activity associated with the CVA. Our expectations are for a decline of between 350bps and 400bps in this period. In the following six months the margin is projected to recover to be around 120bps above that delivered in the second half of the year just finished. This would result in an overall decline for the year of around 120bps.

The cost base (excluding depreciation and amortisation) decreased by 0.7% compared with the prior year to £203.2m (2017: £204.7m). Costs as a percentage of sales were 56.4% (2017: 53.7%). The movement in costs was a combination of:

- store payroll costs increased by £0.9m to £60.6m, representing 16.8% of revenue (2017: £59.7m, 15.7% of revenue). The principal drivers of this movement were a combination of increases in basic pay structures designed to attract and retain colleagues in key roles, alongside the additional costs incurred from new legislative requirements from the introduction of holiday pay commissions, and the apprenticeship levy. These were partially offset by reduced commissions from lower revenue volumes.
- store occupancy costs (rent, rates & other) decreased by £0.4m, 0.3%, to £108.1m, being 30.0% of revenue (2017: £108.5m, 28.5% of revenue), primarily driven by the impact of the store closures, offset in part by inflationary costs increases in utilities, costs associated with the 'uplift and disposal' service offer and statutory maintenance work. These expenses are net of a release of £4.3m associated with the onerous lease provision (2017: £3.9m); and
- marketing and central support costs decreased by 6.8% to £37.2m, representing 10.3% of revenue (2017: £39.9m, 10.5% of revenue), reflecting management activities introduced to mitigate the profit impact from the decline in revenue.

The combination of the above factors resulted in underlying EBITDA decreasing by 86.1% to £2.9m (2017: £20.9m).

## Rest of Europe – Performance review

The key financial results for the Rest of Europe were:

	2018 £m	2017 £m	Change (Reported currency)	Change (Local currency)
Revenue	83.4	76.6	8.9%	3.6%
Like-for-like revenue	1.2%	2.5%		
Gross profit	43.5	43.8	(0.7%)	(5.4%)
Gross profit %	52.2%	57.2%	(5.0ppts)	
Costs (excluding depreciation & amortisation)	(40.0)	(36.1)	(10.8%)	(5.3%)
Costs (excluding depreciation & amortisation) %	(48.0%)	(47.2%)	(0.8ppts)	
Underlying EBITDA	3.5	7.7	(54.5%)	(56.7%)
Underlying EBITDA %	4.2%	10.1%	(5.9ppts)	

The Rest of Europe portfolio is now as follows:

	Store numbers				Sq ft ('000)	
	29 April 2017	Openings	Closures	28 April 2018	29 April 2017	28 April 2018
Netherlands	94	6	(8)	92	975	950
Belgium	23	–	–	23	228	228
Republic of Ireland	21	–	(1)	20	157	153
<b>Total</b>	<b>138</b>	<b>6</b>	<b>(9)</b>	<b>135</b>	<b>1,360</b>	<b>1,331</b>

In local currency terms, the three businesses in the Rest of Europe combined to produce an increase in revenue of 3.6% on the prior year. Our operations experienced a strong first half performance, delivering 6.5% like-for-like sales growth, which was offset by a decline in the second half of 4.0%. The latter was in part impacted by the negative news associated with the restructuring activity affecting the supply of stock. These combined to deliver a full year increase in like-for-like sales of 1.2% (2017: 2.5%).

The reported growth of 8.9% has three component parts:

1. Sales of products – Whilst we experienced single digit growth in the Republic of Ireland, this was more than offset by a decline in sales in the Netherlands and Belgium. The latter being a result of changes made to the promotional strategy in the first half that failed to improve average transaction values and resulted in lower customer numbers. It took time to reverse these changes, and ultimately resulted in the decision to change the leadership of the business. The net result was a fall in product revenue of 5.0% in local currency terms.
2. Sales of services – Dutch sales were boosted by the addition of service related income which added 8.6% to total segment revenue growth. Previously, the customer paid third party fitters directly but, following a change in legislation, this is now invoiced to the customer at the time of the order and the Company then pays the independent fitter, after deducting an administration fee.
3. Currency translation – the effect of movements in exchange rates added 5.3% to revenue growth on conversion to reported currency.

The number of stores decreased by three during the year, having opened six and closed nine during the period, including three relocations. The associated trading space reduced by 2.1%. The average store size was broadly unchanged at 9,859 sq ft at the year end (2017: 9,855 sq ft).

Gross profit percentage decreased 500 basis points to 52.2%, primarily as a result of a legislation change in the Netherlands requiring us to include the cost of fitting in our sales for the first time, which is at a single digit margin, in line with existing practice in Belgium. Our expectations are for margin to increase of up to 100bps in the next financial year.

The combination of the revenue growth offset by rate declines led to cash gross profit in local currency terms decreasing by 5.4%. After taking into account exchange rate movements this resulted in a decrease of 0.7% in reported currency.

Operating costs (excluding depreciation and amortisation) in local currency increased by 5.3%, a combination of inflationary impacts on employment and rental costs. Utilisation of previously made onerous lease provisions remained flat at £1.2m (2017: £1.2m). In reported currency, costs increased by 10.8% to £40.0m.

The combination of the above factors resulted in underlying EBITDA decreasing by 56.7% in local currency, which translated to a decrease of 54.5% in reported currency of £4.2m to £3.5m (2017: £7.7m).

## Strategic report continued

## Financial review continued

### Net finance charges and taxation

Net finance charges for the period increased by £0.8m to £2.8m (2017: £2.0m). Of this, £0.3m was the result of a higher level of bank borrowings during the year with the average level being £30.7m (2017: £10.2m). The remaining £0.5m increase relates to amortisation of fees associated with the shareholder loan agreed in March 2018. This loan was repaid on 13 June 2018 and as a result, the residual element of these fees of £1.5m will be a charge in the first half of the next financial year ending 27 April 2019.

Subsequent to the year end, the Company has extended the maturity date of its £45m revolving credit facilities to 31 December 2019 and the lenders have committed the overdraft facilities of £7.5m and £2.4m to the same date. The fees associated with this transaction were £0.5m and paid in May 2018. These will be fully amortised over the course of the next financial year.

On 11 May 2018, the Company fully utilised the draw down on a loan note from a shareholder of £17.25m. The £2.4m of fees associated with this transaction were paid in May 2018 and will be amortised over the life of loan to 31 July 2020. The interest on this loan is 18.0% pa compounding monthly, to be paid on the maturity date of the loan. The interest charge on this loan is expected to be £3.3m in the next financial year ending 27 April 2019 and £4.0m in the financial year ending 26 April 2020.

The effective tax rate for the year was a credit of 9.0% (2017: charge of 22.6%), a variance of 28.0% compared to the UK corporation tax rate of 19.0% due to the effects of non-deductible items, overseas tax rates and other permanent differences. The 31.6% decrease from last year's rate is predominantly due to material loss in the current period in the UK, an increase in non-deductible items and one-off non-deductible items recognised in the year.

### Separately reported items

The Group makes certain adjustments to statutory profit measures in order to help investors understand the underlying performance of the business. These adjustments are reported as separately reported items. The Group recorded a net charge of £61.8m (2017: £13.5m).

	2018 £m	2017 £m
<b>Underlying (loss)/profit before tax</b>	<b>(8.7)</b>	<b>14.4</b>
<b>Non-cash items</b>		
Impairment of goodwill	(34.7)	–
Freehold property (impairment)/reversal	(5.1)	2.2
Store asset impairment	(5.7)	(0.4)
Net onerous lease charge	(2.3)	(11.0)
Release of fixed-rent accruals and lease incentives	2.8	–
<b>Restructuring costs</b>		
Redundancy provisions	(3.8)	–
Store closure costs associated with CVA	(2.0)	–
Professional fees	(6.4)	–
<b>Loss on disposal of properties</b>	<b>(1.7)</b>	<b>(1.9)</b>
<b>Strategy</b>		
Store refurbishment – asset write-offs	(0.6)	(1.4)
ERP dual running costs	(1.5)	–
<b>Other</b>		
Share based payments	(0.5)	(1.0)
Legacy pension costs	(0.3)	–
<b>Total separately reported items</b>	<b>(61.8)</b>	<b>(13.5)</b>
<b>Statutory (loss)/profit before tax</b>	<b>(70.5)</b>	<b>0.9</b>

### Non cash items

The Group performed an impairment review over its goodwill, freehold properties and store fixed assets in accordance with IAS 36, following recent trigger events. The Group's goodwill balances relate to historical acquisitions of UK and Dutch businesses and the carrying value has been compared to the expected future discounted cash flows of the individual cash-generating units. Following a revision of the outlook for the underlying business units, an impairment of £34.7m has been recognised, comprising £29.8m relating to UK acquisitions and £4.9m in the Netherlands. Freehold and investment properties were impaired by £5.1m, driven by a difficult commercial rental market in the Netherlands and a revised downward view of market rents and yields across the UK and the Netherlands. Store fixed assets of £5.7m were impaired as a result of underlying store performances and those stores earmarked for closure under the CVA arrangements.

A strategic review of the store portfolio as part of the CVA procedures initiated during the year resulted in a revised assessment of the onerous lease costs for loss-making stores. The impact of these judgments is a net charge of £2.3m (2017: £11.0m). This charge reflects changes in property costs and lease length of onerous leases for UK stores as a result of the implementation of the CVA. A £13.9m provision for onerous leases remained on the balance sheet at the year end 2018. Of this, £4.8m is expected to be utilised against UK stores earmarked for closure during the first half of the financial year 2019. The remaining £9.1m is associated with UK stores not subject to the CVA and stores in the Republic of Ireland. It is expected that the majority of this will be utilised over a period of four years.

In line with IAS 17 the Group has reassessed the expected cash flows over the remaining life of the lease in stores earmarked to close as part of the CVA procedure. As a result, a credit of £2.8m relating to the release of previously accrued lease incentives and fixed rent reviews associated with these stores has been recognised during the year.

### Restructuring costs

A provision for redundancy costs of £3.8m has been created at year end. These relate directly to roles likely to become redundant under previously announced plans to restructure our stores trading estate and associated central support functions in conjunction with the CVA approved in April 2018. A further £2.0m of costs directly associated with the closure of affected stores has also been provided. A total of £6.4m of professional fees were incurred as a result of administering the CVA and restructuring processes during the period.

### Loss on disposal of properties

A net loss of £1.7m was made on the disposal of five properties during the year (2017: £1.9m loss). The loss relates principally to a combination of surrender premiums paid and asset write offs.

### Strategy

As part of the store refurbishment programme, £0.6m (2017: £1.4m) of assets have been written off due to being replaced.

The Group has continued to incur dual running costs as it replaces legacy IT systems and transitions to a new ERP platform. Historically, these types of cost would have been capital spend but with the switch to cloud-based software services, these are classified as operating expenditure. Due to the quantum and one-off nature of the project, these costs have been reported as separately reported items.

### Other

In light of the variable nature of employee share based payments, these have been classified as separately reported items. This also allows for greater visibility of these charges in the financial statements. A charge of £0.5m was incurred during the period (2017: £1.0m).

The tax impact of the separately reported items is a credit of £2.2m (2017: credit of £3.1m).

The total cash impact of separately reported items is an outflow of £12.8m (2017: £1.2m inflow).

Strategic report continued

Financial review continued

## Earnings per share

Underlying loss per share was 6.8p (2017: 16.4p earnings per share), reflecting the fall in underlying profitability of the Group.

Basic loss per share was 94.6p (2017: 1.0p earnings per share).

## Dividend

The Board continues to prioritise the use of cash for the acceleration of the turnaround strategy principally by investing further in the existing store estate. Based on the Group's current outlook and the restrictions on payment of dividends under the banking facilities and the loan note, the Directors do not expect this position to change prior to the maturity of the loan note on 31 July 2020. However, the intention is to return to paying a dividend when the Company has sufficient distributable reserves and the Directors believe it is financially prudent to do so.

## Balance sheet

The Group had net assets of £19.3m at the end of the period (2017: £78.0m), a year-on-year decrease of £58.7m.

	28 April 2018	29 April 2017
Freehold & long leasehold property	54.6	60.3
Tangible assets	54.6	57.0
Intangible assets	27.0	57.3
Other non-current assets	2.7	2.3
<b>Non-current assets</b>	<b>138.9</b>	<b>177.0</b>
Inventories	35.7	41.1
Trade debtors	11.9	12.7
Prepayments and accrued income	12.2	11.8
Other debtors	1.3	1.3
<b>Current assets</b>	<b>61.1</b>	<b>66.9</b>
Trade payables	(29.1)	(51.0)
Rent and rates accruals	(2.9)	(2.8)
Taxation and social security	(11.0)	(10.2)
Other creditors and accruals	(26.4)	(19.9)
Provisions	(10.6)	-
Corporate tax payable	(0.8)	(1.7)
<b>Creditors &lt; 1 year</b>	<b>(80.8)</b>	<b>(85.7)</b>
Deferred tax provision	(9.0)	(15.2)
Pension deficit	(0.8)	(3.2)
Provisions	(9.1)	(17.5)
Other long-term creditors	(28.0)	(34.5)
<b>Creditor &gt; 1 year</b>	<b>(46.9)</b>	<b>(70.4)</b>
Cash	4.8	5.4
Loans	(56.0)	(13.0)
Finance leases	(1.8)	(2.2)
<b>Net debt</b>	<b>(53.0)</b>	<b>(9.8)</b>
<b>Net assets</b>	<b>19.3</b>	<b>78.0</b>



### Non-current assets

The Group owns a significant property portfolio, most of which is used for retail purposes. The carrying value of these properties reduced by £5.7m to £54.6m as at the balance sheet date. As noted previously, the Group performed an impairment review over its freehold and investment properties and store fixed assets in accordance with IAS 36, following recent trigger events, resulting in an impairment of £5.1m, driven by a difficult commercial rental market in the Netherlands and a revised downward view of market rents and yields across the UK and the Netherlands. During the period, one freehold property disposal was completed. The carrying values are supported by a combination of value-in-use and independent valuations.

Tangible assets reduced by £2.4m primarily a result of £14.0m of additions linked to store refurbishments and new store openings, offset by £9.9m depreciation and £5.4m asset impairment charge.

The intangible assets reduction of £30.3m is primarily a result of the impairment of goodwill associated with acquisitions disclosed above.

### Current assets

The reduction in stock holding of £5.4m was a consequence of a combination of lower turnover, fewer stores and most significantly a tightening of credit terms by suppliers following news of the Group's restructuring activity.

#### Creditors less than one year

Trade payables reduced by £21.9m reflecting an adverse movement in credit terms with suppliers, as mentioned above, and lower sales volume. This movement was partially offset by a £6.5m increase in accruals linked to the timing of the monthly payroll and professional fees relating to the restructuring plans. Average trade creditor days at the year end date were 63 days (2017: 108).

#### Creditors greater than a year

The deferred tax provision reduced by £6.2m as a result of tax credits from the recognition of a deferred tax asset as a result of the losses incurred during the year and from the impairments recognised in the UK and the Netherlands.

At 28 April 2018, the IAS 19 net retirement benefit deficit was £0.8m (2017: £3.2m). Under the technical provision basis the Group's schemes would have a £0.8m surplus resulting from a reduction in scheme liabilities combined with increases in the market value of scheme assets and company contributions. However, application of the 'asset ceiling' under IAS 19 results in the Group de-recognising the £1.4m surplus from the Storey's scheme. An additional £0.2m funding commitment for the scheme was also provided. The discount rate was 2.5% (2017: 2.5%), reflecting prevailing corporate bond rates. The scheme was closed to future accrual with effect from 1 May 2010. Following the triennial valuation as of 5 April 2017, the Company agreed a recovery plan with the Trustees on 12 June 2018. The Company made deficit contributions of £0.9m in the period and it is expected it will continue at this level in the next financial year.

Provisions increased by £2.2m to £19.7m. This was a combination of a £5.8m increase associated with restructuring costs, offset in part by a net reduction on onerous lease provisions of £3.6m. £10.6m of this balance will be utilised during the next financial year and is therefore presented within creditors less than one year.

Other long-term creditors declined by £6.5m reflecting standard utilisation of lease inducements and the release of a further £2.8m of inducements related to the shortening of the remaining lease length of stores impacted by the CVA, as disclosed above under separately reported items.

As a consequence of the continued focus on managing the estate to reduce square footage, eliminate store catchment overlap and implementing the CVA, operating lease liabilities for land and buildings had reduced to £408.0m (2017: £531.9m).

## Strategic report continued

## Financial review continued

### Cash flow

The Group's net debt at 28 April 2018 was £53.0m, an adverse movement of £43.2m (2017: £9.8m debt), with the average net debt being £30.7m over the financial year (2017: £10.2m).

	2018 £m	2017 £m
<b>Underlying operating (loss)/profit</b>	<b>(5.9)</b>	<b>16.4</b>
Depreciation & amortisation	12.3	12.2
Decrease in stock	5.7	1.0
Increase in working capital	(22.7)	(13.6)
Net expenditure on exit of operating leases	(1.9)	(2.2)
Restructuring costs	(2.6)	-
Contributions to pension schemes	(0.9)	(0.9)
Provisions paid	(5.5)	(5.2)
<b>Operating cash flows</b>	<b>(21.5)</b>	<b>7.7</b>
Net interest paid	(1.8)	(1.3)
Corporation tax paid	(1.4)	(0.9)
Net capital expenditure	(19.9)	(14.0)
<b>Free cash flows</b>	<b>(44.6)</b>	<b>(8.5)</b>
Other	1.4	(0.2)
<b>Movement in net debt</b>	<b>(43.2)</b>	<b>(8.7)</b>
Opening net debt	(9.8)	(1.1)
<b>Closing net debt</b>	<b>(53.0)</b>	<b>(9.8)</b>

The working capital outflow of £22.7m was attributable to a decrease in trade payables of £21.9m from accelerating payments to suppliers as credit terms were reduced, lease inducements utilisation of £4.8m (including the £2.8m release as a result of CVA as disclosed in note 5), offset by an increase in the payroll accrual by £4.4m as the calendar for the April pay day resulted in this being paid on the first business day of the new financial year.

Gross capital expenditure was £20.2m (2017: £17.4m). In the first half of the year the gross spend was £13.1m (2017: £7.9m), however, the programme of activity was reduced in the second half as actions were taken to conserve cash in the light of the trading performance. After allowing for proceeds from freehold property disposals, net capital expenditure was £19.9m (2017: £14.0m).

The major element of the expenditure was the investment in store refurbishments, with 227 now completed in the UK and a further 27 stores in the Netherlands and Belgium. The expenditure within IT is a combination of the replacement legacy systems onto a new ERP platform and replacement of the stores hardware and network infrastructure in the Netherlands and Belgium.

	2018 £m	2017 £m
Refurbishment	(13.0)	(12.2)
New stores & relocations	(1.6)	(2.0)
IT	(4.6)	(1.7)
Support offices & warehouse	(1.0)	(1.5)
Gross capital expenditure	(20.2)	(17.4)
Proceeds from freehold property disposals	0.3	3.4
Net capital expenditure	(19.9)	(14.0)

In the next financial year, our expectation is for capital expenditure to be approximately £12m focused on the continued refurbishment of stores.

## Current liquidity

Gross bank borrowings at the balance sheet date were £46.8m (2017: £20.1m), being a combination drawn down from overdraft and revolving credit facilities. The Group had further undrawn facilities of £7.8m at the balance sheet date. In addition, the Group held gross cash balances of £6.6m. The combination of these resulted in net bank borrowings of £40.2m, providing total headroom against bank facilities of £14.4m. With the addition of £1.8m of finance leases (2017: £2.2m) and a new £12.5m shareholder loan (£11.0m, net of fees), the Group closed the year on £53.0m of net debt, being £43.2m higher than year end 2017.

Due to the sharp reduction in trade during the year the Group faced significant pressure in achieving the final covenant tests at April 2018 for which the Group sought and received waivers from its principal lending banks. To address the liquidity issue, in the period after the balance sheet date, but before the signing of these accounts, the Group took a series of actions to recapitalise the business to provide a strong platform to continue the turnaround of the business:

- Secured a loan note of £17.25m from a shareholder, which matures in July 2020.
- Raised £65.1m of gross equity in the form of cash via a Placing and Open Offer.
- Repaid the first shareholder loan of £12.5m.
- Agreed new facilities with its principal lending banks whereby the £45m RCF remains in place, approximately £10m of overdrafts become committed and, subject to terms, all facilities continued to be available until December 2019. The three main financial covenants within the banking arrangements assess underlying EBITDA, debt levels and fixed-charge cover.

As a result of the above, the Group has access to total committed debt facilities of approximately £72m through to December 2019.

## Going concern

The Group meets its day to day working capital requirements through its bank facilities and a non-bank loan. The principal banking facility includes a revolving credit facility of £45.0m, a Sterling overdraft of £7.5m and a euro overdraft of €2.4m, all of which are committed to the end of December 2019. The non-bank loan of £17.3m is committed to July 2020. The three main financial covenants within the banking arrangements assess underlying EBITDA, debt levels and fixed-charge cover. Given the recent trading performance, headroom against the EBITDA covenant is expected to be the most sensitive both at present and over the course of the next twelve months. The forecasts have been updated for actual trading to week seven and latest view of trading to the end of June 2018. Trading for this period has been particularly challenging involving a number of factors including the combined impact of hot weather, the Royal Wedding and a shortage of inventory while arrangements with suppliers were resolved. The forecasts have been sensitised to reflect these conditions continuing.

As part of the Board's assessment of going concern, trading and working capital requirements, forecasts have been prepared covering a 12 month period from June 2018. These forecasts have been subjected to a sensitivity testing which, while not anticipated by the Board, reflects a continuation of the very recent challenging trading conditions throughout the whole of this forecast 12 month period.

The most critical assumption when assessing the covenant is the expected level of revenues and gross margin and, having experienced a severely disruptive recent trading period for the reasons described above, the Board challenged itself on the appropriate levels to use in this assessment. The Board also considered mitigating actions which could be implemented.

The Directors have also considered the future cash requirements of the Group and are satisfied that the facilities are sufficient to meet its liquidity needs.

If the Group's sensitised forecast is not achieved, there is a risk that the Group might not meet the EBITDA covenant and, should such a situation materialise, the Group would have discussions with its bank lenders in order to ensure it continues to comply with the terms of its bank facilities. Without the support of the banks in these circumstances, and assuming no additional financing, the Group and Parent Company would be unable to meet their liabilities as they fall due. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Whilst recognising the inevitable uncertainties of the current retail market and the Group's restructuring, the Directors confirm that, after considering the matters set out above, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a minimum of 12 months following the signing of these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### Neil Page

Chief Financial Officer  
26 June 2018

# Managing risk

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

We are confident that the current risk management process is robust, and this has been of vital importance during this particularly challenging financial year. Having identified the significant downturn in trade post-Christmas, the Company took mitigation actions to secure the future of Carpetright as a going concern. These included: announcing the expectation to report a small underlying pre-tax loss for the financial year ending 28 April 2018 on 1 March 2018, securing a £12.5 million loan from an existing shareholder, Meditor, to assist with short-term working capital requirements, and exploring the feasibility of a range of options before proceeding to launch a Company Voluntary Arrangement on 12 April 2018. This was followed by a Placing and Open Offer to raise not less than £60 million to recapitalise the Group which was launched on 18 May 2018 and successfully concluded on 8 June 2018.

## General approach to risk management

Carpetright recognises that effective business management requires regular review of business risks. The Group has established a flexible and practical framework, sponsored by senior executives, which aims to identify and manage the principal risks that may prevent it from achieving the Group's strategic objectives.

## The Board and Audit Committee

The Board has overall responsibility for the Group's risk appetite, more details of which can be found on page 27. It also has overall responsibility for the system of internal control and for reviewing its effectiveness. In order to fulfil this responsibility, the Directors have established an organisational framework with clear operational procedures, lines of responsibility and delegated authority which has operated throughout the year under review and up

to the date of approval of the Annual report and accounts.

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

The Audit Committee assists the Board through its work covering the Group's system of internal controls, the assessment of risks and related compliance activities. This includes the Committee's oversight of the Group's Internal Audit department, which:

- undertakes its work, both on central functions and in the field, based on a risk assessment model; and
- monitors adherence to the Group's key policies and principles.

The Audit Committee reports to the Board on its activities and makes recommendations and escalates significant risks or issues to the Board as appropriate. Its role is described in more detail on pages 30 to 34.

The Board has reviewed the Group's systems of internal control including financial, operational and compliance controls as well as risk management, and is satisfied that these accord with the guidance on internal controls set out in the Guidance on Risk Management, Internal Control and Related Financial and Business Control, issued by the Financial Reporting Council in September 2014.

## Identification of business risks

An Executive Risk Committee ('ERC') comprising the Executive Directors and senior managers exists to review key risk

and control issues, and the Group's principal risks are individually sponsored by a member of the ERC. The ERC met three times during the year reported.

The ERC identifies and assesses risks to the Group's medium-term strategy and directs the risk management processes within both the UK and the Rest of Europe to address each of the identified risks, formulate a mitigation strategy and assess the likely impact of such risk occurring. The Chief Financial Officer provides regular reports to the Audit Committee in relation to its work.

The ERC also considers new and emerging risks as a standing agenda item, including those identified by the Board of Directors. The Committee has also reviewed the ranking of the business's key strategic risks during the year to ensure that this remains an appropriate reflection of their relative standing. The principal risks and uncertainties affecting the business are set out on pages 21 to 23.

## Oversight and assurance

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

The Company Secretary and Legal Director is responsible for maintaining and developing the Group's framework of governance, including our anti-bribery policy and whistleblowing process, alongside ensuring that any changes to the Group's legal obligations are brought to the attention of the relevant teams who are responsible for the implementation of any changes.

The Internal Audit department provides independent assessment on the robustness and effectiveness of the systems and processes of risk management and control across the Group.

It achieves this through undertaking reviews which are reported to and approved by the Audit Committee. The Group also uses the services of independent third-party advisers and consultants to review controls and processes where the nature of the review requires expertise not available in-house.

## Principal risks and uncertainties

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

The Group uses its risk management process as described on page 18 to identify, monitor, evaluate and escalate such issues as they emerge, enabling management to take appropriate action wherever possible in order to control them and also enabling the Board to keep risk management under review.

The risk factors addressed on pages 21 to 23 are those which are believed to be the most material to its business model, which could adversely affect the operations, revenue, profit, cash flow or assets of the Group and which may prevent us from achieving the Group's strategic objectives. Additional risks and uncertainties currently unknown, or which are currently believed immaterial, may also have an adverse effect on the Group.

## Viability statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the Board has assessed the prospects of the Company over a longer period than the twelve months from the date of approval of the financial statements.

The Board conducted the review for a three-year period to April 2021, corresponding with the period over which the Group's various growth initiatives are anticipated to have a key impact and aligned to the Group's planning cycle. These plans are updated annually taking into account the current and prospective macro-economic conditions and the competitive tension that exists in the markets that we trade in. The plans consider profits, cash flows, funding requirements and other key financial ratios over the period, as well as the headroom on liquidity and the financial covenants contained in our banking arrangements.

Important assumptions underlying the plans include:

- funding in the form of capital markets debt or bank debt will be available in all plausible market conditions; and
- following the UK's vote to leave the European Union, the terms of exit are such that Carpetright will be able to continue to operate and source product competitively in the same European markets as it presently does.

Over the past six months the challenging trading environment resulted in the Group announcing a Company Voluntary Arrangement, securing additional loans and then successfully recapitalising by completing a Placing and Open offer. At the same time, the terms of the banking facilities were revised with an extension to the maturity and amendments to covenants. This experience provided valuable insight to the Board into the significance and impact of risks faced by the Group. This learning has been incorporated into the testing of future plans. This assessment included sensitivity and stress testing analysis on the impact of reduced revenues; a decrease in gross margin; and a reduction in credit terms with suppliers, both individually and in unison, alongside the existence and effectiveness of any mitigating actions that would be reasonably taken. As a result, the Board concluded that the business would remain viable over the three-year period of the plan.

