Carpetright plc

Europe's leading floor coverings retailer

Annual report and accounts 2012

Carpetright plc is Europe's leading specialist floor coverings retailer.

The first store was opened in 1988 and the Group trades from 632 stores and employs over 3,300 team members.

The Group is organised into two geographical regions, the UK and the Rest of Europe (comprising the Netherlands, Belgium and the Republic of Ireland).

Overview
Financial highlights

	52 weeks ending 28 April 2012	52 weeks ending 30 April 2011	Change
Revenue	£471.5m	£486.8m	(3.1%)
Underlying[1] profit before tax	£4.0m	£16.9m	(76.3%)
Profit before tax	£13.5m	£6.6m	104.5%
Underlying[1] earnings per share	4.5p	18.0p	(75.0%)
Basic earnings per share	16.4p	6.8p	141.2%
Dividend per share	Nil	8.0p	–

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

Group at a glance

Strong market positions and geographic regions

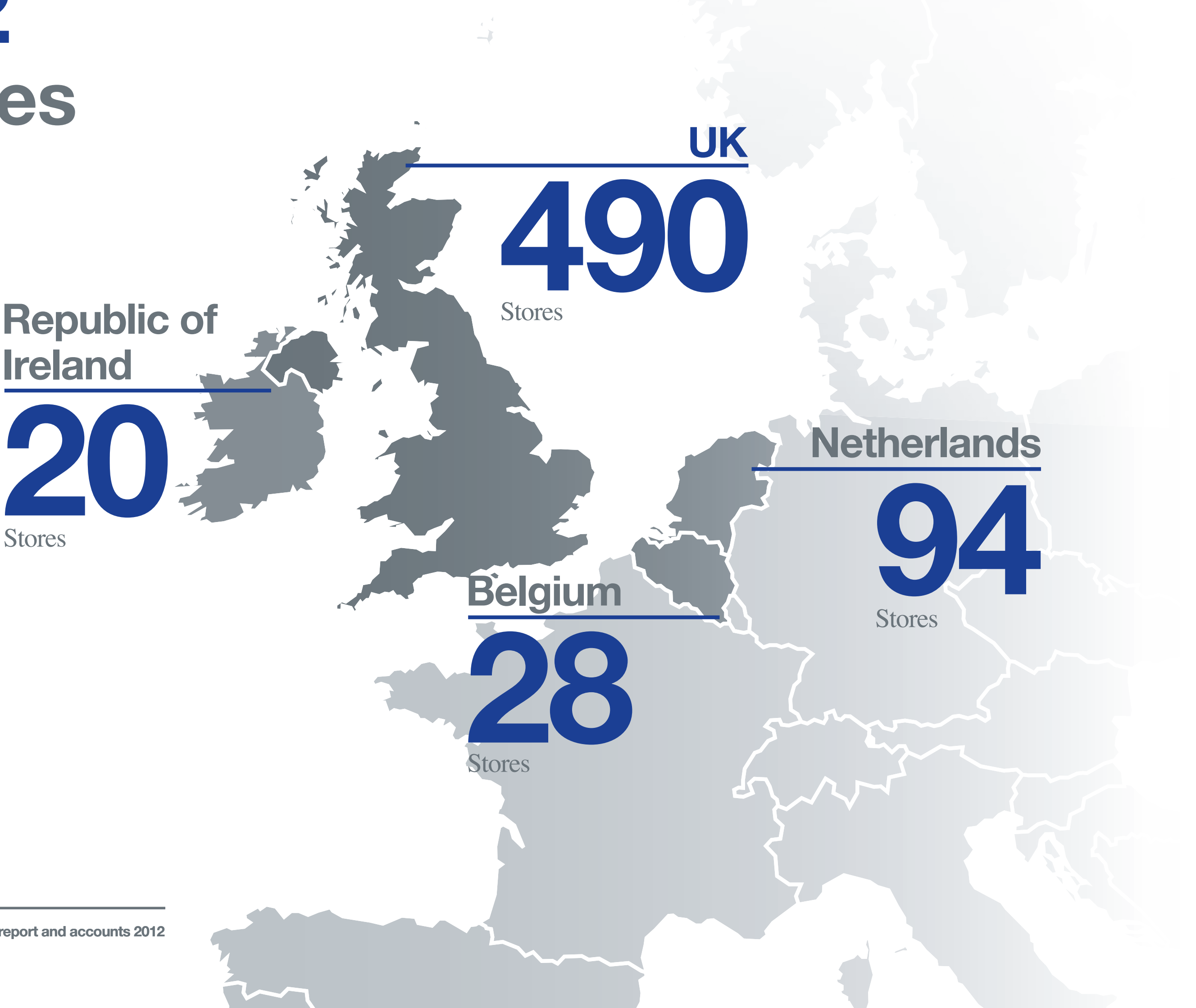
Over 3,300 People

4 Countries

632 Stores

Store portfolio at 28 April 2012

UK	Sites	'000 sq ft
Standalone	474	4,241
Concessions	16	29
Total	**490**	**4,270**
Rest of Europe		
Netherlands	94	1,094
Belgium	28	329
Republic of Ireland	20	147
Total	**142**	**1,570**
Group total	**632**	**5,840**



Regional performance

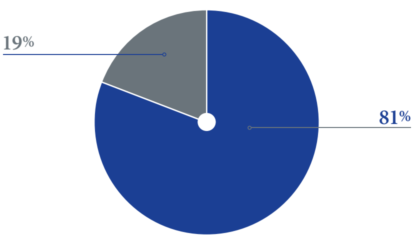
UK

	52 weeks ending 28 April 2012	52 weeks ending 30 April 2011
Revenue	**£381.6m**	£396.6m
Underlying operating profit	**£2.8m**	£17.8m
Trading space sq ft ’000	**4,270**	4,514
Number of stores	**490**	539
Number of people	**2,718**	2,934

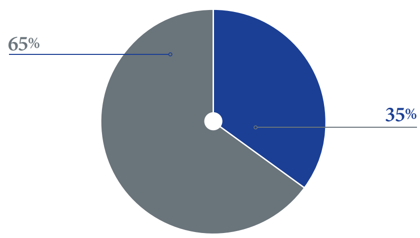
Rest of Europe

Revenue	**£89.9m**	£90.2m
Underlying operating profit	**£5.2m**	£3.4m
Trading space sq ft ’000	**1,570**	1,558
Number of stores	**142**	140
Number of people	**666**	691

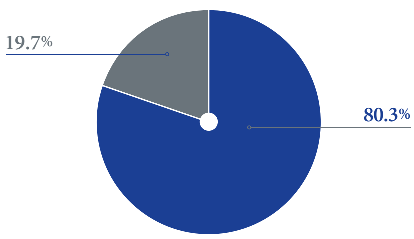
Revenue contribution: Group %



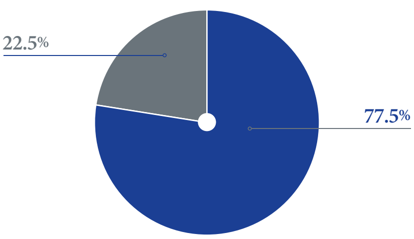
Profit contribution: Group %



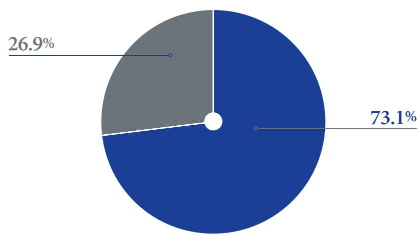
People %



Number of stores: Regional %



Trading space: Regional % (sq ft)



UK ● Rest of Europe ●

Chairman's statement

We are Europe's leading specialist carpet and floor coverings retailer

Lord Harris of Peckham
Chairman

In my statement last year I said I expected the coming year would be challenging, with an extended period of economic uncertainty and fragile consumer confidence, and this proved to be the case. As a result, the Group faced difficult trading conditions leading to a reduction in sales volume, but we remain profitable and continue to generate strong operating cash flows.

Total revenue for the 52 weeks ended 28 April 2012 decreased by 3.1% to £471.5m (2011: £486.8m). Underlying profit before tax decreased by 76.3% to £4.0m (2011: £16.9m). Reported profit before tax increased to £13.5m (2011: £6.6m), reflecting our success in realising significant profits from the sale of freehold properties (further information on these disposals is contained in the Operational and Financial Review). Underlying earnings per share have fallen to 4.5p (2011: 18.0p) and basic earnings per share increased to 16.4p (2011: 6.8p). During this difficult trading period we have continued our focus on reducing the Group's net debt. It is therefore pleasing to announce that as at 28 April 2012 this stood at £19.1m (2011: £65.7m), a substantial reduction on the prior year, demonstrating the ability of the Group to continue to generate cash even in these most difficult of times.

The Group has remained cash generative and profitable in this sustained period of recessionary trading but underlying profits have fallen again this year and short term economic conditions continue to remain uncertain. Consequently the Board feels it is appropriate to reduce its reliance on debt rather than recommend a payment of a final dividend for this financial year. The Board recognises the importance of dividends to shareholders and will seek to restore payment of a dividend when debt has been reduced, a sustained recovery is evident and this is reflected in the financial results of the Group. I have been in the carpet business for over 50 years and whilst my enthusiasm for the business remains the same, as I near my 70th birthday it was appropriate to address the issue of succession.

In September 2011, I was delighted that Darren Shapland agreed to join Carpetright's Board as a Non-Executive Director. Darren was an outstanding Finance Director of the Group between 2002 and 2005 and his subsequent success at Sainsbury's speaks for itself. Following Darren's appointment it became clear to me, and the rest of the Board, that the combination of his extensive retail experience and specific knowledge of the Group made him an excellent candidate for the role of Chief Executive and he was appointed to this position with effect from 14 May 2012. I am confident he will make a huge contribution to the future of the business.

There will be a period of transition during which I will work closely with Darren, specifically on buying, property and store standards, although I anticipate that my active involvement will decrease gradually over time.

“We are encouraged to see a positive impact from the self-help actions taken during the year, whilst recognising within our plans that economic conditions will remain difficult for some time.”

I am also pleased that Baroness Noakes has agreed to stay on the Board in the new role of Deputy Chairman in order to assist the Board with the transition of roles and responsibilities.

We have had a number of other changes to the membership of the Board. Guy Weston retired as a Non-Executive Director after six years of service. I would like to thank him for his valued contribution to the Group. I was delighted to welcome David Clifford to the Board in December 2011, as a Non-Executive Director. He was previously a senior partner with KPMG and throughout his career has held a variety of roles and led the Consumer Markets unit of KPMG for a period, advising a number of retailers. He has made an extremely valuable contribution to the Board since his appointment.

When Darren agreed to become Chief Executive, we wanted to comply with the Corporate Governance Code, which mandates that there has to be at least as many independent non-executive directors as other directors, and to avoid the Board becoming too large. Accordingly Claire Balmforth and Andy Corden stood down from the Board in May 2012 but will retain their full executive responsibilities for the UK and European businesses respectively. I would like to thank them for their contribution to the Board and, more importantly, for their contributions to the success of the business both in the past and the future.

On behalf of the Board, it is important to recognise and thank all of our loyal and dedicated team members for their continued commitment and contribution throughout the year. Whether in stores, distribution centres or central support offices these teams, who consistently provide excellent customer service, remain critically important. It is their efforts that really make the difference.

Looking forward, fragile consumer confidence continues to produce a weak and volatile floor coverings market. We are encouraged to see a positive impact from the self-help actions taken during the year, whilst recognising within our plans that economic conditions will remain difficult for some time. That said, I remain confident the Group is well positioned to deliver profitable sales growth once consumer demand improves.

Lord Harris of Peckham
Chairman

Directors' report: Business review

The Directors present their Annual Report to the shareholders together with the audited financial statements for the financial year ended 28 April 2012. This report, together with the Chairman's Statement, describes the results and activity for the period, future plans, trends and factors affecting the development, position and performance of the business.

Principal activities

Carpetright plc is Europe's leading specialist floor covering retailer, selling a wide range of carpets, rugs, vinyls and laminates together with associated accessories. We have extended our product offering to include beds in around half of our stores.

The Group trades from 632 stores organised and managed in two geographical segments, the UK and the Rest of Europe (comprising the Netherlands, Belgium and the Republic of Ireland).

Business objective and strategies

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

Strategy	KPI	Definition
Improving and developing our flooring product ranges and services Ensuring we continually improve and develop our flooring product ranges to provide consumers with a market leading product choice which offers great value, backed up by excellent customer service.	Like-for-like sales	Calculated as this year's net sales divided by last year's net sales for all stores that are at least 12 months old at the beginning of the financial year (calculated in local currency).
	Gross Profit %	Gross profit as a percentage of net sales (calculated in local currency).
Developing our bed proposition To develop a bed proposition as a complementary revenue stream to our core floor coverings business, offering consumers a wide choice at competitive prices.	Sales participation of beds	Value of net sales of beds as a proportion of total sales.
Managing and investing in our store portfolio To manage our store base continually to exploit opportunities which deliver better overall profitability.	Number of stores	The number of stores trading at the end of the year.
	Store space	Store gross area, including both selling and warehouse space. Space occupied by sub tenants is excluded.
Reaching more customers through additional channels To extend the reach of Carpetright's brand by developing our online business and growing sales through the insurance replacement market.	Sales originated from online leads	Sales directly online and those in stores that have been attributable to online leads.
	Sales participation of non-retail business	Value of net sales to non-retail customers as a proportion of total sales.
Ongoing focus on cost control and cash management To provide the flexibility to offer competitive prices and to manage our margin we take a determined approach across the business on cost control and cash management.	Cost as % of sales	Operating costs expressed as a percentage of sales (calculated in local currency).
	Net debt	Value of net debt at year end.

Performance	Business	2012	2011	2010	2009
In a tough consumer environment, we have focused on offering great value, backed up with excellent service, with like-for-like sales showing year on year growth in the second half.	UK	**(0.2%)**	(6.0%)	4.2%	(13.3%)
The deterioration of consumer confidence impacted the second half in the Netherlands, partially offset by the success of the recovery plan in the Republic of Ireland delivering year on year growth for last three quarters.	Europe	**(1.2%)**	(4.0%)	(6.2%)	1.1%
In the first half of the year sales volumes were closely linked to periods of higher promotional discount. In the second half of the year the level of margin investment was reduced through adapting ranges and working with suppliers.	UK	**58.9%**	62.2%	61.9%	62.1%
The increasing participation of laminate in the sales mix resulted in a small dilution.	Europe	**56.9%**	57.1%	58.5%	58.3%
The ranging of beds into more stores and the development of the proposition has increased both sales and mix participation.	UK	**6.1%**	5.1%	3.5%	1.7%
We have opened 12 stores and closed 61 stores. Of the latter, 28 were concessions.	UK	**490**	539	561	541
We have opened three stores and closed one.	Europe	**142**	140	142	142
Within the number of store movements we have downsized three stores by relocating to new units.	UK	**4,270**	4,514	4,626	4,439
In addition to the increase in the number of stores, we have also returned 6k sq ft of surplus space to landlords.	Europe	**1,570**	1,558	1,580	1,602
During the year we have focused on converting leads originating from online samples and appointments.	UK	**3.9%**	2.1%	n/a	n/a
The structural change in the insurance replacement procurement market has reduced our sales through this channel.	UK	**3.3%**	4.9%	4.1%	3.6%
The cost base was reduced by 2.8% due to a reduction in the number of stores, successful rent negotiations and reduced depreciation. This was partially offset by increased business rates and utility costs.	UK	**58.2%**	57.7%	55.0%	57.5%
Cost decreased by 5.8%, a combination of structural inflationary pressures on employment and occupancy cost in the Netherlands and Belgium, offset by cost reduction activities in the Republic of Ireland.	Europe	**50.6%**	53.3%	51.6%	51.1%
The cash generative nature of the business was supplemented by the sale and leaseback of nine freehold stores.	Group	**£19.1m**	£65.7m	£71.3m	£97.1m

We aim to act responsibly towards all our stakeholders, including customers, suppliers, employees and the communities in which we operate. A summary of our approach is on pages 17 and 18 of this report.

Operational and financial review

Our focus is to deliver long-term sustainable growth

"I am excited to have joined Carpetright as its Chief Executive. Whilst it has been seven years since I was previously in an executive role here, Carpetright is a business I know well. Notwithstanding the on-going challenges of the difficult consumer environment, I have been encouraged by what I have seen so far in the six weeks since becoming Chief Executive. The Group remains in a commanding position in its markets, with a number one position in floor coverings and a fast growing bed business in the UK; a strong presence in the Netherlands and Belgium; and a recovering business in Ireland.

Carpetright is also a business that is focused and tightly managed which provides a firm basis for recovery. Critically, it has over 3,000 great people across its operations committed to customers and improving the performance of the Group. Together, this makes a solid platform from which to build and I look forward to working with Lord Harris and the team in the future development of the business."

Darren Shapland
Chief Executive

Business Review

Our business in the UK has been operating in a very difficult market, but has remained profitable with underlying operating profits down 84.3% to £2.8m. We were encouraged by a return to growth in like-for-like sales in the second half of the financial year, an improving gross margin and the results of our continuous programme of cost reduction.

In this environment, customers are looking harder than ever for value before making their purchasing decisions. Based on our experience, we are adapting our ranges and promotional activity to continue to offer the best prices, whilst simultaneously working with our suppliers to reduce the level of margin investment.

The underlying operating profits in the Rest of Europe have increased by 52.9% to £5.2m. The Netherlands and Belgium businesses are continuing to gain market share as competitors struggle in the current economic conditions. In this climate our focus has been similar to the UK business as we look to improve our range, operational efficiency and reduce costs. As part of this we took the decision to consolidate our European Central Support Office functions into the Netherlands and this will deliver a full year saving of £0.5m per annum.