Based on the outcome of this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

## Going concern

The Group meets its day to day working capital requirements through its bank facilities and a non-bank loan. The principal banking facility includes a revolving credit facility of £45.0m, a Sterling overdraft of £7.5m and a euro overdraft of €2.4m, all of which are committed to the end of December 2019. The non-bank loan of £17.3m is committed to July 2020. The three main financial covenants within the banking arrangements assess underlying EBITDA, debt levels and fixed-charge cover. Given the recent trading performance, headroom against the EBITDA covenant is expected to be the most sensitive both at present and over the course of the next twelve months. The forecasts have been updated for actual trading to week seven and latest view of trading to the end of June 2018. Trading for this period has been particularly challenging involving a number of factors including the combined impact of hot weather, the Royal Wedding and a shortage of inventory while arrangements with suppliers were resolved. The forecasts have been sensitised to reflect these conditions continuing.

As part of the Board's assessment of going concern, trading and working capital requirements, forecasts have been prepared covering a 12 month period from June 2018. These forecasts have been subjected to a sensitivity testing which, while not anticipated by the Board, reflects a continuation of the very recent challenging trading conditions throughout the whole of this forecast 12 month period.

## Strategic report continued

### Managing risk continued

The most critical assumption when assessing the covenant is the expected level of revenues and gross margin and, having experienced a severely disruptive recent trading period for the reasons described above, the Board challenged itself on the appropriate levels to use in this assessment. The Board also considered mitigating actions which could be implemented.

The Directors have also considered the future cash requirements of the Group and are satisfied that the facilities are sufficient to meet its liquidity needs.

If the Group's sensitised forecast is not achieved, there is a risk that the Group might not meet the EBITDA covenant and, should such a situation materialise, the Group would have discussions with its bank lenders in order to ensure it continues to comply with the terms of its bank facilities. Without the support of the banks in these circumstances, and assuming no additional financing, the Group and Parent Company would be unable to meet their liabilities as they fall due. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Whilst recognising the inevitable uncertainties of the current retail market and the Group's restructuring, the Directors confirm that, after considering the matters set out above, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a minimum of 12 months following the signing of these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

# Principal risks and uncertainties

Description	Possible impacts	Mitigation actions
<b>Customer proposition and changing customer preferences</b> <span style="float: right;">1 2 3 4</span>		
Failure to anticipate and plan for changes in consumer tastes could have a material effect on future operations and financial performance	<ul style="list-style-type: none"> <li>– Failure to deliver our business objectives</li> <li>– Loss of revenue</li> <li>– Diminished reputation</li> <li>– Reduction in market share</li> <li>– Reduction in customer service levels</li> </ul>	<ul style="list-style-type: none"> <li>– Established and communicated a clear strategy</li> <li>– Prioritise investment in both our existing estate and online platforms</li> <li>– Strengthened customer feedback processes to help improve our offering</li> <li>– Complete regular customer research</li> <li>– Frequently introduce new and exclusive product ranges</li> </ul>
<b>Economic uncertainty</b> <span style="float: right;">2 3</span>		
<p>Consumers need to feel confident to invest money in their homes. In the event of a significant reduction in house prices, housing transactions or consumer confidence, the Group would expect this to adversely impact on its performance</p> <p>One of the key assumptions underlying the Group's three-year plan is that following the UK's vote to leave the European Union, the terms of exit are such that Carpetright will be able to continue to operate and source product competitively in the same European markets as it presently does</p>	<ul style="list-style-type: none"> <li>– Failure to deliver our business objectives</li> <li>– Loss of revenue</li> <li>– Reduced long-term growth and profit</li> </ul>	<ul style="list-style-type: none"> <li>– Provide a broad range of products and price points in our categories to make it easy for our customers to trade up or down</li> <li>– Detailed sales information by product and by store is reviewed weekly, enabling changes to prices, incentive structures and marketing activity to optimise sales</li> <li>– The Group's interest free credit offer allows customers to spread cost into affordable monthly payments</li> <li>– Review the potential to source more product from the UK or outside of the EU</li> </ul>
<b>Financial risk and liquidity</b> <span style="float: right;">1</span>		
The Group risks exposure to exchange rate, interest rate, liquidity and credit risks having an adverse or unexpected impact on results, funding requirements or purchasing ability	<ul style="list-style-type: none"> <li>– Failure to deliver our business objectives</li> <li>– Reduced long-term growth and profit</li> <li>– Suppliers failure to obtain credit risk insurance leading to adverse impact on Group's cash position</li> </ul>	<ul style="list-style-type: none"> <li>– Supplier agreements in place to mitigate the impact of a movement in exchange rates</li> <li>– Active management of our financial position to ensure that funding requirements are being met</li> <li>– Bank covenant tests are regularly monitored</li> <li>– Committed bank facilities have been agreed and extended to December 2019</li> <li>– Developed relationships with a number of credit insurers through regular communication</li> </ul>
<b>Property portfolio</b> <span style="float: right;">4</span>		
Property costs form a significant part of our fixed cost base and as such all decisions in this area have an impact on the long-term value of the business	<ul style="list-style-type: none"> <li>– Reduced long term growth, profit and cash flow</li> </ul>	<ul style="list-style-type: none"> <li>– The Group continuously reviews the location and format of its stores and their contribution to the overall results</li> <li>– Implementation of the CVA will rationalise the UK property portfolio, significantly reducing the number of locations on unsustainable rental agreements, and provide greater flexibility to exit leases on lower profit contributors</li> <li>– Continue to invest in the modernisation and refurbishment of stores</li> <li>– Continue to utilise a detailed location planning model which aids our understanding of store catchments and customer demographics</li> <li>– Consult external advisers, where appropriate, to provide expert advice and inform decision making</li> </ul>

## Strategic report continued

### Principal risks and uncertainties continued

Description	Possible impacts	Mitigation actions
<b>Brand, reputation and product</b> <span style="float: right;">1 2 3</span>		
The Carpetright name is a key asset of the business and, as the largest operator in its markets, expectations of the Group are high	<ul style="list-style-type: none"> <li>– Failure to deliver our business objectives</li> <li>– Diminished reputation</li> <li>– Loss of revenue</li> <li>– Loss of consumer trust and confidence</li> <li>– Inability to recruit the best people</li> </ul>	<ul style="list-style-type: none"> <li>– The Group works closely with its suppliers to ensure the products it sells are of the highest quality and meet the organisation's required ethical and safety standards</li> <li>– Invest in marketing designed to communicate our credentials on range, choice and value, driving brand awareness and customer visits to store or online</li> <li>– Achieved 'Which? Trusted Trader' status in the UK for the recommended fitting services</li> <li>– Regularly engage with our customers and act upon their feedback</li> </ul>
<b>Competition</b> <span style="float: right;">1 2 3 4</span>		
The Group competes with a wide variety of retailers across multiple channels and across a broad spectrum of price points	<ul style="list-style-type: none"> <li>– Failure to deliver our business objectives</li> <li>– Loss of revenue</li> <li>– Reduced long-term growth and profit</li> </ul>	<ul style="list-style-type: none"> <li>– Invest in marketing designed to communicate our credentials on range, choice and value</li> <li>– Continuous monitoring of customer service, product and advertising performance and competitor activity</li> </ul>
<b>People</b> <span style="float: right;">1 3</span>		
The Group relies upon attracting and retaining talented and appropriately qualified people in order to deliver its long-term objectives	<ul style="list-style-type: none"> <li>– Reduced long-term growth and profit</li> <li>– Reduced customer service levels</li> <li>– Inadequate succession planning</li> </ul>	<ul style="list-style-type: none"> <li>– Recruit, train and develop a suitably skilled and qualified team</li> <li>– Senior management provide regular business updates</li> <li>– Monitor remuneration packages within our markets to ensure they are fair and competitive</li> </ul>
<b>IT performance and cyber-security</b> <span style="float: right;">1 3 4</span>		
Carpetright is dependent on the reliability, availability, capability and security of key information systems and technology	<ul style="list-style-type: none"> <li>– Diminished reputation</li> <li>– Loss of revenue</li> <li>– Loss of consumer trust and confidence</li> <li>– Reduction in customer service levels</li> </ul>	<ul style="list-style-type: none"> <li>– Active management of our systems</li> <li>– Reviewed and tested continuity plans</li> <li>– Developed separate disaster recovery facilities</li> <li>– Regular systems' testing by third parties to provide assurance as to their security</li> <li>– Commenced a transition from legacy systems to new Microsoft Dynamics365 platform</li> </ul>



Description	Possible impacts	Mitigation actions
<b>Business continuity planning</b> <span style="float: right;">1 3</span>		
A major incident, such as a key system or supplier failure, could impact the ability of the Group to continue trading	<ul style="list-style-type: none"> <li>– Failure to deliver our business objectives</li> <li>– Loss of revenue</li> <li>– Diminished reputation</li> </ul>	<ul style="list-style-type: none"> <li>– Developed separate disaster recovery facilities</li> <li>– Reviewed and tested continuity plans</li> <li>– The Group has long-established and good working relationships with its key suppliers</li> <li>– Actively monitor the supply base to identify exposures and identify appropriate contingency solutions</li> </ul>
<b>Legal, regulatory and compliance</b> <span style="float: right;">1 3</span>		
The Group risks incurring penalties, damages, claims and reputational damage arising from failure to comply with legislative or regulatory requirements across many areas including, but not limited to, trading, health and safety, employment law, data protection, Bribery Act, advertising, human rights and the environment	<ul style="list-style-type: none"> <li>– Diminished reputation</li> <li>– Reduced long-term growth and profit</li> </ul>	<ul style="list-style-type: none"> <li>– Operate a number of policies and codes of practice outlining mandatory requirements</li> <li>– Management is responsible for liaising with the Company Secretary and external advisers to ensure that potential issues from new legislation are identified and managed</li> <li>– All employees are issued with an Employee Handbook. We have a whistle-blowing procedure and external helpline which enables colleagues to raise concerns in confidence</li> </ul>

**Link to Strategy**

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

# Corporate responsibility

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

Our Corporate Responsibility (CR) policy is designed to support our objectives and strategy. There are three areas of focus and further details of our progress in each area can be found below:

- Our communities – how we treat our customers, and give back to the communities in which we operate
- Our workplace – the Group's policies and actions towards our colleagues and supply chain; and
- Our environment – the impact we have on the environment and how we are seeking to reduce this

Wif Walsh is the director responsible for CR.

## Our communities

Corporate Responsibility starts with our relationship with customers and the interaction we have with the communities in which we operate.

### Our customers

We take customer service seriously, and, in the autumn of 2017, we launched training for all colleagues on the 'customer journey', giving a framework to each interaction to ensure higher levels of consistency across our store estate. Our customers are invited to rate and provide feedback on all three stages of their experience – in-store ordering, estimating and fitting, via a programme known as 'Do we measure up?'. This feedback is immediately available to our store and support office colleagues, where it is used to continually monitor and improve our levels of service.

### Giving back

Since March 2016, following a colleague vote, we have been supporting the British Heart Foundation. The partnership, which is largely centred on colleague fundraising, has raised more than £100,000 this year. Our colleagues in the Republic of Ireland have also raised more than €3,000 for the Irish Heart Foundation. Alongside this, we have trained over 600 colleagues in essential life-saving CPR, so that we may be of help to anybody suffering a cardiac arrest in our stores, homes or neighbourhoods.

## Our workplace

The Group employs over 3,000 people and has some impact on many more via our supply chain. We recognise that matters such as how we treat our colleagues and suppliers, approach diversity and source our products are important to our customers.

### Equal opportunities

The Board believes in creating, throughout the Group, a culture that is free from discrimination and harassment, and will not tolerate discrimination in any form. We are an equal opportunities employer and our people and applicants are treated fairly and equally regardless of their age, colour, creed, disability, full or part time status, gender, marital status, nationality or ethnic origin, race, or sexual orientation. Applications from people with disabilities are always fully considered. Should an individual become disabled while working for the Company, efforts are made to continue their employment and retraining is provided, if necessary.

We believe the attributes of individuals and their different perspectives and experiences add value to our business. We recognise that a diverse workforce will provide us with an insight into different markets and help us to anticipate and provide what our customers want from us.

A breakdown by gender of the number of persons who were Directors of the Company, senior managers and other employees as of 28 April 2018 is set out below.

	Male	Female
Directors	5	1
Senior managers	8	2
Other employees	2,394	772
Total	2,407	775

### Our Gender Pay Gap

We take equality seriously, and we recognise the importance of the new legislation that has led to publishing Gender Pay Gap reports for the first time in 2017. Our mean gender pay gap, as of the reporting date of 5 April 2017, is +8.1% and our median gap is +6.5%.

Whilst we're pleased to report that both figures are significantly lower than the national average and the average for the retail industry, we're keen to address this gap and ensure equality across all levels at Carpetright.

It is our ambition to attract more females into our business and we continually review our HR policies and recruitment practices to ensure we are increasingly inclusive.

Over the last few years we've been focused on modernising our business, addressing every aspect including who we are, what we sell, where we sell and how we sell. This has clearly helped to drive some change – five years ago our business was 82% male and today we're down to 75%

The full report can be found on our website [www.carpetright.plc.uk](http://www.carpetright.plc.uk).

### Training and development

Over the last 12 months we have invested significantly in training and developing our people, providing the opportunity for all colleagues to increase their skills and, where relevant, develop their careers. We have continued to provide both mandatory and colleague-led training via our social learning platform, Fuse. This has included training in relation to health and safety, Interest Free Credit, product knowledge, customer service, management skills and personal development.

In June 2017 we launched our Carpetright Academy 'Apprenticeship Programme' which has led to over 60 colleagues currently completing ILM Management Diplomas.

### 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 include surveys, management briefings, briefings to stores and offices, annual events, store visits and video updates. We continue to benefit from increased engagement due to the use of Fuse, our social learning and communications tool, which allows for real-time interaction of colleagues at all levels and functions. Additionally, all annual results and interim management statements are made available in real-time on this platform.

### Share ownership

All colleagues have an opportunity to invest in the Company's shares through a Savings Related Share Option Scheme. Over 500 colleagues participate in this scheme.

### Bribery and whistleblowing

As a responsible employer we maintain a firm stance against any type of corruption within the business. There is a Group-wide Anti-Bribery and Corruption Policy in place which requires compulsory Anti-Bribery compliance and a copy of the Policy is circulated to all new starters when they join the business.

The Group operates whistleblowing hotlines through third party providers enabling matters of concern to be raised with the Company on a named or anonymous basis. Further details can be found in the Audit Committee report on page 33.

### Health and safety

We operate an established process for risk assessment and employees are expected and encouraged to be proactive on health and safety issues. Health and Safety Committees meet to review any issues to identify, prevent and mitigate against potential risks. We investigate all accidents and recommend changes to working practices, additional colleague training and disciplinary action as and when appropriate. There have not been any fatalities this year (2017: nil).

We have received notification of 138 accidents across the Group during the year, compared to 144 in the prior year. Of these, 128 were in the UK with the remaining 10 occurring in Europe and Republic of Ireland.

### Human rights and modern slavery

We do not have a specific human rights policy at present, but we do have policies that adhere to international human rights principles. We will review from time to time whether a specific human rights policy is needed in the future, over and above our existing policies. Our statement on modern slavery is on our website [www.carpetright.plc.uk](http://www.carpetright.plc.uk).

### Products and suppliers

We have an Ethical and Environmental Code of Conduct (the Code) to ensure that we have an ethical supply chain and require our suppliers to sign up to the Code. The Code prohibits, for example, animal testing,

the use of timber from non-sustainable sources and the use of certain chemicals which may be harmful to customers.

### Our environment

In line with our strategy of building a sustainable business, we are committed to taking steps to control and minimise any damage our operations may cause to the environment through manufacturing processes, transport, energy usage and packaging. In particular, we are aware of the issue of climate change and we are taking steps to understand and minimise our carbon emissions.

### Energy usage and greenhouse gas emissions

We recognise that the Company benefits through reduced cost and the environment benefits by reducing our consumption of energy and water. The release of greenhouse gases (ghg), notably Carbon Dioxide generated by burning fossil fuels, has an impact on climate change, which presents a risk to both our business and the wider environment. We accept our

responsibility to continually improve our environmental performance.

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

During 2018 we were able to reduce our electricity consumption by introducing LED lighting into our refurbished stores and installing motion-sensor technology to ensure lights are only being used when necessary. So far, we have introduced these energy-saving practices into 65 stores in the UK.

### Non-financial reporting directive guidance

We are committed to operating a sustainable business model and continually evaluate and update our initiatives in line with best practice. While we have discussed progress in each of the key areas above, we do not necessarily have specific, relevant policies in line with the new Non-financial Reporting Directive.

Emission type	CO2e (Carbon Dioxide equivalent) 2018	CO2e (Carbon Dioxide equivalent) 2017	Change
Scope 1: Operation of facilities	7,711.9	8,783.5	(12%)
Scope 1: Company owned vehicles	3,774.7	4,394.4	(14%)
<b>Scope 1: Emissions</b>	<b>11,486.6</b>	<b>13,177.9</b>	<b>(13%)</b>
Scope 2: Purchased energy	14,257.3	16,827	(15%)
<b>Scope 2: Emissions</b>	<b>14,257.3</b>	<b>16,827</b>	<b>(15%)</b>
<b>TOTAL SCOPE 1&amp;2 EMISSIONS (tCO2e)</b>	<b>25,743.9</b>	<b>30,004.9</b>	<b>(14%)</b>

Greenhouse gas emissions intensity ratio:

	2018	2017	Change
Total footprint (Scope 1 and Scope 2)	25,743.9	30,004.9	(14.2%)
Turnover (£m)	443.8	457.6	(3.0%)
Intensity ratio (tCO2/turnover £000)	0.058	0.066	(12.1%)

The 2017 emissions have been re-stated; due to improved data granularity, we have now been able to separately report company vehicles (Scope 1) and employee owned vehicles (Scope 3).

Notes:

1. Our methodology has been based on the principles of the Greenhouse Gas Protocol.
2. Consumption is based on utility bills.
3. We have reported on all the measured emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations. The period used is 1 May 2017 to 30 April 2018.
4. Conversion factors for electricity, gas and other emissions are those published by the Department for Environment, Food and Rural Affairs in 2017 – GHG Conversion Factors for Company Reporting.
5. Refrigerant fugitive emissions have been excluded as the impact was immaterial.

# Corporate governance

**Bob Ivell**  
Non-Executive Chairman

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

## Introduction

One of the Board's key responsibilities is to ensure that the Company is run in the long-term interests of its shareholders and broader stakeholder base. The Group recognises the importance of high standards of corporate governance and is committed to operating within an effective corporate governance framework.

### Application of the UK Corporate Governance Code

The version of the Corporate Governance Code applicable to the current reporting period is the April 2016 UK Corporate Governance Code (the Code). The Code is issued by the Financial Reporting Council and is available for review on its website.

During the financial year ended 28 April 2018, the Company complied with the provisions set out in the UK Corporate Governance Code.

## Governance structure

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

### The Board

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

There were a significant number of meetings in the financial year, with the Board being closely involved and informed in relation to the Group's restructuring. Details of the number of meetings and Board attendance are set out below:

Number of meetings:		23
Executive Directors	Attendance	Meetings eligible to attend
<b>Wulf Walsh</b>	23	23
<b>Neil Page</b>	23	23
Non-Executive Directors	Attendance	Meetings eligible to attend
<b>Bob Ivell (Chairman)</b>	23	23
<b>Andrew Page</b>	23	23
<b>David Clifford</b>	23	23
<b>Sandra Turner</b>	22	23

The Board views that it is appropriately balanced and currently consists of the Chairman, two Executive and three Non-Executive Directors, brief biographies of whom can be found on page 29. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board and this is described in the section concerning the Nomination Committee on page 28.

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

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

A Disclosure Committee comprising the Chief Executive and Chief Financial Officer and attended by the Company Secretary and Legal Director, external lawyers and members of the advisory team met 7 times during the year with full attendance to ensure that the Company was constantly monitoring and ensuring compliance with its disclosure obligations to the market. The Board as a whole also considered a number of matters itself relating to disclosure of information to the market.

## Highlights

During the year the Board:

- approved the investigation and subsequent implementation of a broader restructuring
- reviewed and approved all trading announcements and the interim and final results
- reviewed the competitive market in which the Company operates
- reviewed the financial effect of the store refurbishment programme
- reviewed the terms of reference of its Committees
- approved option grants
- received an update and training on the Market Abuse Regulations and continuing obligations under the Listing Rules
- approved the Statement of Modern Slavery
- received an update concerning the proposed new Corporate Governance Code.

The Non-Executive Directors of the Company play a key governance role and bring an extra dimension to the Board's deliberations. The Board considered the independence of each Non-Executive Director against the criteria specified in the Code and has determined that each remains fully independent.

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

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

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

The Board is responsible for determining its risk appetite and did so in the year. It has regularly reviewed the current assessment of the principal risks compared to the desired level of risk. Further details of the principal risks affecting the Group can be found on pages 21 to 23.

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

All Directors have access to the advice and services of the Company Secretary and the Board has established a procedure whereby Directors may take independent professional advice at the Company's expense. This was utilised once in the year. 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.

Details of the Company's employment practices and gender diversity can be found in the Corporate Responsibility report on pages 24 and 25.

### 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](http://www.carpetright.plc.uk)).

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

of the Committees. The Company provides the Committees with sufficient resources to undertake their duties. The Company Secretary, or his nominee, acts as Secretary to each Committee.

## Board of Directors

### Audit Committee

The role of the Audit Committee, its members and details of how it carried out its duties are set out in the Audit Committee report on pages 30 to 34.

### Remuneration Committee

The role of the Remuneration Committee, its members and details of how it carried out its duties are set out in the Directors' remuneration report on pages 35 to 55.

### Nomination Committee

The role of the Nomination Committee, its members and details of how it carried out its duties are set out on page 28.

## Directors' report continued

## Corporate governance continued

### Continuing professional development

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

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

Non-Executive Directors have access to professional development provided by external bodies. Their continuing competence is considered by the Nomination Committee as part of the annual process of recommending the reappointment of Directors at the AGM.

### Share capital

Details of the Company's share capital and significant shareholders can be found on pages 56 and 57.

### Nomination Committee

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

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

#### The responsibilities of the Nomination Committee include:

- identifying and nominating candidates for appointment to the Board for the approval of the Board;
- reviewing development needs of the Executives; and
- making recommendations to the Board on Board composition and balance.

The Committee considers the diversity of the Board (including gender) and the skills and competencies of the existing Directors when drawing up specifications for new appointments. It ensures that the development needs of Executive Directors and other senior managers are addressed appropriately.

An external search consultancy is ordinarily used in relation to the appointment of both Executive and Non-Executive Directors.

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

# Board of Directors

**Bob Ivell**

Non-Executive Chairman

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

**Wilf Walsh**

Chief Executive Officer

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

**Neil Page**

Chief Financial Officer

Neil joined Carpetright in July 2008 as Group Finance Director. Neil began his career with British Rail and Marks and Spencer. He joined Superdrug in 1991, holding a variety of finance and operational positions before taking up the role of Finance and IT Director for AS Watson (Health & Beauty) UK Ltd in July 2002. In his role as Chief Financial Officer he also has responsibility for property and supply chain activities. He is a fellow of the Chartered Institute of Management Accountants.

**Sandra Turner**

Non-Executive Director

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

**David Clifford**

Non-Executive Director

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

**Andrew Page**

Non-Executive Director

Andrew joined the Board in July 2013 and was appointed as the Senior Independent Director in April 2015. He is the Chairman of Northgate plc and a Non-Executive Director of JP Morgan Emerging Markets Investment Trust plc and Schroder UK Mid Cap Fund plc. Andrew retired as Chief Executive of The Restaurant Group plc ("TRG") in August 2014 after thirteen years with TRG. Prior to joining TRG, he held a number of senior positions in the leisure and hospitality industry including Senior Vice President with InterContinental Hotels. Andrew trained and qualified as a Chartered Accountant with KPMG. He is the Senior Independent Director.

# Audit Committee report

**David Clifford**  
Chairman of the Audit Committee

"Additional work has been undertaken this year in relation to the Group's restructuring, including reviewing the financial information contained in the prospectus relative to the Placing and Open Offer."

Dear Shareholder,

I am pleased to introduce the report of the Audit Committee for 2018.

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

Additional work has been undertaken this year in relation to the Group's restructuring, including reviewing the financial information contained in the prospectus relative to the Placing and Open Offer (the 'Prospectus').

**During the year the Audit Committee has undertaken the following tasks:**

- considered our financial results announcements and financial statements and monitored compliance with relevant statutory and listing requirements;
- reviewed the working capital statement, the financial statements and the profit estimate, and reports from external auditors in relation to each contained in the Prospectus and made recommendations to the Board appropriately;
- reported to the Board on the appropriateness of our accounting policies and practices;
- overseen the relationship with the external auditors including reviewing their independence, objectivity and effectiveness;
- reviewed the external auditors' plan for the audit of the Group's accounts, approved the terms of engagement for the audit and reviewed their findings;
- reviewed the process for ensuring that senior management confirm that they have supplied the auditors with relevant audit information;
- approved the audit fees paid to the external auditors and reviewed the application of the policy on non-audit work performed by them together with the non-audit fees payable to them;
- approved the engagement of the external auditors in connection with the Group's restructuring, most significantly being the CVA circular to shareholders and the subsequent Prospectus;
- reviewed the scope, resources, results and effectiveness of the activity of the Group internal audit department;
- reviewed the work of the Executive Risk Committee, which oversees the identification and management of the risks to the business, together with reports on the Group's systems of internal control;
- performed in-depth reviews of specific areas of financial reporting, risk and internal controls and discussed these with the executives responsible for the relevant area;
- considered all matters reported via the whistleblowing line and reports relating to fraud;
- reviewed the viability statement; and
- reviewed its terms of reference and effectiveness.

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

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

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

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

**David Clifford**  
Chairman of the Audit Committee  
26 June 2018



## Composition

Ordinarily the Committee meets four times each year. Meetings are attended by the members who are independent Non-Executive Directors and, by invitation, the Chairman, the Chief Executive, the Chief Financial Officer, and the Director of Group Internal Audit. The external auditors, PricewaterhouseCoopers LLP (PwC), were invited to four meetings this year.

Other relevant individuals from the business are also invited to attend certain meetings in order to provide a deeper level of insight into certain key issues and developments. There are also private meetings with the external and internal auditors without management present.

The Audit Committee is appointed by the Board from the Non-Executive Directors of the Company. The terms of reference are reviewed annually by the Audit Committee and are then referred to the Board for approval. These are available on the Company's corporate website at [www.carpetright.plc.uk](http://www.carpetright.plc.uk).

The Audit Committee is chaired by David Clifford. The Board has determined that David Clifford has recent and relevant financial experience. There have not been any changes to the composition of the Committee in the period. The biographies of the members of the Committee can be found on page 29. Details of membership and attendance are set out below:

Number of meetings:		4
Members	Attendance	Meetings eligible to attend
<b>David Clifford</b> (Committee Chairman)	4	4
<b>Andrew Page</b>	4	4
<b>Sandra Turner</b>	3	4

## Main activities of the Committee during the year

The Committee assisted the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal controls and has an agenda linked to events in the Group's financial calendar. It also reviewed the effectiveness of the Group's internal audit function and managed the Group's relationship with the external auditors. The Committee Chairman reported to the Board, as part of a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of its work.

The Committee reviewed the working capital statement, the financial statements and the profit estimate, and reports from the external auditors or the reporting accountants (as appropriate) in relation to each contained in the Prospectus and made recommendations to the Board appropriately.

The Committee reviewed the viability statement, which is designed to be a longer-term view of the sustainability of the Company's strategy and business model and related resourcing, in the light of projected wider economic and market developments. In reviewing the statement, the Committee considered the assumptions made in preparing last year's statement in the light of subsequent trading leading up to the decision to undertake the CVA. While various scenarios were tested, including reductions in sales and margin, a fall in like-for-like sales as significant as the 10.8% suffered in the final quarter of the financial year in the UK and 8.3% in the Rest of Europe was not anticipated. It should be noted that the conditions experienced this year were worse than those suffered in the early part of the 2008 recession. The Committee reviewed the processes designed to enable the Board to make the statement this year. The statement appears on page 19 together with details of the processes, assumptions, and testing which underpin it.