The previously announced actions taken in our business in the Republic of Ireland delivered an improvement in underlying performance. The product range continues to be refined and adapted to align it more closely to the local market, and promotional campaigns have also been restructured. It is encouraging to report three consecutive quarters of like-for-like growth and this, combined with actions taken on reducing costs, has halved the losses over the last 12 months.

In common with many other businesses, we consider it appropriate to reduce our debt requirements in an uncertain economic environment with tighter credit conditions. In addition to the business continuing to create strong operating cash flows, we have completed the sale and leaseback of nine freehold properties from which we trade. Of these, four were located in the UK, four in Belgium and one in the Netherlands. The combined net proceeds were £32.0m, realising a profit on disposal of £14.5m. This was a significant factor in the reduction of the net debt during the year by £46.6m to £19.1m (2011: £65.7m).

Our Strategy

The Group remains committed to delivering long term sustainable growth in earnings per share and cash flow through the following five strategies:

1. Improving and developing our flooring product ranges and services.
2. Developing our bed proposition.
3. Managing and investing in our store portfolio.
4. Reaching more customers through additional channels.
5. Ongoing focus on cost control and cash management.

1. Improving and developing our flooring product ranges and services

We believe the foundations of Carpetright's success rest on the provision of market leading product choice which offers great value, backed by excellent customer service. As well as our experience over many years, this view is supported by externally conducted market research which indicates that Carpetright benefits from both strong brand recognition and a reputation for being the 'first choice' for fitted carpet.

In the UK, the roll out of our new laminate offering has continued and, as at the end of April 2012, this was available in 185 stores. We expect this will provide an extra area of sales growth, supported by the strength of our value and service proposition.

To increase our understanding and to monitor performance against our key customer objectives, we introduced a mystery shopper programme during the first half of the year. Initial results have enabled us to identify areas of service which we can improve and will deliver a better sales performance. These are being addressed through a coaching and development programme. As we enter the new financial year, we have also increased the sales related incentives which enable the store teams to gain a higher reward for delivering great service.

In the Rest of Europe, we continued to introduce new products, and adapted our promotional offer to suit consumer demand. Our growth in laminate sales, a product area where we have had a low market share historically, has been encouraging. This has been achieved through the introduction of a comprehensive range, with a competitive offer supported by our high service standards.

2. Developing our bed proposition

Beds provide an important complementary revenue stream to our core floor coverings business. We have developed and expanded the bed business during the year, and at the end of April 2012 our bed offer 'Sleepright by Carpetright' was trading from 272 stores (2011: 238). This area of the business delivered an increase in sales of 13.2% in the year and now represents 6.1% of UK sales revenue (2011: 5.1%). We believe this business has significant further growth potential in the coming year and we will be focusing on range development, improving customer awareness of our bed offer and reducing delivery times.

3. Managing and investing in our store portfolio

At the end of April we had 490 stores trading in the UK. During the last year, we opened 12 new stores and closed 61 stores, inclusive of the 16 concessions in Focus DIY, following that business entering administration. This resulted in a net store decline of 49 stores and translated to a reduction in net space of 244k sq ft, a decrease of 5.4% since the start of the year.

We continue to see an increasing trend for customers to use the internet to complete a significant proportion of pre-purchase research online. With growing numbers of customers prepared to travel further to make their single physical store visit to complete their purchase we believe that, over time, this will result in a shift in the required geographic density of our store estate. With leases on 88 stores due to expire in the next five years there is a natural opportunity to further reshape the portfolio in a cost effective way, reducing the size of the store footprint and lowering our ongoing rent roll.

During the second half we began a programme of store refurbishments to update and refresh our UK estate. This has involved improving natural light, updating signage, replacing floor coverings and upgrading in-store lighting. The response to an initial trial of 34 stores was encouraging with sales up around 10% compared to the rest of the like-for-like estate, delivering a pay back on the investment within one year. The new format is now in 62 stores and we are currently developing our plans for the continuation of this programme in the coming year.

In the Rest of Europe, we opened three new stores during the year and closed one store. This translated into a net increase of 12k sq ft of selling space, to a total of 1,570k sq ft in 142 stores (2011: 140).

Two of the new locations were 'sample only' stores, building on the successful trial opening of a similar store in the prior year. This new smaller format is expected to provide an opportunity for future growth in the store estate.

4. Reaching more customers through additional channels

In the UK, the internet has become a vital research tool for many of our customers and we continued to invest in our online presence during the year. On a weekly basis we are now achieving an average of over 70,000 unique visitors to our website, a 16% increase on the prior year and this has produced corresponding increases in both sample requests and appointment leads. We are investing in a larger team, recruiting individuals with the necessary skills and experience to ensure we maximise the opportunity. We have also focused activity to improve our conversion to sales ratio with the opening of a call centre manned by knowledgeable Carpetright people and by improved follow up at store level. This demonstrates the importance of having an effective and integrated multi-channel proposition.

We have continued to focus on gaining additional sales through the insurance replacement business. This has proved to be a challenge as we understand there has been a reduction in insurance renewals associated with the current economic conditions and a structural change in the procurement of goods and services by the agents of the insurers. The volume of business through this channel is currently small relative to the Group's total revenue, although we believe it offers an opportunity for profitable sales growth.

5. Ongoing focus on cost control and cash management

We are committed to an ongoing focus on cost control. This ensures we have an appropriate cost base for the current economic conditions.

We have a flexible sourcing policy and work closely with our suppliers to ensure we achieve the most competitive product costs.

We anticipate inflationary pressures to come from energy and business rates but expect to offset these with favourable negotiations with landlords, maintaining a flexible approach to matching store staff costs to the level of sales and continuing our programme of tendering for all non-merchandise goods and services.

The cash generative nature of the business has been supplemented by the sale and leaseback of nine freehold properties, enabling the year end net debt to be reduced by £46.6m to £19.1m. We intend to continue to reduce the level of debt within the Group.

Operational and financial review continued

Financial Highlights

A summary of the reported financial results for the year ended 28 April 2012 is set out below:

	2012 £m	2011 £m	Change
Revenue	471.5	486.8	(3.1%)
Underlying[1] operating profit	8.0	21.2	(62.3%)
Net finance charges	(4.0)	(4.3)	7.0%
Underlying[1] profit before tax	4.0	16.9	(76.3%)
Exceptional items	9.5	(10.3)	
Profit before tax	13.5	6.6	104.5%
Earnings per share (pence)			
– underlying[1]	4.5	18.0	(75.0%)
– basic	16.4	6.8	141.2%
Dividends per share (pence)	Nil	8.0	
Net debt	(19.1)	(65.7)	£46.6m

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

Overview

Total sales decreased by 3.1% to £471.5m, reflecting the tough consumer environment in all the geographic markets where we operate. During the year, the Group opened 15 stores and closed 62 which gave a net decrease of 47 stores and a total store base of 632. Total store space declined by 3.8% to 5.8 million square feet.

Weak consumer demand was a significant contributor to the decline in underlying operating profit to £8.0m, a decrease of 62.2% on the prior year. Underlying net finance charges were £0.3m lower at £4.0m. These combined to generate an underlying profit before tax of £4.0m, a decrease of 76.3% on the prior year.

Exceptional items generated a surplus of £9.5m (2011: a charge of £10.3m), being net property profits partially offset by a combination of restructuring costs, non-cash store impairment and onerous lease charges.

As a result, profit before tax increased by 104.5% to £13.5m (2011: £6.6m). Basic earnings per share increased by 141.2% to 16.4p reflecting the increase in post tax earnings.

The combination of cash flow from continued underlying profitability, effective management of working capital, the control of capital expenditure and proceeds from the disposal of freehold properties, enabled net debt to be reduced by £46.6m to £19.1m (2011: £65.7m). The cash flow strength of the Group is highlighted by the fact that in the past three years net debt has been reduced by over 80% from £97.1m as at April 2009, in the most demanding of consumer environments.

Performance by Business

For year to 28 April 2012

	Total £m	Year on Year Movement: Reported	Year on Year Movement: Local Currency	Year on Year Movement: Like-for-like[2]
Revenue				
UK	381.6	(3.8%)		(0.2%)
Rest of Europe	89.9	(0.3%)	(2.0%)	(1.2%)
Total revenue	**471.5**	**(3.1%)**		
Underlying operating profit[1]				
UK	2.8	(84.3%)		
Rest of Europe	5.2	52.9%	65.0%	
Total underlying operating profit	**8.0**	**(62.3%)**		
Underlying operating profit %				
UK	0.7%	(3.8ppts)		
Rest of Europe	5.8%	2.0ppts		
Total underlying operating profit %	**1.7%**	**(2.7ppts)**		

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

UK

Total UK revenue decreased 3.8% in the year to £381.6m. This performance can be attributed to three key factors:

i) the underlying retail flooring performance was down 2.7%;
ii) the focus on developing our bed offer and introducing it into more stores contributed 0.6% to growth; and
iii) a fall in sales to the insurance and house builder businesses accounted for 1.7% of the decline.

After taking into account the movement in the number of stores the like-for-like sales for the year declined by 0.2%, with the first half down 2.4%, predominantly offset by a stronger second half, being an increase of 1.9%.

Gross profit declined by 8.8% to £224.8m, representing 58.9% of sales, a decrease of 3.3 percentage points. This movement is a combination of:

i) the decline in the underlying floor covering margin with demand higher in periods of stronger promotional activity, particularly in the first half of the year, contributing an adverse movement of 3.2 percentage points;
ii) a decline in the insurance business resulted in a change in the overall sales mix. This accounted for an increase of 0.3 percentage points (as this part of the business operates on a lower gross margin than retail floor coverings); and
iii) the impact of fuel inflation on delivery costs accounted for an adverse movement of 0.4 percentage points.

The total UK cost base decreased by 2.9% compared with the prior year to £222.0m (2011: £228.7m). Store payroll costs continue to be managed closely to the volume of sales and reduced by 7.5% to £57.6m (2011: £62.3m). Store occupancy costs fell 1.7% to £127.5m (2011: £129.7m) due to a reduction in the number of stores, successful rent negotiations and reduced depreciation, although this was partially offset by increased utility and business rates inflation. The underlying rent in like-for-like stores decreased marginally by 0.2% (2011: 0.4%), reflecting a continued weakening of the property market in the current economic climate. Marketing and central support costs were up 0.3% at £36.9m (2011: £36.8m), primarily the result of one-off income received in the prior year relating to a successful VAT reclaim. The underlying movement was a decline of 2.7% with the largest element being the reduction in management and administrative headcount.

Underlying operating profit decreased by 84.3% to £2.8m.

UK – Performance Review

The key financial results for the UK were:

	2012 £m	2011 £m	Change
Revenue	**381.6**	396.6	(3.8%)
Like-for-like sales	**(0.2%)**	(6.0%)	
Gross profit	**224.8**	246.5	(8.8%)
Gross profit %	**58.9%**	62.2%	(3.3ppts)
Costs	**(222.0)**	(228.7)	2.9%
Underlying operating profit	**2.8**	17.8	(84.3%)
Underlying operating profit %	**0.7%**	4.5%	(3.8ppts)

The UK portfolio is now as follows:

	Store Numbers				Sq Ft ('000)	
	30 April 2011	Openings	Closures	28 April 2012	30 April 2011	28 April 2012
Standalone	495	12	(33)	**474**	4,410	**4,241**
Concessions	44	–	(28)	**16**	104	**29**
Total	**539**	**12**	**(61)**	**490**	**4,514**	**4,270**

Operational and financial review continued

Rest of Europe

Despite a decline in sales, good progress has been made in Europe where we have seen improved profitability and a reduction in costs.

Total reported revenue decreased year on year by 0.3% to £89.9m impacted in part by a movement in exchange rates. Sales in local currency declined 2.0%, with like-for-like sales down 1.2%. All markets were impacted by the current economic situation with consumers remaining cautious with their discretionary expenditure.

Gross profit margin decreased marginally to 57.0% (2011: 57.1%), primarily due to the impact of the mix effect of selling more laminate at a lower than average margin, partially offset by improved rebates and effective management of the promotional mix. Reported operating costs decreased by 4.4% to £46.0m. In local currency terms, costs decreased by 6.7% despite inherent inflationary increases. The reduction came as a result of the negotiated salary and rent reductions, and the consolidation of central support functions. This reflects the tight management control and focus on achieving efficiencies within the whole operation.

The net result was an underlying operating profit of £5.2m, an increase of 52.9%. In local currency terms, the underlying profit increased by 65.0%.

Rest of Europe – Performance Review

The key financial results for the Rest of Europe were:

	2012 £m	2011 £m	Change (Reported)	Change (Local Currency)
Revenue	**89.9**	90.2	(0.3%)	(2.0%)
Like-for-like sales	**(1.2%)**	(4.0%)		
Gross profit	**51.2**	51.5	(0.6%)	(2.1%)
Gross profit %	**57.0%**	57.1%	(0.1ppts)	
Costs	**(46.0)**	(48.1)	4.4%	6.7%
Underlying operating profit	**5.2**	3.4	52.9%	65.0%
Underlying operating profit %	**5.8%**	3.8%	2.0ppts	

The Rest of Europe portfolio is now as follows:

	Store Numbers				Sq Ft ('000)	
	30 April 2011	Openings	Closures	**28 April 2012**	30 April 2011	**28 April 2012**
Netherlands	92	2	–	**94**	1,079	**1,094**
Belgium	28	–	–	**28**	334	**329**
Republic of Ireland	20	1	(1)	**20**	145	**147**
Total	**140**	**3**	**(1)**	**142**	**1,558**	**1,570**

Group financial review

Net Finance Costs and Taxation
Net finance charges were £4.0m (2011: £4.3m) reflecting lower average net debt and a reduction in the margin rates on borrowing. The effective tax rate on profits is 18.7% (2011: 30.4%). This decrease arises primarily from the impact of a change in tax rates and the release of previously held deferred tax provisions.

Exceptional Items
The Group recorded a net surplus of £9.5m (2011: charge of £10.3m) in the year.

	(Charge)/Gain	
	2012 £m	2011 £m
Profit on disposal of properties	13.4	0.5
Store impairment charge	(1.0)	(2.0)
Onerous lease charge	(0.3)	(8.8)
Restructuring costs	(2.1)	–
Write off of unamortised refinancing fees	(0.5)	–
	9.5	(10.3)

We have continued to trade our property portfolio. In the year a profit of £13.4m was achieved (2011: profit of £0.5m). Of this, £14.5m was realised from the sale and leaseback of freehold properties from which we continue to operate. In the UK and the Netherlands these transactions were five individual stores sold to property investors. A group of four stores were sold to a single investor by way of the disposal of our Belgian property holding company, Infradis.

We have reviewed the carrying value of the store assets in our balance sheet, consistent with the approach in previous years. The models used to value these assets include a number of assumptions relating to market growth and inflationary expectations. The tests have led to a net impairment charge of £1.0m (2011: £2.0m).

In addition, there are seven leased properties which had previously been used as retail stores where an onerous lease provision has been made on the basis of the difference between the expected cash inflows and outflows and the re-assessment of previous positions.

In this difficult retail environment, the Group has focused on organisational changes aimed at enhancing our efficiency and leveraging our strengths to provide a solid framework for growth. This has involved a reduction in management headcount in the UK and the consolidation of our offices in Europe at a cost of £2.1m. Given the irregular nature and amounts associated with business restructuring these have been treated as exceptional items.

The unamortised costs associated with the previous refinancing, which amounted to £0.5m, were written off as an exceptional item.

Earnings per Share
Basic earnings per share increased to 16.4 pence (2011: 6.8 pence), reflecting a similar increase in post tax earnings. Underlying earnings per share decreased to 4.5 pence (2011: 18.0 pence).

Dividend
The Board has decided not to pay a final dividend (2011: nil pence), resulting in no full year dividend (2011: 8.0 pence).

Balance Sheet and Cash Flow
The Group had net assets of £70.7m (2011: £67.0m) at the end of the year, an increase of £3.7m since 30 April 2011. The cash generative nature of the business remains one of the strengths of the Group, with operating cash flow of £29.1m in the year (2011: £32.1m). The decrease was predominantly attributable to the reduction in underlying profitability, partially offset by improving working capital management, of which £4.5m related to the timing of the April payroll falling on the first working day of the following financial year.

Cash Flow

	2012 £m	2011 £m
Underlying operating profit	8.0	21.2
Depreciation and other non-cash items	14.8	15.3
Exceptional items	(1.6)	–
(Increase)/Decrease in stock	(0.4)	2.9
(Increase)/Decrease in working capital	8.3	(7.3)
Operating cash flow	29.1	32.1
Net interest paid	(4.9)	(4.9)
Corporation tax paid	(3.0)	(2.7)
Net capital receipts/(expenditure)	22.8	(9.5)
Free cash flow	44.0	15.0
Dividends paid	–	(10.8)
Other	2.6	1.4
Movement in net debt	46.6	5.6
Opening net debt	(65.7)	(71.3)
Closing net debt	(19.1)	(65.7)

Net capital receipts/(expenditure) was an inflow of £22.8m (2011: outflow of £9.5m). This can be broken down into the following principal categories:

	2012 £m	2011 £m
Capital expenditure	(6.9)	(9.7)
Purchase of freehold properties	(3.7)	(0.7)
Proceeds from freehold property disposals	32.0	–
Proceeds from leasehold property disposals	1.4	0.9
	22.8	(9.5)

After the repayment of borrowings, net debt decreased by £46.6m to £19.1m at the year end (2011: £65.7m).

Property
The Group owns a significant property portfolio, most of which is used for trading purposes. This portfolio is estimated by management to have a market value of £86.4m at the year end (2011: £134.0m), compared to a net book value of £83.3m recorded in the financial statements (2011: £112.3m). The movement in the year is predominantly the result of sale and leaseback transactions.

Group financial review continued

Pensions

The IAS 19 valuation as at 28 April 2012 was a net deficit of £4.3m in relation to defined benefit pension arrangements (2011: £4.0m). The Carpetright scheme closed to future accrual on 30 April 2010. Plan assets increased to £18.3m (2011: £17.4m) driven by higher market values and additional Company contributions agreed with the pension trustees following the triennial valuation in April 2008. The present value of plan liabilities increased to £22.6m (2011: £21.4m) driven principally by a reduction in the discount rate to 4.6% (2011: 5.3%).

Current liquidity

At the year end the Group held cash balances of £9.6m (2011: £8.3m) in a combination of Sterling, Euros and Polish Zlotys.

Gross bank borrowings at the balance sheet date were £26.0m (2011: £70.9m) of which £5.4m is term based with the balance of £20.6m being drawn down from overdraft and revolving credit facilities. The Group had further undrawn, committed facilities of £40.6m at the balance sheet date.

In June 2011, the Group completed a refinancing arrangement of its principal facilities, split between amortising term loans, a revolving credit facility and overdrafts in a mixture of Sterling and Euro currencies. The term loans and revolving credit facilities mature in July 2015. As at 28 April 2012, the facilities provided debt capacity of around £66m. Arrangement fees and legal costs are amortised over the period to June 2014, although paid in cash at the outset. The facilities contain financial covenants which are tested on a quarterly basis. The Group monitors actual and prospective compliance with these on a regular basis.

Outlook

Whilst the UK consumer environment is expected to remain difficult for all retailers in the discretionary spend sector, the move back into positive UK like-for-like sales in the second half was encouraging. While it is far too early to call the beginnings of a broader recovery, this performance gives some cause for optimism on the core UK floor coverings business. We have established a £23m revenue bed business in just three years and believe there is significant scope for us to grow this further, as we continue to develop the range, improve the proposition and introduce beds to more stores. In the Rest of Europe, we expect the economic conditions will remain challenging.

Against this backdrop, we will continue to drive the business towards long term growth by focusing on improving our product ranges and services, growing margins, focusing on cost reduction, reducing debt and promoting the reach of our brand. As a consequence, we believe the Group is well placed to capitalise on a strong value offer supported by a superior service proposition, when consumer demand in our sector improves.

Principal risks and uncertainties

Carpetright recognises that effective business management requires regular review of business risks to identify, evaluate and prioritise them, to assign management ownership and to ensure appropriate controls are in place to provide mitigation.

The process for identification of business risks is described on page 22 of this report.

The risk factors addressed below are those which we believe could adversely affect the operations, revenue, profit, cash flow or assets of the Group. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse affect on the Group.

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

Business Objective and Strategies

The primary financial objective of the Group is to deliver long term sustainable growth in earnings per share and cash flow. The strategies that we are following to achieve this are set out on page 6 of this report. We face a number of strategic and operational risks which are set out below, together with the controls and actions which mitigate the impact of those risks.

	Risk Description	Mitigation
Strategic Risks	**Development and execution of a strategy:** The business requires a strategy that responds to the challenges of the market place so as to position itself for long-term growth.	The Board holds an annual strategy day and from this business plans are developed to ensure targets are both set and resourced appropriately. Regular monitoring of performance against plan is carried out to ensure targets are being achieved and that they remain relevant to and focused on the Group strategy.
	Economic uncertainty: The economy is a major influence on consumer spending. Trends in employment, inflation, taxation, consumer debt levels and interest rates impact consumer expenditure in discretionary areas. Changes in Government policies may also affect our consumers' ability to purchase our products and services.	Throughout the year we have continued to monitor the effectiveness of our pricing, promotional and marketing strategies across our businesses, tailoring our consumer offering where appropriate.
	Cost control: In the event we are unable to control our costs the financial results of the Group will be adversely affected.	We have a budgetary and planning process which has been developed to ensure that there is an appropriate budget for both operational costs and capital expenditure. There is a system of authorisation to prevent costs being incurred without appropriate authorisation and being in excess of budget. In addition we continually focus on our cost base to ensure that we are able to manage our margins.
	Reputation: The failure to properly mitigate and manage other risks may manifest itself by damaging Carpetright's reputation. This may lead to a lack of confidence by consumers, thereby adversely affecting the business.	We have mitigation strategies in place to manage our other risks, thereby reducing the chance of them arising. In the event that there is a threat of reputational damage, there is a process in place to deal with enquiries from the press, investors and others, as well as social media.

This table continues overleaf

Principal risks and uncertainties continued

	Risk Description	Mitigation
Operational Risks	**People:** Our profitability is dependent upon our ability to attract, retain and motivate people across all levels of the business.	Our approach to remuneration aims to ensure that high calibre executives are attracted and retained. The Group seeks to develop individuals through talent management and succession planning.
	Product and service quality: The Carpetright name is a key asset of the business and, as the largest operator in its markets, expectations of the Group are high. Failure to provide high quality products and services could lead to a loss of trust and confidence, and damage the Group's reputation and brand. This could result in a decline in the customer base and affect our ability to recruit good people.	The protection of the Carpetright brand and position in its core markets will be sustained by unique and extensive product and service offerings in our stores. Team members' and fitters' training is delivered continually with fitters being independently assessed.
	IT systems, supply chain and business continuity: Carpetright is dependent on the reliability and capability of key information systems and technology. A major incident or sustained performance problems with regard to store, logistics, multi-channel or head office systems could constitute a significant threat to the business, at least in the short term.	Business continuity plans have been documented and arrangements made to mitigate significant risks arising. The systems implemented within the UK and the Republic of Ireland are mirrored in a separate location. Plans are in place to replicate this in the remaining European businesses by the end of 2012.
	Compliance: The Group risks incurring penalties or punitive damages arising from failure to comply with legislative or regulatory requirements across many areas.	The Group has developed clear policies on compliance and it is the Group's Legal Director's responsibility to identify prospective changes to laws and regulations and to bring these to the attention of the relevant team members.
Financial Risks	**Finance and Treasury:** 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.	The Group frequently reviews its financial position to ensure that its funding requirements are being met. Bank covenant tests are regularly monitored. Rolling cash flow forecasts are produced weekly.

People

The Group employs over 3,000 people and is proud of being regarded as a responsible and respected employer.

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

Training and development
Our training and development programmes are focused on giving our people the skills they need to carry out their jobs and in due course to move up to new roles, enabling them to develop their careers and ensuring that there is a pipeline of talent within the Group.

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

Share ownership
Team members have an opportunity to invest in the Company's shares through two all-employee share schemes, namely an All Employee Share Ownership Plan and a Savings Related Share Option Scheme. Approximately 492 team members participate in these schemes.

Corporate responsibility

Our Corporate Responsibility (CR) policy is designed to meet the long-term expectations of our customers and other stakeholders and ensure the sustainable development of our business.

It is clear that protecting the environment and running our business ethically makes good commercial sense and, apart from improving the environment for both our team members and our customers, will also help us to enhance shareholder returns. Neil Page currently reports to the Board on CR matters and co-ordinates the Group's CR policies and activities. He is supported by a team providing support and advice to develop the business's policies and approach.

With effect from 1 July 2012 a new board committee is being created, the Customer and Corporate Responsibility Committee, which will oversee, amongst other matters, the Group's CR activities. This will be chaired by Sandra Turner and the members of the Committee will be Baroness Noakes, David Clifford, Darren Shapland, Martin Harris and Claire Balmforth. Martin Harris will take over responsibility for reporting to the Board and co-ordinating the Group's CR activities from 1 July 2012.

We have continued developing and improving policies to cover the following:

Providing excellent service

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

We have introduced post-sales calls to customers, allowing immediate feedback thereby ensuring that any issues can be immediately addressed by the relevant store.

Our mobile fitter training pods enable us to offer all our recommended fitters access to the Flooring Industry Trade Association (FITA) assessment and additional training where required to meet FITA's exacting standards. We only recommend fitters who have attained FITA qualifications, 240 of whom attended the relevant carpet fitting assessment course in the past 12 months. Additionally, in the year, 192 registered fitters have successfully completed their vinyl fitting assessment. A subfloor preparation and door trimming course was introduced to the fitter training academy in March 2011, and so far 362 registered fitters have been assessed. In October 2012 a further course was introduced for fitting laminated floorcoverings and, as at 28 April 2012, 75 fitters have successfully completed this assessment.

We have introduced an Academy to train our new estimators and, to date, 81 have successfully passed through it.

Developing committed people

As at 28 April 2012 we employed 3,384 team members in stores, depots and offices throughout the UK and the Rest of Europe. Our aims are to ensure everyone has the appropriate skills and knowledge; to offer our people a good range of incentives and benefits and to value and promote the diversity of our workforce.

We have continued to roll out our store manager training programme, with a further 72 managers completing the training this year, resulting in 240 managers who remain in the business, including senior retail management, having passed the course.

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

Sourcing great products

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

All floorcoverings suppliers to our businesses both in the UK and in the Rest of Europe have signed up to compliance with our Ethical and Environmental policies. We also have a timber policy to ensure all timber floor covering products are manufactured from sustainable resources.

Creating a safe place to work and shop

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

A monthly health and safety bulletin is now issued to all stores, and quarterly Health and Safety Committee meetings have been introduced into the Netherlands and Belgium. There has been a decrease in the overall level of accidents in the UK to 110 (2011: 169). Pleasingly, the number of reportable accidents decreased in the period to 12 (2011: 17), and there were 7 (2011: 4) accidents in the Rest of Europe which would have been reportable had they occurred in the UK.

We remain committed to eliminating all heavy manual handling from our stores. Wherever possible, each of our branches has a pedestrian operated boom truck to unload and move carpet and vinyl deliveries, and where it has not been possible to provide a truck we have arranged a series of nearby 'buddy' branches to accept deliveries. 55 new lifting devices to lift carpet onto roll stock stands were delivered during the year to eliminate this element of manual handling. As at 28 April 2012 there were 165 lifting devices in stores.

Respect for the environment

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

Corporate responsibility continued

Where possible we re-use cardboard tubes. Sheet polythene wrapping and cardboard tubes that are not re-used but are delivered within the UK from Harris House (our national Central Support Office, warehouse and cutting facility) are recycled. No waste produced from Harris House is sent to landfill; general rubbish being compacted and incinerated to produce energy.

We make our own cardboard tubes on site, thereby reducing the cost of delivery of what is, essentially, air in the centre of the tubes.

We were able to reduce our water consumption by 10,478m^3 during the year, which is in addition to the 50,000m^3 reduction reported in 2010/11. This has been achieved through improved analysis of consumption data and identification of any high-use locations.

We are trialling different forms of energy-efficient lighting, and where a store undergoes a full refurbishment, it is the intention to install such lighting at that location.

Nearly 300 Automatic Meter Reading (AMR) electricity meters have been installed which provide daily meter reading data and allows us to target any high-consumption locations, understand why the consumption is higher than anticipated and manage our consumption appropriately.

A similar exercise is being undertaken in relation to the installation of gas AMR meters, although the benefits of such meters are unlikely to be seen until following the winter of 2012/13 when our consumption for heating is at its highest.

Our key measures within CR are:

Key Initiative	Indicator	2012	2011	Progress
Providing Excellent Service	Complaints per £1m of sales in the UK	**11.3**	12.1[1]	Improvement by 6.1%. We attribute much of this improvement to the introduction of after-sales calls to customers.
	Complaints per €1m of sales in the Rest of Europe	**3.7**	Not available	In the Netherlands there has been an improvement to 4.7 complaints per €1m of sales (2011: 9.4).
Developing Committed People	% of team members with >3 years service in the UK	**69%**	71%	2ppt decline.
	% of team members with >3 years service in the Rest of Europe	**78%**	N/A	Figures for 2011 are not available.
	No. of UK team members completing our store management development training in the period	**70**	48	An increasing number of people have completed the course.
Creating a Safe Place to Work and Shop	No. of accidents in the UK	**110**	169	Reduction of 36% of all accidents reported.
	No. of accidents in the Rest of Europe	**17**	N/A	Figures for 2011 are not available.
	No. of reportable accidents in the UK	**12**	17	Reduction of 29%.
	No. of accidents in the Rest of Europe which would have been reportable if they occurred in the UK	**7**	4	A disappointing increase, although no trend can be identified as to any underlying cause.
Respect for the Environment	Energy efficiency – kWh/sq m of sales space[2]	**216.2**[3]	240.7[4]	The improvement is principally due to a mild winter in 2011/12.
	Energy efficiency – km/litre of delivery fleet[4]	**3.52**	3.41	2.6% improvement in efficiency.
	Recycling in tonnes[4]	**2,366**	1,951	21% increase in recycling.

1. Excludes internet sales but includes the Republic of Ireland.
2. Figures are for the UK only. 2011 figure is actual and has been restated from estimated figure (239.3 kWh/sq m).
3. Based on estimated meter readings.
4. Figures are for UK and Republic of Ireland only.

Donations

Charitable donations of £175,000 (2011: £23,500) were made during the year.
No political donations were made (2011: £nil).

Directors' report: Governance
Board of Directors

Lord Harris of Peckham (69)
Chairman
Lord Harris is now in his 55th year in carpet retailing and is one of the best known names in the business. He was Chairman and Chief Executive of Harris Queensway plc from 1964 until the company was taken over in 1988. Lord Harris is a Non-Executive Director of Arsenal Holdings plc and Arsenal Football Club plc. He was a Non-Executive Director of Great Universal Stores plc for 18 years until July 2004 and was a Non-Executive Director of Matalan Plc for two years until January 2007. He stepped down from the position of Chief Executive of Carpetright in May 2012.

Darren Shapland (45)
Chief Executive
Darren took up his current role as Chief Executive in May 2012. He was a Non-Executive Director of Carpetright between September 2011 and May 2012. He was previously an Executive Director of J Sainsbury plc until July 2011 in the roles as its Group Development Director and its Chief Financial Officer. He will remain the chairman of Sainsbury's Bank plc until December 2012. He was the Group Finance Director of Carpetright between 2002 and 2005, and prior to that was the Finance Director of Superdrug Stores plc. Between 1988 and 2000 he held a number of financial and operational roles at Arcadia plc (formerly The Burton Group). He is also a Non-Executive Director of Ladbrokes plc where he chairs its Audit Committee.

Neil Page (48)
Group Finance Director
Neil Page joined Carpetright in July 2008 as Group Finance Director. Neil began his career with British Rail and Marks and Spencer. He joined Superdrug in 1991, holding a variety of finance and operational positions before taking up the role of Finance and IT Director for AS Watson (Health & Beauty) UK Ltd in July 2002. He is a Fellow of the Chartered Institute of Management Accountants.

Martin Harris (43)
Group Commercial Director
Martin Harris took up his current role as Group Commercial Director in 2003 and is responsible for marketing, buying and logistics, the latter being added in 2005. Martin first joined Carpetright in 1991, previously having been an Executive Director of Harveys Furnishing Group Limited. He became Marketing Director in 1997, resigning to become a Non-Executive Director in 1998 before returning to the Executive Director position of Buying Director in 2002.

Baroness Noakes (63)
Deputy Chairman and Senior Independent Director
Baroness Noakes, a chartered accountant, joined the Board in 2001. She is a Non-Executive Director of Severn Trent plc, the Royal Bank of Scotland Group plc and is a trustee of the Thomson-Reuters Founders Share Company. Previously she was with KPMG for 30 years and was the Senior Non-Executive Director of the Bank of England and a Non-Executive Director of Hanson plc and ICI plc. Baroness Noakes was appointed Deputy Chairman in May 2012. She chairs the Audit and Nomination Committees, but will be stepping down from the former role in July 2012.

Alan Dickinson (61)
Non-Executive Director
Alan Dickinson joined the Board in October 2010. He spent more than 35 years in banking and is a former Executive Committee member of the Royal Bank of Scotland (RBS) Group and Chief Executive of both RBS UK and the bank's UK Corporate Banking business. He is also a Non-Executive Director of the Nationwide Building Society and Willis Limited. He chairs the Remuneration Committee.

Sandra Turner (59)
Non-Executive Director
Sandra Turner 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 a Non-Executive Director of McBride plc and Huhtamäki Oyj and was previously a Non-Executive Director of Northern Foods plc. She will chair the Customer and Corporate Responsibility Committee.

David Clifford (60)
Non-Executive Director
David Clifford, 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 will be taking over as Chairman of the Audit Committee in July 2012.

Corporate governance

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

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

Carpetright plc Board of Directors

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Customer and Corporate Responsibility Committee[1]

1. This Committee is being created with effect from 1 July 2012.

The Board

The Board currently consists of the Chairman, three Executive and four Non-Executive Directors, brief biographies of whom can be found on page 19. Changes to the composition of the Board since 28 April 2012 can be found below. There is a formal, rigorous and transparent procedure for the appointment of new Directors to the Board and this is described in the section concerning the Nomination Committee on pages 21 and 22.

A quarter of the Board is female (2 out of 8).

All Directors will offer themselves for election or re-election at the Annual General Meeting in accordance with the UK 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 has considered the independence of each Non-Executive Director against the criteria specified in the UK Corporate Governance Code and determined that each remains fully independent. The Board in particular considered the independence of both Baroness Noakes and Alan Dickinson, both of whom are considered by the Board to be independent in character and judgment.

In reaching this determination the Board specifically considered the facts that Baroness Noakes is a Non-Executive Director of the Royal Bank of Scotland, the Company's principal banker, and she has served as a Director of the Company for more than nine years from the date of her first election and Alan Dickinson was, within the last three years, a senior employee of the Royal Bank of Scotland.

For the whole of the 2011/12 financial year the roles of Chairman and Chief Executive were both held by Lord Harris. Lord Harris had held both roles since the Company was established. The Board was content for this to continue while Lord Harris remained full time with the Company because of his long-standing and leading position in the floorcovering sector. The role of the Senior Independent Director (SID) had been developed to provide a counter-balance within the Board.