The internal audit reports this year received and reviewed by the Committee showed an increasing stock-loss in stores for the second year. As a result, the Committee has asked management to ensure there is a renewed focus on reducing this loss through improved operational discipline.

## Financial reporting

The Committee reviewed, with management and the external auditors, the half-year and annual financial statements, and the financial statements contained in the Prospectus concentrating on, amongst other matters:

- the appropriateness and application of accounting policies and compliance with the relevant financial reporting requirements;
- material areas in which significant judgments have been applied or there has been discussion with the external auditors; and
- whether the Annual report and accounts contains the necessary disclosures to fairly reflect the Group's financial condition and results of its operations.

To aid its review, the Committee considered reports from the Chief Financial Officer and also reports from the external auditors on the outcomes of their half-year review, reviews in respect of the Prospectus and annual audit.

The primary areas of judgment considered by the Committee in relation to the 2018 accounts, and the financial information contained in the Prospectus and how these were addressed, are set out below. In all cases the Committee discussed with PwC its work in respect of these areas.

The financial information contained in the Prospectus was drawn up as at a date which preceded the CVA, and some of the matters contained in those statements were revised at the year-end.

### **Goodwill impairment testing**

The judgments in relation to goodwill impairment historically largely relate to the assumptions underlying the calculation of the value-in-use of the business being tested for impairment. Due to the decline in trading, the value of the trading cash flows were below net assets in the UK and the full goodwill relating to an investment in the Netherlands not being fully supportable, the Committee agreed to write off the entire goodwill in the UK and £4.9m of goodwill in the Netherlands.

### **Impairment of assets**

The Committee has carried out a further review of the freehold and long-leasehold property valuations, supported by a comprehensive external valuation, and also reviewed the store asset impairment assessment. The Committee agreed with management that further impairments of £5.1m of the freehold and long-leasehold properties and £5.7m of store assets is appropriate.

### **Onerous lease provision**

The practice is to treat a lease as being onerous if the store relative to the lease is closed or if the expected benefits of using the leased property are less than the unavoidable property costs. Management makes an assessment as to the cost of exiting the lease based on available information and knowledge of the property market. The Committee has considered the judgments and assumptions made in determining the provision both at 24 February 2018 (for the purposes of the Prospectus which does not take into account the anticipated effect of the CVA) and at the year-end. The Committee agreed with management that as a result of the decline in trading, a provision of £27m would be held in relation to loss making or closed stores as at 24 February 2018. However, it was agreed with management that, as a result of the CVA, a significant release of this provision of approximately £13.0m occurred at the year-end. Further details can be found in note 5 to the financial statements on pages 72 and 73.

### **Going concern and viability**

As disclosed under the heading "Main activities of the Committee" on page 31 the Committee reviewed draft going concern and viability statements. In reviewing the drafts, the Committee considered, amongst other things, the financial forecasts and current trading performance of the Group.

Trading for the year to date had been particularly challenging involving a number of factors including the combined impact of hot weather, the Royal Wedding and a shortage of inventory while arrangements with suppliers were resolved.

As a result, the Committee asked for further analyses to be provided for consideration by the Board before the Board approved the final going concern and viability statements. The Board's assessments, and the final versions of, the going concern and viability statements can be found on page 19.

### **Treatment of restructuring costs and provisions**

The Group has incurred, and will continue to incur, professional, logistical and other costs during the CVA and wider restructuring process. The Committee reviewed the treatment of the costs incurred and appropriateness of the provisions held for future restructuring costs, as well as reviewing the level of expenditure expected to be recognised during the financial year ended April 2019. The Committee agreed with management that £5.8m of provisions for future restructuring costs (including redundancy payments) and £6.4m of professional fees be recognised in the current financial year and be treated as separately reported items.

## Risk management and internal control

### Internal audit

The Committee considered and approved the Annual Internal Audit plan and at each meeting reviewed reports from the Director of Group Internal Audit, including those showing performance against the plan, and approved changes as appropriate. The reports include updates on audit activities, progress of the Group audit plan, the results of any unsatisfactory audits and the action plans to address these areas, and resource requirements of the Internal Audit department. The internal audit team utilises the services of Deloitte LLP to assist in the discharge of its functions. Private discussions are held with the Director of Group Internal Audit as necessary throughout the year. Deloitte also met with the Committee during the year.

### Internal control

The Committee reviewed the process by which the Group evaluated its control environment. Its work here is driven primarily by the work undertaken by the Group's Internal Audit department, which includes any reported fraud. The Director of Group Internal Audit monitored the timely implementation of any recommendations and reported to the Committee accordingly. The Committee also reviewed the documentation prepared to support the Board's annual statement on internal controls before its consideration by the full Board.

### Whistleblowing

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

### Risk management

The Group's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. The Committee received and considered reports from the Chief Financial Officer on the Group's risk evaluation process and reviewed changes to significant risks identified. It also discussed emerging and potential risks.

The Committee reviewed, in detail, the assessment and controls for the principal risks and uncertainties as set out on pages 21 to 23. The work included a review of the controls in place to mitigate the risk, the assessment by the Director of Group Internal Audit and a discussion with the risk owner, being a senior executive. The Committee considered in-depth reviews into the risks relating to reputation, fitters, economic uncertainty, and finance and treasury.

The Committee considers these reviews to be an important part of its role, as they allow it to meet executive management responsible for these areas and undertake independent challenge of their activities.

### External audit

Assessing the effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received a detailed audit plan from PwC, identifying their assessment of these key risks. For the 2018 financial year the primary risks identified and how the scope of the audit addressed the area of focus are set out in the auditors' report on pages 98 to 106.

The Committee discusses the work carried out by the auditors to test management's assumptions and estimates around these areas. The Committee assesses the effectiveness of the audit process in addressing these matters through the reporting it receives from, and discussions with, PwC at both the half-year and year-end. In addition, the Committee also seeks feedback from management on the effectiveness of the audit process.

For the 2018 financial year, management was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be good. The Audit Committee concurred with the view of management.

The Committee holds private meetings with the external auditors twice a year to provide additional opportunity for open dialogue and feedback from the auditors without management being present. Matters discussed include the transparency and openness of interactions with management and confirmation that there has been no restriction in scope placed on them by management. The Audit Committee chairman also meets with the audit partner from time to time outside the formal committee process.

### Appointment and independence

The Committee and Board place great emphasis on the independence and objectivity of the Group's auditors, PwC, when performing their role in the Group's reporting to shareholders and considering their re-appointment each year.

The Committee reviews the independence, objectivity and performance of the auditors annually, including the annual report on the auditors produced by the Audit Quality Review Team of the Financial Reporting Council and the auditors' own annual report on its independence.

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

The auditors' tenure runs from one AGM to the next and there are no contractual obligations that restrict the Committee's choice of external auditors.

The external auditors are required to rotate the audit partner responsible for the Group audit every five years. The audit of this Report and Accounts is the fourth to be carried out of the Group by the current audit partner.

## Directors' report continued

## Audit Committee report continued

### Non-audit services

To further safeguard the objectivity and independence of the external auditors from becoming compromised, the Committee has a formal policy governing the engagement of the external auditors to provide non-audit services. This was changed to ensure it complies with the latest guidance. This precludes the auditors from providing certain services such as valuation work, the provision of accounting services, certain tax services and HR services and also sets a presumption that the auditors should only be engaged for non-audit services where the appointment of an alternative supplier would be either impractical or inefficient, bearing in mind the particular circumstances.

The auditors may only provide such services provided that such advice does not conflict with their statutory responsibilities and ethical guidance. For those permitted services that exceed the specified fee limits, the Audit Committee Chairman's or the Committee's approval, depending upon the financial expenditure, is required before PwC can provide non-audit services. The Audit Committee Chairman's approval is required for any engagement of PwC where the fee would exceed 10% of the audit fee, but is less than 25% of the audit fee, with the Committee's approval being required for expenditure more than 25% of the audit fee.

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

During the year the significant non-audit services work undertaken by PwC related to the CVA circular and the Prospectus at a total cost of £550k (2017: £1k). Additional work undertaken by PwC post the year end, relating to the Prospectus, incurred fees of £200k.

### Audit and non-audit fees

Details of the auditors' remuneration for audit work and non-audit fees for the period ended 28 April 2018 are disclosed in note 3 to the financial statements on page 71 and disclosed above. The Committee approved the fees for both audit and non-audit services for 2018. It also approved the appointment of the external auditors as reporting accountants for the purposes of the CVA circular and the Prospectus. This occurred following a review of the level and nature of work to be performed, the urgency required, after being satisfied that it would be impractical or inefficient to appoint another firm, that independence would not be compromised and that the fees were appropriate for the scope of the work required. The Committee safeguarded PwC's independence by appointing a different team within PwC to act as reporting accountants.

### Committee evaluation

The Committee's activities formed part of the review of Board effectiveness undertaken. Details of this process can be found on page 27. No significant matters were identified which needed to be addressed.

# Directors' remuneration report

## Sandra Turner

Chair of the Remuneration Committee

"The Committee has again sought to ensure that the remuneration policies and practices are clearly explained and justified such that they will drive behaviour that is both appropriate and in the long-term interests of the Company and shareholders."

## Dear Shareholder,

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

Our remuneration policy was approved by shareholders at our AGM on 7 September 2017 and became effective for three years. We have set out our policy again to allow cross-reference against its operation during the year.

The report comprises three key sections:

- This annual letter;
- Our remuneration policy report, which sets out a summary of the Directors' remuneration policy for all directors of Carpetright; and
- Our annual remuneration report, which sets out how our current remuneration policy has been implemented.

The annual remuneration report is subject to an advisory shareholder vote at the 2018 AGM.

## Remuneration policy

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

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

## Share retention guidelines

Last year changes were made to the shareholding guidelines such that there is an additional holding period for Executive Directors in respect of shares vesting under the Long-Term Incentive Plan of one year post-employment.

## Salaries

For the 2018 pay review, the Chief Executive and the Chief Financial Officer indicated to the Committee that, in light of the performance of the business, their base salaries should remain unchanged. The Committee therefore decided not to conduct a review of their pay and, as a result, their base salaries remain unchanged.

## Annual bonus scheme

As described in the financial review section of this annual report the Group has delivered an underlying loss before tax of £8.7m. The strategic objective relating to customer service was achieved in part, but the other strategic objectives were not achieved. However, this level of profit is below the level at which an annual bonus would be earned. Consequently, no bonus will be paid in respect of the financial year ended April 2018. Further details can be found in the annual report on remuneration on page 48.

Annual incentive arrangements for the financial year ending 27 April 2019 for Executive Directors are expected to be based upon the achievement of underlying EBITDA. Subject to commercial confidentiality, performance against these targets will be disclosed in next year's report.

Directors' report continued

Directors' remuneration report continued

#### **Long term incentives**

The performance condition set in relation to the grant of LTIP awards in 2015 related to cumulative underlying earnings per share. Due to the disappointing business performance, none of the LTIP awards made in 2015 will vest.

The Committee has reviewed the current performance of the LTIP awards made in 2016 and 2017, which were also based upon cumulative underlying earnings per share measures, and has concluded that they are currently unlikely to vest. Further details can be found on page 50.

It is anticipated that awards under the LTIP will normally be made following the announcement of the annual results. However, the performance condition and timing of the awards to be made in the financial year ending April 2019 have yet to be determined, but will be subject to a two-year post-vesting holding period for Executive Directors. Due to poor financial performance and the resultant decline in share price, the Committee has decided that level of awards to be made this year will be significantly lower than the level made in previous years (reduced from 150% to 100% of salary for the CEO and from 125% to 85% of salary for the CFO).

#### **Gender pay gap reporting**

In addition to the consideration of executive remuneration, the Committee has taken a keen interest in the gender pay gap and, whilst there is a gap, the gap is below the national average, details of which can be found on page 24.

#### **Closing comments**

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

#### **Sandra Turner**

Chair of the Remuneration Committee

## Part 2 – Directors' remuneration policy report

### Introduction

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

As part of its responsibilities the Remuneration Committee prepares the Policy Report, below, which sets out the remuneration policy that has applied to the Directors of the Company since 29 April 2017 and was adopted following a binding vote at the AGM held on 7 September 2017. The policy report has been reproduced for information and updated to reflect the passage of time, such as change in tense and page references and the Executive Directors' current remuneration packages for the purposes of the chart illustrating the application of the policy in the coming year and the effect on the share ownership guidelines consequent upon a reduction in the value of the LTIP awards.

#### Policy overview

A key part of the Committee's role is to ensure that the remuneration of Executive Directors and senior management is aligned to the Company's strategic objectives. It is key that the Company is able to attract and retain leaders who are focused and also appropriately incentivised to deliver the Company's strategic objectives within a framework which is aligned with the interests of the Company's shareholders. This alignment is achieved through a combination of setting appropriate performance targets, a retention period for vested LTIP awards and share ownership guidelines which require executives to build up holdings of Carpetright shares. These guidelines, which are reviewed at least annually, require Executive Directors to build up and maintain a target holding having a value equal to the same multiple of base salary as awards are made under the LTIP (100% for Wilf Walsh, 85% for Neil Page). Until such a holding is achieved, each Executive Director is obliged to retain shares with a minimum value equal to 50% of the post-tax vested shares under the LTIP.

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

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

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

## Directors' report continued

### Directors' remuneration report continued

#### Policy Table – Elements of Directors' remuneration package

##### Executive Directors

Purpose and link to strategy	Operation	Maximum	Performance measurement
<b>Base salary</b>			
Helps to recruit and retain Executive Directors.	Generally reviewed annually (with any change effective in May) but exceptionally at other times of the year.	Annual increases generally in line with the level of standard increase awarded to other employees.	Not applicable
Reflects responsibilities, performance, experience and role.	Set with reference to individual performance, experience and responsibilities, reflecting the market rate for the individual and their role.  When reviewing the salaries of the Executive Directors, the Committee also has regard to the impact on the cost of pension provision and pay and conditions elsewhere in the Group. In particular, the Committee takes account of the level of salary increases awarded to other employees of the Group when deciding on increases for Executive Directors.	More significant increases may be awarded at the discretion of the Committee in connection with:  – an increase in the scope and responsibility of the individual's role; or – the individual's development and performance in the role following appointment.	
<b>Benefits</b>			
Provides a competitive package of benefits to assist with recruitment and retention of Executive Directors.	Executive Directors are entitled to a competitive package of benefits, including: – car benefits; – life assurance; and – private medical cover.	The value of a car allowance is of a level appropriate to the individual's role and is subject to review from time to time.  The cost to the Company of other benefits is not predetermined and may vary from year to year.	Not applicable
<b>Pension</b>			
The Company aims to provide competitive retirement benefits.  This helps recruit and retain Executive Directors.	The Company operates a defined contribution Group Personal Pension Plan ('GPPP'). Executive Directors are offered a specific percentage of their base salary to fund their own pension provision. The Executive Directors are able to choose whether the allowance is paid to the GPPP or to receive the allowance by way of a salary supplement.	Up to 20% of base salary.	Not applicable



Purpose and link to strategy	Operation	Maximum	Performance measurement
<b>Annual bonus</b>			
To incentivise achievement of annual targets and objectives consistent with the short to medium-term strategic needs of the business, so as to encourage sustainable growth in the Company's operating profits.	<p>Bonuses are awarded by reference to performance against specific targets measured over a single financial year.</p> <p>Any amounts awarded to an Executive Director under this arrangement are paid out in full shortly after the assessment of the performance targets has been completed.</p> <p>Bonuses do not form part of the Executive Directors' pensionable earnings.</p> <p>Bonuses are subject to clawback at the discretion of the Committee in the event of a material misstatement of the financial results, an error in assessing the size of the bonus or where the individual had committed an act of gross misconduct during the relevant financial year.</p>	<p>Capped at 100% of base salary.</p> <p>The percentage payable for on-target performance is determined by the Committee each year in light of the degree of stretch in the targets and affordability of the resulting bonus pay-outs relative to budgeted levels of profit.</p>	<p>The measures and targets are set annually by the Committee in order to ensure that they are relevant to participants and take account of the most up-to-date business plan and strategy.</p> <p>All or a significant majority of the bonus opportunity will normally be determined by reference to performance against a demanding Group underlying profit target.</p> <p>Additional targets applied may relate to the achievement of specific strategic or personal objectives. These measures will be disclosed in the annual report on remuneration, where not deemed commercially sensitive.</p>

## Directors' report continued

### Directors' remuneration report continued

Purpose and link to strategy	Operation	Maximum	Performance measurement
<b>Long Term Incentive Plan ('LTIP')</b>			
Incentivises Executive Directors to deliver superior levels of long-term performance for the benefit of shareholders, thereby aligning their interests with those of the Company's investors.	<p>The current LTIP was approved at the 2013 AGM (Carpetright Long Term Incentive Plan 2013).</p> <p>Awards consist of annual awards of shares that vest three years after grant to the extent that performance conditions have been met over a three-year performance period.</p> <p>A two-year post-vesting holding period applies to shares (less any required to be sold to cover tax and social security) that vest.</p> <p>Awards are subject to clawback at the discretion of the Committee in the event of a material misstatement of the financial results, an error in the calculation of performance conditions or if the participant ceases to be employed as a result of misconduct.</p>	<ul style="list-style-type: none"> <li>– normal maximum of 150% of salary; and</li> <li>– exceptional circumstances maximum 250% of salary.</li> </ul> <p>Dividend equivalents may be payable on LTIP awards, in cash or shares, to the extent that awards vest.</p>	<p>The measures and targets are set annually by the Committee ensuring alignment with the Company's medium to long-term strategy.</p> <p>Awards made in the financial year ended 28 April 2018 were subject to performance conditions based on the Company's underlying earnings per share.</p> <p>25% will vest at threshold with full vesting taking place for equalling or exceeding the maximum target, with a sliding scale between the two points.</p> <p>The Committee has discretion to set different and multiple metrics and targets for future awards.</p>
<b>All employee share schemes, including a Sharesave Plan and Share Incentive Plan ('SIP')</b>			
Encourages a broad range of employees to become long-term shareholders.	The Company operates HM Revenue and Customs approved Sharesave and SIP plans with standard terms.	Sharesave and SIP participation limits are as set by the UK tax authorities from time to time.	Not applicable
<b>Share retention guidelines</b>			
To further align the interests of Executive Directors to those of shareholders.	<p>Executive Directors are expected to build up and retain a shareholding of the same percentage of salary as awards are made under the LTIP by the retention of shares with a minimum value equal to 50% of the net of tax gain arising from any vesting or exercise under the Company's Long-Term Incentive Plan.</p> <p>The Executive Directors are required to continue to hold the lower of 50% of their guideline level and 50% of the value of shares they own at cessation of employment (excluding shares purchased in the market) for a period of one year following cessation of employment.</p>	Not applicable.	Not applicable.

Purpose and link to strategy	Operation	Maximum	Performance measurement
<b>Non-Executive Directors</b>			
Helps recruit and retain high quality, experienced individuals.	The Chairman is paid a fee, and no additional fee will be paid for chairing any of the Board's Committees.	The aggregate amount of Directors' fees is limited by the Company's Articles of Association.	Not applicable.
Reflects time commitment and role.	Non-Executive Directors are paid an annual basic fee plus additional fees are payable to the Senior Independent Director (SID) and the Chair of each of its Committees. Where the SID role is combined with that of chairing a Committee then only one fee is paid.		
	Non-Executive Directors are not eligible for pension scheme membership, bonus or incentive arrangements. They are entitled to reimbursement of reasonable business expenses and tax thereon.		
	Limited benefits relating to travel, accommodation and hospitality may be provided in relation to the performance of any Directors' duties.		
	Non-Executive Directors' fees are set by the Executive Directors with reference to external data on fee levels in similar businesses, having taken account of the responsibilities of individual Directors and their expected annual time commitment.		

#### Differences in remuneration policy across the Group

The remuneration policy for the Executive Directors and other senior executives is designed with regard to the policy for employees across the Group as a whole. However, the differences set out above arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the Executive Directors and senior executives, a greater emphasis is typically placed on performance-related pay and in share-based form, which provides a good link to long-term Company performance.

The following differences exist between the above policy for the remuneration of Directors and its approach to the payment of employees generally:

- a lower level of maximum annual bonus opportunity applies to employees other than the Executive Directors and certain senior managers;
- store-based colleagues receive commission based upon sales achieved, and field-based colleagues receive bonuses based upon the performance of their sphere of responsibility;
- participation in the LTIP is limited to the Executive Directors and certain selected senior managers. Other employees are eligible to participate in the Company's all employee share schemes;
- under the Company's defined contribution pension scheme, the Company contribution for less senior employees is lower than that provided to Executive Directors; and
- benefits offered to other employees generally comprise colleague discount and, depending upon the colleague's seniority, healthcare.

## Directors' report continued

## Directors' remuneration report continued

### Incentive plan determinations and discretions

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

The Committee may grant awards under the LTIP as conditional share awards or nil (or nominal) cost options. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so, other than in respect of the tax element of any vesting of awards made under the LTIP. The Committee may decide that participants will receive a dividend equivalent payment (in cash and/or shares).

The choice of the performance metrics applicable to the annual bonus reflect the Committee's aim that annual incentives should promote growth in underlying earnings, while also promoting the achievement of key non-financial objectives. The LTIP performance measure captures long-term growth in earnings performance, which we believe is most closely aligned with the financial performance expected by our shareholders. In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee will ensure that the incentive structure for Executive Directors and senior management will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. More generally, the Committee will ensure that the overall remuneration policy does not encourage inappropriate operational risk-taking.

With regard to the annual bonus scheme and the LTIP, the Committee, consistent with market practice, is required to make certain determinations under and retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following (with the maximum level of awards restricted as set out in the policy table on pages 38 to 41):

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or a payment (within the limits set out in the policy table above);
- the choice of (and adjustment of) performance measures and targets for each incentive plan in accordance with the policy set out above and the rules of each plan;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- determination of good leaver status for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- making adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends), provided that the revised conditions or targets are not materially less difficult to satisfy; and
- discretion to allow participants to sell, transfer, assign or dispose of some or all of their shares in exceptional circumstances before the end of the holding period, subject to such additional terms and conditions as the Committee may specify.

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

### Legacy arrangements

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

### Consideration of employee views

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

## Service agreements and policy on termination

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

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

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

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

The Company also retains flexibility to pay reasonable legal fees and other costs incurred by the individual that are associated with the termination (including the settlement of claims brought against the Company) and to provide outplacement services.

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

In addition, the Company would honour any legal entitlements, such as statutory redundancy payments or awards made by any tribunal or court, which executives may have on, or in respect of, termination.

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

Long-term incentive awards lapse on cessation of employment other than in certain 'good leaver' circumstances (including death, retirement with the agreement of the Committee, redundancy, ill health, or because the individual's employing company or part of the business in which employment is transferred out of the Group or as otherwise determined by the Committee). Where an individual is a 'good leaver', awards would not lapse but would normally continue to vest at the end of the original performance period but only if, and to the extent that, the applicable performance conditions are satisfied. Awards would also normally be subject to a pro-rata reduction to take account of the proportion of the vesting period that has elapsed, although the Committee has discretion to disapply pro-rating in certain circumstances. On a change of control awards would vest early, subject to performance conditions being achieved, and would normally be subject to a pro-rata reduction, although the Committee has discretion to disapply pro-rating.

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

## Recruitment remuneration

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

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

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

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

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

Directors' report continued

Directors' remuneration report continued

## Outside appointments of the Executive Directors

No Executive Director had an outside appointment during the year ended 28 April 2018.

## Policy for Non-Executive Directors

The Non-Executive Directors do not have service contracts. They are appointed for an initial three-year period, subject to being re-elected by members annually.

## Consideration of shareholder views

The Remuneration Committee considers shareholder feedback received on the Directors' remuneration report each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy.

Details of votes cast for and against the resolution to approve last year's remuneration policy and annual report on remuneration, and any matters discussed with shareholders during the year, are set out in the annual report on remuneration.

## Expected value of the proposed annual remuneration packages for Executive Directors

The following chart indicates the level of remuneration payable to Executive Directors in respect of the financial year ending 27 April 2019 based on policy at 'minimum' remuneration, remuneration in line with 'on-target' performance and the maximum remuneration available for stretch performance.

### Assumptions:

- Fixed only – fixed pay only, including base salary, pension allowance and benefits as disclosed in the single figure table on page 47.
- On-target – fixed pay, plus 50% of salary annual bonus, plus 25% of salary LTIP vesting (CEO) / 21.25% of salary LTIP vesting (CFO).
- Maximum – fixed pay, plus 100% of salary annual bonus, plus 100% of salary LTIP vesting (CEO) / 85% of salary LTIP vesting (CFO).

## Part 3 – Annual report on remuneration

### Introduction

This annual report on remuneration provides details of the way in which the Committee implemented its policy during the financial year to 28 April 2018. It also summarises how the policy contained within the Directors' Remuneration Policy Report on pages 37 to 44 will be applied in the financial year ending 27 April 2019.

It has been prepared in accordance with the Regulations 2008. In accordance with the Regulations, this part of the report will be subject to an advisory vote at the forthcoming AGM on 6 September 2018.

The Company's auditors are required to report to Carpetright's shareholders on the "auditable parts" of this annual report on remuneration (which have been highlighted as such below) and to state whether, in their opinion, those parts have been properly prepared in accordance with the Regulations and the Companies Act 2006.

### Structure and Responsibilities of the Remuneration Committee

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

Number of meetings:			2
Members	Date joined Committee	Attendance	Meetings eligible to attend
<b>Sandra Turner (Committee Chairman)</b>	October 2010	2	2
<b>Andrew Page</b>	July 2013	2	2
<b>David Clifford</b>	September 2014	2	2

The Non-Executive Directors who served on the Committee had no personal financial interest (other than as shareholders) in the matters decided, no potential conflicts of interest from cross-directorships and no day-to-day involvement in running the business. Biographical information on the current Committee members is shown on page 29. The Company Secretary (Jeremy Sampson) acts as secretary to the Committee.

At the invitation of the Committee, the Chairman (Bob Ivell), the Chief Executive (Wilf Walsh), the Chief Financial Officer (Neil Page), and the Director of Human Resources (Rachel Wheeler and, previously, Lyn Rutherford) attend Committee meetings. The Committee considers their views when reviewing the remuneration of the Executive Directors and senior executives. They are not involved in decisions concerning their own remuneration.

The responsibilities of the Committee include:

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

The Committee's terms of reference are available on the Company's corporate website ([www.carpetright.plc.uk](http://www.carpetright.plc.uk)).

## Directors' report continued

### Directors' remuneration report continued

#### Summary of Committee activity during the year ended 2018

During the year ended 2018 the Committee has:

- discussed and reviewed the salaries of Directors and other senior executives;
- discussed and reviewed the level of awards under the LTIP;
- considered the appropriate metrics and targets for both the annual bonus and LTIP awards for the awards made in the year ended 2018;
- considered performance against the targets for the 2017 annual bonus (and following the year end, the 2018 annual bonus);
- considered, since the year end, the performance against targets for the 2015 LTIP;
- considered and approved the content of the Directors' remuneration report;
- approved the launch of an annual invitation under the SAYE scheme; and
- reviewed its own performance.

#### Remuneration advice

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was advised by New Bridge Street (a trading name of Aon Hewitt Limited, part of Aon plc). New Bridge Street was appointed as advisers in 2010 following a competitive tender. The Committee's advisers attended both Committee meetings. New Bridge Street, which is a signatory to the Remuneration Consultants' Group Code of Conduct for Executive Remuneration Consultants, did not provide other services to the Company. Fees paid (excluding VAT) by the Company to New Bridge Street during the year amounted to £18k net of VAT (2017: £39k). Although other members of the Aon plc group of companies provided insurance broking, pensions and advisory services to the Company, the Committee is satisfied that the provision of such services did not create any conflict of interest. The Committee reviews the effectiveness and independence of its advisers at a Committee meeting on an annual basis.

#### Statement of shareholder voting at the 2017 AGM

The table below shows the voting outcome at the 7 September 2017 AGM in respect of the approval of the 2017 Directors' remuneration report.