It was, however, always the intention that when Lord Harris stepped down from the role of Chief Executive, it would be split from that of Chairman. Lord Harris, who will be 70 years old this year, ceased to be Chief Executive when Darren Shapland was appointed to the role of Chief Executive in May 2012. Lord Harris remains as Chairman and will work four days per week in support of Darren Shapland in specific areas of the business. A formal statement on the division of responsibilities between the Chairman and Chief Executive has been adopted by the Board and this makes it clear that the Chief Executive has the responsibility and accountability for running the business. It is anticipated that the Chairman's active involvement will decrease over time as his knowledge and experience is effectively transferred to the Chief Executive and his management team.

In order to facilitate the transition of the Company to the new governance arrangements, Baroness Noakes, who has been the SID since 2004, has also assumed the role of Deputy Chairman. She will continue to play an active role in determining the agenda for the Board, the Board appraisal process and in ensuring that any issues raised by the Non-Executive Directors are dealt with. She will also keep under review the division of responsibilities between the Chairman and Chief Executive so that it works well in practice.

The Board believes that its current size and structure are appropriate for managing the Group in an effective and successful manner. In order to achieve this size and structure Claire Balmforth and Andy Corden both stood down from the Board on 11 May 2012. They retain their full executive responsibilities for the UK and European businesses respectively.

A process of evaluation of the Board and its Audit, Nomination and Remuneration Committees has been undertaken. The exercise to evaluate the performance of the Board was led by the SID, and those of the Audit and Remuneration Committees were led by the chairmen of those committees. The results of these assessments have been considered by the Board and confirmed the strength of leadership within the business and a sound governance framework. Only minor changes to the way that the Board works were found necessary.

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

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

Number of Meetings in the 2011/12 financial year: 8

Directors	Attendance	Maximum number of Meetings the Director could have attended
Lord Harris Chairman	8	8
Darren Shapland[1] Chief Executive	5	5
Neil Page Group Finance Director	8	8
Martin Harris Group Commercial Director	8	8
Baroness Noakes[2] Deputy Chairman and Senior Independent Director	8	8
Alan Dickinson Independent Non-Executive Director	8	8
Sandra Turner Independent Non-Executive Director	8	8
David Clifford[3] Independent Non-Executive Director	4	4
Claire Balmforth[4] Former Director	8	8
Andy Corden[5] Former Director	8	8
Guy Weston[6] Former Director	2	3
Christian Sollesse[7] Former Director	0	0

1. Appointed as a Non-Executive Director on 8 September 2011 and appointed as Chief Executive with effect from 14 May 2012.
2. Appointed as Deputy Chairman with effect from 14 May 2012.
3. Appointed 1 December 2011.
4. Appointed 3 May 2011, resigned 11 May 2012.
5. Appointed 2 June 2011, resigned 11 May 2012.
6. Resigned 8 September 2011.
7. Resigned 2 June 2011.

The Board is responsible for setting the Group's objectives and policies, providing effective leadership and 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.

Day-to-day management is delegated to the Chief Executive who chairs an Executive Committee. Other members of the Executive Committee are the Group Finance Director, Group Commercial Director, the Operations Directors for each of the UK and the Rest of Europe and the Company Secretary.

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

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

Board committees

The Board has three Committees, each of which has written terms of reference which are available on the Company's corporate website (www.carpetright.plc.uk). An additional Committee, a Customer and Corporate Responsibility Committee, is being created with effect from 1 July 2012, and will be chaired by Sandra Turner. Its other members will be Baroness Noakes, David Clifford, Darren Shapland, Martin Harris and Claire Balmforth.

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

The role of the **Audit Committee**, its members and details of how it carried out its duties are set out in the Audit Committee report on page 24.

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 25 to 31.

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

Number of Meetings in the 2011/12 financial year: 3

Members	Attendance	Maximum number of Meetings the member could have attended
Baroness Noakes Committee Chairman	3	3
Lord Harris	3	3
Alan Dickinson (appointed 8 September 2011)	2	2
Guy Weston (resigned 8 September 2011)	1	1

Corporate governance continued

The role of the Nomination Committee is to:

- identify and nominate candidates for the approval of the Board;
- fill vacancies; and
- make recommendations to the Board on Board composition and balance. External search consultants are generally appointed to assist in the search process.

The Committee considers the diversity of the Board 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.

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

An external search consultancy was used in relation to the appointment of David Clifford as a Non-Executive Director. Darren Shapland was already known to the Committee from his previous role as Finance Director of the Company and he was approached directly to become a Non-Executive Director.

In relation to the appointment of Darren Shapland as Chief Executive, the Non-Executive Directors, together with Lord Harris, had examined the external market with a firm of headhunters a couple of years ago and concluded that it was unlikely that a suitable candidate with specialist knowledge of the floorcoverings market existed and that, if the external route were followed, a non-specialist retailer would have to be considered. This presented a degree of risk which the Non-Executive Directors preferred to avoid.

Following Darren Shapland joining the Board in September 2011 it was clear to the Non-Executive Directors and the Chairman that he had both extensive retail experience and specific knowledge of Carpetright and thus provided a good option to consider as Chief Executive. That led to a decision to approach him in respect of the role in late 2011.

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, and the Audit Committee received a briefing relating to the Bribery Act and the controls that have been put in place.

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

Risk Management and Internal Controls

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

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

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

The day-to-day responsibility for managing risk and the maintenance of the Group's system of internal control is collectively assumed by the Executive Directors. An Executive Directors' Group ('EDs Group') comprising the Executive Directors and senior managers was established to review key risk and control issues. The EDs Group met quarterly.

With effect from 1 July 2012, an Executive Risk Group, comprising the members of the Executive Committee and other senior managers, will take over the work of the EDs Group.

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

Identification of business risks

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

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

The principal risks and uncertainties affecting the business are set out on pages 15 and 16.

Health and safety

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

Internal audit

The internal audit function:

- undertakes its work, both on central functions and in the field, based on a risk assessment model;
- provides the Audit Committee and the Board with objective assurance on the control environment across the Group; and
- monitors adherence to the Group's key policies and principles.

Planning

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

Control procedures

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

Management and specialists within the finance team are responsible for ensuring the appropriate maintenance of financial records and processes that ensure all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and that appropriate information is distributed both internally and externally in a timely manner.

A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected. The preliminary and interim results are subject to review by the Audit Committee prior to approval by the Board.

Share capital

Details of the Company's share capital and significant shareholders can be found on page 33.

Statement of Compliance

During the period ended 28 April 2012 the Company complied with the provisions set out in the UK Corporate Governance Code except as set out below.

The Company did not comply with provision B.1.2 of the UK Corporate Governance Code for the entire period as for the period between May 2011 and November 2011 at least half the Board did not comprise Non-Executive Directors determined by the Board to be independent. This imbalance was addressed upon the appointment of Darren Shapland and David Clifford as Non-Executive Directors in September 2011 and December 2011 respectively.

The Company did not comply with provision A.2.1 of the UK Corporate Governance Code for the entire period as the roles of Chairman and Chief Executive were combined, an explanation for which is set out above. The roles were separated in May 2012.

Audit Committee report

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

The Audit Committee is chaired by Baroness Noakes. The Board has determined that Baroness Noakes and David Clifford have recent and relevant financial experience. Details of membership and attendance are set out below:

Number of Meetings in the 2011/12 financial year: 4

Members	Attendance	Maximum number of Meetings the member could have attended
Baroness Noakes Committee Chairman[1]	4	4
Alan Dickinson	4	4
David Clifford (from 1 December 2011)[1]	2	2
Sandra Turner[2]	4	4
Guy Weston (until 8 September 2011)	1	2

1. David Clifford will chair the Audit Committee from 1 July 2012. Baroness Noakes will remain a member of the Committee.
2. Sandra Turner will cease to be a member of the Committee with effect from 1 July 2012.

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

The Audit Committee has an agenda linked to events in the Group's financial calendar and pays particular attention to the financial statements for the year, the annual results announcement and the results for the half-year set out in the interim statement. Following review, these are recommended to the Board for approval.

The Audit Committee reviews the consistency of and any changes to the Group's accounting policies, the application of appropriate accounting standards, the methods used to account for significant or unusual transactions and areas of significant judgment. During the year the Audit Committee focused in particular on the judgments made in making provision for the impairment of stores and goodwill in the light of difficult trading conditions. In addition, it examined carefully all the other items which are disclosed as exceptional.

During the period ended 28 April 2012, other matters dealt with by the Audit Committee were:

- reviewing the independence, objectivity and effectiveness of the external auditors and, on the basis of that review, recommending to the Board their reappointment at the AGM;
- reviewing the Group's Corporate Responsibility Report;
- approving the audit fees paid to the external auditors and reviewing the application of the policy on non-audit work performed by them together with the non-audit fees payable to them;
- reviewing the external auditors' plan for the audit of the Group's accounts, and approving the terms of engagement for the audit;
- reviewing the process for ensuring that senior management confirm that they have supplied the auditors with relevant audit information;
- reviewing the internal audit plan, monitoring the delivery of that plan during the year and reviewing the effectiveness of the internal audit function;
- reviewing the work of the EDs Group, which oversees the identification and management of the risks to the business, together with reports on the Group's systems of internal control, and reporting the results of this review to the Board;
- reviewing its terms of reference and effectiveness;
- reviewing the whistleblowing policy and relevant items reported under that policy; and
- receiving a briefing relating to the Bribery Act and the controls that have been put in place.

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

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

PricewaterhouseCoopers LLP have been auditors to the Company since 2005 when they were appointed following a competitive tender. The Company does not have a policy of tendering the external audit at specific intervals. 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 Board has also adopted a formal policy on the Company's relationship with its auditor in respect of non-audit work. The auditors may only provide such services provided that such advice does not conflict with their statutory responsibilities and ethical guidance. The Audit Committee Chairman's approval is required before the Company uses non-audit services that exceed financial limits set out by that policy. Details of the auditors' remuneration for audit work and non-audit fees for the period ended 28 April 2012 are disclosed in note 3 to the Financial Statements.

The Statement of Directors' Responsibilities in relation to the accounts is set out on pages 34 to 35. The Statement by the Auditors on their responsibilities in respect of the accounts is contained in their report on page 72.

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

Directors' remuneration report

This report is made by the Board on the recommendation of the Remuneration Committee and has been prepared in accordance with the UK Corporate Governance Code, relevant regulations and the relevant parts of the Listing Rules of the UK Listing Authority. The first part of the report provides details of the Remuneration Committee and remuneration policy. The second part provides details of the remuneration, pensions and share plan interests of the Directors and former Directors who served as Directors of the Company during the 52 weeks ended 28 April 2012.

Remuneration Committee

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

Number of Meetings in the 2011/12 financial year: 4

Members	Attendance	Maximum number of Meetings the member could have attended
Alan Dickinson Committee Chairman[1]	4	4
Baroness Noakes	4	4
Sandra Turner	4	4
Darren Shapland (from 8 September 2011 until 14 May 2012)	3	4
David Clifford (from 1 December 2011)[2]	3	3
Guy Weston (until 8 September 2011)[3]	0	0

1. Chairman from 8 September 2011.
2. David Clifford will cease to be a member of the Committee with effect from 1 July 2012.
3. Chairman until 8 September 2011.

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

The responsibilities of the Committee include:

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

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

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was advised by New Bridge Street (a trading name of Aon Hewitt Limited, part of Aon plc). The Committee's advisers attended two of the four Committee meetings. New Bridge Street, which is a signatory to the Code of Conduct for Remuneration Advisers, did not provide other services to the Company. Other members of the Aon plc group of companies provided insurance broking and advisory services to the Company.

Remuneration policy

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

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

Remuneration review

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

- conducted a review of the remuneration arrangements of the Executive Directors and Senior Executives;
- determined the bonus award for the 2011/12 financial year;
- approved the bonus structure for the 2012/13 financial year;
- determined the level of awards and performance condition under the Company's Long Term Incentive Plan for Directors and Senior Executives;
- approved the recruitment terms, including the salary for Darren Shapland on his appointment as Chief Executive in May 2012;
- approved the Chairman's new package of remuneration following the appointment of the new Chief Executive;
- approved salary increases for a limited number of Senior Executives;
- reviewed its own terms of reference; and
- conducted its annual evaluation of its own performance and that of its advisers.

Directors' remuneration report continued

Components of remuneration

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

i) Basic salary

Basic salary for each Executive Director and other Senior Executives is determined by the Committee, taking account of the responsibilities, performance and experience of the individual. A benchmarking exercise was carried out in the period in relation to the appointment of the Chief Executive, as well as for the Chairman, Deputy Chairman and Non-Executive Directors. The Remuneration Committee took account of market trends in reviewing basic salaries. 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.

Executive Directors' basic salaries have been reviewed and other than increasing Darren Shapland's remuneration upon his appointment as Chief Executive, no increase is to take place in 2012. The current salaries of the Executive Directors are as follows:

	Current base salary
Darren Shapland	£450,000
Neil Page	£280,000
Martin Harris	£280,000

The combined annual salary increase for all team members and management was 1.8%.

ii) Annual incentives

Executive Directors are eligible to receive an annual performance bonus which is a proportion of salary based on the achievement of the annual budgeted profit. The performance targets for 2011/12 were set by reference to budgeted levels of underlying profit before tax. The target for the Rest of Europe was partly achieved so a bonus will be paid to Andy Corden, who stepped down from the Board in May 2012. Targets were not achieved for the UK or the Group so no bonus will be paid in 2012 (2011: nil) to the other Executive Directors who served during the period. Where bonuses are paid, they are paid in cash and do not form part of the Directors' pensionable earnings.

The Committee reviewed levels of bonus opportunity for the Executive Directors for the 2012/13 financial year in light of the challenging trading environment and concluded that it would be appropriate to retain the percentages of salary payable for maximum and on-target performance at the same level as for the year 2011/12, which had been reduced from the 2010/11 bonus earning opportunity. Accordingly, the maximum bonus opportunity for Executive Directors for the 2012/13 financial year is 100% (2011: 100%) of basic salary, with 30% (2011: 20%) of salary payable for on-target performance. The performance target for the 2012/13 financial year has similarly been set by reference to budgeted levels of underlying profit before tax.

The Committee intends to review levels of bonus opportunity for the 2013/14 financial year in light of trading conditions at that time.

For the 2012/13 financial year the Company has introduced clawback in respect of cash bonuses. Subject to the discretion of the Committee, bonuses may be clawed back where the financial results have been materially misstated, where an error has been made in assessing the size of the bonus or where the individual had committed an act of gross misconduct in respect of the relevant financial year.

iii) Long-term incentives

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

The Committee has determined that awards will be made in 2012 in line with the normal maximum and will determine the appropriate performance criteria to be adopted before the awards are made. These will be fully disclosed to shareholders in next year's report.

Prior to making the 2011 awards, the Committee reviewed the previously planned performance targets for the 2011 awards in light of the prevailing expectations for future performance at that time. In light of those expectations it decided to set different targets to those which had been disclosed and determined that no awards will vest if growth in EPS is less than 5.5% per annum over the three financial years measured from the financial year immediately preceding the year in which the award is granted. For growth of 5.5% per annum, 25% of the award vests and for growth of 10% per annum, all of the award vests. For growth between these two points between 25% and 100% vests on a sliding scale.

Lord Harris voluntarily declined an award under the plans for 2009, 2010 and 2011. He is not eligible to receive awards upon ceasing to be Chief Executive. It is the Company's current policy that awards under the LTIP will be satisfied using shares purchased in the market.

The Committee intends to review the Company's long-term incentive arrangements during the course of the year with a view to introducing new arrangements in the future. Once the Committee has concluded its review it will consult the Company's major shareholders prior to finalising its proposals.

iv) Pensions

Darren Shapland, Martin Harris and Christian Sollesse are deferred members of the Carpetright plc Pension Plan, which is a defined benefit scheme and closed to future accrual from 30 April 2010. Lord Harris receives a pension under the plan. Executive Directors, other than Andy Corden, 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 receive the allowance by way of a salary supplement. Darren Shapland and Martin Harris each receive their allowance as a salary supplement. Neil Page and Christian Sollesse each split their allowance between a contribution to the GPPP scheme and a salary supplement. Claire Balmforth has elected for her allowance to be paid into the GPPP. Andy Corden receives payments of 4.5% of his Belgian salary into a pension scheme in Belgium.

v) Benefits

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

vi) Terms of Darren Shapland's appointment as Chief Executive

Darren Shapland was appointed as Chief Executive on 14 May 2012. The key elements of his remuneration for 2012 are as follows:

- Basic salary: £450,000
- On-target bonus: 30% of basic salary
- Maximum bonus: 100% of basic salary
- Pension: 20% of basic salary cash supplement
- LTIP buy-out: approximately £345,000 in respect of LTIPs that lapse as a result of joining the Company. Darren Shapland is required to subscribe the net proceeds in shares in the Company.
- Car allowance: £27,500
- LTIP award: when the Company ceases to be in a closed period it intends to make an award to align his interests with those of the other executives.

Shareholding guidelines

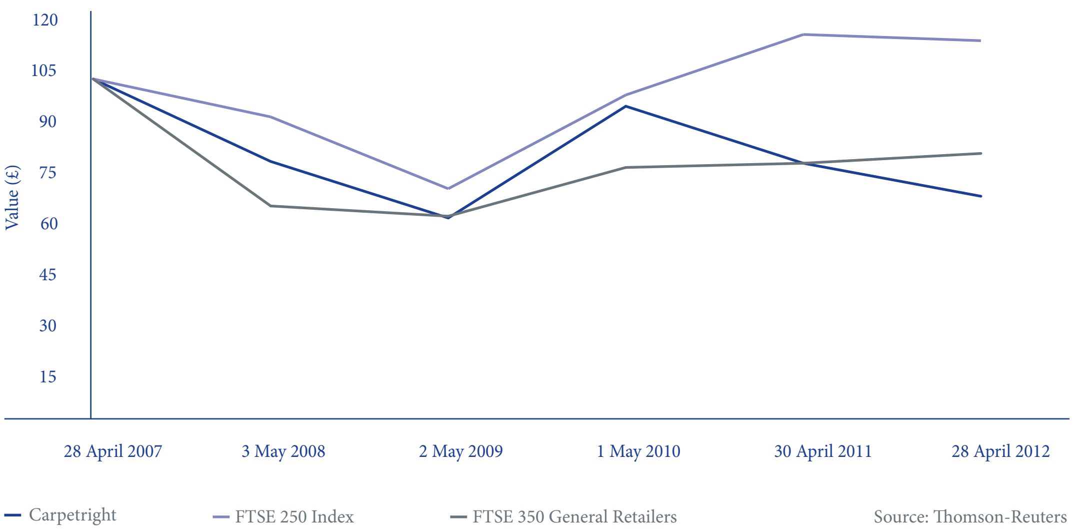
The Committee has introduced share ownership guidelines to create greater alignment with the interests of shareholders and to be consistent with one of the objectives of the incentive framework. All Executive Directors should build up a shareholding in the Company by the retention of shares with a value equal to the net of taxes gain on shares vested under Carpetright's equity incentive plans until such time as they have acquired a holding that is equal to their annual basic salary and maintain it thereafter. At the year end the holdings of Lord Harris and Martin Harris were above this level. Neil Page held 9,802 shares which, based on the year end share price of 604p, represented 21% of his salary. At the year end Darren Shapland, who was appointed as Chief Executive in May 2012, did not hold any shares in the Company.

Directors' remuneration report continued

Performance graph

The graph below shows the value, at 28 April 2012, of £100 in Carpetright plc shares on 28 April 2007 compared with that of £100 invested in the FTSE 250 Index or the FTSE 350 General Retail Index, which the Directors believe to be the most suitable broad comparators. The other points plotted are the values at intervening financial year-ends.

Total shareholder return



Service contracts

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

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

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

	Contract date	Notice period
Darren Shapland	11 May 2012	12 months
Martin Harris	27 January 2011	12 months
Neil Page	2 March 2009	12 months
Claire Balmforth[1]	3 May 2011	12 months
Andy Corden[1]	30 August 2002	12 months
Christian Sollesse[2]	20 November 2006	12 months

1. Claire Balmforth and Andy Corden stepped down from the Board on 11 May 2012. They both remain Senior Executives on their previous contract terms.
2. Christian Sollesse stepped down from the Board on 2 June 2011. He ceased employment on 12 September 2011. In line with the terms of his contract he continued to receive an amount equivalent to his monthly salary, benefits and pension contributions (subject to mitigation) until the end of his notice period. He was not entitled to a bonus and his long-term incentive arrangements have lapsed.

External appointments

Executive Directors retain remuneration from outside non-executive directorships. During the year Lord Harris's directors' fees payable by Arsenal Holdings plc and Arsenal Football Club plc totalling £25,000 were donated to charity.

Darren Shapland receives a fee at a rate of £150,000 per annum in respect of his role as Chairman of Sainsburys Bank, which is a commitment of one day per week until 31 December 2012, and a fee at a rate of £60,000 per annum as a Non-Executive Director of Ladbrokes plc.

Chairman and Non-Executive Directors

The Chairman and the Non-Executive Directors do not have service contracts. The Chairman has been appointed for an indefinite term and the Non-Executive Directors are appointed for an initial three year period, subject to being re-elected by members annually.

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

	Appointment date	Date of reappointment	Unexpired term at the date of this report	Notice period
Lord Harris (Chairman)	11 May 2012		Indefinite	3 months
Baroness Noakes	1 February 2001	1 February 2012	7 months	1 month
Alan Dickinson	22 October 2010		1 year 4 months	1 month
Sandra Turner	22 October 2010		1 year 4 months	1 month
David Clifford	1 December 2011		2 years 5 months	1 month

The fees of the Chairman are determined by the Remuneration Committee. Non-Executive Directors' fees are determined by the Executive Directors. These fees are set with reference to external data on fee levels in similar businesses, having taken account of the responsibilities of individual Directors and their expected annual time commitment. The Chairman and the Non-Executive Directors are not eligible for any of the Company's variable pay arrangements. The Chairman is entitled to a car allowance, life assurance and private medical cover. The Non-Executive Directors receive no benefits.

The fees of the Non-Executive Directors were last reviewed in May 2012. As a result of this review the base fees for Non-Executive Directors were increased by £3,000 to £39,000. The fees of Baroness Noakes were increased to £60,000 to take account of her role as Deputy Chairman, membership of all Board Committees, chairing the Nomination Committee and her role as the Senior Independent Director. The fees for chairing the Customer and Corporate Responsibility Committee were aligned with chairing the other committees (£5,000 per chair).

The following section provides details of the remuneration, pension and share plan interests of the Directors for the 52 week period ended 28 April 2012 and has been audited.

i) Directors' emoluments

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

	Footnotes	Salary/Fees £000	Payments following termination of employment £000	Bonus £000	Pension supplement £000	Contributions to Pension Plan £000	Benefits £000	**Total 2012 £000**	Total 2011 £000
Lord Harris	1	482		–	–	–	40	**522**	522
Martin Harris		280		–	56	–	31	**367**	367
Neil Page		280		–	6	50	29	**365**	365
Andy Corden	2	290		35	–	13	29	**367**	–
Claire Balmforth		198		–	–	40	27	**265**	–
Baroness Noakes		51		–	–	–	–	**51**	51
Alan Dickinson	3	39		–	–	–	–	**39**	19
Sandra Turner	3	36		–	–	–	–	**36**	19
Darren Shapland	4	23		–	–	–	–	**23**	–
David Clifford	5	15		–	–	–	–	**15**	–
Guy Weston	6	13		–	–	–	–	**13**	36
Christian Sollesse	7	122	236	–	11	9	13	**391**	371
Former Directors		–	–	–	–	–	–	**–**	32
Total 2012		**1,829**	**236**	**35**	**73**	**112**	**169**	**2,454**	
Total 2011		1,479	–	–	87	81	135	**–**	1,782

1. Highest paid Director.
2. Paid by subsidiary companies in Euros. The average exchange rate of €1.16:£1 has been used.
3. For 2011, part year only.
4. Part year only, since September 2011.
5. Part year only, since December 2011.
6. For 2012, part year only to September 2011.
7. The salary figure includes holiday pay (£20k). The amounts received post termination of employment include amounts paid in lieu of salary (£178k), pension and pension supplement (£36k) and other benefits (£22k). Payments were made monthly, subject to mitigation, and continued to June 2012.

No emoluments were waived during the period.

Directors' remuneration report continued

ii) Long term incentive plan

The table below shows the conditional share awards granted under this plan:

Director	Footnotes	Date of Grant	As at 30 April 2011	Granted/(lapsed) in the year	Vested in the year	Outstanding at 28 April 2012	Share price at date of award (pence)	First exercise date	Last exercise date
Martin Harris	1,5	18 Sept 2009	59,480	–	–	59,480	853	Sept 2012	Mar 2013
	2,5	16 Sept 2010	37,837	–	–	37,837	740	Sept 2013	Mar 2014
	3	20 Sept 2011	–	57,601	–	57,601	486	Sept 2014	Mar 2015
Neil Page	1,5	18 Sept 2009	60,961	–	–	60,961	853	Sept 2012	Mar 2013
	2,5	16 Sept 2010	37,837	–	–	37,837	740	Sept 2013	Mar 2014
	3	20 Sept 2011	–	57,601	–	57,601	486	Sept 2014	Mar 2015
Claire Balmforth	1,5	18 Sept 2009	14,067	–	–	14,067	853	Sept 2012	Mar 2013
	2,5	16 Sept 2010	15,202	–	–	15,202	740	Sept 2013	Mar 2014
	3	20 Sept 2011	–	41,143	–	41,143	486	Sept 2014	Mar 2015
Andy Corden	2,4,5	16 Sept 2010	26,696	–	–	26,696	740	Sept 2013	Mar 2014
	3	20 Sept 2011	–	59,957	–	59,957	486	Sept 2014	Mar 2015
Christian Sollesse		18 Sept 2009	65,650	(65,650)	–	–	853	–	–
		16 Sept 2010	37,837	(37,837)	–	–	740	–	–

1. None of the 2009 awards vest if growth in underlying Earnings per Share ('EPS') is less than 25% per annum over the three financial years measured from the financial year immediately preceding the year in which the award is granted. For growth of 25% per annum, 30% of the award vests and for growth of 50% per annum, all of the award vests. For growth between these two points between 30% and 100% vests on a sliding scale.
2. None of the 2010 awards vest if growth in underlying EPS is less than 17.5% per annum over the three financial years measured from the financial year immediately preceding the year in which the award is granted. For growth of 17.5% per annum, 25% of the award vests and for growth of 35% per annum, all of the award vests. For growth between these two points between 25% and 100% vests on a sliding scale.
3. None of the 2011 awards vest if growth in underlying EPS is less than 5.5% per annum over the three financial years measured from the financial year immediately preceding the year in which the award is granted. For growth of 5.5% per annum, 25% of the award vests and for growth of 10% per annum, all of the award vests. For growth between these two points between 25% and 100% vests on a sliding scale.
4. Andy Corden's award in 2010 was made on a phantom basis such that a payment will be made based upon the market value of a share, rather than receiving shares.
5. Neither the 2009 conditional award nor the 2010 conditional award is currently expected to vest.

iii) Sharesave options

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

	As at 30 April 2011	Granted during year	Exercised during year	Lapsed during year	**As at 28 April 2012**	Exercise price pence	First exercise date	Last exercise date
Lord Harris	5,491	–	–	–	**5,491**	295.0	Apr 2014	Oct 2014
Martin Harris	5,491	–	–	–	**5,491**	295.0	Apr 2014	Oct 2014
Neil Page	5,491	–	–	–	**5,491**	295.0	Apr 2014	Oct 2014
Claire Balmforth	1,271	–	1,271	–	**–**	295.0	Apr 2012	Oct 2012
Claire Balmforth	568	–	–	–	**568**	633.5	Apr 2014	Oct 2014
Claire Balmforth	–	1,063	–	–	**1,063**	423.0	Apr 2015	Oct 2015

The market price of Carpetright shares was 604 pence on 28 April 2012 (30 April 2011: 693.5 pence). During the period ended 28 April 2012, the shares of Carpetright plc traded between a low of 375 pence and a high of 741 pence.

iv) All Employee Share Ownership Plan (AESOP)

Carpetright operates an AESOP under which team members may contribute up to £125 per month from pre-tax salary to purchase Carpetright shares. Lord Harris, Martin Harris, Neil Page and Claire Balmforth participate in the AESOP, contributing £125 per month.

v) Directors' Pensions Benefits

Only the Executive Directors' basic salaries are pensionable. On 30 April 2010 the defined benefit Carpetright plc Pension Plan closed to future accrual. Martin Harris, Christian Sollesse and Darren Shapland are deferred members of the plan.

Details of pensions earned by the Directors who are members of the Plan are shown below:

	Accrued Pension				Transfer Value		
	Pension accrued at 28 April 2012	Increase in accrued pension during the year	Increase in pension during the year net of inflation[1]	Cost to the Plan of the increase in pension in excess of contributions	**As at 28 April 2012**	As at 30 April 2011	Change in transfer value net of Directors' contributions[2]
	£000 pa	£000 pa	£000	£000	**£000**	£000	£000
Lord Harris[3]	**30.1**	1.9	–	–	**615**	516	99
Martin Harris	**17.4**	0.8	–	–	**328**	215	113
Christian Sollesse	**36.4**	1.8	–	–	**887**	636	251
Darren Shapland[4]	**6.5**	0.3	–	–	**133**	91	42

1. The cost to the Plan of the increase represents the incremental value to the Director of his service during the period, calculated on service to 30 April 2010. It is based on the increase in accrued pension net of inflation after deducting the Director's contribution.
2. The total change in value includes the effects of fluctuations in the transfer value due to factors beyond the control of the Company and the Directors, such as stock market movements. It is calculated after deducting Directors' contributions.
3. Lord Harris has been in receipt of a pension since September 2007.
4. Darren Shapland's pension rights arise as a result of his previous employment as Group Finance Director of Carpetright.

Shareholder approval

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

By order of the Board:

Alan Dickinson
Chairman of the Remuneration Committee
25 June 2012

Other information

Directors' interests

The beneficial interests of those persons who were Directors as at 28 April 2012 and their immediate families in the ordinary shares of the Company are set out below.

	28 April 2012	30 April 2011
Lord Harris	**12,608,393**	12,568,122
Martin Harris	**3,989,954**	3,939,683
Neil Page	**9,802**	9,531
Claire Balmforth	**1,432**	–
Andy Corden	**2,486**	2,486
Baroness Noakes	**32,225**	32,225
David Clifford	**–**	–
Alan Dickinson	**–**	–
Sandra Turner	**–**	–
Darren Shapland	**–**	–

In addition, Lord Harris has a non-beneficial interest in 196,414 shares (2011: 196,414). 139,000 of these shares are included within Martin Harris's beneficial interests. The Executive Directors have an indirect interest in 27,869 shares held in trust to satisfy awards made under the LTIP. Save as disclosed in this section, none of the Directors has any non-beneficial interests in the shares of the Company.

Between 28 April 2012 and the date of this report 38 shares have been purchased for each of Martin Harris, Neil Page and Claire Balmforth, and 41 shares have been purchased for Lord Harris under the Company's AESOP. There have been no other changes to the above shareholdings.

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

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

	Lease and concession agreement payments made		Supplies of goods/services payments received		Supplies of goods/services payments made	
	2012 £000	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Clacton Property Investments Ltd	**–**	17	**–**	–	**–**	–
Edinburgh Retail LLP	**267**	269	**–**	–	**–**	–
Glenrothes Retail LLP	**–**	28	**–**	–	**–**	–
Greenock Retail Ltd	**226**	225	**–**	–	**–**	–
Harris Ventures Ltd	**62**	62	**2**	–	**29**	33
Hull Unit Trust	**387**	357	**–**	–	**–**	–
Neath Retail LLP	**–**	2	**–**	–	**–**	–
Wick Retail Ltd	**–**	30	**–**	–	**–**	–

As at 28 April 2012 the Group owed related parties £nil (2011: £11,000).

Directors' indemnity arrangements

The Company has provided qualifying third-party indemnities for the benefit of each Director and former Director who held office during the 2011/12 financial year. The Company has also purchased and maintained Directors' and Officers' liability insurance throughout the 2011/12 financial year.

Creditors' payment policy

While the Group does not follow any formal code or standard on payment practice, it agrees terms and conditions for its business transactions when orders for goods and services are placed, and includes the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments subject to the terms and conditions being met by suppliers. The number of trade creditor days outstanding at the period end for the Company was 56 days (2011: 52 days).

Significant agreements – change of control

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

- a term loan and revolving facilities agreement dated 19 March 2008, as amended and restated most recently on 27 June 2011, for term loans of €14m and £22m and a revolving credit facility of £45m, which provides that on a change of control all lenders' commitments are cancelled and all outstanding loans, together with accrued interest, will become immediately due and payable; and
- 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 is essential to the business of the Company.

Share capital

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

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

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

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

Shares acquired through Carpetright's employee share schemes rank equally with all other ordinary shares in issue and have no special rights. The Trustee of the Company's Employee Benefit Trust ('EBT') has waived its rights to dividends on shares held by the EBT and does not exercise its right to vote in respect of such shares. Shares held in trust on behalf of participants in the All Employee Share Ownership Plan are voted by the Trustee as directed by the participants. Details of share-based payments, including information regarding the shares held by the EBT, can be found in notes 24 and 25 to the financial statements on pages 65 and 66.

Substantial shareholdings

As at 25 June 2012, the Company has been notified of the following substantial shareholdings, other than those of the Directors, in the issued share capital of the Company:

	Total number of shares held	Percentage of shares held
The Olayan Group	10,099,000	14.96%
Franklin Templeton Institutional, LLC	9,593,037	14.21%
Harris Associates Inc	6,891,163	10.20%
Cascade Investments LLP	4,040,857	5.98%
Artisan Partners LP	3,480,472	5.15%
A H Palmer and E A O'Keeffe as joint trustees[1]	2,623,000	3.88%
UBS Investment Bank	2,133,181	3.16%

1. Of these shares, 793,000 are held on behalf of Martin Harris and so are also included in his reported holding on page 32.

Other information continued

Investor relations

There is a formal investor relations programme based around the results presentations and interim management statements. All of the Non-Executive Directors are available to attend meetings 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 2012 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 2011 Annual General Meeting shareholders gave the Company renewed authority to purchase a maximum of 6,723,566 shares of one penny each. This resolution remains valid until the date of this year's Annual General Meeting. As at 28 April 2012, the Directors had not used this authority. The Company's present intention is to cancel any shares acquired under such authority, unless purchased to satisfy outstanding awards under employee share incentive plans. A resolution seeking renewal of the authority will be proposed at this year's Annual General Meeting.

Annual General Meeting

The 2012 Annual General Meeting of the Company will be held on 6 September 2012 at Harris House, Purfleet Bypass, Purfleet, Essex RM19 1TT at 12.00 noon. A full description of the business to be conducted at the meeting is set out in the separate Notice of Annual General Meeting.

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.

Going concern

The Directors confirm that, after reviewing expenditure commitments, expected cash flows and borrowing facilities, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the next financial year and the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. Further details of the Group's liquidity are given in the financial review on page 14.

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.