	For (including discretionary votes)	Against	Total votes cast (for and against excluding votes withheld)	Votes withheld <sup>1</sup>	Total votes cast (including withheld votes)
To approve the remuneration report	45,380,738	627,086	46,007,824	429,318	46,437,142
% votes cast	98.6%	1.4%			
To approve the remuneration policy	45,380,428	699,995	46,080,423	356,719	46,437,142
% votes cast	98.5%	1.5%			

Note:

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



## How our remuneration policy was implemented in the financial year ended 28 April 2018

Single total figure table for the financial year ended 28 April 2018 (audited)

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

	Salary and fees £000	Benefits <sup>1</sup> £000	Pension <sup>2</sup> £000	Subtotal fixed remuneration £000	Bonus <sup>3</sup> £000	Long-term incentives £000	All employee schemes £000	Subtotal variable remuneration £000	Single figure for total remuneration £000
<b>Executive Directors</b>									
Wliff Walsh	459	28	92	579	–	–	–	–	579
Neil Page	300	28	60	388	–	–	–	–	388
<b>Total</b>	<b>759</b>	<b>56</b>	<b>152</b>	<b>967</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>967</b>
<b>Non-Executive Directors</b>									
Bob Ivell	150	–	–	150	–	–	–	–	150
Sandra Turner	44	–	–	44	–	–	–	–	44
David Clifford	44	–	–	44	–	–	–	–	44
Andrew Page	44	–	–	44	–	–	–	–	44
<b>Total</b>	<b>282</b>	<b>–</b>	<b>–</b>	<b>282</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>282</b>

The remuneration of the Directors for the financial year ended 29 April 2017 was as follows:

	Salary and fees £000	Benefits <sup>1</sup> £000	Pension <sup>2</sup> £000	Subtotal fixed remuneration £000	Bonus <sup>3</sup> £000	Long-term incentives <sup>4</sup> £000	All- employee schemes <sup>5</sup> £000	Subtotal variable remuneration £000	Single figure for total remuneration £000
<b>Executive Directors</b>									
Wliff Walsh	459	28	92	579	–	188	4	192	771
Neil Page	300	28	60	388	–	97	4	101	489
<b>Total</b>	<b>759</b>	<b>56</b>	<b>152</b>	<b>967</b>	<b>–</b>	<b>285</b>	<b>8</b>	<b>293</b>	<b>1,260</b>
<b>Non-Executive Directors</b>									
Bob Ivell	150	–	–	150	–	–	–	–	150
Sandra Turner	44	–	–	44	–	–	–	–	44
David Clifford	44	–	–	44	–	–	–	–	44
Andrew Page	44	–	–	44	–	–	–	–	44
<b>Total</b>	<b>282</b>	<b>–</b>	<b>–</b>	<b>282</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>282</b>

**Notes:**

1. The main benefits available to the Executive Directors during the year ended 28 April 2018 were a car allowance, life assurance and private medical cover.
2. The pension provision is by way of a salary supplement to the Executive's base salary.
3. This column shows the amount of bonus paid or payable in respect of the year in question.
4. This column shows the value of shares that vested in respect of LTIP awards with performance conditions that ended during the relevant period and includes dividends accrued during the relevant performance period and are payable on vesting. The share price used for the purpose of calculation of the figure for the financial year ended 29 April 2017 reported in 2017 is the average mid-market closing share price (rounded to the nearest penny) in the dealing days in the three months to 29 April 2017. The actual value on the date of vesting was 195p, and the value has been restated accordingly.
5. These figures represent the value of the 20% discount on the Sharesave option price granted in the relevant year.

## Directors' report continued

### Directors' remuneration report continued

#### Payments to past directors (audited)

No payments were made to past directors in the financial year ended 28 April 2018.

#### Pensions (audited)

Executive Directors are offered an allowance of 20% of their base salary to fund their own pension provision. The individual is able to choose whether this allowance is paid to the Company's defined contribution Group Personal Pension Plan ('GPPP') or paid by way of a salary supplement.

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

#### Annual incentives – 2018 structure and outcome (audited)

In respect of the financial year ended 28 April 2018, Executive Directors were eligible to receive an annual performance bonus based on the achievement of performance targets relating to Group underlying profit (80% of the total opportunity) and strategic metrics linked to property and customer service in store and improved store disciplines (20% of the total opportunity). Payment in respect of the achievement of strategic objectives was subject to an underpin based upon the Group's financial performance.

The strategic objectives were as follows:

- A property-related objective. As disclosed in the Strategic Report in last year's annual report we have been managing the portfolio to reduce square footage, eliminate store catchment overlap and relocate to better locations on realistic rent deals. Clearly, the promotion of the CVA has diverted focus from achieving this objective, as it is being achieved in respect of the year ending 2019 through the CVA. The target set for 2018 was a disposal of 20 stores, as it was for the years ended 29 April 2017 and 30 April 2016. The target for 2017 had an anticipated payback period of two to three years associated with it, with the target in 2016 having a projected payback of less than two years.
- Improvement in customer service relating to the Net Promoter Score. The proportion of highly satisfied customers and overall satisfaction is also measured.
- Improvement in in-store disciplines.

The maximum bonus opportunity for Executive Directors for the financial year ended 28 April 2018 was 100% (2017: 100%) of basic salary earned in the financial year, 50% (2017: 50%) of the financial element was payable for on-target performance.

The Committee considered the extent to which the Executive Directors had achieved the financial and strategic objectives. The strategic objectives relating to the property objective and the Net Promoter Score were met to the extent as set out in the table below. However, as the financial metric was not achieved, no bonus will be payable.

Metric	Threshold	Target	Maximum	Actual performance	Maximum percentage of bonus	Actual percentage of bonus
Financial	20% payout	50% payout	100% payout			
Underlying profit before tax (£m)	£15.2m	£19.1m	£22.9m	(£8.7m)	80%	0%
Property disposals	15	20	25	7	10%	0%
Net Promoter Score (averaged over three months)	75%	76%	77%	75%	5%	0%
Improvement in store disciplines	20%	38%	45%	Less than 20%	5%	0%
Bonus payout					100%	0%

## Long-term incentives (audited)

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

The LTIP awards granted in July 2014, which vested in July 2017, were based on performance over the three financial years ended 29 April 2017. There was a single underlying cumulative profit performance condition relating to these awards, with pro-rata straight-line vesting between the points:

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

Actual cumulative profit measured over the three financial years ended 29 April 2017 was £45.9m. As a result, 75% of the awards vested.

LTIP awards granted in July 2015 and included in the single figure for the year ended 28 April 2018

The LTIP awards granted in July 2015, which would vest in July 2018, are based on performance over the three financial years ended 28 April 2018.

	Type of award	Basis of grant	Average share price in 5 working days preceding date of grant	Number of shares over which award was granted	Face value of award	Threshold vesting	Maximum vesting	Performance measure
Wilf Walsh	Nil cost option	150% of salary	577p	119,324	£688,499	25%	100%	Cumulative underlying earnings per share to the financial year ended 28 April 2018
Neil Page	Nil cost option	125% of salary	577p	64,991	£374,998	25%	100%	

Awards will vest according to performance against the cumulative underlying earnings per share, as set out below:

Cumulative underlying earnings per share over the performance period	Vesting level
Less than 65.6p	0%
65.6p	25%
80.2p	100%

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

LTIP award	Performance target	Weighting	Actual performance	Actual vesting level	Date at end of performance period	Date of vesting	Share price at vesting <sup>1</sup>
July 2015	Cumulative underlying earnings per share	100%	30.4p	0%	28 April 2018	13 July 2018	N/A

Note:

1. The awards will not vest, so no share price has been used.

# Directors' report continued

## Directors' remuneration report continued

### LTIP granted September 2016

The LTIP awards granted in September 2016, which will vest in September 2019, based on performance over the three financial years beginning 30 April 2016, are shown in the table below:

	Type of award	Basis of grant	Average share price in 5 working days preceding date of grant	Number of shares over which award was granted	Face value of award	Threshold vesting	Maximum vesting	Performance measure
Wilf Walsh	Nil cost option	150% of salary	241p	285,684	£688,498	25%	100%	Cumulative underlying earnings per share to the financial year ending 2019
Neil Page	Nil cost option	125% of salary	241p	155,601	£374,998	25%	100%	

Awards will vest according to performance against the cumulative underlying earnings per share, as set out below:

Cumulative underlying earnings per share over the performance period	Vesting level	% of award that vests (on a straight-line basis between points)	Equivalent to compound profit growth from 2016
Less than 68.6p	Nil	0%	<5.9%
68.6p	Threshold	25%	5.9%
83.8p	Maximum	100%	13.2%

Based on current performance these awards are unlikely to vest.

### LTIP granted July 2017

The LTIP awards granted in July 2017, which will vest in July 2020, based on performance over the three financial years beginning 29 April 2017, are shown in the table below:

	Type of award	Basis of grant	Average share price in 5 working days preceding date of grant	Number of shares over which award was granted	Face value of award	Threshold vesting	Maximum vesting	Performance measure
Wilf Walsh	Nil cost option	150% of salary	189p	364,285	£688,498	25%	100%	Cumulative underlying earnings per share to the financial year ending 25 April 2020
Neil Page	Nil cost option	125% of salary	189p	198,412	£374,998	25%	100%	

Awards will vest according to performance against the cumulative underlying earnings per share, as set out below:

Cumulative underlying earnings per share over the performance period	Vesting level	% of award that vests (on a straight-line basis between points)	Equivalent to compound profit growth from financial year ended 2017
Less than 64.8p	Nil	0%	<14.8%
64.8p	Threshold	25%	14.8%
79.2p	Maximum	100%	22.8%

Based on current performance these awards are unlikely to vest.

## All-employee share plans (audited)

### Sharesave

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

### Share Incentive Plan

Carpetright operated a SIP until January 2015, when it was closed as there were fewer than 50 participants. Neil Page participated in the plan, but since closure shares are being transferred out of the trust to Neil as and when they are able to be transferred to him on a tax-free basis. This will continue to January 2020 when all shares will have been transferred to him.

## Summary of all share awards to Directors under the long-term incentive and sharesave plans

Set out below is a summary of all share awards as at 28 April 2018.

	Date granted	Balance at 29 April 2017	Granted during year	Vested/ exercised during year	Lapsed during year	Balance at 28 April 2018	Share price at grant/ invitation (p)	Exercise price (p)	Market price at date of vesting (pence)	Market price at date of exercise (pence)	Amount realised on vesting £000	Date from which exercisable	Expiry date	Scheme
Wilf Walsh	Jul 14	128,449	–	96,336	32,113	–	525.5	nil	195	37	36	Jul 17	Jul 27	LTIP
	Jul 15	119,324	–	–	–	119,324	577	nil	–	–	–	Jul 18	Jul 28	LTIP
	Sept 16	285,684	–	–	–	285,684	241	nil	–	–	–	Sept 19	Sept 29	LTIP
	Apr 17	13,846	–	–	–	13,846	162	130	–	–	–	Apr 21	Oct 21	SAYE
	Jul 17	–	364,285	–	–	364,285	189	nil	–	–	–	Jul 20	Jul 30	LTIP
		<b>547,303</b>	<b>364,285</b>	<b>96,336</b>	<b>32,113</b>	<b>783,139</b>								
Neil Page	Jul 14	66,603	–	49,952	16,651	–	525.5	nil	195	37	18	Jul 17	Jul 27	LTIP
	Jul 15	64,991	–	–	–	64,991	577	nil	–	–	–	Jul 18	Jul 28	LTIP
	Sept 16	155,601	–	–	–	155,601	241	nil	–	–	–	Sept 19	Sept 29	LTIP
	Apr 17	13,846	–	–	–	13,846	162	130	–	–	–	Apr 21	Oct 21	SAYE
	Jul 17	–	198,412	–	–	198,412	189	nil	–	–	–	Jul 20	Jul 30	LTIP
		<b>301,041</b>	<b>198,412</b>	<b>49,952</b>	<b>16,651</b>	<b>432,850</b>								

#### Notes:

In May 2018 Wilf Walsh and Neil Page exercised their July 2014 LTIP nil-cost share options which vested in July 2017.

## Directors' report continued

## Directors' remuneration report continued

### Share ownership and shareholding guidelines for Directors (audited)

The Company has a share ownership policy that requires the Executive Directors to build up and maintain a target holding having a value equal to the same multiple of base salary as awards are made under the LTIP. The size of the awards to be made in the financial year ending 27 April 2019 has been reduced, so there has been a consequential reduction in the guideline to 100% for the CEO and 85% for the CFO). Until such a holding is achieved, an Executive Director is obliged to retain shares with a minimum value equal to 50% of the post-tax vested shares under the LTIP. The Executive Directors are required to hold the lower of 50% of their guideline level and 50% of the value of shares they own at cessation of employment (excluding any shares purchased in the market) for a period of one year following cessation of employment. LTIP awards vested in July 2017, with Wilf and Neil exercising the options in May 2018. They retained the entirety of their award, paying the tax in relation to the options exercised. After the financial year end, Wilf Walsh, Neil Page and David Clifford all participated in the Placing and Open Offer, referred to in note 5 top the table, below. All Directors have complied with the guidelines, although the holdings of Wilf Walsh and Neil Page were below the target holding of base salary.

The beneficial interests of those individuals who were Directors as at 28 April 2018 and their immediate families in the ordinary shares of the Company are set out in the table below. Additionally, the Executive Directors have an indirect interest in 243,834 shares held in trust to satisfy awards made under the LTIP.

	Financial year ended	Ordinary shares	Ordinary shares held in the SIP <sup>1</sup>	Total holding of ordinary shares	Value of holding as a % of salary on the last day of the relevant financial year <sup>2</sup>	Ordinary shares under option under the Sharesave Plan <sup>3</sup>	Ordinary shares subject to outstanding unvested awards under the LTIP <sup>4</sup>	Total interest in ordinary shares
<b>Executive</b>								
Wilf Walsh	<b>2018</b>	<b>85,028</b>	<b>–</b>	<b>85,028</b>	<b>8%</b>	<b>13,846</b>	<b>769,293</b>	<b>868,167</b>
	2017	53,778	–	53,778	5%	13,846	533,457	601,081
Neil Page	<b>2018</b>	<b>38,270</b>	<b>512</b>	<b>38,782</b>	<b>6%</b>	<b>13,846</b>	<b>419,004</b>	<b>471,632</b>
	2017	38,042	740	38,782	6%	13,846	287,195	339,823
<b>Non-Executive</b>								
Bob Ivell		–	–	–	–	–	–	–
Sandra Turner		–	–	–	–	–	–	–
David Clifford		5,000	–	5,000	–	–	–	5,000
Andrew Page		–	–	–	–	–	–	–

#### Notes:

- Under the rules of the SIP, certain shares awarded to participants must be retained in the plan for a specified "holding period" of up to five years. The receipt of these shares is not subject to the satisfaction of performance conditions. The shares held in the SIP will reduce over time as the SIP has closed. Please see page 51.
- Share price used is the price as at 28 April 2018: 42.65p.
- None of these options are subject to a performance condition. Details of the Sharesave interests can be found on page 51.
- This column shows all unvested and outstanding awards under the LTIP that were held by the Executive Director concerned as at 28 April 2018 (i.e. including those granted during the year). Details of these entitlements, the vesting of which is subject to the satisfaction of performance conditions, are set out on page 51.
- Since 28 April 2018, the directors have participated in the Placing and Open Offer by the Company, and Wilf Walsh and Neil Page have exercised previously vested share options, which has increased the shareholding of Wilf Walsh to 512,428 shares, Neil Page to 233,706 shares and David Clifford to 21,296 shares.

## Application of the remuneration policy for the financial year ending 27 April 2019

### Basic salary

For the 2018 pay review, the Chief Executive and the Chief Financial Officer indicated to the Committee that, in light of the performance of the business, their base salaries should remain unchanged. The Committee therefore decided not to conduct a review of their pay and, as a result, their base salaries remain unchanged. The current salaries of the Executive Directors are as follows:

	Base salary as at 29 April 2017	Current base salary	Percentage change
Wulf Walsh	£459,000	<b>£459,000</b>	0%
Neil Page	£300,000	<b>£300,000</b>	0%

### Benefits and pension

Benefits and pension will operate in the financial year ending 27 April 2019 as per their respective policies set out in the Policy Report on pages 37 to 44.

### Annual bonus plan performance targets

The annual bonus plan for the financial year ending 27 April 2019 will operate consistently with the policy detailed in the Policy Report on page 39.

Performance targets for the Executive Directors for the financial year ending 27 April 2019 are expected to be based on underlying EBITDA. This measure has been selected in order to align it with the Group's banking covenants and measures used by similar companies. In the circumstances of the Group's financial position it is not thought appropriate to include other measures this year.

Consistent with our policy and the Group's practice over a number of years, the Committee has set the percentage of bonus payable for on-target performance in light of the degree of stretch in the targets and the affordability of the pay-outs to the Group. The range will be to pay 0% unless a threshold level of performance has been achieved, 20% of maximum at threshold and 50% of maximum for achieving target and maximum for achieving a stretch level of performance. Further details of the targets are currently commercially sensitive and the Company will not be disclosing them at the start of the year. However, they will, unless they remain commercially sensitive, be disclosed retrospectively in the 2019 Annual report and accounts.

### Long-term incentive awards

The Committee has yet to determine the timing or performance conditions relative to the awards to be made in the financial year ending 27 April 2019. The awards for the Executive Directors will be at 100% of base salary for Wulf Walsh and 85% for Neil Page and will vest three years from the date of grant, based on performance over the three financial years beginning 28 April 2018. Awards will be made subject to a two-year post-vesting holding period and will carry a dividend equivalent. The size of the awards has been reduced this year, to reflect the reduction in the Company's share price over the past year.

### Non-Executive Directors' fees

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

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

## Directors' report continued

## Directors' remuneration report continued

### Other information

#### Performance graph

The graph below shows the value, by 28 April 2018, of £100 invested in Carpetright plc on 2 May 2009 compared with that of £100 invested in the FTSE Small Cap Index and the FTSE All Share General Retailers Index, which the Directors believe to be the most suitable broad comparators. The other points plotted are the values at intervening financial year-ends.

#### Statement of change in total remuneration of the Chief Executive

Total remuneration of individuals undertaking the role of Chief Executive in each of the past nine years is as follows:

Financial year ended April	Chief Executive <sup>1</sup>	Total remuneration of Chief Executive <sup>2</sup> £'000	Annual variable element award rates for Chief Executive (as % of max. opportunity)	Long-term incentive vesting rates for Chief Executive (as % of max. opportunity)
<b>2018</b>	<b>Wilf Walsh</b>	<b>579</b>	<b>0%</b>	<b>0%</b>
<b>2017</b>	<b>Wilf Walsh</b>	<b>727</b>	<b>0%</b>	<b>75%</b>
<b>2016</b>	<b>Wilf Walsh</b>	<b>819</b>	<b>52%</b>	<b>0%</b>
<b>2015</b>	<b>Combined remuneration</b>	<b>842</b>		
2015	Wilf Walsh (21 July 2014 to 30 April 2015)	749	86%	0%
2015	Lord Harris (1 May 2014 to 20 July 2014)	93	0%	0%
<b>2014</b>	<b>Combined remuneration</b>	<b>490</b>		
2014	Lord Harris (3 October 2013 to 30 April 2014)	249	0%	0%
2014	Darren Shapland (1 May 2013 to 3 October 2013)	241	0%	0%
<b>2013</b>	<b>Combined remuneration</b>	<b>1,025</b>		
2013	Darren Shapland (14 May 2012 to 30 April 2013)	1,007	29%	0%
2013	Lord Harris (1 May 2012 to 14 May 2012)	18	0%	0%
<b>2012</b>	<b>Lord Harris</b>	<b>522</b>	<b>0%</b>	<b>0%</b>
<b>2011</b>	<b>Lord Harris</b>	<b>522</b>	<b>0%</b>	<b>0%</b>
<b>2010</b>	<b>Lord Harris</b>	<b>721</b>	<b>37%</b>	<b>26%</b>

#### Notes:

1. Lord Harris stood down as Chief Executive in May 2012, at which point Darren Shapland was appointed Chief Executive. Darren Shapland stood down on 3 October 2013, at which point Lord Harris was appointed as full-time Executive Chairman. Wilf Walsh joined as Chief Executive on 21 June 2014, at which point Lord Harris ceased to fulfil that role.
2. The amounts shown in this column have been calculated using the same methodology prescribed by the Regulations for the purposes of preparing the single total figure table shown on page 47.



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

The table below shows the movement in the remuneration for the role of Chief Executive between the current and previous financial year compared to the average (per full-time equivalent) for all employees.

	Salary % change	Benefits % change	Bonus/payments as a result of performance % change
Chief Executive Officer	0	0	(100%)
Average per employee	1%	3.9%	1.1%

Bonus figures include commission payments.

### Relative importance of spend on pay

The table below illustrates the change in expenditure on remuneration paid to all the employees of the Group and distributions to shareholders from the financial year ended 29 April 2017 to the financial year ended 28 April 2018.

	2018 £m	2017 £m	Percentage change
Overall expenditure on pay	91.8	90.0	2%
Dividend plus share buyback	–	–	–

These matters were selected to be shown as they represent key distributions by the Group to its stakeholders. Further details on overall expenditure on pay can be found in note 4 to the financial statements on pages 71 to 72.

By order of the Board

**Sandra Turner**

Chairman of the Remuneration Committee  
26 June 2018

## Other information

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

- the Strategic Report, including an indication of likely future developments in the business, appears from the inside front cover to page 25;
- the Directors' remuneration report appears on pages 35 to 55;
- the going concern statement appears on pages 19 and 20;
- the viability statement appears on page 19;
- a list of the subsidiary and associated undertakings, including branches outside the UK, appears on page 81;
- changes in asset values are set out in the consolidated balance sheet on page 61 and in the notes to the financial statements on pages 63 to 96;
- the Group's profit before taxation and the profit after taxation and minority interests appear in the consolidated income statement on page 59;
- a detailed statement of the Group's treasury management and funding is set out in note 23 to the financial statements on pages 89 to 91;
- matters concerning the employment etc. of disabled persons appear on page 24;
- details of employee involvement appear on pages 24 and 25;
- disclosures concerning greenhouse gas emissions appear on page 25;
- a statement that this Annual report and accounts meets the requirements of Provision C.1.1 of the UK Corporate Governance Code ('the Code') is set out on page 26; and
- in accordance with Listing Rule 9.8.4, details of dividend waivers appear on page 56.

### Directors' interests

Directors' share interests are disclosed in the Directors' report on remuneration on page 52. Except as disclosed in this report, no Director had a material interest in any contract or arrangement with the Company during the year, other than through their respective service contracts. Some Directors made purchases of the Company's products in the period, on normal commercial terms available to all employees.

### Directors' indemnity arrangements

The Company has provided qualifying third-party indemnities for the benefit of each Director who held office during the financial year ended 2018. The Company has also purchased and maintained Directors' and Officers' liability insurance throughout the financial year ended 2018.

### 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 facilities agreement dated 19 March 2008, as amended and restated most recently on 29 April 2015 and subsequently amended. This provides that on a change of control all lenders' commitments are cancelled and all outstanding loans, together with accrued interest, will become immediately due and payable and committed overdraft facilities of £7.5m and €2.4m which will similarly become due and payable upon a change of control. Details of balances at the financial year end can be found in note 23 to the consolidated financial statements;
- a loan note instrument consisting £17,250,000 guaranteed 18% unsecured loan notes 2020 which provides that on a change of control the loan notes must be mandatorily repaid in full; and

- under the Company's all-employee and discretionary share schemes, a change of control of the Company would normally be a vesting event, facilitating the exercise or transfer of awards, subject to any relevant performance conditions being satisfied.

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

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

### Share capital

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

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

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

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

Shares acquired through Carpetright's employee share schemes rank equally with all other ordinary shares in issue and have no special rights. The Trustee of the Company's Employee Benefit Trust ('EBT') has waived its rights to dividends on shares held by the EBT and does not exercise its right to vote in respect of such shares. Shares held in trust on behalf of participants in the All Employee Share Ownership Plan are voted by the Trustee as directed by the participants. Details of share-based payments, including information regarding the shares held by the EBT, can be found in notes 24 and 25 to the financial statements on pages 91 to 93.

### Substantial shareholdings

As at 26 June 2018, the Company has been notified of the following substantial shareholdings in accordance with the Disclosure and Transparency Rules, other than those of the Directors, in the issued share capital of the Company:

	Shares held as a percentage of the issued share capital
Meditor European Master Fund Limited	29.99%
Crescent Holdings GmbH	12.92%
Aberforth Partners LLP	10.37%
Wellcome Trust	6.19%
FIL Limited	5.38%
Majedie Asset Management Limited	5.06%

### Donations

No political donations were made during the year (2017: £nil).

### Shareholders' views

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

All shareholders will have at least 20 working days' notice of the Annual General Meeting. As required by the Code, the Board will, at the 2018 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 2017 Annual General Meeting, shareholders gave the Company renewed authority to purchase a maximum of 6,792,447 shares of one penny each. This resolution remains valid until the date of this year's Annual General Meeting. As at 28 April 2018, the Directors had not used this authority. The Company's present intention is to cancel any shares acquired under such authority, unless purchased to satisfy outstanding awards under employee share incentive plans. A resolution seeking renewal of the authority will be proposed at this year's Annual General Meeting.

### Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable laws and regulations.

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

In preparing those financial statements, the Directors are required to:

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's websites. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' report continued

Other information continued

Each of the Directors whose names and details are set out on page 29 of this report confirms that to the best of their knowledge:

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

### Statement of the directors in respect of the annual report and financial statements

As required by the Code, the Directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes, including the following:

- the Annual Report is drafted by appropriate senior management with overall co-ordination by the Chief Financial Officer to ensure consistency across sections;
- an extensive verification exercise is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Report are undertaken by the Executive Directors and other senior management; and
- a draft is considered by the Audit Committee prior to consideration by the Board.

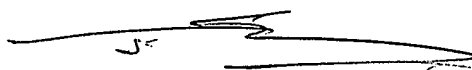
### Disclosure of information to auditors

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

### Annual General Meeting

The 2018 Annual General Meeting of the Company will be held on 6 September 2018 at Carpetright plc, Purfleet Bypass, Purfleet, Essex RM19 1TT at 12:00 p.m. A full description of the business to be conducted at the meeting is set out in the separate Notice of Annual General Meeting.

The Directors' Report was approved and signed by order of the Board



### Jeremy Sampson

Company Secretary and Legal Director  
26 June 2018

## Financial statements

## Consolidated income statement

for the 52 weeks ended 28 April 2018

	Notes	Group 52 weeks to 28 April 2018			Group 52 weeks to 29 April 2017		
		Underlying performance £m	Separately reported items £m	Total £m	Underlying performance £m	Separately reported items £m	Total £m
<b>Revenue</b>	2	<b>443.8</b>	–	<b>443.8</b>	457.6	–	457.6
Cost of sales		<b>(194.2)</b>	–	<b>(194.2)</b>	(188.2)	–	(188.2)
Gross profit	2	<b>249.6</b>	–	<b>249.6</b>	269.4	–	269.4
Administration expenses		<b>(245.6)</b>	<b>(59.5)</b>	<b>(305.1)</b>	(243.2)	(9.3)	(252.5)
Other operating income/(loss)		<b>2.4</b>	<b>(2.3)</b>	<b>0.1</b>	2.4	(4.2)	(1.8)
<b>Operating profit/(loss) before depreciation and amortisation</b>		<b>6.4</b>	<b>(61.8)</b>	<b>(55.4)</b>	28.6	(13.5)	15.1
Depreciation	3	<b>(11.0)</b>	–	<b>(11.0)</b>	(10.2)	–	(10.2)
Amortisation	3	<b>(1.3)</b>	–	<b>(1.3)</b>	(2.0)	–	(2.0)
<b>Operating (loss)/profit</b>	2,3	<b>(5.9)</b>	<b>(61.8)</b>	<b>(67.7)</b>	16.4	(13.5)	2.9
Finance costs	6	<b>(2.8)</b>	–	<b>(2.8)</b>	(2.0)	–	(2.0)
<b>(Loss)/profit before tax</b>		<b>(8.7)</b>	<b>(61.8)</b>	<b>(70.5)</b>	14.4	(13.5)	0.9
Tax	7	<b>4.1</b>	<b>2.2</b>	<b>6.3</b>	(3.3)	3.1	(0.2)
<b>(Loss)/profit for the financial period attributable to equity shareholders of the Company</b>		<b>(4.6)</b>	<b>(59.6)</b>	<b>(64.2)</b>	11.1	(10.4)	0.7
Basic (loss)/earnings per share (pence)	9	<b>(6.8)</b>		<b>(94.6)</b>	16.4		1.0
Diluted (loss)/earnings per share (pence)	9			<b>(94.6)</b>			1.1

## Consolidated statement of comprehensive income

for the 52 weeks ended 28 April 2018

	Notes	Group 52 weeks to 28 April 2018 £m	Group 52 weeks to 29 April 2017 £m
<b>(Loss)/profit for the financial period</b>		<b>(64.2)</b>	0.7
Items that may not be reclassified to the income statement:			
Re-measurement of defined benefit plans	22	<b>1.6</b>	(1.8)
Tax on items that may not be reclassified to the income statement	7	<b>(0.4)</b>	0.1
<b>Total items that may not be reclassified to the income statement</b>		<b>1.2</b>	(1.7)
Items that may be reclassified to the income statement:			
Exchange gains		<b>2.5</b>	4.3
<b>Total items that may be reclassified to the income statement</b>		<b>2.5</b>	4.3
<b>Other comprehensive income for the period</b>		<b>3.7</b>	2.6
<b>Total comprehensive (expense)/income for the period attributable to equity shareholders of the Company</b>		<b>(60.5)</b>	3.3

Financial statements continued

# Statements of changes in equity

for the 52 weeks ended 28 April 2018

Group	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 30 April 2016	0.7	17.8	(1.3)	0.1	3.3	53.4	74.0
Profit for the period	–	–	–	–	–	0.7	0.7
Other comprehensive income/(expense) for the financial period	–	–	–	–	4.3	(1.7)	2.6
Total comprehensive income/(expense) for the financial period	–	–	–	–	4.3	(1.0)	3.3
Purchase of own shares by employee benefit trust	–	–	(0.3)	–	–	–	(0.3)
Share based payments and related tax	–	–	–	–	–	1.0	1.0
<b>At 29 April 2017</b>	<b>0.7</b>	<b>17.8</b>	<b>(1.6)</b>	<b>0.1</b>	<b>7.6</b>	<b>53.4</b>	<b>78.0</b>
Loss for the period	–	–	–	–	–	(64.2)	(64.2)
Other comprehensive income for the financial period	–	–	–	–	2.5	1.2	3.7
Total comprehensive income/(expense) for the financial period	–	–	–	–	2.5	(63.0)	(60.5)
Issue of new shares	–	1.3	–	–	–	–	1.3
Transfer of treasury shares to participants	–	–	0.2	–	–	(0.2)	–
Share based payments and related tax	–	–	–	–	–	0.5	0.5
<b>At 28 April 2018</b>	<b>0.7</b>	<b>19.1</b>	<b>(1.4)</b>	<b>0.1</b>	<b>10.1</b>	<b>(9.3)</b>	<b>19.3</b>

Company	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Total £m
At 30 April 2016	0.7	17.8	(1.3)	0.1	(0.3)	38.2	55.2
Loss for the period	–	–	–	–	–	(6.3)	(6.3)
Other comprehensive expense for the financial period	–	–	–	–	–	(1.7)	(1.7)
Total comprehensive expense for the financial period	–	–	–	–	–	(8.0)	(8.0)
Purchase of own shares by employee benefit trust	–	–	(0.3)	–	–	–	(0.3)
Share based payments and related tax	–	–	–	–	–	1.0	1.0
<b>At 29 April 2017</b>	<b>0.7</b>	<b>17.8</b>	<b>(1.6)</b>	<b>0.1</b>	<b>(0.3)</b>	<b>31.2</b>	<b>47.9</b>
Loss for the period	–	–	–	–	–	(52.6)	(52.6)
Other comprehensive income for the financial period	–	–	–	–	0.2	1.2	1.4
Total comprehensive income/(expense) for the financial period	–	–	–	–	0.2	(51.4)	(51.2)
Issue of new shares	–	1.3	–	–	–	–	1.3
Transfer of treasury shares to participants	–	–	0.2	–	–	(0.2)	–
Share based payments and related tax	–	–	–	–	–	0.5	0.5
<b>At 28 April 2018</b>	<b>0.7</b>	<b>19.1</b>	<b>(1.4)</b>	<b>0.1</b>	<b>(0.1)</b>	<b>(19.9)</b>	<b>(1.5)</b>

# Balance sheets

as at 28 April 2018

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 *Reclassified £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	10	27.0	57.3	5.2	27.8
Property, plant and equipment	11	98.7	102.0	62.7	67.6
Investment property	12	10.5	15.3	1.4	2.3
Investment in subsidiary undertakings	13	–	–	15.7	15.7
Deferred tax assets	21	2.0	1.9	–	–
Trade and other receivables	15	0.7	0.4	0.7	0.4
<b>Total non-current assets</b>		<b>138.9</b>	<b>176.9</b>	<b>85.7</b>	<b>113.8</b>
<b>Current assets</b>					
Inventories		35.7	41.1	29.5	35.4
Trade and other receivables	15	25.4	25.8	57.9	58.7
Cash and cash equivalents	16	6.6	12.5	4.3	9.3
<b>Total current assets</b>		<b>67.7</b>	<b>79.4</b>	<b>91.7</b>	<b>103.4</b>
<b>Total assets</b>		<b>206.6</b>	<b>256.3</b>	<b>177.4</b>	<b>217.2</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	17	(69.4)	(83.9)	(66.1)	(82.1)
Obligations under finance leases	18	(0.1)	(0.1)	(0.1)	(0.1)
Borrowings and overdrafts	19	(57.8)	(20.1)	(57.8)	(20.1)
Provisions for liabilities and charges	20	(10.6)	–	(10.6)	–
Current tax liabilities		(0.8)	(1.7)	(0.8)	(1.7)
<b>Total current liabilities</b>		<b>(138.7)</b>	<b>(105.8)</b>	<b>(135.4)</b>	<b>(104.0)</b>
<b>Non-current liabilities</b>					
Trade and other payables	17	(28.0)	(34.5)	(28.0)	(34.6)
Obligations under finance leases	18	(1.7)	(2.1)	(0.7)	(1.0)
Provisions for liabilities and charges	20	(9.1)	(17.5)	(9.1)	(17.5)
Deferred tax liabilities	21	(9.0)	(15.2)	(4.9)	(9.0)
Retirement benefit obligations	22	(0.8)	(3.2)	(0.8)	(3.2)
<b>Total non-current liabilities</b>		<b>(48.6)</b>	<b>(72.5)</b>	<b>(43.5)</b>	<b>(65.3)</b>
<b>Total liabilities</b>		<b>(187.3)</b>	<b>(178.3)</b>	<b>(178.9)</b>	<b>(169.3)</b>
<b>Net assets/(liabilities)</b>		<b>19.3</b>	<b>78.0</b>	<b>(1.5)</b>	<b>47.9</b>
<b>Equity</b>					
Share capital	24	0.7	0.7	0.7	0.7
Share premium	24	19.1	17.8	19.1	17.8
Treasury shares	24	(1.4)	(1.6)	(1.4)	(1.6)
Other reserves		0.9	61.1	(19.9)	31.0
<b>Total equity attributable to equity shareholders of the Company</b>		<b>19.3</b>	<b>78.0</b>	<b>(1.5)</b>	<b>47.9</b>

\* amounts due to/from subsidiaries have been reclassified from non-current assets/liabilities to current assets/liabilities.

The loss for the Company for the period was £52.6m (2017: loss of £6.3m).

Company Registration Number: 2294875.

These financial statements from pages 59 to 96 were approved by the Board of Directors on 26 June 2018 and were signed on its behalf by:

**Wilf Walsh**  
Directors

**Neil Page**




Financial statements continued

# Statements of cash flow

for the 52 weeks ended 28 April 2018

	Notes	Group 52 weeks to 28 April 2018 £m	Group 52 weeks to 29 April 2017 £m	Company 52 weeks to 28 April 2018 £m	Company 52 weeks to 29 April 2017 £m
<b>Cash flows from operating activities</b>					
(Loss)/profit before tax		(70.5)	0.9	(56.8)	(7.9)
Adjusted for:					
Depreciation and amortisation	2,3	12.3	12.2	9.6	10.0
Loss on property disposals	5	2.3	3.3	2.1	3.1
Separately reported non-cash items	5	47.8	9.2	32.7	11.4
Separately reported cash items	5	11.2	–	10.9	–
Share based payments	5, 25	0.5	1.0	0.5	1.0
Net finance costs	6	2.8	2.0	2.6	1.8
Operating cash flows before movements in working capital		6.4	28.6	1.6	19.4
Decrease in inventories		5.7	1.0	5.9	0.4
Increase in trade and other receivables		–	(5.4)	(2.3)	(1.0)
Decrease in trade and other payables		(22.7)	(8.2)	(22.1)	(6.0)
Net expenditure on exit of operating leases		(1.9)	(2.2)	(1.8)	(2.1)
Restructuring costs		(2.6)	–	(2.4)	–
Provisions paid		(5.5)	(5.2)	(5.5)	(5.0)
Contributions to pension schemes		(0.9)	(0.9)	(0.9)	(0.9)
Cash (used in)/generated from operations		(21.5)	7.7	(27.5)	4.8
Interest paid		(1.8)	(1.3)	(1.9)	(1.4)
Corporation taxes paid		(1.4)	(0.9)	(1.5)	(0.9)
<b>Net cash (used in)/generated from operating activities</b>		<b>(24.7)</b>	<b>5.5</b>	<b>(30.9)</b>	<b>2.5</b>
<b>Cash flows from investing activities</b>					
Purchases of intangible assets		(4.5)	(0.6)	(3.0)	(0.6)
Purchases of property, plant and equipment and investment property		(15.7)	(16.8)	(10.4)	(13.6)
Proceeds on disposal of property, plant and equipment and investment property		0.3	3.4	0.3	2.8
Interest received		–	–	0.2	0.3
<b>Net cash used in investing activities</b>		<b>(19.9)</b>	<b>(14.0)</b>	<b>(12.9)</b>	<b>(11.1)</b>
<b>Cash flows from financing activities</b>					
Purchase of treasury shares by employee benefit trust		–	(0.3)	–	(0.3)
Repayment of finance lease obligations		(0.3)	(0.3)	(0.2)	(0.2)
Movement in borrowings	30	32.0	13.0	32.0	13.0
New loans advanced	30	12.0	–	12.0	–
<b>Net cash generated from financing activities</b>		<b>43.7</b>	<b>12.4</b>	<b>43.8</b>	<b>12.5</b>
<b>Net (decrease)/increase in cash and cash equivalents in the period</b>	29	<b>(0.9)</b>	<b>3.9</b>	<b>–</b>	<b>3.9</b>
Cash and cash equivalents at the beginning of the period		5.4	1.2	2.2	(1.6)
Exchange differences	29	0.3	0.3	0.3	(0.1)
<b>Cash and cash equivalents at the end of the period</b>	16, 29	<b>4.8</b>	<b>5.4</b>	<b>2.5</b>	<b>2.2</b>

For the purposes of the statements of cash flow, 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 sheets and are included in borrowings and overdrafts under current liabilities.



# Notes to the financial statements

## 1. Principal accounting policies

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

### General information

Carpetright plc ('the Company') and its subsidiaries (together, 'the Group') are retailers of floorcoverings and beds. The Company is listed on the London Stock Exchange and incorporated in England and Wales and domiciled in the United Kingdom. The address of its registered office is Carpetright plc, Purfleet Bypass, Purfleet, Essex, RM19 1TT.

The nature of the Group's operations and its principal activities are set out on pages 2 to 3 of the Annual report and accounts.

### Basis of preparation

The consolidated financial statements of the Group and the Company are drawn up to within seven days of the accounting record date, being 30 April of each year. The financial period for 2018 represents the 52 weeks ended 28 April 2018. The comparative financial period for 2017 was 52 weeks ended 29 April 2017.

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

The consolidated financial statements have been prepared on the historical cost basis except for pension assets and liabilities and share based payments which are measured at fair value.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present its income statement and statement of comprehensive income. The loss for the Company for the period was £52.6m (2017: loss of £6.3m). Amounts due to and from subsidiaries within the Company balance sheet have been reclassified from non-current assets and liabilities to current assets and liabilities as they are repayable on demand and considered short term in nature.

### Going concern

The Group meets its day to day working capital requirements through its bank facilities and a non-bank loan. The principal banking facility includes a revolving credit facility of £45.0m, a Sterling overdraft of £7.5m and a euro overdraft of €2.4m, all of which are committed to the end of December 2019. The non-bank loan of £17.3m is committed to July 2020. The three main financial covenants within the banking arrangements assess underlying EBITDA, debt levels and fixed-charge cover. Given the recent trading performance, headroom against the EBITDA covenant is expected to be the most sensitive both at present and over the course of the next twelve months. The forecasts have been updated for actual trading to week seven and latest view of trading to the end of June 2018. Trading for this period has been particularly challenging involving a number of factors including the combined impact of hot weather, the Royal Wedding and a shortage of inventory while arrangements with suppliers were resolved. The forecasts have been sensitised to reflect these conditions continuing.

As part of the board's assessment of going concern, trading and working capital requirements, forecasts have been prepared covering a 12 month period from June 2018. These forecasts have been subjected to a sensitivity testing which, while not anticipated by the board, reflects a continuation of the very recent challenging trading conditions throughout the whole of this forecast 12 month period.

The most critical assumption when assessing the covenant is the expected level of revenues and gross margin and, having experienced a severely disruptive recent trading period for the reasons described above, the Board challenged itself on the appropriate levels to use in this assessment. The Board also considered mitigating actions which could be implemented.

The Directors have also considered the future cash requirements of the Group and are satisfied that the facilities are sufficient to meet its liquidity needs.

If the Group's sensitised forecast is not achieved, there is a risk that the Group might not meet the EBITDA covenant and, should such a situation materialise, the Group would have discussions with its bank lenders in order to ensure it continues to comply with the terms of its bank facilities. Without the support of the banks in these circumstances, and assuming no additional financing, the Group and Parent Company would be unable to meet their liabilities as they fall due. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Whilst recognising the inevitable uncertainties of the current retail market and the Group's restructuring, the Directors confirm that, after considering the matters set out above, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a minimum of 12 months following the signing of these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

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

## Financial statements continued

### Notes to the financial statements continued

#### 1. Principal accounting policies continued

##### **Alternative Performance Measures**

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

##### *Sales*

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

##### *Underlying performance*

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

##### *Gross profit ratio*

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

##### *Separately reported items*

Defined below.

##### *Underlying EBITDA*

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

##### *Underlying operating profit*

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

##### *Underlying profit before tax*

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

##### *Underlying earnings per share*

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

##### *Net debt*

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

##### *Operating cash flow*

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

##### **Disclosure of 'separately reported items'**

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

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

## 1. Principal accounting policies continued

### New and amended accounting standards adopted by the Group

The following new amendments, which are mandatory for the first time for the 52 weeks ended 28 April 2018, have been applied but have not had a material impact on the Group's and the Company's financial results for the 52 weeks ended 28 April 2018:

- Amendments to IAS 7, 'Statement of Cash Flows';
- Amendments to IAS 12, 'Income Taxes'; and
- Annual improvements 2014-2016 (IFRS 12, 'Disclosure of interests in other entities').

There are no other new or amended standards effective during the period that have had a material impact on the Group's financial statements.

### New standards and interpretations not yet adopted

A number of new standards, interpretations and amendments to existing standards were issued but not yet effective and have not been applied in preparing these consolidated financial statements. These include:

- IFRS 9 'Financial Instruments' (effective for the Group's 2018/19 financial year);
- IFRS 15 'Revenue from Contracts with Customers' (effective for the Group's 2018/19 financial year); and
- IFRS 16 'Leases' (effective for the Group's 2019/20 financial year).

Given the potential significance of the introduction of these standards, the Group has established a working group to identify the impact and potential risks associated with their implementation.

IFRS 9 'Financial Instruments' is a new standard which enhances the ability of investors and other users of financial information to understand the accounting for financial assets and reduces complexity. The standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the various rules in IAS 39, and also introduces a new expected loss impairment model. This standard is effective for accounting periods commencing on or after 1 January 2018 and will be adopted for the Group's 2018/19 financial year. The working group has completed its review of the new standard and it is not expected to have a material impact on the Group's financial statements given the relatively low quantum of financial assets held by the Group and existing provisions held in relation to these balances. The new disclosures include a requirement for a more detailed qualitative description of the Group's risk management strategy.

IFRS 15 'Revenue from Contracts with Customers' is a new standard based on a five-step model framework, which replaces all existing revenue recognition standards. The standard requires revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for accounting periods commencing on or after 1 January 2018 and will be adopted for the Group's 2018/19 financial year. Under the IFRS 15 recognition criteria, a number of transactions occurring around the period end reporting date will be deferred and recognised at a later date than at present under IAS 18. The working group has determined that, if the IFRS 15 revenue recognition policy had been applied to the Group's financial results for the 52 weeks ended 28 April 2018, this would have resulted in a deferral of revenue, associated costs of goods sold and operating costs with a net impact to opening retained earnings of approximately £7.0m. The Group would benefit from the previous period's deferral and therefore the year-on-year impact would be immaterial. The Group will continue to assess the impact and will determine the desired transition approach ahead of the 2018/19 interim results for the 26 weeks to October 2018.

IFRS 16 'Leases' is a new standard which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. A lessee will be required to recognise assets and liabilities for all leases with a term of more than 12 months and depreciate lease assets separately from interest on lease liabilities in the income statement. This standard is effective for accounting periods commencing on or after 1 January 2019 and will be adopted for the Group's 2019/20 financial year. Management has begun to assess the expected impact on the Group's financial results following implementation. It is expected to have a material impact on the Group's consolidated balance sheet and the consolidated Income statement. There is not expected to be a material impact on the Group's cash flows, however presentation within the Consolidated cash flow statement will be adjusted. The Group's minimum operating lease obligations at 28 April 2018 were £408m (note 27). It is expected that management will have completed its assessment and will provide further information on the expected financial impact within the Annual report and accounts for the period ending 27 April 2019, following the full implementation of the CVA.

## Financial statements continued

### Notes to the financial statements continued

#### 1. Principal accounting policies continued

##### **Basis of consolidation**

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

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

##### **Exchange differences**

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

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

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

##### **Segment reporting**

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

##### **Revenue**

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

##### **Share based payments**

The Group issues equity-settled share based payments to certain employees, the terms of these payments do not contain any market conditions. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The value of the charge is adjusted to reflect expected and actual levels of options vesting. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and performance conditions that are included in the assumptions about the number of options which are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity is made.

##### **Treasury shares**

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

##### **Other operating income**

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

## 1. Principal accounting policies continued

### Tax

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

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

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

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

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

### Dividends

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

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity. For the purposes of impairment, goodwill is allocated to each cash-generating unit (or groups of cash-generating units) that is expected to benefit from the business combination. Goodwill is not amortised, but is reviewed for impairment at least annually or when there is an indication of impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Impairment

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

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of impairment at each reporting date.

### Other intangible assets

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

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

Brands	20 years
Computer software	5 to 10 years

### Property, plant and equipment

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

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

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

Freehold and long leasehold buildings	50 years
Short leasehold buildings	The shorter of the period of the lease and the estimated useful life
Fixtures and fittings	3 to 15 years, except for fixed racking which is depreciated over 25 years
Other plant and machinery	5 to 10 years

## Financial statements continued

### Notes to the financial statements 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 property, plant and equipment and the resulting lease obligations are included in payables. The assets are depreciated over the shorter of their useful lives and the period of the lease. The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

##### **Investment in subsidiaries**

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

##### **Inventories**

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

##### **Rebates receivable from suppliers**

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

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

##### **Trade receivables and payables**

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

##### **Cash and cash equivalents**

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

##### **Bank loans and overdrafts**

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

##### **Provisions**

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

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

## 1. Principal accounting policies continued

### Retirement benefit obligation

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

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

Actuarial gains and losses are recognised in full, directly in equity in the period in which they occur and are presented in other comprehensive income. Other income and expenses associated with the defined benefit scheme are recognised in the income statement. The pension cost of defined contribution schemes is charged in the income statement as incurred.

### Critical estimates and judgments

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

#### *Judgments*

##### 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, investment property and other intangible assets 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 the higher of fair value less costs to sell, and value in use calculations prepared on the basis of management's assumptions and estimates. The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash-generating unit and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates.

##### Onerous leases

The Group carries an onerous lease provision which recognises the liabilities associated with lease contracts of closed stores and those that are projected to close. The provision is based on a review of the lease contracts and management's estimate of the timings to exit the lease. The Group has also reviewed any trading loss-making stores and provided for the onerous elements of these leases. These estimates are based upon available information and knowledge of the property market. The ultimate costs to be incurred in this regard may vary from the estimates.

##### Treatment of restructuring costs and provisions

The Group has incurred and recognised professional, logistical and other costs related to the CVA and wider restructuring process. The nature of these costs, as they are ongoing, is management's estimate of the anticipated total costs to complete the CVA and restructuring. These estimates are based upon current available information and knowledge of the restructuring process and have been recognised in separately reported items. The final costs for the CVA and restructuring may vary from the estimates.

##### Going concern

Management considers going concern to be a matter of critical judgment. Please refer to pages 19 and 32.

#### *Estimates*

##### Retirement benefits

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

##### Income tax

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The Group is subject to income taxes in a number of jurisdictions. Judgment is required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

## Financial statements continued

### Notes to the financial statements continued

## 2. Segmental analysis

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

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

The reportable operating segments derive their revenue primarily from the retailing of floorcoverings and beds. Central costs of the Group are incurred principally in the UK. As such, these costs are included within the UK segment. Sales between segments are carried out at arm's length.

The segment information provided to the Board of Directors for the reportable segments for the 52 weeks ended 28 April 2018 is as follows:

	52 weeks to 28 April 2018			52 weeks to 29 April 2017		
	UK £m	Europe £m	Group £m	UK £m	Europe £m	Group £m
Gross revenue	443.3	100.1	543.4	468.0	91.8	559.8
Inter-segment revenue	(2.0)	–	(2.0)	(2.9)	–	(2.9)
Gross revenue	441.3	100.1	541.4	465.1	91.8	556.9
Less cost of interest free credit	(7.3)	–	(7.3)	(6.8)	–	(6.8)
Less VAT and other sales tax	(73.6)	(16.7)	(90.3)	(77.3)	(15.2)	(92.5)
<b>Revenue from external customers</b>	<b>360.4</b>	<b>83.4</b>	<b>443.8</b>	<b>381.0</b>	<b>76.6</b>	<b>457.6</b>
Gross profit	206.1	43.5	249.6	225.6	43.8	269.4
Underlying operating (loss)/profit	(6.8)	0.9	(5.9)	10.7	5.7	16.4
Separately reported items	(49.7)	(12.1)	(61.8)	(11.9)	(1.6)	(13.5)
<b>Operating (loss)/profit</b>	<b>(56.5)</b>	<b>(11.2)</b>	<b>(67.7)</b>	<b>(1.2)</b>	<b>4.1</b>	<b>2.9</b>
Finance costs	(2.8)	–	(2.8)	(2.0)	–	(2.0)
<b>(Loss)/profit before tax</b>	<b>(59.3)</b>	<b>(11.2)</b>	<b>(70.5)</b>	<b>(3.2)</b>	<b>4.1</b>	<b>0.9</b>
Tax	4.1	2.2	6.3	0.5	(0.7)	(0.2)
<b>(Loss)/profit for the financial period</b>	<b>(55.2)</b>	<b>(9.0)</b>	<b>(64.2)</b>	<b>(2.7)</b>	<b>3.4</b>	<b>0.7</b>
<b>Segment assets:</b>						
Segment assets	159.8	94.3	254.1	204.3	100.6	304.9
Inter-segment balances	(29.5)	(18.0)	(47.5)	(28.7)	(19.9)	(48.6)
Balance sheet total assets	130.3	76.3	206.6	175.6	80.7	256.3
<b>Segment liabilities:</b>						
Segment liabilities	(182.2)	(52.6)	(234.8)	(174.4)	(52.5)	(226.9)
Inter-segment balances	18.0	29.5	47.5	19.9	28.7	48.6
Balance sheet total liabilities	(164.2)	(23.1)	(187.3)	(154.5)	(23.8)	(178.3)
<b>Other segmental items:</b>						
Depreciation and amortisation	9.7	2.6	12.3	10.2	2.0	12.2
Additions to non-current assets	12.7	5.8	18.5	15.0	4.9	19.9

Carpetright plc is domiciled in the UK. The Group's revenue from external customers in the UK is £360.4m (2017: £381.0m) and the total revenue from external customers from other countries is £83.4m (2017: £76.6m). The total of non-current assets (other than financial instruments and deferred tax assets) located in the UK is £110.5m (2017: £143.6m) and the total of those located in other countries is £73.8m (2017: £80.2m).

Following trigger events driven by market capitalisation and trading performance since December 2017, assets across both segments have been reviewed for impairment. Goodwill of £29.8m has been impaired in the UK and £4.9m in the Rest of Europe segment. Freehold and long-leasehold assets in the UK have been impaired by £0.6m and £4.5m in the Rest of Europe. Store leasehold assets have been impaired by £5.5m in the UK and £0.2m in the Rest of Europe. Refer to note 5 for further information.

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



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

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

	Notes	Group 2018 £m	Group 2017 £m
Rental income earned on investment property		(2.1)	(1.9)
Cost of inventories recognised as an expense in cost of sales		153.1	155.7
Operating lease rentals:			
Lease payments in respect of land and buildings		80.2	79.3
Lease payments in respect of plant and machinery		2.5	2.4
Other lease items (lease incentives and rent-free credits)		(4.0)	(2.9)
Sublease rental income		(1.1)	(1.1)
Auditors' remuneration:			
Audit of the Parent Company's consolidated financial statements		0.2	0.2
Audit of the subsidiary companies' financial statements		0.1	0.1
Non audit fees		0.6	–
Staff costs	4	102.0	99.7
Impairment/(reversal) of assets	5	10.8	(1.8)
Impairment of goodwill	5, 10	34.7	–
Amortisation of intangible assets	10	1.3	2.0
Depreciation of property, plant and equipment:			
Owned assets	11	10.5	9.7
Under finance leases	11	0.2	0.2
Depreciation of investment property	12	0.3	0.3

Non audit fees in the period were £551k (2017: £1k). These fees are explained on page 34 of the Audit Committee report.

### 4. Staff costs

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

	Group 2018 Number	Group 2017 Number	Company 2018 Number	Company 2017 Number
Stores	2,539	2,530	2,120	2,107
Store support office and distribution centre	405	417	344	356
	2,944	2,947	2,464	2,463

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

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Wages and salaries (including short-term employee benefits)		89.4	87.2	73.3	72.4
Social security costs		9.7	9.3	6.8	6.7
Post-employment benefits – defined contribution		2.4	2.2	1.2	1.1
Share based payments	5, 25	0.5	1.0	0.5	1.0
		102.0	99.7	81.8	81.2

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

## Financial statements continued

### Notes to the financial statements continued

#### 4. Staff costs continued

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

	Group 2018 £m	Group 2017 £m
Wages and salaries (including short-term employee benefits)	0.8	0.8
Social security costs	0.2	0.2
Post-employment benefits – defined contribution	0.2	0.2
Share based payments	0.1	0.1
	<b>1.3</b>	<b>1.3</b>

During the period, the Executive Directors did not realise any gains (2017: none) on the vesting of long-term incentive plans. Details of these plans, share options and other Directors' remuneration are disclosed in the Directors' remuneration report on pages 35 to 55.