Responsibility Statement

Each of the Directors whose names and details are set out on page 19 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 business review, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

By order of the Board

Jeremy Sampson
Company Secretary and Legal Director
25 June 2012

Financial statements
Consolidated income statement

for 52 weeks ended 28 April 2012

	Notes	Group 52 weeks to 28 April 2012 Before exceptional items £m	Exceptional items £m	Total £m	Group 52 weeks to 30 April 2011 (restated) Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2	471.5		471.5	486.8		486.8
Cost of sales		(195.5)		(195.5)	(188.8)		(188.8)
Gross profit	2	276.0		276.0	298.0		298.0
Administration expenses		(270.2)	(3.4)	(273.6)	(280.2)	(10.8)	(291.0)
Other operating income		2.2	13.4	15.6	3.4	0.5	3.9
Operating profit	2,3	8.0	10.0	18.0	21.2	(10.3)	10.9
Finance costs	5,6	(5.1)	(0.5)	(5.6)	(5.4)	–	(5.4)
Finance income	6	1.1	–	1.1	1.1	–	1.1
Profit before tax		4.0	9.5	13.5	16.9	(10.3)	6.6
Tax	7	(1.0)	(1.5)	(2.5)	(4.8)	2.8	(2.0)
Profit for the financial period attributable to equity shareholders of the Company		3.0	8.0	11.0	12.1	(7.5)	4.6
Basic earnings per share (pence)	9	4.5	11.9	16.4	18.0	(11.2)	6.8
Diluted earnings per share (pence)	9			16.4			6.9

All material items in the income statement arise from continuing operations.

Consolidated statement of comprehensive income

for 52 weeks ended 28 April 2012

	Notes	Group 52 weeks to 28 April 2012 £m	Group 52 weeks to 30 April 2011 £m
Profit for the financial period		11.0	4.6
Actuarial (loss)/gain on defined benefit pension scheme	22	(0.9)	0.4
Exchange (loss)/gain in respect of hedged equity investments		(7.5)	2.4
Tax on components of other comprehensive income	7	–	(0.4)
Other comprehensive (expense)/income for the period		(8.4)	2.4
Total comprehensive income for the period attributable to equity shareholders of the Company		2.6	7.0

Statements of changes in equity

for 52 weeks ended 28 April 2012

Group	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 1 May 2010	0.7	15.4	(0.2)	0.1	10.2	(1.2)	46.2	71.2
Total comprehensive income/(expense) for the financial period	–	–	–	–	2.4	1.1	3.5	7.0
Purchase of own shares by Employee Benefit Trust	–	–	(0.1)	–	–	–	–	(0.1)
Share based payments and related tax	–	–	–	–	–	–	(0.3)	(0.3)
Dividends paid to Group shareholders	–	–	–	–	–	–	(10.8)	(10.8)
At 30 April 2011	**0.7**	**15.4**	**(0.3)**	**0.1**	**12.6**	**(0.1)**	**38.6**	**67.0**
Total comprehensive income/(expense) for the financial period	**–**	**–**	**–**	**–**	**(7.5)**	**0.1**	**10.0**	**2.6**
Issue of new shares	**–**	**0.9**	**–**	**–**	**–**	**–**	**–**	**0.9**
Share-based payments and related tax	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
At 28 April 2012	**0.7**	**16.3**	**(0.3)**	**0.1**	**5.1**	**–**	**48.8**	**70.7**

Company	Share capital £m	Share premium £m	Treasury shares £m	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 1 May 2010	0.7	15.4	(0.2)	0.1	(2.3)	(1.2)	29.2	41.7
Total comprehensive income/(expense) for the financial period	–	–	–	–	0.3	1.1	(2.3)	(0.9)
Purchase of own shares by Employee Benefit Trust	–	–	(0.1)	–	–	–	–	(0.1)
Share based payments and related tax	–	–	–	–	–	–	(0.3)	(0.3)
Dividends paid to Group shareholders	–	–	–	–	–	–	(10.8)	(10.8)
At 30 April 2011	**0.7**	**15.4**	**(0.3)**	**0.1**	**(2.0)**	**(0.1)**	**15.8**	**29.6**
Total comprehensive income/(expense) for the financial period	**–**	**–**	**–**	**–**	**1.8**	**0.1**	**18.7**	**20.6**
Issue of new shares	**–**	**0.9**	**–**	**–**	**–**	**–**	**–**	**0.9**
Share based payments and related tax	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
At 28 April 2012	**0.7**	**16.3**	**(0.3)**	**0.1**	**(0.2)**	**–**	**34.7**	**51.3**

The notes on pages 40 to 70 form an integral part of the financial statements.

Balance sheets

as at 28 April 2012

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Assets					
Non-current assets					
Intangible assets	10	**61.4**	65.8	**32.7**	35.1
Property, plant and equipment	11	**119.6**	147.4	**80.1**	96.3
Investment property	12	**20.7**	26.1	**7.4**	7.7
Investment in subsidiary undertakings	13	**–**	–	**16.8**	16.8
Deferred tax assets	21	**2.6**	2.9	**–**	–
Trade and other receivables	15	**0.9**	1.1	**49.2**	46.9
Total non-current assets		**205.2**	243.3	**186.2**	202.8
Current assets					
Inventories	14	**38.3**	38.7	**30.8**	30.5
Trade and other receivables	15	**24.1**	32.8	**18.4**	26.9
Current tax assets		**–**	–	**0.4**	–
Cash and cash equivalents	16	**9.6**	8.3	**6.1**	4.7
Total current assets		**72.0**	79.8	**55.7**	62.1
Total assets	2	**277.2**	323.1	**241.9**	264.9
Liabilities					
Current liabilities					
Trade and other payables	17	**(109.2)**	(105.3)	**(93.2)**	(89.0)
Obligations under finance leases	18	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Borrowings and overdrafts	19	**(9.5)**	(21.3)	**(5.4)**	(16.8)
Current tax liabilities		**(1.0)**	(2.1)	**–**	(1.2)
Total current liabilities		**(119.8)**	(128.8)	**(98.7)**	(107.1)
Non-current liabilities					
Trade and other payables	17	**(33.8)**	(35.4)	**(46.2)**	(51.4)
Obligations under finance leases	18	**(2.6)**	(2.9)	**(1.5)**	(1.9)
Borrowings	19	**(16.5)**	(49.6)	**(16.5)**	(45.1)
Derivative financial instruments	23	**–**	(0.1)	**–**	(0.1)
Provisions for liabilities and charges	20	**(6.4)**	(9.1)	**(6.0)**	(9.1)
Deferred tax liabilities	21	**(23.1)**	(26.2)	**(17.4)**	(16.6)
Retirement benefit obligations	22	**(4.3)**	(4.0)	**(4.3)**	(4.0)
Total non-current liabilities		**(86.7)**	(127.3)	**(91.9)**	(128.2)
Total liabilities	2	**(206.5)**	(256.1)	**(190.6)**	(235.3)
Net assets		**70.7**	67.0	**51.3**	29.6
Equity					
Share capital	24	**0.7**	0.7	**0.7**	0.7
Share premium	24	**16.3**	15.4	**16.3**	15.4
Treasury shares	24	**(0.3)**	(0.3)	**(0.3)**	(0.3)
Other reserves		**54.0**	51.2	**34.6**	13.8
Total equity attributable to equity shareholders of the Company		**70.7**	67.0	**51.3**	29.6

The notes on pages 40 to 70 form an integral part of the financial statements.

These financial statements from pages 36 to 70 were approved by the Board of Directors on 25 June 2012 and were signed on its behalf by:

Darren Shapland **Neil Page**
Directors

Statements of cash flow

for 52 weeks ended 28 April 2012

	Notes	Group 52 weeks to 28 April 2012 £m	Group 52 weeks to 30 April 2011 £m	Company 52 weeks to 28 April 2012 £m	Company 52 weeks to 30 April 2011 £m
Cash flows from operating activities					
Profit/(loss) before tax		**13.5**	6.6	**20.3**	(0.8)
Adjusted for:					
Depreciation and amortisation	2,3	**14.6**	15.5	**11.8**	12.1
(Profit) on property disposals		**(4.6)**	(0.5)	**(4.8)**	(0.5)
(Profit) on property subsidiary disposal		**(8.8)**	–	**–**	–
Dividend received from subsidiaries		**–**	–	**(22.9)**	–
Exceptional non-cash items		**2.3**	10.8	**1.9**	10.7
Other non-cash items		**0.2**	(0.2)	**0.2**	(0.3)
Net finance costs	6	**4.0**	4.3	**4.5**	4.3
Operating cash flows before movements in working capital		**21.2**	36.5	**11.0**	25.5
(Increase)/decrease in inventories		**(0.4)**	2.9	**(0.4)**	2.0
Decrease in trade and other receivables		**7.9**	5.9	**22.1**	9.4
Increase/(decrease) in trade and other payables		**0.4**	(13.2)	**(0.5)**	(11.4)
Cash generated by operations		**29.1**	32.1	**32.2**	25.5
Interest paid		**(4.9)**	(5.0)	**(5.3)**	(4.6)
Corporation taxes paid		**(3.0)**	(2.7)	**(1.4)**	(0.8)
Net cash generated from operating activities		**21.2**	24.4	**25.5**	20.1
Cash flows from investing activities					
Purchases of intangible assets		**(0.1)**	(0.5)	**(0.1)**	(0.5)
Purchases of property, plant and equipment and investment property		**(12.0)**	(9.9)	**(10.7)**	(8.4)
Proceeds on disposal of property, plant and equipment and investment property		**22.1**	0.9	**21.3**	0.9
Proceeds on property subsidiary disposal		**12.8**	–	**–**	–
Interest received		**–**	0.1	**–**	0.2
Net cash generated from/(used) in investing activities		**22.8**	(9.4)	**10.5**	(7.8)
Cash flows from financing activities					
Purchase of Treasury shares by Employee Benefit Trust	24	**–**	(0.1)	**–**	(0.1)
Issue of new shares		**0.9**	–	**0.9**	–
Repayment of borrowings	29	**(42.9)**	(13.2)	**(38.7)**	(13.2)
New loans advanced	29	**–**	12.5	**–**	12.5
Intercompany loans		**–**	–	**4.4**	5.3
Dividends paid to Group shareholders	8	**–**	(10.8)	**–**	(10.8)
Net cash used in financing activities		**(42.0)**	(11.6)	**(33.4)**	(6.3)
Net increase in cash and cash equivalents in the period	29	**2.0**	3.4	**2.6**	6.0
Cash and cash equivalents at the beginning of the period		**(0.7)**	(5.0)	**0.2**	(5.4)
Exchange differences		**0.2**	0.9	**(0.7)**	(0.4)
Cash and cash equivalents at the end of the period	16,29	**1.5**	(0.7)	**2.1**	0.2

The notes on pages 40 to 70 form an integral part of the financial statements.

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

Notes to the accounts

1. Principal accounting policies

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

Basis of preparation

The financial statements of the Group are made up to the Saturday nearest to 30 April. The financial year for 2012 represents the 52 weeks ended 28 April 2012. The comparative financial year for 2011 was 52 weeks ended 30 April 2011.

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

The following new standards and amendments to standards, which are mandatory for the first time in the financial year beginning 1 May 2011, are relevant for the Group but have not had any impact in the current financial year:

- IAS 1 (amendments) 'Presentation of Financial Statements'.
- IAS 24 (revised) 'Related Party disclosures'.
- IAS 32 (amendments) 'Financial instruments'.
- IFRS 3 (revised) 'Business combinations'.

The following IFRIC interpretations, which are mandatory for the first time in the financial year beginning 1 May 2011, are currently either not relevant or not material for the Group:

- IFRIC 19 'Extinguishing financial liabilities with equity instruments'.
- IFRIC 14 'Pre-payment of a minimum funding requirement'.

At 28 April 2012 the following new standards and interpretations and amendments to existing standards which are expected to be relevant to the Group, were issued but not yet effective. The Directors are evaluating the impact the standards will have on the financial statements:

- IFRS 7 (amendment) 'De-recognition' (effective for periods beginning on or after 1 July 2011).
- IFRS 9 'Financial instruments' (effective for periods beginning on or after 1 January 2015). The Group will apply IFRS 9 when it becomes effective and is endorsed by the EU.
- IFRS 10 'Consolidated financial statements' (effective for periods beginning on or after 1 January 2013).
- IFRS 12 'Disclosures of interest in other entities' (effective for periods beginning on or after 1 January 2013).
- IFRS 13 'Fair value measurement' (effective for periods beginning on or after 1 January 2013).
- IAS 1 'Financial statements presentation' (amendment) (effective for periods beginning on or after 1 July 2012).
- IAS 12 'Income taxes' (amendment) (effective for periods beginning on or after 1 January 2012).
- IAS 19 'Employee Benefits' (revised) (effective for periods beginning on or after 1 January 2013).
- IAS 27 'Consolidated and Separate Financial Statements' (revised) (effective for periods beginning on or after 1 January 2013).

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

Basis of consolidation

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

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

Exchange differences

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

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

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

Segment reporting

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

Revenue

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

Share based payments

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

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

Impairment

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

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

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

Other operating income

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

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

Exceptional items

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

Notes to the accounts continued

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.

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

Dividends

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

Goodwill

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

Other intangible assets

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

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

Brands	20 years
Computer software	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	7 to 15 years
Computers	5 to 7 years
Motor vehicles	4 years
Other plant and machinery	7 to 10 years

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the accounts continued

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.

Financial instruments

Derivative financial instruments

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

Derivatives are stated at their fair value. The fair value of interest rate contracts is the estimated amount that the Group would receive or pay to terminate them at the balance sheet date, taking into account prevailing interest rates. Changes in the fair value of derivatives which do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting

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

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

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

Critical estimates and judgements

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

Impairment of goodwill

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

Impairment of assets

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

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.

2. Segmental analysis

The operating segments have been determined based on reports reviewed by the Board that are used to make strategic decisions. From 1 May 2011 the Netherlands, Belgium and the Republic of Ireland were managed as a combined business by a single management team who had no other responsibilities, in the previous financial year the Republic of Ireland was combined with the UK. Prior year data in the statements that follow have been restated to reflect the change in reporting structure. The impact of the restatement is to reduce revenue in the UK by £7.9m and increase underlying operating profits by £3.4m, Europe moves by equal and opposite amounts. Information is presented to the Board of Carpetright plc (the Chief Operating Decision Maker) on a combined basis. As a result it is considered that the combined business forms a single reportable operating segment under IFRS 8.

The reportable operating segments derive their revenue primarily from the retail of floor coverings and beds. Central costs of the Group are incurred principally in the UK and are immaterial. 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 for the reportable segments for the 52 weeks ended 28 April 2012 is as follows:

	52 weeks to 28 April 2012			52 weeks to 30 April 2011 (restated)		
	UK £m	Europe £m	Group £m	UK £m	Europe £m	Group £m
Gross revenue	387.1	89.9	477.0	402.2	90.2	492.4
Inter-segment revenue	(5.5)	–	(5.5)	(5.6)	–	(5.6)
Revenues from external customers	381.6	89.9	471.5	396.6	90.2	486.8
Gross profit	224.8	51.2	276.0	246.5	51.5	298.0
Underlying operating profit	2.8	5.2	8.0	17.8	3.4	21.2
Exceptional items	10.5	(0.5)	10.0	(5.1)	(5.2)	(10.3)
Operating profit	13.3	4.7	18.0	12.7	(1.8)	10.9
Finance income	1.1	–	1.1	1.1	–	1.1
Intercompany interest	(0.7)	0.7	–	(0.3)	0.3	–
Finance costs	(5.2)	(0.4)	(5.6)	(5.3)	(0.1)	(5.4)
Profit before tax	8.5	5.0	13.5	8.2	(1.6)	6.6
Tax	(1.6)	(0.9)	(2.5)	(0.5)	(1.5)	(2.0)
Profit for the financial period	6.9	4.1	11.0	7.7	(3.1)	4.6
Segment assets:						
Segment assets	217.7	100.6	318.3	248.5	112.1	360.6
Inter-segment balances	(20.2)	(20.9)	(41.1)	(26.0)	(11.5)	(37.5)
Balance sheet total assets	197.5	79.7	277.2	222.5	100.6	323.1
Segment liabilities:						
Segment liabilities	(197.3)	(50.3)	(247.6)	(224.8)	(68.8)	(293.6)
Inter-segment balances	20.8	20.3	41.1	11.5	26.0	37.5
Balance sheet total liabilities	(176.5)	(30.0)	(206.5)	(213.3)	(42.8)	(256.1)
Other segmental items:						
Depreciation and amortisation	12.0	2.6	14.6	12.4	3.1	15.5
Additions to non-current assets	7.3	1.4	8.7	11.6	1.5	13.1

Carpetright plc is domiciled in the UK. The Group's revenue from external customers in the UK is £381.6m (2011: £396.6m) and the total revenue from external customers from other countries is £89.9m (2011: £90.2m). The total of non-current assets (other than financial instruments and deferred tax assets) located in the UK is £162.9m (2011: £187.6m) and the total of those located in other countries is £74.4m (2011: £90.3m).

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

Notes to the accounts continued

3. Operating profit, analysis of costs by nature

Operating profit is stated after charging/(crediting):

	Notes	Group 2012 £m	Group 2011 £m
Rental income earned on investment property		(2.1)	(2.4)
Cost of inventories recognised as an expense in cost of sales		171.1	166.1
Operating lease rentals			
Minimum lease payments in respect of land and buildings		91.5	93.6
Minimum lease payments in respect of plant and machinery		1.7	1.7
Sublease rental income		(2.4)	(2.9)
Auditors' remuneration			
Fees payable to the Company's auditors for the audit of the Company's annual financial statements		0.2	0.3
Staff costs	4	98.0	102.1
Impairment of non-current assets			
Charged in administration expenses	5	1.0	2.0
Amortisation of intangible assets			
Charged in administration expenses	10	2.5	2.4
Depreciation of property, plant and equipment			
Owned assets			
Charged in cost of sales	11	0.1	0.1
Charged in administration expenses	11	11.6	12.5
Under finance leases			
Charged in administration expenses	11	0.1	0.1
Depreciation of investment property			
Charged in administration expenses	12	0.3	0.4

4. Staff costs

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

	Group 2012 Number	Group 2011 Number	Company 2012 Number	Company 2011 Number
Stores	2,689	2,889	2,175	2,367
Central support office and warehouse	386	395	332	344
	3,075	3,284	2,507	2,711

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

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Wages and salaries (including short term employee benefits)		86.3	90.9	67.9	73.0
Social security costs		9.1	9.3	6.7	7.0
Post-employment benefits					
Defined contribution	22	2.4	2.2	1.0	1.0
Share based payments	25	0.2	(0.3)	0.2	(0.3)
		98.0	102.1	75.8	80.7

Wages and salaries include short term employee benefits as defined in IAS 19, with the exception of costs associated with the Group's pension schemes. Post employment benefits include costs associated with the Group's pension schemes (with the exception of net interest costs and the actuarial gain on the defined benefit pension scheme) 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.