#### 5. Separately reported items

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

	Notes	Group 2018 £m	Group 2017 £m
<b>Underlying (loss)/profit before tax</b>		<b>(8.7)</b>	14.4
<b>Property disposal costs</b>			
Loss on disposal of properties		(1.7)	(1.9)
Store refurbishment – asset write-offs		(0.6)	(1.4)
		<b>(2.3)</b>	<b>(3.3)</b>
<b>Other non-cash items</b>			
Goodwill impairment	10	(34.7)	–
Freehold and investment property (impairment)/reversal		(5.1)	2.2
Store asset impairment		(5.7)	(0.4)
Net onerous lease charge	20	(2.3)	(11.0)
		<b>(47.8)</b>	9.2
Share based payments	25	(0.5)	(1.0)
<b>Restucturing costs</b>			
Redundancy provisions	20	(3.8)	–
Store closure costs associated with the CVA	20	(2.0)	–
Professional fees		(6.4)	–
Release of fixed rent accruals and lease incentives		2.8	–
		<b>(9.4)</b>	–
ERP dual running costs		(1.5)	–
Legacy pension costs		(0.3)	–
<b>Total separately reported items</b>		<b>(61.8)</b>	<b>(13.5)</b>
<b>Statutory (loss)/profit before tax</b>		<b>(70.5)</b>	0.9

## 5. Separately reported items continued

The Group makes certain adjustments to statutory profit measures in order to help investors understand the underlying performance of the business. These adjustments are reported as separately reported items. The Group recorded a net charge of £61.8m (2017: £13.5m).

A net loss of £1.7m was made on the disposal of five properties during the period (2017: £1.9m loss). The loss relates principally to a combination of surrender premiums paid and asset write offs. As part of the store refurbishment programme, £0.6m (2017: £1.4m) of assets have been written off due to being replaced.

The Group's goodwill balances relate to historical acquisitions of UK and European businesses and the carrying value has been compared to the expected future discounted cash flows of the individual cash-generating units. Following a revision of the outlook for the underlying business units, an impairment of £34.7m has been recognised, comprising £29.8m relating to UK acquisitions and £4.9m in The Netherlands.

The Group performed an impairment review over its freehold and investment properties, store fixed assets and goodwill in accordance with IAS 36, following recent trigger events. Freehold and investment properties were impaired by £5.1m driven by a difficult commercial rental market in the Netherlands and a revised downward view of market rents and yields across the UK and the Netherlands. Store fixed assets of £5.7m were impaired as a result of underlying store performances and those stores earmarked for closure under the CVA arrangements.

A strategic review of the store portfolio as part of the CVA procedures initiated during the year resulted in a revised assessment of the onerous lease costs for loss-making stores. The impact of these judgments is a net charge of £2.3m (2017: £11.0m). This charge reflects changes in property costs and lease length of onerous leases for UK stores as a result of the implementation of the CVA. A £13.9m provision for onerous leases remained on the balance sheet at the year end 2018. Of this, £4.8m is expected to be utilised against UK stores earmarked for closure during the first half of the financial year 2019. The remaining £9.1m is associated with UK stores not subject to the CVA and stores in the Republic of Ireland. It is expected that the majority of this will be utilised over a period of four years.

In light of the variable nature of employee share based payments, these have been classified as separately reported items. This also allows for greater visibility of these charges in the financial statements. A charge of £0.5m was incurred during the period (2017: £1.0m).

A provision for redundancy costs of £3.8m has been created at year end relating to roles likely to be removed under previously announced plans to restructure our stores trading estate and associated central support functions in the UK through the CVA. Further, £2.0m of costs directly associated to the closure of affected stores has been provided. A total of £6.4m of professional fees were incurred directly as a result of administering the CVA and equity raise processes during the period.

In line with IAS 17 and SIC 15 the Group has reassessed the expected cash flows over the remaining life of the lease in stores earmarked to close as part of the CVA procedure. As a result a credit of £2.8m relating to the release of previously accrued lease incentives and fixed rent reviews associated with these stores has been recognised during the year.

The Group has incurred dual running costs as it replaces legacy IT systems and transitions to a new ERP platform. Historically, these types of cost would have been capital spend but with the switch to cloud-based software services, these are classified as operating expenditure. Due to the quantum and one-off nature of the project, these costs have been reported as separately reported items.

The tax impact of the separately reported items is a credit of £2.2m (2017: credit of £2.5m).

The total cash impact of separately reported items is an outflow of £12.8m (2017: £1.2m inflow).

## 6. Finance costs

	Notes	Group 2018 £m	Group 2017 £m
Interest on borrowings and overdrafts		(1.5)	(1.2)
Fees amortisation		(1.0)	(0.5)
Interest on obligations under finance leases		(0.2)	(0.2)
Net interest on pension scheme obligations	22	(0.1)	(0.1)
<b>Finance costs</b>		<b>(2.8)</b>	<b>(2.0)</b>

## Financial statements continued

### Notes to the financial statements continued

#### 7. Tax

##### (i) Analysis of the charge/(credit) in the period

	Notes	Group 2018 £m	Group 2017 £m
UK current tax		–	(0.2)
Overseas current tax		0.2	0.1
<b>Total current tax</b>		<b>0.2</b>	<b>(0.1)</b>
UK deferred tax		(4.2)	(1.0)
UK deferred tax prior year adjustment		(0.1)	(0.2)
Overseas deferred tax		(2.1)	2.2
Overseas deferred tax prior year adjustment		(0.1)	(0.7)
<b>Total deferred tax</b>	21	<b>(6.5)</b>	<b>0.3</b>
<b>Total tax (credit)/charge in the income statement</b>		<b>(6.3)</b>	<b>0.2</b>

	Group 2018 £m	Group 2017 £m
(ii) Reconciliation of (loss)/profit before tax to total tax		
<b>(Loss)/profit before tax</b>	<b>(70.5)</b>	<b>0.9</b>
Tax charge at UK corporation tax rate of 19% (2017: 20%)	(13.4)	0.2
Adjusted for the effects of:		
Overseas tax rates	(0.5)	0.5
Deferred tax impact of a fall in tax rates	0.2	(0.6)
Non-qualifying depreciation	0.4	0.4
Permanent difference – goodwill impairment	5.6	–
Other permanent differences	1.6	0.6
Prior year adjustments	(0.2)	(0.9)
<b>Total tax (credit)/charge in the income statement</b>	<b>(6.3)</b>	<b>0.2</b>

The weighted average annual effective tax rate for the period is a credit of 9.0% (2017: a charge of 24.3%).

	Group 2018 £m	Group 2017 £m
(iii) Tax on items taken directly to or transferred from equity		
Deferred tax on actuarial losses recognised in other comprehensive income	0.4	(0.1)
Deferred tax on share based payments	–	–
<b>Total tax recognised in equity</b>	<b>0.4</b>	<b>(0.1)</b>

#### 8. Dividends

The Directors decided that no final dividend will be paid (2017: No final dividend paid). This results in no dividend in the period to 28 April 2018 (2017: No dividend paid).

## 9. (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/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 (loss)/earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. Those share options granted to employees and Executive Directors where the exercise price is less than the average market price of the Company's ordinary shares during the period represent potentially dilutive ordinary shares.

	52 weeks to 28 April 2018			52 weeks to 29 April 2017		
	Loss £m	Weighted average number of shares Millions	Loss per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
<b>Basic (loss)/earnings per share</b>	<b>(64.2)</b>	<b>67.9</b>	<b>(94.6)</b>	0.7	67.6	1.0
Effect of dilutive share options	–	–	–	0.1	1.6	0.1
<b>Diluted (loss)/earnings per share</b>	<b>(64.2)</b>	<b>67.9</b>	<b>(94.6)</b>	0.8	69.2	1.1

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

### Reconciliation of (loss)/earnings per share excluding post tax (loss)/profit on separately reported items

	52 weeks to 28 April 2018			52 weeks to 29 April 2017		
	(Loss)/ earnings £m	Weighted average number of shares Millions	(Loss)/ earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
<b>Basic (loss)/earnings per share</b>	<b>(64.2)</b>	<b>67.9</b>	<b>(94.6)</b>	0.7	67.6	1.0
Adjusted for the effect of separately reported items:						
Separately reported items	61.8	–	91.0	13.5	–	20.0
Tax thereon	(2.2)	–	(3.2)	(2.5)	–	(3.7)
Separately reported tax impact from tax rate change	–	–	–	(0.6)	–	(0.9)
<b>Underlying (loss)/earnings per share</b>	<b>(4.6)</b>	<b>67.9</b>	<b>(6.8)</b>	11.1	67.6	16.4

# Financial statements continued

## Notes to the financial statements continued

### 10. Intangible assets

Group	Goodwill £m	Computer software £m	Brands £m	Total £m
<i>Cost:</i>				
At 30 April 2016	52.4	22.5	0.1	75.0
Exchange differences	1.7	–	–	1.7
Additions	–	0.6	–	0.6
Disposals	–	(0.9)	–	(0.9)
<b>At 29 April 2017</b>	<b>54.1</b>	<b>22.2</b>	<b>0.1</b>	<b>76.4</b>
Exchange differences	0.9	–	–	0.9
Additions	–	4.5	–	4.5
Transfer from property, plant and equipment	–	0.5	–	0.5
Disposals	–	(2.0)	–	(2.0)
<b>At 28 April 2018</b>	<b>55.0</b>	<b>25.2</b>	<b>0.1</b>	<b>80.3</b>
<i>Accumulated amortisation and impairment:</i>				
At 30 April 2016	0.5	17.3	0.1	17.9
Exchange differences	–	0.1	–	0.1
Amortisation	–	2.0	–	2.0
Disposals	–	(0.9)	–	(0.9)
<b>At 29 April 2017</b>	<b>0.5</b>	<b>18.5</b>	<b>0.1</b>	<b>19.1</b>
Exchange differences	–	0.1	–	0.1
Impairment	34.7	0.1	–	34.8
Amortisation	–	1.3	–	1.3
Disposals	–	(2.0)	–	(2.0)
<b>At 28 April 2018</b>	<b>35.2</b>	<b>18.0</b>	<b>0.1</b>	<b>53.3</b>
<i>Net book value:</i>				
<b>At 28 April 2018</b>	<b>19.8</b>	<b>7.2</b>	<b>–</b>	<b>27.0</b>
At 29 April 2017	53.6	3.7	–	57.3

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 intangible assets are amortised and also tested for impairment when there is an indication that the asset may be impaired. Impairments and amortisation charges are recognised in full in administration expenses in the income statement during the period in which they are identified.

Goodwill is impaired if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. In the absence of a recent market transaction, the recoverable amount of the goodwill held by the Group is determined from value in use calculations.

Management has identified two cash-generating units (CGUs) supporting goodwill which are the UK and Europe, being the Netherlands and Belgium. The goodwill allocated to each CGU at the start of the period was £29.8m (2017: £29.8m) to the UK, of which £24.1m was recognised in the Company, and £23.8m (2017: £23.8m) to Europe.

As a result of a significant fall in market capitalisation and a downturn in trading, goodwill was tested for impairment during the period.

## 10. Intangible assets continued

Value in use calculations are based on three-year profit projection models and plans approved by the Board, adjusted for non-cash items and capital expenditure. The key assumptions used in the cash flow model when assessing the UK and European goodwill balances are:

– UK

- like-for-like sales – continued downturn throughout FY19 followed by modest recovery in subsequent years;
- Gross profit margin decrease in FY19, stabilised in subsequent years;
- flat long term growth rate; and
- pre-tax discount rate of 9.4% (2017: 7.8%).

– Europe

- like-for-like sales growth of 3.5% - 3.8% over the forecast period;
- Gross profit margin growth of between 1.0% to 3.3% over the forecast period;
- Costs inflation increase of 3.1% to 3.7% in the remaining forecast period;
- pre-tax discount rate of 9.7% (2017: 7.8%); and
- The long term growth rate of 2% is used in the calculation of the perpetuity model which is based on the long-term forecast growth rates of the countries within the European CGU.

In Europe the recoverable amount based on value in use exceeded the carrying value by £34.1m. The following amendments to key assumptions would result in the removal of available headroom in the model:

- a fall in the long-term growth rate to -6% from +2.0%;
- a rise in the discount rate to 13.8% from 9.4%;
- an average decline in sales by 1.8% each year;
- a decline in gross profit margin of 330bps each year; and
- an increase in operating costs of 710bps each year.

This has resulted in an impairment of £34.7m has been recognised, comprising £29.8m relating to UK acquisitions and £4.9m in the Netherlands. All goodwill relating to UK acquisitions has been impaired. The impact on the Company is an impairment of £24.1m.

Company	Goodwill £m	Computer software £m	Brands £m	Total £m
<i>Cost:</i>				
At 30 April 2016	24.1	22.4	0.1	46.6
Additions	–	0.6	–	0.6
Disposals	–	(0.9)	–	(0.9)
<b>At 29 April 2017</b>	<b>24.1</b>	<b>22.1</b>	<b>0.1</b>	<b>46.3</b>
Additions	–	3.0	–	3.0
Disposals	–	(2.0)	–	(2.0)
<b>At 28 April 2018</b>	<b>24.1</b>	<b>23.1</b>	<b>0.1</b>	<b>47.3</b>
<i>Accumulated amortisation and impairment:</i>				
At 30 April 2016	–	17.3	0.1	17.4
Amortisation	–	2.0	–	2.0
Disposals	–	(0.9)	–	(0.9)
<b>At 29 April 2017</b>	<b>–</b>	<b>18.4</b>	<b>0.1</b>	<b>18.5</b>
Exchange differences	–	0.1	–	0.1
Impairment	24.1	0.1	–	24.2
Amortisation	–	1.3	–	1.3
Disposals	–	(2.0)	–	(2.0)
<b>At 28 April 2018</b>	<b>24.1</b>	<b>17.9</b>	<b>0.1</b>	<b>42.1</b>
<i>Net book value:</i>				
<b>At 28 April 2018</b>	<b>–</b>	<b>5.2</b>	<b>–</b>	<b>5.2</b>
At 29 April 2017	24.1	3.7	–	27.8

# Financial statements continued

## Notes to the financial statements continued

### 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
<b>Cost:</b>						
At 30 April 2016	43.8	17.6	16.6	93.5	33.9	205.4
Exchange differences	1.5	0.1	0.1	1.1	2.0	4.8
Additions	–	–	0.7	17.1	1.5	19.3
Transfer between asset classes	–	(1.0)	0.9	0.1	–	–
Transfer to investment property	(1.7)	–	–	–	–	(1.7)
Disposals	(1.6)	(0.3)	(1.2)	(14.7)	(1.1)	(18.9)
<b>At 29 April 2017</b>	<b>42.0</b>	<b>16.4</b>	<b>17.1</b>	<b>97.1</b>	<b>36.3</b>	<b>208.9</b>
Exchange differences	0.6	–	0.1	0.6	1.1	2.4
Additions	–	–	0.8	12.7	0.5	14.0
Transfer	0.9	–	–	–	–	0.9
Transfer to intangible assets	–	–	–	–	(0.5)	(0.5)
Transfer from investment property	–	–	0.1	–	–	0.1
Disposals	(0.4)	(0.2)	(0.4)	(9.5)	(0.9)	(11.4)
<b>At 28 April 2018</b>	<b>43.1</b>	<b>16.2</b>	<b>17.7</b>	<b>100.9</b>	<b>36.5</b>	<b>214.4</b>
<b>Accumulated depreciation and impairment:</b>						
At 30 April 2016	8.3	6.1	11.1	59.2	25.7	110.4
Exchange differences	0.6	0.1	0.1	1.1	1.6	3.5
Impairment/(reversal)	(0.8)	–	–	0.4	–	(0.4)
Depreciation	0.7	0.3	0.8	7.3	0.8	9.9
Transfer between asset classes	–	(0.7)	0.6	0.1	–	–
Transfer to investment property	(0.1)	–	–	–	–	(0.1)
Disposals	(0.9)	(0.2)	(1.1)	(13.1)	(1.1)	(16.4)
<b>At 29 April 2017</b>	<b>7.8</b>	<b>5.6</b>	<b>11.5</b>	<b>55.0</b>	<b>27.0</b>	<b>106.9</b>
Exchange differences	0.2	–	0.1	0.4	0.8	1.5
Impairment	–	0.2	0.9	4.1	0.4	5.6
Depreciation	0.6	0.2	0.8	8.1	1.0	10.7
Transfer	0.8	–	–	0.1	–	0.9
Transfer from investment property	–	–	0.1	–	–	0.1
Disposals	(0.1)	(0.1)	(0.3)	(8.4)	(1.1)	(10.0)
<b>At 28 April 2018</b>	<b>9.3</b>	<b>5.9</b>	<b>13.1</b>	<b>59.3</b>	<b>28.1</b>	<b>115.7</b>
<b>Net book value:</b>						
<b>At 28 April 2018</b>	<b>33.8</b>	<b>10.3</b>	<b>4.6</b>	<b>41.6</b>	<b>8.4</b>	<b>98.7</b>
At 29 April 2017	34.2	10.8	5.6	42.1	9.3	102.0

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

Property, plant and equipment is subject to an impairment review at each reporting date or more frequently if there is an indication of impairment. During the period, £5.6m has been identified for impairment, the majority of which relates to fixtures and fittings within loss-making stores.

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

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cost	8.7	8.8	1.9	2.1
Accumulated depreciation and impairment	(3.4)	(3.3)	(1.5)	(1.6)
<b>Net book value</b>	<b>5.3</b>	<b>5.5</b>	<b>0.4</b>	<b>0.5</b>

The assets held under finance leases comprise buildings.



## 11. Property, plant and equipment continued

Company	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
<i>Cost:</i>						
At 30 April 2016	17.8	9.9	10.0	81.2	8.7	134.2
Exchange differences	–	–	0.1	0.1	–	0.2
Additions	–	–	0.8	12.8	0.9	14.5
Disposals	–	(0.3)	(1.2)	(12.5)	(0.9)	(14.9)
<b>At 29 April 2017</b>	<b>17.8</b>	<b>9.6</b>	<b>16.3</b>	<b>81.6</b>	<b>8.7</b>	<b>134.0</b>
Exchange differences	–	–	0.1	–	–	0.1
Additions	–	–	0.7	8.9	0.1	9.7
Disposals	(0.4)	(0.2)	(0.4)	(8.7)	(0.8)	(10.5)
<b>At 28 April 2018</b>	<b>17.4</b>	<b>9.4</b>	<b>16.7</b>	<b>81.8</b>	<b>8.0</b>	<b>133.3</b>
<i>Accumulated depreciation and impairment:</i>						
At 30 April 2016	2.9	3.8	11.1	47.7	5.3	70.8
Exchange differences	–	–	0.1	–	–	0.1
Impairment	(0.6)	–	0.1	0.5	–	–
Depreciation	0.2	0.1	0.8	6.3	0.6	8.0
Transfer to investment property	0.6	–	–	–	–	0.6
Disposals	–	(0.2)	(1.1)	(10.9)	(0.9)	(13.1)
<b>At 29 April 2017</b>	<b>3.1</b>	<b>3.7</b>	<b>11.0</b>	<b>43.6</b>	<b>5.0</b>	<b>66.4</b>
Impairment	(0.3)	0.2	0.9	4.0	0.4	5.2
Depreciation	0.2	0.1	0.7	6.5	0.7	8.2
Disposals	(0.1)	(0.1)	(0.3)	(7.9)	(0.8)	(9.2)
<b>At 28 April 2018</b>	<b>2.9</b>	<b>3.9</b>	<b>12.3</b>	<b>46.2</b>	<b>5.3</b>	<b>70.6</b>
<i>Net book value:</i>						
<b>At 28 April 2018</b>	<b>14.5</b>	<b>5.5</b>	<b>4.4</b>	<b>35.6</b>	<b>2.7</b>	<b>62.7</b>
At 29 April 2017	14.7	5.9	5.3	38.0	3.7	67.6

## Financial statements continued

### Notes to the financial statements continued

#### 12. Investment property

Investment property is carried at depreciated historical cost and is reviewed for impairment at each balance sheet date or when there is an indication of impairment. The recoverable amount is the higher of fair value less costs to sell and the value in use calculations. The value in use calculations are based on five-year income forecasts and a terminal value. These cashflows discounted at a pre-tax rate of 9.6% for properties based in the UK and 8.9% for the properties located in The Netherlands; this being an asset specific discount rate for freehold and investment properties.

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

	Group £m	Company £m
<i>Cost:</i>		
At 30 April 2016	21.2	6.8
Exchange differences	1.2	–
Transfer from property, plant and equipment	1.7	–
Disposals	(3.9)	(3.9)
<b>At 29 April 2017</b>	<b>20.2</b>	<b>2.9</b>
Exchange differences	0.7	–
Transfer from property, plant and equipment	(0.1)	–
<b>At 28 April 2018</b>	<b>20.8</b>	<b>2.9</b>
<i>Accumulated depreciation and impairment:</i>		
At 30 April 2016	6.7	1.9
Exchange differences	0.2	–
Impairment	(1.4)	0.3
Depreciation	0.3	–
Transfer from/(to) property, plant and equipment	0.1	(0.6)
Disposals	(1.0)	(1.0)
<b>At 29 April 2017</b>	<b>4.9</b>	<b>0.6</b>
Exchange differences	0.1	–
Impairment	5.1	0.9
Depreciation	0.3	–
Transfer from property, plant and equipment	(0.1)	–
<b>At 28 April 2018</b>	<b>10.3</b>	<b>1.5</b>
<i>Net book value:</i>		
<b>At 28 April 2018</b>	<b>10.5</b>	<b>1.4</b>
At 29 April 2017	15.3	2.3

### 13. Investment in subsidiary undertakings

All of the Group's subsidiary undertakings are included in the consolidated accounts. The Group has the following subsidiaries as at 28 April 2018.

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

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

Company	2018 £m	2017 £m
At the beginning of the period	15.7	15.7
<b>At the end of the period</b>	<b>15.7</b>	<b>15.7</b>

The cost of investments before impairments is £16.7m. As at 28 April 2018, accumulated impairments of £1.0m (2017: £1.0m) have been recognised against the investment in Pluto Sp Z.o.o.

## Financial statements continued

### Notes to the financial statements continued

#### 14. Inventories

Group and Company inventories are held in the form of finished goods for resale. In the period, write down of stock to net realisable value was £0.2m (2017: £0.2m), resulting in a stock provision of £0.4m (2017: £0.4m).

#### 15. Trade and other receivables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
<i>Non-current:</i>				
Prepayments	0.7	0.4	0.7	0.4
	0.7	0.4	0.7	0.4
<i>Current:</i>				
Trade receivables	13.1	13.4	6.3	6.4
Less: provision for impairment	(1.2)	(0.7)	(1.2)	(0.7)
	11.9	12.7	5.1	5.7
Other receivables	1.3	1.3	0.8	0.7
Prepayments and accrued income	12.2	11.8	10.7	10.6
Receivables from subsidiaries	–	–	41.3	41.7
	25.4	25.8	57.9	58.7
<b>Total trade and other receivables</b>	<b>26.1</b>	<b>26.2</b>	<b>58.6</b>	<b>59.1</b>

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

#### Provision for impairment

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
At the beginning of the period	(0.7)	(0.4)	(0.7)	(0.4)
Provision for impairment recognised during the period	(0.5)	(0.3)	(0.5)	(0.3)
At the end of the period	(1.2)	(0.7)	(1.2)	(0.7)

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

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Major insurance companies	1.2	1.0	0.7	0.4
Property rent receivables	0.1	0.3	0.1	0.3
Receivables from retail credit finance	1.4	1.4	1.4	1.4
Retail customers	10.5	11.3	3.7	4.3
Trade and other receivables	13.2	14.0	5.9	6.4

Balances from retail customers principally relate to products awaiting collection, but are considered to have little credit risk as they are primarily settled by cash or major credit card and must be settled prior to the goods being collected from/delivered by the store. The Group bears no credit risk in respect of amounts due from retail customers under retail finance arrangements.

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

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Neither past due nor impaired	1.2	1.2	0.6	0.6
30 to 60 days	0.1	0.1	0.2	0.1
60 to 90 days	–	–	–	–
Over 90 days	–	–	–	–
Non-retail trade and other receivables	1.3	1.3	0.8	0.7

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

## 16. Cash and cash equivalents

	Notes	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Cash at bank and in hand		6.6	12.5	4.3	9.3
Bank overdrafts	19	(1.8)	(7.1)	(1.8)	(7.1)
<b>Cash and cash equivalents in the cash flow statements</b>		<b>4.8</b>	<b>5.4</b>	<b>2.5</b>	<b>2.2</b>

## 17. Trade and other payables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
<i>Current:</i>				
Trade payables	29.1	51.0	25.7	45.4
Other taxes and social security	11.0	10.2	7.7	9.0
Accruals and deferred income	29.3	22.7	25.7	18.1
Payable to subsidiaries	–	–	7.0	9.6
	69.4	83.9	66.1	82.1
<i>Non-current:</i>				
Accruals and deferred income	28.0	34.5	28.0	34.6
<b>Total trade and other payables</b>	<b>97.4</b>	<b>118.4</b>	<b>94.1</b>	<b>116.7</b>

The movement on long-term accruals and deferred income includes the £2.8m release for the stores that will be closed as part of the CVA and is included in note 5, separately reported items.

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 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Amounts payable within one year	0.2	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Amounts payable between one and five years	0.9	1.1	0.6	0.8	0.5	0.6	0.4	0.5
Amounts payable after five years	3.4	3.7	0.3	0.5	1.2	1.5	0.3	0.5
	4.5	5.1	1.1	1.5	–	–	–	–
Less: future finance charges	(2.7)	(2.9)	(0.3)	(0.4)	–	–	–	–
<b>Present value of obligations under finance leases</b>	<b>1.8</b>	<b>2.2</b>	<b>0.8</b>	<b>1.1</b>	<b>1.8</b>	<b>2.2</b>	<b>0.8</b>	<b>1.1</b>
<b>Current</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>				
<b>Non-current</b>	<b>1.7</b>	<b>2.1</b>	<b>0.7</b>	<b>1.0</b>				

The Group leases certain properties under finance leases. The average lease term remaining is 14 years (2017: 13 years). The minimum lease payments are discounted at the rate inherent in the leases. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

## Financial statements continued

### Notes to the financial statements continued

#### 19. Borrowings

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
<i>Current:</i>				
Bank overdraft	1.8	7.1	1.8	7.1
Non-bank loans	11.0	–	11.0	–
Revolving credit facility	45.0	13.0	45.0	13.0
	<b>57.8</b>	<b>20.1</b>	<b>57.8</b>	<b>20.1</b>

Borrowings and overdrafts are denominated in Sterling and euro of which £46.8m (2017: £20.1m) are secured on certain Group freehold properties.

Non-bank loans are presented net of £1.5m arrangement fees, are unsecured and are repayable on 31 August 2018 at an annual interest rate of 3.00%. Full repayment was made on 13 June 2018. Refer to note 32 for details of changes to the Group's borrowing structure after the balance sheet date.

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

	Group 2018 %	Group 2017 %	Company 2018 %	Company 2017 %
Overdrafts	3.25	4.0	3.25	4.0
Revolving credit facility	4.25	3.5	4.25	3.5
Non-bank loans	3.00	–	3.00	–

The maturity profiles of borrowings are as follows:

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Amounts payable within one year	57.8	20.1	57.8	20.1
	<b>57.8</b>	<b>20.1</b>	<b>57.8</b>	<b>20.1</b>

The maturity analysis is grouped by when the debt is contracted to mature rather than by re-pricing dates.

#### 20. Provisions for liabilities and charges

	Group 2018 £m			Company 2018 £m		
	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m
<b>Group and Company</b>						
At the beginning of the period	17.5	–	17.5	17.5	–	17.5
Exchange differences	0.1	–	0.1	0.1	–	0.1
Added during the period	8.5	5.8	14.3	8.5	5.8	14.3
Released during the period	(6.2)	–	(6.2)	(6.2)	–	(6.2)
Utilised during the period	(5.5)	–	(5.5)	(5.5)	–	(5.5)
Utilised on disposal	(0.5)	–	(0.5)	(0.5)	–	(0.5)
<b>At the end of the period</b>	<b>13.9</b>	<b>5.8</b>	<b>19.7</b>	<b>13.9</b>	<b>5.8</b>	<b>19.7</b>

The onerous lease provisions relate to estimated future unavoidable lease costs in respect of closed and loss-making stores. The utilisation of onerous provisions is dependant on the future profitability of each store, which is subject to uncertainty from both internal and external factors. It is expected that the provisions will be utilised over a four year period.

Refer to note 5 for details of the reorganisation provisions, which include redundancy and other store closure costs in relation to stores impacted by the CVA. Due to the nature of the provision, uncertainty exists as to the timing and final costs that will be incurred from implementing the reorganisation programme. It is expected that this will be utilised within the next 12 months.

## 20. Provisions for liabilities and charges continued

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current	10.6	17.5	10.6	17.5
Current	9.1	–	9.1	–
<b>Provision for liabilities and charges</b>	<b>19.7</b>	<b>17.5</b>	<b>19.7</b>	<b>17.5</b>

## 21. Deferred tax assets and liabilities

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Deferred tax assets	(2.0)	(1.9)	–	–
Deferred tax liabilities	9.0	15.2	4.9	9.0
<b>Net deferred tax liabilities</b>	<b>7.0</b>	<b>13.3</b>	<b>4.9</b>	<b>9.0</b>

Deferred tax assets and liabilities are offset against each other where there is a legally enforceable right to offset. Deferred tax liabilities of £9.0m (2017: £15.2m) comprise deferred tax assets of £5.5m (2017: £1.8m) offset against deferred tax liabilities of £14.5m (2017: £17.0m).

Deferred tax assets for tax losses are recognised to the extent that future taxable profits are probable.

The movement in deferred tax assets and liabilities recognised by the Group during the current and prior period is:

Group	Accelerated tax depreciation £m	Fair value adjustments £m	Deferred capital gains £m	Short-term timing differences £m	Tax losses £m	Share based payments £m	Retirement benefit obligations £m	Total £m
At 30 April 2016	4.9	1.2	10.9	(0.6)	(2.7)	(0.1)	(0.2)	13.4
Exchange differences	0.2	0.1	–	–	(0.3)	–	–	–
(Credit)/charge to the income statement	(0.1)	–	(0.9)	0.3	1.2	(0.2)	–	0.3
Credit to other comprehensive income	–	–	–	–	–	–	(0.1)	(0.1)
Transfer to current tax	–	–	(0.3)	–	–	–	–	(0.3)
<b>At 29 April 2017</b>	<b>5.0</b>	<b>1.3</b>	<b>9.7</b>	<b>(0.3)</b>	<b>(1.8)</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>13.3</b>
Exchange differences	0.1	–	(0.1)	0.3	(0.1)	–	(0.2)	–
Credit to the income statement	(0.9)	–	(0.1)	(1.7)	(3.7)	(0.1)	–	(6.5)
Charge to other comprehensive income	–	–	–	–	–	–	0.4	0.4
Transfer to current tax	–	–	(0.2)	–	–	–	–	(0.2)
<b>At 28 April 2018</b>	<b>4.2</b>	<b>1.3</b>	<b>9.3</b>	<b>(1.7)</b>	<b>(5.6)</b>	<b>(0.4)</b>	<b>(0.1)</b>	<b>7.0</b>

Company	Accelerated tax depreciation £m	Fair value adjustments £m	Deferred capital gains £m	Short-term timing differences £m	Tax losses £m	Share based payments £m	Retirement benefit obligations £m	Total £m
At 30 April 2016	1.9	–	10.0	(1.0)	–	(0.1)	(0.2)	10.6
(Credit)/charge to the income statement	(0.2)	–	(0.9)	0.1	–	(0.2)	–	(1.2)
Credit to other comprehensive income	–	–	–	–	–	–	(0.1)	(0.1)
Transfer to current tax	–	–	(0.3)	–	–	–	–	(0.3)
<b>At 29 April 2017</b>	<b>1.7</b>	<b>–</b>	<b>8.8</b>	<b>(0.9)</b>	<b>–</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>9.0</b>
Exchange differences	–	–	0.1	–	–	–	(0.2)	(0.1)
Credit to the income statement	(0.1)	–	–	(0.8)	(3.2)	(0.1)	–	(4.2)
Charge to other comprehensive income	–	–	–	–	–	–	0.4	0.4
Transfer to current tax	–	–	(0.2)	–	–	–	–	(0.2)
<b>At 28 April 2018</b>	<b>1.6</b>	<b>–</b>	<b>8.7</b>	<b>(1.7)</b>	<b>(3.2)</b>	<b>(0.4)</b>	<b>(0.1)</b>	<b>4.9</b>

## Financial statements continued

### Notes to the financial statements 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 note 22 (i) (a) and the first two defined contribution schemes referred to in note 22 (i) are accounted for by the Company.

### (i) Defined benefit schemes

#### (a) UK defined benefit schemes

The Company operated a funded defined benefit pension scheme providing benefits based on final pensionable pay for its employees and has assumed the liability for the scheme previously operated by Storey Carpets Ltd (Storeys). The Company scheme was closed to defined benefit service accrual on 30 April 2010 and has been closed to new members since 31 March 2006. The scheme previously operated by Storeys is also closed to new members and has no active members. The assets of the schemes are held separately from those of the Company.

The assets of the Company scheme are invested in a Managed Fund operated by a fund management company. Contributions are determined by a qualified actuary using the projected unit credit method. The most recent actuarial review was at 6 April 2017 when the actuarial value of the assets represented 95% of the benefits accrued to members after allowing for expected future increases in earnings. A deficit reduction plan has been agreed with the Trustees under which £0.6m was paid in the period (2017: £0.6m).

The assets of the Storeys scheme are held in independently managed funds. The most recent actuarial review of the Storeys scheme was at 1 March 2017 when the actuarial value of the assets represented 103% of the benefits accrued to members. A contribution plan has been agreed with the Trustees under which £0.3m was paid in the period (2017: £0.3m).

#### Risks

The Group schemes are exposed to a number of risks which fall within actuarial risks and investment risks. The risks are monitored by the Trustees to mitigate them and are detailed below:

*Investment return risks:* If the assets under perform the returns assumed in setting the funding target then additional contributions may be required at subsequent valuations.

*Investment matching risks:* The schemes invest significantly in equity type assets, whereas the solvency target is closely related to the return on bonds. If the equity type assets have fallen in value relative to the matching assets of bonds additional contributions may be required.

*Longevity risk:* If future improvements in mortality exceed the assumptions made then additional contribution may be required.

*Legislative risk:* The Government may introduce over riding legislation which leads to an increase in the value of the plan benefits.

*Solvency risks:* As the funding target is not a solvency target, and the investment strategy does not follow that required for a solvency target, the assets of the plan may not be sufficient to provide all members with the full value of their benefits on a plan wind-up.

Some of these risks can be reduced by adjusting the funding strategy with the help of the Trustees, for example investment matching risk. Other risks cannot so easily be removed, for example longevity risk. The Trustees of the plan regularly review such risks and mitigating controls and a risk register is approved annually to mitigate such risks.

The Trustees have adopted an investment matching strategy that seeks to match the investment with the cashflow obligations of the scheme. Thus investing in lower risk assets, such as annuities and bonds, which provide a more secure cashflow, as the pension obligation approaches maturity.

Employer contributions of £0.9m are expected to be paid into these pension schemes during the financial period 2019.

The weighted average duration of the defined benefit obligation is 20 years.

The assets and liabilities of the schemes were valued on an IAS 19 basis at 28 April 2018 by a qualified actuary. The numbers set out below are the aggregate of the two schemes.

1) The table below outlines amounts included in the financial statements arising from the Group's and Company's obligations in respect of the defined benefit scheme:

	2018 £m	2017 £m
Present value of pension schemes' obligations	(29.4)	(32.7)
Fair value of pension schemes' assets	30.2	29.5
Asset ceiling	(1.6)	-
<b>Total recognised in the balance sheet</b>	<b>(0.8)</b>	<b>(3.2)</b>



## 22. Retirement benefit obligations continued

	Notes	2018 £m	2017 £m
Net interest cost on pension schemes	6	(0.1)	(0.1)
<b>Total recognised in the income statement</b>		<b>(0.1)</b>	<b>(0.1)</b>

	2018 £m	2017 £m
Actuarial (losses)/gains on plan assets	(0.2)	4.9
Change in assumptions underlying present value of liabilities	3.4	(6.7)
Asset ceiling	(1.6)	-
<b>Total recognised in the other comprehensive income statement</b>	<b>1.6</b>	<b>(1.8)</b>

A scheme surplus of £1.4m on one of the defined benefit scheme has been derecognised as the Group does not have an unconditional right to refunds or reductions in future contributions. An additional £0.2m obligation has been recognised reflecting the Group's minimum committed contributions to the plan.

## 2) Reconciliation of movement in net pension deficit:

	Defined benefit obligations		Fair value of assets		Asset ceiling		Net defined benefit obligations	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
As at the beginning of the period	(32.7)	(28.3)	29.5	26.1	-	-	(3.2)	(2.2)
Interest (expense)/income	(0.8)	(1.0)	0.7	0.9	-	-	(0.1)	(0.1)
<b>Re-measurements:</b>								
Actuarial gains and losses from:								
Financial assumptions	1.6	(6.4)	-	-	-	-	1.6	(6.4)
Demographics	0.9	-	-	-	-	-	0.9	-
Experience adjustments	0.9	(0.3)	-	-	-	-	0.9	(0.3)
Return on plan assets excluding interest	-	-	(0.2)	4.9	-	-	(0.2)	4.9
Asset ceiling restriction	-	-	-	-	(1.6)	-	(1.6)	-
<b>Contributions:</b>								
Employers	-	-	0.9	0.9	-	-	0.9	0.9
<b>Payments from plan:</b>								
Benefits paid	0.7	3.3	(0.7)	(3.3)	-	-	-	-
<b>As at the end of the period</b>	<b>(29.4)</b>	<b>(32.7)</b>	<b>30.2</b>	<b>29.5</b>	<b>(1.6)</b>	<b>-</b>	<b>(0.8)</b>	<b>(3.2)</b>

As at the balance sheet date the defined benefit obligation of £15.1m is due to deferred members and £14.3m to current pensioners.

## Financial statements continued

### Notes to the financial statements continued

## 22. Retirement benefit obligations continued

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

	2018 Quoted £m	2018 Unquoted £m	2018 Total £m	2017 Quoted £m	2017 Unquoted £m	2017 Total £m
Equities	8.5	–	8.5	12.4	–	12.4
Bonds	13.4	–	13.4	9.0	–	9.0
Insurance policy – unquoted	–	7.8	7.8	–	7.9	7.9
Cash and cash equivalents	0.5	–	0.5	0.2	–	0.2
<b>Total</b>	<b>22.4</b>	<b>7.8</b>	<b>30.2</b>	<b>21.6</b>	<b>7.9</b>	<b>29.5</b>

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

4) Key assumptions used:

	2018 %	2017 %
RPI inflation	3.3	3.5
Discount rate	2.5	2.5
CPI inflation	2.7	2.7

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 dates and standard tables. Specifically, the S2NXA and S2 table on a year of birth usage with CMI\_2016 future improvements factors and a long-term rate of improvement of 1.25% (2017: S2NXA table on a year of birth usage with future improvements factors and a long-term rate of improvement of 1.25% pa). This results in the following life expectancies:

- male aged 65 now has life expectancy of 22 years
- female aged 65 now has life expectancy of 24 years

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years and 16 years for the Carpetright and Storey's schemes respectively (2017: 20 years and 16 years respectively).

The most significant assumptions are the discount rate, retail and consumer price index and mortality rates, of which the most sensitive assumption is the life expectancy. The table below shows the impact on the present value placed on the plan's liabilities of the stated changes to the actuarial assumptions and has been derived by applying sensitivities determined at the most recent actuarial valuation to the projected liability value. The sensitivity analysis is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis.

		2018 £m	2017 £m
Increase/(decrease) by 0.1%	Discount rate	0.5	0.6
Increase/(decrease) by 0.1%	RPI inflation or CPI inflation	0.2	0.4
Increase/(decrease) by 1 year	Life expectancy	1.0	1.2

#### (b) Multi-employer scheme

The Group's Dutch subsidiary participates in a multi-employer run industry pension scheme which has arrangements similar to those of a defined benefit scheme. It is not possible to identify the Group's share of the underlying assets and liabilities of the scheme, and therefore, in accordance with IAS 19, the Group has taken the exemption for multi-employer pension schemes not to disclose pension scheme assets and liabilities. Accordingly, although this scheme is a defined benefit scheme it is treated as a defined contribution scheme, recognising the contributions payable in each period in the income statement. Under the terms of the scheme the scheme deficit is recovered through increased contributions from participating members. At the period end, the Group was unable to obtain a valuation of the industry scheme's full surplus or deficit. The Group was also unable to obtain details concerning the future funding requirements, and its participation level relative to the other participants. Contributions charged to the income statement amounted to £1.1m (2017: £1.0m) and expected contribution to this scheme for the financial period 2019 is £1.1m.

#### (ii) Defined contribution schemes

The Company launched a Group Personal Pension Plan in April 2006. Contributions made by employees are matched by the Company to an upper limit. The assets of the scheme are held separately from those of the Company and are invested by Royal London. Contributions for the period amounted to £1.2m (2017: £1.1m).

## 22. Retirement benefit obligations continued

In addition, the Group operates defined contribution pension schemes for subsidiary companies in Belgium and the Netherlands. The Group makes contributions into the schemes, the assets of which are held separately from those of the Group and are invested by local insurance companies. The contributions by the Group into individual company schemes for the period were a net charge of £0.1m (2017: £0.1m) and there were no contributions to industry collective schemes (2017: nil).

## 23. Financial instruments

### (i) Financial risk management objectives and policies

#### Risk management

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

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

#### (a) Credit risk

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

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

The credit risk on liquid funds is limited because the counterparties are reputable banks. The maximum amount of credit risk is represented by the carrying amounts of financial assets.

#### (b) Liquidity risk

The Group finances its operations from a mix of retained profits, bank borrowings achieved through revolving credit agreements and overdraft facilities, and a non-bank loan. Daily cash balances are forecast and surplus cash is placed on treasury deposit with the Group's bankers.

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

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
<b>Group</b>					
<b>At 28 April 2018</b>					
Interest bearing loans and borrowings	58.1	–	–	–	58.1
Finance leases	0.2	0.2	0.7	3.4	4.5
Trade and other payables	49.1	–	–	–	49.1
	<b>107.4</b>	<b>0.2</b>	<b>0.7</b>	<b>3.4</b>	<b>111.7</b>
<b>At 29 April 2017</b>					
Interest bearing loans and borrowings	20.4	–	–	–	20.4
Finance leases	0.3	0.3	0.8	3.7	5.1
Trade and other payables	69.0	–	–	–	69.0
	<b>89.7</b>	<b>0.3</b>	<b>0.8</b>	<b>3.7</b>	<b>94.5</b>
<b>Company</b>					
<b>At 28 April 2018</b>					
Interest bearing loans and borrowings	60.6	–	–	–	60.6
Finance leases	0.2	0.2	0.4	0.3	1.1
Trade and other payables	47.0	–	–	–	47.0
	<b>107.8</b>	<b>0.2</b>	<b>0.4</b>	<b>0.3</b>	<b>108.7</b>
<b>At 29 April 2017</b>					
Interest bearing loans and borrowings	25.5	–	–	–	25.5
Finance leases	0.2	0.2	0.5	0.6	1.5
Trade and other payables	64.7	–	–	–	64.7
	<b>90.4</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>	<b>91.7</b>

## Financial statements continued

### Notes to the financial statements continued

#### 23. Financial instruments continued

The Group has committed facilities to the end of December 2019 comprising a £45.0m revolving credit facility, a Sterling overdraft of £7.5m and a euro overdraft of €2.4m. At the balance sheet date the Group also had a non-bank loan of £12.5m committed until 31 August 2018. Subsequent to the balance sheet date, the Group obtained a further non-bank loan of £17.3m, committed until 31 July 2020 and repaid the £12.5m facility. The undrawn amounts on the committed facilities were £7.8m (2017: £32.0m).

The bank facilities are subject to a number of financial covenants, being a fixed charge cover covenant, an EBITDA covenant and a net debt covenant. The Group is expected to remain in compliance with these covenants; further details on this can be found on page 17 of the Strategic Report.

##### (c) Foreign exchange risk

Outside the UK, the Group operates in the Netherlands, Belgium and the Republic of Ireland and had cash balances in Poland. Revenues and expenses of these operations are denominated in euros or Zlotys. The Group mitigates currency risk in respect of the net investment in European operations by designating euro denominated borrowings as hedging instruments of euro denominated investments in foreign operations.

If the closing Sterling euro rate had been 0.01 points lower in the period, the exchange difference reported in the statement of comprehensive income would have been £0.4m lower (2017: £0.3m lower). At 28 April 2018, if Sterling had weakened/strengthened by 10% against the euro, (loss)/profit after tax for the period would have been £0.7m 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 2018	euro 2017	Zloty 2018	Zloty 2017
Average rate	1.13	1.20	5.21	5.21
Closing rate	1.14	1.19	5.01	5.01

##### (d) Interest rate risk

The Group has various borrowings bearing interest at a margin over LIBOR or EURIBOR rates.

In accordance with IFRS 7, the Group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt and a constant ratio of fixed to floating interest rates as at 28 April 2018 and 29 April 2017 respectively. Consequently, analysis relates to the situation at those dates and is not representative of the periods then ended.

Based on the Group's net debt position at the period end, a 1% change in interest rates would affect the Group's profit before tax by approximately £0.5m (2017: £0.1m).

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

	2018					2017				
	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m
Sterling	0.1%	4.3	–	5.6	9.9	0.2%	8.9	–	6.2	15.1
Euro	–	2.0	–	7.7	9.7	–	2.8	–	7.8	10.6
Zloty	–	0.3	–	–	0.3	–	0.8	–	–	0.8
<b>Total financial assets</b>	–	<b>6.6</b>	<b>–</b>	<b>13.3</b>	<b>19.9</b>	–	<b>12.5</b>	<b>–</b>	<b>14.0</b>	<b>26.5</b>
Sterling	2.8%	(56.6)	(1.7)	(41.0)	(99.3)	1.8%	(20.4)	(2.0)	(58.8)	(81.2)
Euro	–	(1.5)	(0.1)	(8.1)	(9.7)	–	–	(0.1)	(10.2)	(10.3)
<b>Total financial liabilities</b>		<b>(58.1)</b>	<b>(1.8)</b>	<b>(49.1)</b>	<b>(109.0)</b>		<b>(20.4)</b>	<b>(2.1)</b>	<b>(69.0)</b>	<b>(91.5)</b>

##### Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and retain financial flexibility in order to continue to provide returns for shareholders and benefits for other stakeholders. The Group considers capital to be equity and net debt. Net debt is disclosed in note 29.

The Group manages its capital by: continued focus on free cash flow generation; setting the level of capital expenditure and dividend in the context of the current period and forecast free cash flow; and monitoring the level of the Group's financial and leasehold debt in the context of Group performance.

## 23. Financial instruments continued

### (ii) Fair value of financial assets and liabilities

Financial assets and liabilities are classified in accordance with IAS 39. Financial instruments have not been reclassified or derecognised in the period. There are no financial assets which have been pledged or held as collateral. The Group does not have any financial assets or liabilities measured at fair value through the income statement. There are no available-for-sale financial assets.

The carrying values of all other financial assets and liabilities are deemed to reflect fair value.

	Group		Company	
	2018 Fair value £m	2017 Fair value £m	2018 Fair value £m	2017 Fair value £m
At cost:				
Cash and cash equivalents	6.6	12.5	4.3	9.3
Loans and receivables at amortised cost:				
Trade and other receivables	13.3	14.0	47.3	48.1
<b>Total financial assets</b>	<b>19.9</b>	<b>26.5</b>	<b>51.6</b>	<b>57.4</b>
Financial liabilities at amortised cost:				
Borrowings and overdrafts	(57.8)	(20.1)	(57.8)	(20.1)
Finance lease obligations	(1.8)	(2.2)	(0.8)	(1.1)
Financial liabilities at cost:				
Trade and other payables	(49.4)	(69.3)	(49.7)	(70.1)
<b>Total financial liabilities</b>	<b>(109.0)</b>	<b>(91.6)</b>	<b>(108.3)</b>	<b>(91.3)</b>
<b>Net financial liabilities</b>	<b>(89.1)</b>	<b>(65.1)</b>	<b>(56.7)</b>	<b>(33.9)</b>

## 24. Share capital

Group and Company	Number of allotted, called up and fully paid ordinary shares Millions	Nominal value per share £	Share capital £m	Share premium £m	Treasury shares £m	Total £m
At 30 April 2016	67.9	0.01	0.7	17.8	(1.3)	17.2
Issue of new shares	–	–	–	–	–	–
Purchase of own shares – employee benefit trust	–	–	–	–	(0.3)	(0.3)
<b>At 29 April 2017</b>	<b>67.9</b>	<b>0.01</b>	<b>0.7</b>	<b>17.8</b>	<b>(1.6)</b>	<b>16.9</b>
Issue of new shares	3.4	–	–	1.3	–	1.3
Transfer of treasury shares to participants	–	–	–	–	0.2	0.2
<b>At 28 April 2018</b>	<b>71.3</b>	<b>0.01</b>	<b>0.7</b>	<b>19.1</b>	<b>(1.4)</b>	<b>18.4</b>

3,396,200 new ordinary shares of £0.01 were issued to an existing shareholder on 20 March 2018 for a consideration of 40.6p per share and were issued as part of a shareholder loan.

The Group's LTIP was established to grant contingent rights to shares. Such grants are made on recommendation by the Group's Remuneration Committee. Shares are purchased by a Trust and held until they are used to satisfy the LTIP awards. As required by IAS 32, grants of such shares are classified as Treasury shares and accordingly are deducted from total equity attributable to equity holders of the parent. During the period, the Trust purchased 26,554 ordinary shares (2017: 156,358 shares purchased). At the period end, the Trust held 322,819 (2017: 365,248) ordinary shares of 1p each with a market value of £0.1m (2017: £0.8m).

The Group also operates a share option scheme under which shares are issued to satisfy share options upon exercise.

Subsequent to the balance sheet date, the Group launched a Placing and Open Offer, raising £63.5m (net of fees). 232,463,221 new ordinary shares were issued with a nominal value of £0.01 on 8 June 2018.

## Financial statements continued

### Notes to the financial statements continued

#### 25. Share based payments

Included within separately reported items is a charge of £0.5m (2017: charge of £1.0m) in respect of equity-settled share based payments.

The Group's employee share schemes are described below and additional detail is disclosed in the Directors' remuneration report on pages 49 to 51. Scheme participants are either Directors of the Company or employees of the Group. The costs associated with the schemes are accounted for in the Company's accounts.

##### (i) LTIP

Under this scheme, participants may receive annual awards in the form of contingent entitlements to Company shares. These entitlements are equity-settled through the purchase of existing shares by the administering Trust. The shares vest three years after award if participants remain with the Group during the vesting period and the Group meets targeted levels of performance. The performance conditions are fully described in the Directors' remuneration report in the section titled Long-term incentives.

During the period, contingent entitlements to 1,151,689 shares were granted (2017: 1,186,812). The amount recognised in the income statement in respect of all LTIP awards is a charge of £0.1m (2017: charge of £0.2m). The fair values of the awards, where there is no market condition, are valued using a Black-Scholes option pricing model. The Group's LTIP Trust is administered by Equity Trust (Jersey) Limited and waives its right to dividends on the shares held.

##### Reconciliation of movements in the 52 week period ended 28 April 2018

	LTIP Sept 2017		LTIP Sept 2016		LTIP July 2015		LTIP July 2014		LTIP Jan 2014	
	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m
Outstanding at 30 April 2016	-	-	-	-	456.2	2.5	365.6	2.0	268.5	0.9
Granted	-	-	1,186.8	2.7	-	-	-	-	-	-
Forfeited	-	-	(53.4)	(0.1)	(19.8)	(0.1)	-	-	(1.8)	-
Expired/lapsed	-	-	-	-	-	-	-	-	-	-
<b>Outstanding at 29 April 2017</b>	<b>-</b>	<b>-</b>	<b>1,133.4</b>	<b>2.6</b>	<b>436.4</b>	<b>2.4</b>	<b>365.6</b>	<b>2.0</b>	<b>266.7</b>	<b>0.9</b>
Granted	1,511.7	2.7	-	-	-	-	-	-	-	-
Forfeited	(8.2)	-	(48.8)	(0.1)	(19.5)	(0.1)	-	-	-	-
Lapsed	-	-	-	-	-	-	(18.3)	(0.1)	(266.7)	(0.9)
Exercised/vested	-	-	-	-	-	-	(68.9)	(0.4)	-	-
Expired/lapsed	-	-	-	-	-	-	-	-	-	-
<b>Outstanding at 28 April 2018</b>	<b>1,503.5</b>	<b>2.7</b>	<b>1,084.6</b>	<b>2.5</b>	<b>416.9</b>	<b>2.3</b>	<b>278.4</b>	<b>1.5</b>	<b>-</b>	<b>-</b>
<b>Exercisable at 28 April 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>278.4</b>	<b>1.5</b>	<b>-</b>	<b>-</b>
Exercisable at 29 April 2017	-	-	-	-	-	-	-	-	-	-

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

Valuation assumptions	LTIP 2017 award	LTIP Sept 2016 award	LTIP July 2015 award	LTIP July 2014 award
Fair value per share (pence)	179	231	560	524
Share price at grant (pence)	189	241	577	525.5
Exercise price (pence)	0.0	0.0	0.0	0.0
Expected volatility (%) <sup>1</sup>	44.0	38.5	32.4	33.4
Vesting period (years)	3.0	3.0	3.0	3.0
Dividend yield (%)	0.0	0.0	0.0	0.0
Risk free interest rate (%)	0.4	1.6	1.0	1.5

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

##### (ii) Savings Related Share Option Scheme ("SAYE")

The Group operates three and five-year SAYE schemes. Employees and Executive Directors are invited to subscribe for options over shares in the Company at a 20% discount to market price. The options are ordinarily exercisable within six months from the third or fifth anniversary of the grant date. The entitlement to share options is equity-settled. Funds for the purchase of Company shares are built up through the contribution of a maximum of £500 (2017: £500) per month from salary. Share options were valued using a Black-Scholes option-pricing model. The cost charged to the income statement in respect of this scheme is £0.4m (2017: £0.8m).

## 25. Share based payments continued

### Reconciliation of movements in the period ended 28 April 2018

	SAYE 2018		SAYE 2017		SAYE 2016		SAYE 2015		SAYE 2014		SAYE 2013	SAYE 2012
	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	5 yr	5 yr
	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s	Number of options '000s
Outstanding at 30 April 2016	-	-	-	-	197.3	39.5	548.5	134.6	104.2	21.7	6.1	6.2
Granted	-	-	487.6	3,264.3	-	-	-	-	-	-	-	-
Forfeited	-	-	(24.2)	-	(146.7)	(29.4)	(467.3)	(91.4)	(63.1)	(14.7)	(3.3)	(4.4)
Vested	-	-	-	-	-	-	-	-	-	-	-	-
<b>Outstanding at 29 April 2017</b>	<b>-</b>	<b>-</b>	<b>463.4</b>	<b>3,264.3</b>	<b>50.6</b>	<b>10.1</b>	<b>81.2</b>	<b>43.2</b>	<b>41.1</b>	<b>7.0</b>	<b>2.8</b>	<b>1.8</b>
Granted	274.5	45.9	-	-	-	-	-	-	-	-	-	-
Forfeited	(56.7)	-	(213.0)	(1,416.2)	(26.0)	(4.2)	(37.8)	(12.1)	(41.1)	(2.0)	(1.3)	(1.8)
Vested	-	-	-	(3.3)	-	-	-	-	-	-	-	-
<b>Outstanding at 28 April 2018</b>	<b>217.8</b>	<b>45.9</b>	<b>250.4</b>	<b>1,844.8</b>	<b>24.6</b>	<b>5.9</b>	<b>43.4</b>	<b>31.1</b>	<b>-</b>	<b>5.0</b>	<b>1.5</b>	<b>-</b>
<b>Exercisable at 28 April 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1.5</b>	<b>-</b>
Exercisable at 29 April 2017	-	-	-	-	-	-	-	-	41.1	-	2.8	1.8

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

	SAYE 2018		SAYE 2017		SAYE 2016		SAYE 2015		SAYE 2013		SAYE 2013	SAYE 2011
Valuation assumptions	3yr	5yr	3yr	5yr	3yr	5yr	3 yr	5 yr	3 yr	5 yr	5 yr	5 yr
Fair value per share (pence)	71	80	62	67	148	178	148	184	165	201	248	339
Share price at grant (pence)	168	168	162	162	446	446	446	446	505	505	679	679
Exercise price (pence)	134	134	130	130	356	356	347	347	404	404	544	554
Expected volatility (%) <sup>1</sup>	50.5	45.3	43.2	37.3	34.3	34.7	31.5	34.8	33.7	34.8	34.7	39.1
Vesting period (years)	3.0	5.0	3.0	5.0	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1
Dividend yield (%)	-	-	-	-	-	-	-	-	-	-	-	-
Risk free interest rate (%)	0.9	1.1	0.3	0.6	0.5	0.8	0.7	1.0	0.3	0.8	2.9	4.9
Possibility of ceasing employment before vesting (%)	40	50	40	50	40	50	40	50	40	50	40	40

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

#### (iii) All Employee Share Ownership Plan ("AESOP")

Carpetright operated an Employee Share Ownership Plan under which employees could contribute up to £125 per month from pre-tax salary to purchase Carpetright shares. The scheme was closed on 12 January 2015 as there were fewer than 50 active participants. The Group does not incur a share based payment charge in respect of this scheme since the Company shares have been acquired at market value and are not subject to an accumulation period.