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

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

	Group 2012 £m	Group 2011 £m
Salaries (including short term employee benefits)	**3.3**	3.9
Social security costs	**0.5**	0.4
Post employment benefits	**0.4**	0.3
Share based payments	**0.1**	(0.2)
	4.3	4.4

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

During the year the Executive Directors realised no gains (2011: no gains) on the vesting of Long Term Incentive Plans. Details of these plans, share options and other Directors' remuneration are disclosed in the Directors' remuneration report on pages 25 to 31.

5. Exceptional items

	Notes	Group 2012 £m	Group 2011 £m
Property profits:			
UK and the Netherlands		**4.6**	0.5
Sale of Belgian property subsidiary		**8.8**	–
UK impairment of property, plant and equipment	11	**(1.0)**	(2.0)
Onerous lease provision		**(0.3)**	(8.8)
Central support office restructuring		**(2.1)**	–
Write off of unamortised refinancing fees		**(0.5)**	–
		9.5	(10.3)

In order to facilitate the sale of properties in Belgium, the Group sold a subsidiary that owned those properties during the year. There were no other assets or liabilities owned by the subsidiary at the time of the sale. Cash proceeds have been allocated to '(Profit)/loss on property subsidiary disposal' in the cash flow on page 39.

The onerous lease provision relates to 20 properties in the UK and Republic of Ireland that are not trading and are either empty or leased at below the passing rent. The provision covers the period until full cost recovery is expected.

6. Net finance costs

	Notes	Group 2012 £m	Group 2011 £m
Finance costs			
Interest on borrowings and overdrafts		**(3.2)**	(4.5)
Fees amortisation		**(0.5)**	(0.5)
Gains on hedging instruments		**0.1**	1.0
Interest on obligations under finance leases		**(0.1)**	(0.2)
Interest on pension scheme obligations	22	**(1.1)**	(1.1)
Other interest payable		**(0.3)**	(0.1)
		(5.1)	(5.4)
Finance income			
Expected return on pension scheme assets	22	**1.1**	1.1
		1.1	1.1
Net finance costs		**(4.0)**	(4.3)

Notes to the accounts continued

7. Tax

(i) Analysis of the charge in the period	Group 2012 £m	Group 2011 £m
UK current tax	0.9	2.0
Overseas current tax	1.1	1.5
Total current tax	2.0	3.5
UK deferred tax	0.7	(1.4)
Overseas deferred tax	(0.2)	(0.1)
Total deferred tax	0.5	(1.5)
Total tax charge in the income statement	2.5	2.0

The tax charge for the year includes a charge of £3.1m in respect of exceptional items (2011: credit £1.7m). In addition, the impact of the change in tax rates on deferred tax liability has resulted in an exceptional tax credit of £1.6m (2011: £1.1m credit).

(ii) Reconciliation of profit before tax to total tax	Group 2012 £m	Group 2011 £m
Profit before tax	13.5	6.6
Tax charge at UK Corporation Tax rate of 26% (2011: 28%)	3.5	1.8
Adjusted for the effects of:		
Overseas tax rates	(0.2)	(0.2)
Fall in UK tax rates	(1.6)	(1.1)
Non-qualifying depreciation	0.6	0.6
Other permanent differences	0.9	0.6
Losses recognised	(0.6)	–
Gains not subject to tax	(1.1)	–
Capital gains	1.7	–
Adjustments in respect of prior periods	(0.7)	0.3
Total tax charge in the income statement	2.5	2.0

The weighted average annual effective tax rate for the period is 18.7% (2011: 30.4%). The decrease arises primarily from one-off tax charges in the prior year not recurring, the decrease in UK tax rates, the disproportionate effect of permanently disallowable items on the reduced level of profit and one-off gains not subject to tax.

(iii) Tax on items taken directly to or transferred from equity	Group 2012 £m	Group 2011 £m
Deferred tax on actuarial gains, recognised in other comprehensive income	–	0.4
Total tax recognised in equity	–	0.4

The March 2012 Budget Statement announced that Corporation tax would reduce from 26% to 24% from 1 April 2012 instead of the scheduled decrease to 25%. This change was substantively enacted on 26 March 2012 and has been incorporated into the financial statements. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed reductions of the main rate of corporation tax by 1% per year to 22% by 1 April 2014 are expected to be enacted separately each year and would have the effect of reducing the deferred tax liability provided at 28 April 2012.

8. Dividends

Group and Company	2012 Pence per share	2012 £m	2011 Pence per share	2011 £m
Prior year final dividend paid	–	–	8.0	5.4
Current year interim dividend paid	–	–	8.0	5.4
	–	–	16.0	10.8

The Directors decided that no final dividend will be paid (2011: No final dividend paid). This results in no dividend in the year to 28 April 2012 (2011: 8.0 pence; £5.4m).

9. Earnings per share

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

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

	52 weeks ended 28 April 2012			52 weeks ended 30 April 2011		
	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
Basic earnings per share	11.0	67.2	16.4	4.6	67.2	6.8
Effect of dilutive share options	–	0.3	–	0.1	0.4	0.1
Diluted earnings per share	11.0	67.5	16.4	4.7	67.6	6.9

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

	52 weeks ended 28 April 2012			52 weeks ended 30 April 2011		
	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
Basic earnings per share	11.0	67.2	16.4	4.6	67.2	6.8
Adjusted for the effect of exceptional items:						
Exceptional items	(9.5)	–	(14.1)	10.3	–	15.3
Tax thereon	3.1	–	4.6	(1.7)	–	(2.5)
Exceptional tax benefit from tax rate change	(1.6)	–	(2.4)	(1.1)	–	(1.6)
Underlying earnings per share	3.0	67.2	4.5	12.1	67.2	18.0

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

Notes to the accounts continued

10. Intangible assets

Group	Goodwill £m	Computer software £m	Brands £m	Total £m
Cost:				
At 1 May 2010	54.7	23.7	0.1	78.5
Exchange differences	0.6	–	–	0.6
Additions	–	0.5	–	0.5
At 30 April 2011	**55.3**	**24.2**	**0.1**	**79.6**
Exchange differences	**(2.0)**	**–**	**–**	**(2.0)**
Additions	**–**	**0.1**	**–**	**0.1**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 28 April 2012	**53.3**	**24.2**	**0.1**	**77.6**
Accumulated amortisation and impairment:				
At 1 May 2010	0.5	10.7	0.1	11.3
Impairment	–	0.1	–	0.1
Amortisation	–	2.4	–	2.4
At 30 April 2011	**0.5**	**13.2**	**0.1**	**13.8**
Amortisation	**–**	**2.5**	**–**	**2.5**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 28 April 2012	**0.5**	**15.6**	**0.1**	**16.2**
Net book value:				
At 28 April 2012	**52.8**	**8.6**	**–**	**61.4**
At 30 April 2011	54.8	11.0	–	65.8

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

Group goodwill comprises purchased goodwill in respect of the following business acquisitions:

Subsidiary	Acquisition date	2012 £m	2011 £m
Carpetland BV	October 2002	**18.4**	20.0
Mays Holdings Ltd	June 2005	**4.7**	4.7
Storey Carpets Ltd	May 2007	**15.3**	15.3
Melford Commercial Properties Ltd	March 2008	**6.9**	6.9
Ben de Graaff	July 2008	**4.6**	5.0
Sleepright UK Ltd	December 2008	**2.9**	2.9
Total goodwill		**52.8**	54.8

The movement in the value of goodwill in the year is solely a result of movement in exchange rates.

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. These calculations are based on 10 year profit projections, the same period used by the Group for appraising the potential of business acquisitions, adjusted for non-cash items, planned working capital movements and capital expenditure. The cash flow projections for the initial three year period are based on financial budgets and plans approved by the Board. The key drivers are like-for-like sales growth, gross margin percentage and anticipated cost inflation. Cash flows beyond the plan period are extrapolated at a constant growth rate of 2.5% (2011: 2.5%). The growth rate is in line with long term growth rates of the countries in which the Group operates. The post-tax discount rate applied to cash flow projections is 7.9% (2011: 8.0%) and is based on the Group's weighted average cost of capital adjusted to reflect the risks of the businesses acquired. Based on these calculations goodwill is not impaired. An increase of 1% in the discount rate would not change the outcome of these calculations. An increase of 3% in the discount rate would be required before any material impairment of goodwill would be indicated.

Company	Goodwill £m	Computer software £m	Brands £m	Total £m
Cost:				
At 1 May 2010	24.1	23.7	0.1	47.9
Additions	–	0.5	–	0.5
At 30 April 2011	**24.1**	**24.2**	**0.1**	**48.4**
Additions	**–**	**0.1**	**–**	**0.1**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 28 April 2012	**24.1**	**24.2**	**0.1**	**48.4**
Accumulated amortisation and impairment:				
At 1 May 2010	–	10.7	0.1	10.8
Impairment	–	0.1	–	0.1
Amortisation	–	2.4	–	2.4
At 30 April 2011	**–**	**13.2**	**0.1**	**13.3**
Amortisation	**–**	**2.5**	**–**	**2.5**
Disposals	**–**	**(0.1)**	**–**	**(0.1)**
At 28 April 2012	**–**	**15.6**	**0.1**	**15.7**
Net book value:				
At 28 April 2012	**24.1**	**8.6**	**–**	**32.7**
At 30 April 2011	24.1	11.0	–	35.1

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

The impairment review of Company goodwill is the same as that of the Group.

Notes to the accounts 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
Cost:						
At 1 May 2010	72.8	18.6	20.0	94.3	42.2	247.9
Exchange differences	0.9	–	0.1	0.5	0.7	2.2
Additions	4.4	0.1	0.3	6.6	1.2	12.6
Transfer between asset class	–	–	–	(0.1)	0.1	–
Disposals	–	–	(0.6)	(4.3)	(0.4)	(5.3)
At 30 April 2011	**78.1**	**18.7**	**19.8**	**97.0**	**43.8**	**257.4**
Exchange differences	**(2.6)**	**(0.1)**	**(0.2)**	**(1.2)**	**(2.3)**	**(6.4)**
Additions	**–**	**–**	**0.1**	**7.3**	**1.2**	**8.6**
Disposals	**(21.2)**	**(1.2)**	**(1.0)**	**(11.6)**	**(3.1)**	**(38.1)**
At 28 April 2012	**54.3**	**17.4**	**18.7**	**91.5**	**39.6**	**221.5**
Accumulated depreciation and impairment:						
At 1 May 2010	6.4	2.5	9.5	47.8	32.2	98.4
Exchange differences	0.1	–	0.1	0.4	0.7	1.3
Impairment	–	0.1	0.5	1.2	0.1	1.9
Depreciation	1.1	0.4	0.8	7.6	2.8	12.7
Disposals	–	–	(0.5)	(3.4)	(0.4)	(4.3)
At 30 April 2011	**7.6**	**3.0**	**10.4**	**53.6**	**35.4**	**110.0**
Exchange differences	**(0.4)**	**–**	**(0.1)**	**(1.4)**	**(1.9)**	**(3.8)**
Impairment	**–**	**–**	**0.2**	**0.8**	**–**	**1.0**
Depreciation	**1.1**	**0.3**	**0.8**	**7.4**	**2.2**	**11.8**
Disposals	**(2.3)**	**(0.2)**	**(0.8)**	**(10.8)**	**(3.0)**	**(17.1)**
At 28 April 2012	**6.0**	**3.1**	**10.5**	**49.6**	**32.7**	**101.9**
Net book value:						
At 28 April 2012	**48.3**	**14.3**	**8.2**	**41.9**	**6.9**	**119.6**
At 30 April 2011	70.5	15.7	9.4	43.4	8.4	147.4

The impairment of property, plant and equipment relates to a net movement of five loss making stores in UK. The charge is an operating cost in the income statement (note 3).

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

	Group 2012 £m	Group 2011 £m	**Company 2012 £m**	Company 2011 £m
Cost	**9.3**	9.5	**2.5**	2.8
Accumulated depreciation and impairment	**(2.0)**	(2.0)	**(1.5)**	(1.5)
Net book value	**7.3**	7.5	**1.0**	1.3

The assets held under finance leases comprise buildings.

Company	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
Cost:						
At 1 May 2010	30.1	11.2	20.0	82.8	16.9	161.0
Exchange differences	–	–	0.1	0.1	–	0.2
Additions	4.4	–	0.3	6.4	0.1	11.2
Disposals	–	–	(0.6)	(4.2)	(0.2)	(5.0)
At 30 April 2011	**34.5**	**11.2**	**19.8**	**85.1**	**16.8**	**167.4**
Exchange differences	**–**	**–**	**(0.2)**	**(0.2)**	**–**	**(0.4)**
Additions	**–**	**–**	**0.1**	**7.0**	**0.3**	**7.4**
Disposals	**(11.9)**	**(1.2)**	**(1.0)**	**(11.4)**	**(3.0)**	**(28.5)**
At 28 April 2012	**22.6**	**10.0**	**18.7**	**80.5**	**14.1**	**145.9**
Accumulated depreciation and impairment:						
At 1 May 2010	1.5	1.9	9.5	38.5	11.8	63.2
Exchange differences	–	–	0.1	0.1	0.1	0.3
Impairment	–	0.1	0.5	1.2	0.1	1.9
Depreciation	0.3	0.2	0.8	7.0	1.4	9.7
Disposals	–	–	(0.5)	(3.3)	(0.2)	(4.0)
At 30 April 2011	**1.8**	**2.2**	**10.4**	**43.5**	**13.2**	**71.1**
Exchange differences	**–**	**–**	**(0.1)**	**(0.4)**	**–**	**(0.5)**
Impairment	**–**	**–**	**0.2**	**0.8**	**–**	**1.0**
Depreciation	**0.3**	**0.2**	**0.8**	**6.9**	**1.1**	**9.3**
Disposals	**(0.5)**	**(0.2)**	**(0.8)**	**(10.7)**	**(2.9)**	**(15.1)**
At 28 April 2012	**1.6**	**2.2**	**10.5**	**40.1**	**11.4**	**65.8**
Net book value:						
At 28 April 2012	**21.0**	**7.8**	**8.2**	**40.4**	**2.7**	**80.1**
At 30 April 2011	32.7	9.0	9.4	41.6	3.6	96.3

Notes to the accounts continued

12. Investment property

While investment property has not been independently valued the Directors consider that the value of such properties for the Group is approximately £23m (2011: approximately £38m) and for the Company it is not significantly different to the book value in either year. Operating expenses attributable to investment properties are incurred directly by tenants under tenant-repairing leases.