## 26. Capital and other financial commitments

Capital commitments at 28 April 2018 contracted for but not yet incurred are:

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Store equipment	-	3.4	-	0.2
Intangible assets – software costs	0.7	0.2	0.7	0.2
	0.7	3.6	0.7	0.4

## Financial statements continued

### Notes to the financial statements continued

#### 27. Operating lease commitments

At 28 April 2018, the future minimum lease payments in respect of land and buildings and other assets under operating leases are:

Group	2018		2017	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	64.2	2.1	79.6	2.2
Amounts payable between one and five years	201.3	3.1	263.5	3.3
Amounts payable after five years	142.5	–	188.8	–
	<b>408.0</b>	<b>5.2</b>	<b>531.9</b>	<b>5.5</b>

Company	2018		2017	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	56.5	1.8	71.9	1.9
Amounts payable between one and five years	184.0	2.7	245.1	2.9
Amounts payable after five years	130.1	–	176.6	–
	<b>370.6</b>	<b>4.5</b>	<b>493.6</b>	<b>4.8</b>

The future minimum lease payments in the table above include the revised committed payments under the terms of the CVA impacting the UK business.

The Group's operating leases have an average remaining length of 3.8 years (2017: 3 years). The remaining lease term for UK property leases has decreased from 6.3 years to 4.8 years, reflecting the impact of the CVA and in particular, the closure of 81 stores.

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 as shown below:

Group	2018		2017	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases receivable:				
Amounts receivable within one year	1.6	–	2.1	–
Amounts receivable between one and five years	4.3	–	5.3	–
Amounts receivable after five years	2.0	–	1.1	–
	<b>7.9</b>	<b>–</b>	<b>8.5</b>	<b>–</b>

Company	2018		2017	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases receivable:				
Amounts receivable within one year	1.5	–	1.2	–
Amounts receivable between one and five years	3.8	–	3.0	–
Amounts receivable after five years	1.9	–	0.6	–
	<b>7.2</b>	<b>–</b>	<b>4.8</b>	<b>–</b>

#### 28. Contingent liabilities

The Group has no material contingent liabilities at 28 April 2018.

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



## 29. Net (debt)/cash

Group £m	Total 2017	Cash flow	Exchange differences	Other non-cash	Total 2018
<i>Current assets:</i>					
Cash and cash equivalents in the balance sheet	12.5				6.6
Bank overdraft	(7.1)				(1.8)
<b>Cash and cash equivalents in the cash flow statement</b>	<b>5.4</b>	<b>(0.9)</b>	<b>0.3</b>	<b>–</b>	<b>4.8</b>
<i>Current liabilities:</i>					
Current borrowing	(13.0)	(44.0)	–	1.0	(56.0)
Non-current borrowing	–	–	–	–	–
	(13.0)	(44.0)	–	1.0	(56.0)
<i>Obligations under finance leases:</i>					
Current obligations under finance leases	(0.1)	–	–	–	(0.1)
Non-current obligations under finance leases	(2.1)	0.3	–	0.1	(1.7)
	(2.2)	0.3	–	0.1	(1.8)
<b>Total net (debt)/cash</b>	<b>(9.8)</b>	<b>(44.6)</b>	<b>0.3</b>	<b>1.1</b>	<b>(53.0)</b>

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

## 30. Reconciliation of liabilities arising from financing activities

Group £m	Total 2017	Cash flow	Non cash movement		Total 2018
			Exchange differences	Other non-cash	
Revolving credit facility	(13.0)	(32.0)	–	–	(45.0)
Non-bank loans	–	(12.0)	–	1.0	(11.0)
Finance leases	(2.2)	0.3	–	0.1	(1.8)
<b>Liabilities</b>	<b>(15.2)</b>	<b>(43.7)</b>	<b>–</b>	<b>1.1</b>	<b>(57.8)</b>

Group £m	Total 2016	Cash flow	Non cash movement		Total 2017
			Exchange differences	Other non-cash	
Revolving credit facility	–	(13.0)	–	–	(13.0)
Finance leases	(2.3)	0.3	–	(0.2)	(2.2)
<b>Liabilities</b>	<b>(2.3)</b>	<b>(12.7)</b>	<b>–</b>	<b>(0.2)</b>	<b>(15.2)</b>

## Financial statements continued

### Notes to the financial statements continued

#### 31. Related parties

##### Group

The Group considers key management to be the Executive Directors only, details of directors' emoluments and share based payments are disclosed on pages 47 to 51 of the Directors' report.

Costs incurred by the Group to administer pension schemes amounted to £0.3m in 2018 (2017: £0.3m).

##### Company

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

	Sales of goods £m	Provision of services £m	Total £m	Amounts due from related parties £m	Amounts due to related parties £m
Subsidiary undertakings					
<b>2018</b>	<b>0.5</b>	<b>0.5</b>	<b>1.0</b>	<b>41.3</b>	<b>7.0</b>
<b>2017</b>	<b>1.1</b>	<b>0.6</b>	<b>1.7</b>	<b>41.7</b>	<b>9.6</b>

A full list of subsidiaries is detailed in note 13.

The Company guarantees bank and other borrowings of subsidiary undertakings. At the period-end there were nil drawn borrowings (2017: nil).

#### 32. Events after the reporting period

There have been several post balance sheet events arising from the ongoing restructuring of the business.

On 12 April 2018 the Group launched a Company Voluntary Arrangement ("CVA") impacting its UK business. While the launch and creditors' vote occurred before the year end, shareholder approval and cessation of the mandatory challenge period occurred after the year end. The CVA was approved and became effective on 30 April 2018. The shareholder approval and end of the challenge period are considered to be adjusting post balance sheet events, with the full impact of the approved CVA reflected in the financial results for the 52 week period ended 28 April 2018.

The Group completed the refinancing of its existing facilities on 11 May 2018, which came into effect on receipt of the Placing and Open Offer proceeds on 11 June 2018. The refinancing including committed banking facilities totalling £54.6 m, consisting of £45.0m revolving credit facility ("RCF"), £7.5m Sterling overdraft and £2.4m euro overdraft facility. The facilities are committed until 31 December 2019.

Pursuant to a loan note agreement dated 11 May 2018, Meditor, a significant shareholder, made available to the Company a Sterling loan note of net £15.0m (Gross: £17.25m which includes a £2.25m arrangement fee). The Meditor Loan Note was drawn by the Company in a single utilisation on 11 May 2018 and is committed until 31 July 2020. The short-term non-bank loan of £12.5m issued in March 2018 was repaid on 13 June 2018.

The Group launched a Placing and Open Offer on the Main Market of the London Stock Exchange on 18 May 2018, with 232,463,221 new ordinary shares issued on 8 June 2018. Net receipts of £63.5m (£65.1m gross) were received on 11 June 2018.

As a consequence of large asset impairments booked towards the end of the 52 week period, goodwill in particular, the value of the Company's net assets fell below half of its called up share capital. It is a requirement of the Companies Act that where the net assets of a public company are half or less of its called up share capital, the directors must call a general meeting of the company to consider whether any, and if so what, steps should be taken to deal with the situation. Accordingly, a general meeting held on 6 June 2018 approved the Resolutions such that the Placing and Open Offer and CVA became unconditional. Following receipt of the Placing and Open Offer proceeds, the value of the Company's net assets were greater than half of its called up share capital.

The company announced on 12 April 2018 that it had identified a technical breach with respect to compliance with the borrowing powers in its Articles and published a Shareholder circular including resolutions to ratify the breach and amend the Articles to prevent future breaches. The resolutions were passed at the Shareholder meeting on 30 April 2018.

# Group five-year financial summary

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
<b>Summarised income statements:</b>					
Revenue	443.8	457.6	456.8	469.8	447.7
Gross profit	249.6	269.4	274.2	287.2	275.9
Underlying EBITDA	6.4	28.6	32.8	29.4	20.8
Operating (loss)/profit	(67.7)	2.9	14.8	8.2	(4.9)
Underlying operating (loss)/profit	(5.9)	16.4	20.3	15.8	6.9
Net finance costs	(2.8)	(2.0)	(2.0)	(1.6)	(2.3)
<b>Underlying (loss)/profit before tax</b>	<b>(8.7)</b>	<b>14.4</b>	<b>18.3</b>	<b>14.2</b>	<b>4.6</b>
Separately reported items	(61.8)	(13.5)	(5.5)	(7.6)	(11.8)
(Loss)/profit before tax	(70.5)	0.9	12.8	6.6	(7.2)
Tax	6.3	(0.2)	(2.7)	(2.1)	3.6
(Loss)/profit for the financial period	(64.2)	0.7	10.1	4.5	(3.6)
<b>Extracts from balance sheets:</b>					
Non-current assets	138.9	176.9	169.0	171.4	185.4
Net assets	19.3	78.0	74.0	59.5	61.1
Net (debt)/cash	(53.0)	(9.8)	(1.1)	0.5	(11.1)
<b>Ratios and statistics:</b>					
Number of stores at period end	545	564	572	597	614
Total space (sq ft – gross) '000	4,908	5,051	5,150	5,444	5,630
Gross margin (%)	56.2%	58.9%	60.0%	61.1%	61.6%
Underlying EBITDA (%)	1.4%	6.3%	7.2%	6.3%	4.6%
Underlying (loss)/earnings per share (pence)	(6.8p)	16.4p	20.8p	15.5p	4.7p
Basic (loss)/earnings per share (pence)	(94.6p)	1.0p	14.9p	6.7p	(5.3p)

# Independent auditors' report

to the members of Carpetright plc

## Report on the financial statements

### Opinion

In our opinion, Carpetright plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 28 April 2018 and of the group's loss and the group's and the company's cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the group and company balance sheets as at 28 April 2018; the group income statement and statement of comprehensive income, the group and company statements of cash flows, and the group and company statements of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the group or the company in the period from 30 April 2017 to 28 April 2018.

### Material uncertainty relating to going concern – Group and Parent Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 concerning the Group's and Parent Company's ability to continue as a going concern.

### Explanation of material uncertainty

The Group's forecast for the 18 months from approval of these financial statements contains assumptions over the trading performance of the existing businesses and cost saving measures. Each of these items is subject to a level of uncertainty.

As noted on page 63, the Group and Parent Company meet their day-to-day working capital requirements through their debt facilities and available cash resources. The principal banking facility includes a revolving credit facility of £45.0 m, a Sterling overdraft of £7.5m and a euro overdraft of £2.4 m, all of which are committed to the end of December 2019. The Meditor non-bank loan of £17.3m is committed to July 2020. The principal banking facilities are subject to a number of financial covenants, comprising a fixed charge cover covenant, an EBITDA covenant and a net debt covenant.

These covenants are subject to testing at 28 July 2018, 27 October 2018, 26 January 2019 and 27 April 2019 within the 12 months from the approval of these financial statements. The rolling EBITDA covenant is the covenant with the least headroom over the next 18 months. The forecasts have been updated for actual trading to week seven and latest view of trading to the end of June 2018. Trading for this period has been particularly challenging involving a number of factors including the combined impact of hot weather, the Royal Wedding and a shortage of inventory while arrangements with suppliers were resolved. The forecasts have been sensitised to reflect these conditions continuing.

As part of the board's assessment of going concern, trading and working capital requirements, forecasts have been prepared covering a 12 month period from June 2018. These forecasts have been subjected to a sensitivity testing, which, while not anticipated by the board, reflects a continuation of the very recent challenging trading conditions throughout the whole of this forecast 12 month period. If the Group's forecast is not achieved, there is a risk that the Group will not meet its financial covenants and, should such a situation materialise, the facilities may be cancelled and all or part of the utilisation and all other amounts accrued or outstanding would be immediately due and payable.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Parent Company were unable to continue as a going concern.

Given the matters noted above, the directors have drawn attention to this in disclosing a material uncertainty relating to going concern in the basis of preparation to the Annual Accounts.

### What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included the following:

- we obtained management's cash flow models and the downside scenarios modelled. We checked that the downside sensitivities applied were correctly included in the model and considered the appropriateness of the key assumptions in the models. We challenged management on whether the downside sensitivities modelled were severe enough and ensured that management ran an additional downside sensitivity which included a further decrease in revenue and reduction in gross margin;
- we traced the £63.5m (net of fees) receipt of funds to bank statements, read the revised revolving credit facility and Meditor loan contracts and agreed the underlying terms to the assumptions in the model;
- we tested that:
  - the underlying liquidity calculations were mathematically accurate;

- the liquidity headroom and the forecast covenant calculations were correctly calculated based on the cash flow models and the terms of the underlying contracts;
- we sensitised the cash flows further to determine the reduction in EBITDA and revenue which would result in a covenant breach; and
- we considered the potential mitigating actions available to manage covenant compliance.

Having performed the above procedures, we concluded there is a reasonably possible scenario where the EBITDA covenant may be breached within 12 months from the date of our report. On this basis we agree with management's assessment that a material uncertainty exists which may cast significant doubt regarding the Group's and Parent Company's ability to continue as a going concern.

### Our audit approach

#### Overview

- Overall group materiality: £2.2m (2017: £2.3m), based on 0.5% of Group revenues.
- Overall company materiality: £1.8m (2017: £1.9m), based on 0.5% of Company revenues.

- We performed a full scope audit of the UK and Republic of Ireland segments which accounted for 83% of the Group revenues and 64% of the Group's loss on an absolute basis.

- Impairment of freehold and long-leasehold properties (Group and parent).
- Impairment of store assets and onerous leases (Group and parent).
- Valuation of goodwill (Group and parent).
- Separately reported items (Group).

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to the Companies Act 2006, the Listing Rules, Pensions legislation, UK tax legislation. Our tests included, but were not limited to, agreeing the financial statement disclosures to underlying supporting documentation, inspecting correspondence with regulators, inspection of correspondence with legal advisors, enquiries of management, reading of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern, described in the Material uncertainty relating to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

#### Context

A downturn in consumer spending in the post-Christmas trading period combined with legacy property issues and a challenging economic environment resulted in the Group announcing on 12 March 2018 that it proposed to implement a Company Voluntary Arrangement ("CVA") and its intention to raise at least £60m through a proposed Placing and Open offer. The CVA was successfully voted through by the Creditors On 26 April 2018 and there were no challenges during the CVA challenge period. The Placing and Open offer was successfully concluded on 8 June 2018.

These factors when combined with the Group's activities has resulted in our audit focus on: impairment of freehold and long leasehold properties, impairment of store assets and onerous leases, valuation of goodwill, separately reported items and going concern.

## Financial statements continued

### Independent auditors' report to the members of Carpetright plc continued

Impairment of freehold and long-leasehold properties  
Refer to Note 1 (Accounting policies and Critical accounting estimates and judgments), Note 5 (Separately reported items), Note 11 (Property, plant and equipment) and to the Audit Committee Report on page 32.

The Group owns freehold and long-leasehold stores in the UK and in Europe. We focused on the risk that the carrying value of the properties, including the fixed assets attributable to these stores, may be overstated and that an impairment charge may be required.

Having identified that impairment triggers existed at the period end, the directors compared the carrying value of the assets against the higher of value in use and fair value less costs to sell. In doing so the directors treated each store as a separate cash-generating unit ("CGU") and valued it at the higher of the value in use calculations or the market value of the properties and their assets.

The value-in-use calculations are based on a five year perpetuity model using the growth assumptions within the five year plan as applied to each store, with the resulting cash flows discounted at the asset-specific pre-tax discount rate of 8.9% for the properties based in the UK and 9.6% for the properties based in the Netherlands.

The fair values are taken from third party valuations carried out by an independent valuer between November 2017 and January 2018; these valuations are based on market value assuming a ten year sale and leaseback arrangement.

The directors' impairment review resulted in an impairment charge of £5.1m in the current period.

We focused on this area because of the magnitude of the carrying value of the underlying assets and because of the significant judgement required in determining the fair value and the value in use of each store, particularly regarding the sales and operating margins, growth rates, and discount rates.

Group and parent

We tested the directors' assessment of impairment triggers and were satisfied that it appropriately took into account both internal and external indicators, including the trading performance of each cash generating unit ("CGU") and market conditions.

We assessed the third party valuations based on our understanding of the UK and European commercial property market and an independent benchmarking analysis performed by our property valuation experts to consider whether the assumptions used in the estimation of the market value were reasonable. Our analysis found that there had been no material change in the commercial property market from the date the third party valuations had been carried out (between November 2017 and December 2018) to the April 2018 period end. We found the methodology to be appropriate for fair value and the valuation to be reasonable at the period end.

We tested the value-in-use models, including comparing the forecasts used in them to the latest five year plan approved by the Board, and tested the accuracy of underlying calculations. We sensitised the model by applying a higher discount rate. No material exceptions were noted.

We tested the directors' key assumptions, in particular:

- the sales growth and margin improvement plans by comparing these assumptions to recent results for the Group and to third party analysts' reports, market data, the general state of the economy and anticipated growth in each relevant territory, to assess their reasonableness;
- the long-term growth rate by comparing the assumptions to the retail sector as a whole and forecasts of the wider economy in each relevant territory; and
- the discount rate by assessing the cost of capital for the Group. The pre-tax discount rate used in the directors' impairment model for freehold and long leasehold properties of is within the range that we independently estimated based on market data and analysis of comparable companies – as applied to fixed tangible assets.

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

Impairment of store assets and onerous leases  
Refer to Note 1 (Accounting policies and Critical accounting estimates and judgments), Note 5 (Separately reported items), Note 11 (Property, plant and equipment), Note 20 (Provisions for liabilities and charges) and to the Audit Committee Report on page 32.

The Group operates a number of short leasehold stores. The assets relating to these stores mainly comprise leasehold improvements and fixtures and fittings. These are considered for impairment annually by the directors reviewing loss making stores. For all stores that have made a loss in the year, the store assets are written down to higher of value in use and fair value less costs to sell. An impairment charge of £5.7m was booked as a result of underlying store performances, including those loss-making stores earmarked for closure by the end of September 2018 under the CVA arrangements.

Furthermore, consideration was given to leases where the stores have been closed or are loss-making to the extent that they cannot cover their unavoidable property costs and are therefore classified as onerous leases. A review by management of the store portfolio as

We tested the directors' assessment of impairment triggers for the store assets, making sure store assets at all loss-making stores had been written down to the higher of value in use and fair value less costs to sell.

With respect to the provision for onerous leases, we checked that stores assessed for onerous contracts are those that were identified, and whose assets were impaired, following the store impairment review.

We tested the value in use models, including comparing the forecasts included to the latest five year plan approved by the Board, which takes into account the current challenging trading environment, and testing the accuracy of underlying calculations. No material exceptions were noted.

We checked that the stores earmarked for closure as part of the CVA process had been included in the onerous lease provision as at the year end. We checked that the provision in relation to these stores covers five months to the end of September 2018 in line with the CVA agreement. We recalculated the acceleration of the

part of the CVA process initiated during the year resulted in a revised assessment of the onerous lease costs for loss-making stores.

A £14.0m provision for onerous leases remained on the balance sheet at the April 2018 period end. This will partially be utilised against stores earmarked for closure during the first half of the financial year 2019 under the CVA arrangement. The remainder is for stores in the Republic of Ireland and UK stores not subject to the CVA.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The provision is based on a review of the lease contracts and the directors' estimate of the timings to exit the leases. These estimates are based upon available information and knowledge of the property market. The ultimate costs to be incurred in this regard may vary from the estimates.

#### Group and parent

##### Valuation of goodwill

Refer to Note 1 (Accounting policies and Critical accounting estimates and judgments), Note 5 (Separately reported items), Note 10 (Intangible assets) and the Audit Committee Report on page 32.

The Group's goodwill balances relate to historical acquisitions of the UK and Dutch businesses and had a combined carrying value of £53.6m at the beginning of the period.

Management has identified two cash-generating units (CGUs) supporting goodwill which are the UK and Europe, being the Netherlands and Belgium. The goodwill allocated to each CGU at the start of the period was £29.8m to the UK and £23.8m to Europe.

The significant downturn in trading in FY2018 resulted in an impairment of goodwill. The directors compared the Group's goodwill balances to the expected future discounted cash flows of the individual cash-generating units.

The assumptions made by the directors in the annual impairment review included:

- the growth and operating margin within the five year plan as applied to each CGU;
- the Group discount rate (pre-tax 9.7%); and
- the long-term sales and operating profit growth.

An impairment of £34.7m has been recognised, comprising £29.8m relating to the UK and £4.9m in the Netherlands.

We focused on valuation of goodwill because of the downturn in the Group's trading and because of the judgement required in the impairment assessment.

#### Group and parent

lease incentives that were relevant to these stores by tracing a sample of the opening amount on a store by store basis to underlying lease agreements and supporting schedules. We assessed the appropriateness of the downside sales and gross margin scenario used for the CVA stores by comparing these to the actual performance of such stores in the first month post-CVA (May 2018).

We tested the value-in-use models, including comparing the forecasts used in them to the latest five year plan approved by the Board, and testing the accuracy of the underlying calculations. No material exceptions were noted.

We tested the directors' key assumptions, in particular:

- the sales growth and margin improvement plans by comparing these assumptions to recent results and to third party analysts' reports, market data, the general state of the economy and anticipated growth in each relevant territory, to assess their reasonableness.
- the long-term growth rate by comparing the assumptions to the retail sector as a whole and forecasts for the wider economy in each relevant territory; and
- the discount rate used by assessing the cost of capital for the business. The Group discount rate used in the directors' impairment models of 9.7% (pre-tax discount rate) is just outside the range that we independently estimated. We determined that applying our independently estimated discount rate would not give rise to a material variance from the impairment charge booked.

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

Based on our knowledge of the business and of the retail industry amongst other factors, we considered the likelihood that changes of the required magnitude in the key assumptions to result in a material impairment to be relatively low. We also considered that the disclosure made in the financial statements regarding the assumptions and the sensitivities drew appropriate attention to the more significant areas of judgement.

## Financial statements continued

### Independent auditors' report to the members of Carpetright plc continued

#### Separately reported items

Refer to Note 1 (Accounting policies and Critical accounting estimates and judgments), Note 5 (Separately reported items) and to the Audit Committee Report on page 32.

The Annual Report includes Alternative Performance Measures ('APMs'); primarily 'Underlying performance' and 'Separately reported items'. Underlying performance is presented before the impact of 'Separately reported items' ("SRI"). The net total SRI charge is £62.3m at the year end, including the Goodwill impairment of £34.7m, Store asset and Freehold impairment of £10.8m, CVA professional fees of £6.9m, Reorganisation provisions of £3.8m and the net Onerous lease charge of £2.3m. Other items included in SRI are £2.3m loss on disposal and exit of properties, £1.5m ERP dual running costs, £0.5m share-based payment charge, £0.3m legacy pension scheme administration cost and a £0.8m net credit arising from CVA stores step rent releases (£2.8m credit to income statement) and CVA store closure costs (£2m debit to income statement).

We focused on completeness, accuracy, as well as presentation and disclosure of the SRI because of the quantum of the balance and of its importance to the users' understanding of the underlying performance of the business.

#### Group

We considered whether the SRI recorded were recognised and presented in accordance with the Group's disclosed accounting policy. We agreed that due to either the material quantum of the amounts or their non-underlying nature it was appropriate to classify these as SRI.

In relation to the specific types of cost incurred:

- We assessed the different types of costs incurred and the point an obligation was established to determine whether these were recognised in the correct accounting period.
- For reorganisation costs, we checked that management's computation reflected the communication of the methodology announced to employees in April 2018 and agreed details such as average salaries by department to supporting audit evidence including payroll reports and employee communication pack.
- For CVA professional fees we traced these to relevant agreements and invoices, checking that the services provided were incurred and were directly associated with administering the CVA and equity raise.

Our audit procedures over the goodwill impairment, freehold and long-leasehold properties impairment, store assets and the net onerous lease charge are described in the key audit matters above.

We have tested completeness of the SRI by reviewing the post-balance sheet events.

We found no material exceptions from our testing.

In our testing of disclosures in the Annual Report we focused on disclosures of SRI in Note 5 and Alternative Performance Measures and that these were explained and presented alongside statutory measures. We also considered the outcome of the Audit Committee's own review which concluded the Annual Report is fair, balanced, and understandable.



#### How we tailored the audit scope

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

The Group is structured across two segments, being the UK and Rest of Europe, with the majority of trading occurring in the UK segment. The Rest of Europe segment comprises three reporting units, being the Republic of Ireland, the Netherlands and Belgium.

In establishing the overall approach to the Group audit, we identified that the UK segment and the Republic of Ireland reporting units required an audit of their complete financial information as they form part of the Carpetright plc Company and were subject to full scope audit as they were considered financially significant to the group and the parent company. This was performed by the Group audit team.

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

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Group Financial Statements	Company Financial Statements
<b>Overall materiality</b>	£2.2m (2017: £2.3m).	£1.8m (2017: £1.9m).
<b>How we determined it</b>	0.5% of Group revenues.	0.5% of Company revenues.
<b>Rationale for benchmark applied</b>	Consistent with the prior period, we have used revenues as a benchmark given the high level of fixed costs in the business and because a small fluctuation in revenue can result in a significant fluctuation of profit before tax.	Consistent with the prior period, we have used revenues as a benchmark given the high level of fixed costs in the business and because a small fluctuation in revenue can result in a significant fluctuation of profit before tax.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The materiality allocated to the only component in the scope of our group audit (being the Company) was £1.8m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1m (2017: £0.1m) (Group audit and Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

#### Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to other than the material uncertainty we have described in the 'Material uncertainty relating to going concern' section above. Because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	Other than the material uncertainty we have described in the 'Material uncertainty relating to going concern' section above, we have nothing to report.

## Financial statements continued

### Independent auditors' report to the members of Carpetright plc continued

#### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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#### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 28 April 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

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The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group. We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 19 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 19 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Other than the material uncertainty we have described in the going concern section above, we have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

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#### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 58, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on pages 30 and 34 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

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#### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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**Responsibilities for the financial statements and the audit****Responsibilities of the directors for the financial statements**

As explained more fully in the Statement of directors' responsibilities set out on page 57, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

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.

## Financial statements continued

### Independent auditors' report to the members of Carpetright plc continued

#### Other required reporting

##### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

##### **Appointment**

Following the recommendation of the Audit Committee, we were appointed by the directors on 22 September 2004 to audit the financial statements for the period ended 30 April 2005 and subsequent financial periods. Following a competitive tender which concluded in May 2016 and was reported in the 2016 Annual Report, we were re-appointed. The period of total uninterrupted engagement is 14 years, covering the periods ended 30 April 2005 to 28 April 2018.

##### **Julian Jenkins**

Senior Statutory Auditor  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
26 June 2018

## Shareholder information

## Calendar

**2018**

Annual General Meeting	6 September
First-half trading update	16 October
First-half ends	27 October
Interim results announcement	11 December

**2019**

Q3 trading update	22 January
Pre-close trading update	25 April
Year ends	27 April

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