	Group £m	Company £m
Cost:		
At 1 May 2010	29.4	8.1
Exchange differences	0.5	–
Disposals	(1.0)	–
At 30 April 2011	**28.9**	**8.1**
Exchange differences	**(1.7)**	**–**
Disposals	**(4.9)**	**(0.3)**
At 28 April 2012	**22.3**	**7.8**
Accumulated depreciation and impairment:		
At 1 May 2010	3.3	0.4
Exchange differences	0.1	–
Disposals	(1.0)	–
Depreciation	0.4	–
At 30 April 2011	**2.8**	**0.4**
Exchange differences	**(0.2)**	**–**
Depreciation	**0.3**	**–**
Disposals	**(1.3)**	**–**
At 28 April 2012	**1.6**	**0.4**
Net book value:		
At 28 April 2012	**20.7**	**7.4**
At 30 April 2011	26.1	7.7

13. Investment in subsidiary undertakings

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

	Country of incorporation and operation	Principal activity	Percentage of ordinary shares held directly by Company	Percentage of ordinary shares held indirectly by Company
Carpetright of London Limited	Great Britain	Holding	100%	
Melford Commercial Properties Limited	Great Britain	Property	100%	
Carpetright (Torquay) Limited	Great Britain	Property	100%	
Pluto Sp. Z.o.o.	Poland	Property	100%	
Carpetland NV	Belgium	Retail		100%
Carpetland BV	Netherlands	Retail		100%
Fontainebleau Vastgoed BV	Netherlands	Property		100%

Company	**2012 £m**	2011 £m
Cost:		
At the beginning of the period	**16.8**	15.4
Additions	**–**	1.4
At the end of the period	**16.8**	16.8

14. Inventories

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

15. Trade and other receivables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Non-current				
Receivables from subsidiaries	–	–	48.3	45.8
Prepayments and accrued income	0.9	1.1	0.9	1.1
	0.9	1.1	49.2	46.9
Current				
Trade receivables	5.9	8.5	1.9	4.4
Less: provision for impairment	(0.6)	(0.6)	(0.4)	(0.4)
	5.3	7.9	1.5	4.0
Other receivables	3.6	7.3	3.7	7.3
Prepayments and accrued income	15.2	17.6	13.2	15.6
	24.1	32.8	18.4	26.9
Total trade and other receivables	25.0	33.9	67.6	73.8

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

Provision for impairment

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
At the beginning of the period	(0.6)	(0.6)	(0.4)	(0.4)
Decrease in the provision in the period	–	–	–	–
At the end of the period	(0.6)	(0.6)	(0.4)	(0.4)

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

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Major insurance companies	1.6	4.1	1.6	4.1
Property rent debtors	1.7	2.2	1.7	2.2
Other debtors	0.3	1.1	0.4	1.0
Retail customers	5.3	7.8	1.5	4.0
Trade and other receivables	8.9	15.2	5.2	11.3

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

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Neither past due nor impaired	1.5	4.7	1.6	4.7
30 to 60 days	0.8	1.7	0.8	1.6
60 to 90 days	–	0.1	–	0.1
Over 90 days	1.3	0.9	1.3	0.9
Non-retail trade and other receivables	3.6	7.4	3.7	7.3

Notes to the accounts continued

16. Cash and cash equivalents

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash at bank and in hand		**9.6**	8.3	**6.1**	4.7
Cash and cash equivalents on the balance sheets		**9.6**	8.3	**6.1**	4.7
Bank overdrafts	19	**(8.1)**	(9.0)	**(4.0)**	(4.5)
Cash and cash equivalents in the cash flow statements		**1.5**	(0.7)	**2.1**	0.2

17. Trade and other payables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Current				
Trade payables	**58.5**	55.3	**48.1**	45.6
Other taxes and social security	**14.8**	13.3	**12.2**	10.6
Accruals and deferred income	**35.9**	36.7	**32.9**	32.8
	109.2	105.3	**93.2**	89.0
Non-current				
Accruals and deferred income	**33.8**	35.4	**33.8**	35.4
Payable to subsidiaries	**–**	–	**12.4**	16.0
	33.8	35.4	**46.2**	51.4
Total trade and other payables	**143.0**	140.7	**139.4**	140.4

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 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Amounts payable within one year	**0.3**	0.3	**0.2**	0.2	**0.1**	0.1	**0.1**	0.1
Amounts payable between one and five years	**1.2**	1.2	**0.8**	0.9	**0.4**	0.4	**0.4**	0.4
Amounts payable after five years	**5.1**	5.6	**1.6**	2.1	**2.2**	2.5	**1.1**	1.5
	6.6	7.1	**2.6**	3.2	**2.7**	3.0	**1.6**	2.0
Less: future finance charges	**(3.9)**	(4.1)	**(1.0)**	(1.2)				
Present value of obligations under finance leases	**2.7**	3.0	**1.6**	2.0				
Current	**0.1**	0.1	**0.1**	0.1				
Non-current	**2.6**	2.9	**1.5**	1.9				

The Group leases certain properties under finance leases. The average lease term is 19 years (2011: 19 years) for properties. The vehicle leases ended during the current financial year. Minimum lease payments are discounted at the rate inherent in the leases. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

19. Borrowings and overdrafts

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Current				
Unsecured overdraft	**8.1**	9.0	**4.0**	4.5
Borrowings:				
Secured	**1.4**	12.3	**1.4**	12.3
Borrowings and overdrafts	**9.5**	21.3	**5.4**	16.8
Non-current				
Borrowings:				
Secured	**16.5**	49.6	**16.5**	45.1
Borrowings	**16.5**	49.6	**16.5**	45.1
	26.0	70.9	**21.9**	61.9

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

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

	Group 2012 %	Group 2011 %	Company 2012 %	Company 2011 %
Overdrafts	**3.3**	3.5	**4.3**	4.0
Borrowings	**3.9**	4.0	**3.9**	4.2

The maturity profiles of borrowings and overdrafts are as follows:

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Amounts payable within one year	**9.5**	21.3	**5.4**	16.8
Amounts payable between one and two years	**1.4**	45.1	**1.4**	45.1
Amounts payable between two and five years	**15.1**	4.5	**15.1**	–
	26.0	70.9	**21.9**	61.9

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 2012 £m			Company 2012 £m		
Group and Company	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m
At the beginning of the period	9.1	–	9.1	9.1	–	9.1
Added during the period	1.1	2.1	3.2	1.1	1.1	2.2
Released in year	(0.9)	–	(0.9)	(0.9)	–	(0.9)
Utilised during the period	(3.4)	(1.6)	(5.0)	(3.4)	(1.0)	(4.4)
At the end of the period	5.9	0.5	6.4	5.9	0.1	6.0

Onerous lease provisions are expected to be used over periods of up to 5 years. Reorganisation provisions are expected to be used within one year.

Notes to the accounts continued

21. Deferred tax assets and liabilities

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Deferred tax asset	**(2.6)**	(2.9)	**–**	–
Deferred tax liabilities	**23.1**	26.2	**17.4**	16.6
Net deferred tax liabilities	**20.5**	23.3	**17.4**	16.6

Deferred tax assets and liabilities are offset against each other where there is a legally enforceable right to offset.

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

Group	Accelerated tax depreciation	Fair value adjustments	Rollover	Short term timing differences	Tax losses	Share based payments	Retirement benefit obligations	Total
At 1 May 2010	9.4	4.4	11.9	(0.2)	(3.5)	(0.2)	(1.3)	20.5
Exchange differences	0.1	0.1	–	(0.1)	(0.1)	–	–	–
Charge/(credit) to the income statement	(1.0)	(0.1)	(0.3)	(0.5)	0.4	–	–	(1.5)
Charge to other comprehensive income	–	–	–	–	–	–	0.4	0.4
Transferred to current tax	–	–	3.9	–	–	–	–	3.9
At 30 April 2011	**8.5**	**4.4**	**15.5**	**(0.8)**	**(3.2)**	**(0.2)**	**(0.9)**	**23.3**
Exchange differences	**(0.3)**	**(0.3)**	**–**	**(0.1)**	**0.2**	**–**	**–**	**(0.5)**
Charge/(credit) to the income statement	**(0.7)**	**(0.5)**	**2.2**	**–**	**(0.5)**	**–**	**–**	**0.5**
Disposal of property subsidiary	**(0.6)**	**(2.1)**	**–**	**(0.1)**	**–**	**–**	**–**	**(2.8)**
At 28 April 2012	**6.9**	**1.5**	**17.7**	**(1.0)**	**(3.5)**	**(0.2)**	**(0.9)**	**20.5**

Company	Accelerated tax depreciation	Fair value adjustments	Rollover	Short term timing differences	Tax losses	Share based payments	Retirement benefit obligations	Total
At 1 May 2010	5.8	–	10.4	(0.7)	(0.4)	(0.2)	(1.3)	13.6
Charge/(credit) to the income statement	(0.9)	–	(0.2)	(0.3)	0.1	–	–	(1.3)
Credit to other comprehensive income	–	–	–	–	–	–	0.4	0.4
Transferred to current tax	–	–	3.9	–	–	–	–	3.9
At 30 April 2011	**4.9**	**–**	**14.1**	**(1.0)**	**(0.3)**	**(0.2)**	**(0.9)**	**16.6**
Charge/(credit) to the income statement	**(0.6)**	**–**	**2.2**	**(0.3)**	**(0.5)**	**–**	**–**	**0.8**
At 28 April 2012	**4.3**	**–**	**16.3**	**(1.3)**	**(0.8)**	**(0.2)**	**(0.9)**	**17.4**

At the reporting date, the Group had unused tax losses of £8.1m (2011: £8.9m) which can be carried forward indefinitely and are available for offset against future profits. A deferred tax asset of £2.7m (2011: £2.9m) has been recognised in respect of these losses.

The Group has brought forward tax losses of £0.3m (2011: £2.7m) for which no deferred tax asset has been recognised. Tax losses of £2.4m were recognised in the year.

Deferred tax assets of £3.4m (2011: £2.5m) were available for offset against deferred tax liabilities of £26.5m (2011: £28.7m) hence the Group's deferred tax liabilities as at 28 April 2012 are £23.1m (2011: £26.2m).

22. Retirement benefit obligations

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

(i) Defined benefit schemes

(a) UK defined benefit schemes

The Company operated a funded defined benefit pension scheme providing benefits based on final pensionable pay for its employees and has assumed the liability for the scheme previously operated by Storey Carpets Ltd (Storeys). The Company scheme was closed to defined benefit service accrual on 30 April 2010 and has been closed to new members since 31 March 2006. The scheme previously operated by Storeys is also closed to new members and has no active members. The assets of the schemes are held separately from those of the Company. The assets of the Company scheme are invested in a Managed Fund operated by SEI. Contributions are determined by a qualified actuary using the projected unit method. The most recent actuarial review was at 6 April 2011 when the actuarial value of the assets represented 77% 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 year (2011: £0.4m).

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 2011 when the actuarial value of the assets represented 90% of the benefits accrued to members. A deficit reduction plan has been agreed with the Trustees under which £0.1m was paid in the year (2011: £nil).

The assets and liabilities of the schemes were valued on an IAS 19 basis at 28 April 2012 by a qualified actuary. The numbers set out below are the aggregate of the two schemes.

1) Key assumptions used:

	2012 %	2011 %
Expected rate of salary increases	**n/a**	n/a
RPI inflation linked pension escalation (Storeys 2011)	**n/a**	3.2
CPI inflation linked pension escalation (Storeys 2012)	**2.2**	n/a
CPI inflation linked pension escalation	**3.4**	3.7
Discount rate	**4.6**	5.3
Deferred pension revaluation	**2.2**	3.0
Expected return on scheme assets	**5.2**	6.2

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 S1NMA table (2011: S1NMA table) with medium cohort improvement has been used for male pensioners and the S1NFA table (2011: S1NFA table) with medium cohort improvement for female pensioners projected by year of birth.

The most significant assumptions are the expected return on scheme assets, salary increases and the discount rate, of which the most sensitive assumption is the discount rate. If this assumption increased or decreased by 0.1% the defined benefit obligation would change by £0.2m (2011: £0.2m).

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

	2012 £m	2011 £m
Present value of pension scheme obligations	**22.6**	21.4
Fair value of pension scheme assets	**(18.3)**	(17.4)
Retirement benefit obligations recognised in the balance sheet	**4.3**	4.0

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

	Notes	2012 £m	2011 £m
Interest cost on pension scheme obligations recognised in interest payable	6	**1.1**	1.1
Expected return on pension scheme assets recognised in interest receivable	6	**(1.1)**	(1.1)
Total recognised in the income statement		**–**	–

4) Reconciliation of movement in net pension deficit:

	2012 £m	2011 £m
Opening balance	**(4.0)**	(4.8)
Total recognised in the income statement	**–**	–
Less contributions	**0.6**	0.4
Actuarial (loss)/gain recognised in equity	**(0.9)**	0.4
Closing balance	**(4.3)**	(4.0)

Notes to the accounts continued

22. Retirement benefit obligations continued

5) The amounts recognised directly in equity in respect of the defined benefit pension scheme are as follows:

	2012 £m	2011 £m
Actuarial (loss)/gain on plan assets	**(0.2)**	0.4
Experience adjustment on liabilities	**0.5**	–
Change in assumptions underlying present value of liabilities	**(1.2)**	–
Total	**(0.9)**	0.4
Cumulative total	**(3.5)**	(2.6)

6) Movements in the pension scheme obligation are as follows:

	2012 £m	2011 £m
Opening balance	**21.4**	21.1
Interest on pension scheme obligation	**1.1**	1.1
Actuarial gain recognised in equity	**0.7**	–
Benefits paid	**(0.6)**	(0.8)
Closing balance	**22.6**	21.4

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

		2012 £m		2011 £m
Opening balance		**17.4**		16.3
Expected return on pension scheme assets	**1.1**		1.1	
Actuarial (loss)/gain recognised in equity	**(0.2)**		0.4	
Actual return on assets		**0.9**		1.5
Employer contributions		**0.6**		0.4
Benefits paid		**(0.6)**		(0.8)
Closing balance		**18.3**		17.4

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

	2012			2011			2010		
	Long term expected rate of return %	**£m**	**Category of asset as a proportion of total %**	Long term expected rate of return %	£m	Category of asset as a proportion of total %	Long term expected rate of return %	£m	Category of asset as a proportion of total %
Equities	**6.0**	**9.7**	**53.3**	7.0	10.0	57.5	7.4	9.2	56.4
Bonds	**3.7**	**3.0**	**16.5**	4.7	2.7	15.5	5.0	2.3	14.1
Property	**6.0**	**0.2**	**1.1**	7.0	–	–	7.4	0.1	0.6
Cash	**2.7**	**0.2**	**1.1**	4.0	0.3	1.7	4.4	0.3	1.9
Annuities	**4.6**	**5.2**	**28.0**	5.3	4.4	25.3	5.5	4.4	27.0
Fair value of pension scheme assets		**18.3**	**100.0**		17.4	100.0		16.3	100.0
Present value of pension scheme obligations		**(22.6)**			(21.4)			(21.1)	
Retirement benefit obligations		**(4.3)**			(4.0)			(4.8)	
Related deferred tax asset		**1.0**			0.9			1.3	
		(3.3)			(3.1)			(3.5)	

The long-term return on equities is assumed to be 2.6% in excess of inflation (2011: 3.3%). The rate of return on bonds is assumed to be in line with the yield on AA-rated corporate bonds.

9) History of experience gains and losses:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	**18.3**	17.4	16.3	12.3	14.8
Present value of defined benefit obligations	**(22.6)**	(21.4)	(21.1)	(14.7)	(16.1)
Liability recognised in the balance sheet	**(4.3)**	(4.0)	(4.8)	(2.4)	(1.3)
Experience adjustments on pension scheme obligations	**0.5**	–	–	(0.8)	(0.2)
Percentage of pension scheme obligation (%)	**(2.2%)**	–	–	(5.4%)	(1.2%)
Experience adjustments on pension scheme assets	**(0.2)**	0.4	2.8	(3.7)	(1.5)
Percentage of pension scheme assets (%)	**(1.1%)**	2.3%	17.2%	(30.1%)	(10.1%)

Employer contributions of £0.9m are expected to be paid into these pension schemes during the financial year 2012/13.

(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 IAS19, the Group has taken the exemption for multi-employer pension schemes not to disclose pension scheme assets and liabilities. Accordingly, although this scheme is a defined benefit scheme it is treated as a defined contribution scheme recognising the contributions payable in each period in the income statement. Under the terms of the scheme the scheme deficit is recovered through increased contributions from participating members. At the period end the Group was unable to obtain a valuation of the industry scheme's full surplus or deficit. Contributions charged to the income statement amounted to £1.3m (2011: £1.1m).

(ii) Defined contribution schemes
The Company launched a Group Personal Pension Plan ("GPP 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 Scottish Life. Contributions for the period amounted to £1.0m (2011: £1.0m).

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 £nil (2011: £nil) and contributions to industry collective schemes were £0.1m (2011: £0.1m).

23. Financial instruments
(i) Financial risk management objectives and policies
Risk management
The Group's principal financial instruments comprise derivatives, borrowings and overdrafts, cash and cash equivalents. These financial instruments are used to manage funding and liquidity requirements. Other financial instruments which arise directly from the Group's operations include trade receivables and payables.

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

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

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

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

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

Notes to the accounts continued

23. Financial instruments continued

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

Group	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 28 April 2012					
Interest bearing loans and borrowings, including derivatives	**2.1**	**1.6**	**15.9**	**–**	**19.6**
Finance leases	**0.3**	**0.3**	**0.9**	**5.1**	**6.6**
Trade and other payables	**85.0**	**–**	**–**	**–**	**85.0**
	87.4	**1.9**	**16.8**	**5.1**	**111.2**
At 30 April 2011					
Interest bearing loans and borrowings, including derivatives	23.4	45.6	4.5	–	73.5
Finance leases	0.3	0.3	0.9	5.6	7.1
Trade and other payables	82.4	–	–	–	82.4
	106.1	45.9	5.4	5.6	163.0
Company					
At 28 April 2012					
Interest bearing loans and borrowings, including derivatives	**2.1**	**1.6**	**15.9**	**–**	**19.6**
Finance leases	**0.2**	**0.2**	**0.6**	**1.6**	**2.6**
Trade and other payables	**86.6**	**–**	**–**	**–**	**86.6**
	88.9	**1.8**	**16.5**	**1.6**	**108.8**
At 30 April 2011					
Interest bearing loans and borrowings, including derivatives	18.7	45.5	–	–	64.2
Finance leases	0.2	0.2	0.7	2.0	3.1
Trade and other payables	87.0	–	–	–	87.0
	105.9	45.7	0.7	2.0	154.3

Committed overdraft facilities are renewable annually and amounts undrawn were £6.0m and €0.9m (2011: £5.5m and €0.5m). The Company has committed facilities to July 2015. These facilities comprise a £22.0m amortising term loan, a €14.0m amortising term loan and a £45.0m revolving credit facility. Repayments on the term loans cannot be redrawn. There are a number of covenants which commit the Group to maintaining certain rates of leverage and fixed charge cover. The Company is and is expected to remain in compliance with these covenants. At 28 April 2012 the revolving credit facility had an undrawn amount of £32.5m (2011: £22.5m).

(c) Foreign exchange risk

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

If the closing Sterling-Euro rate had been 0.01 points lower in the period the exchange difference reported in the statement of comprehensive income would have been £0.7m lower (2011: £0.6m higher). At 28 April 2012 if Sterling had weakened/strengthened by 10% against the Euro profit after tax for the year would have been £0.6m 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 2012	Euro 2011	**Zloty 2012**	Zloty 2011
Average rate	**1.16**	1.18	**4.90**	4.70
Closing rate	**1.23**	1.12	**5.12**	4.42

(d) Interest rate risk
The Group has various borrowings bearing interest at a margin over LIBOR or EURIBOR rates. Group policy is to manage interest rate risk by purchasing interest rate swap agreements to partially hedge the term loans. The remainder is liable to interest at prevailing interest rates.

In accordance with IFRS 7, the Group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of hedging instruments in place at 28 April 2012 and 30 April 2011 respectively. Consequently analysis relates to the situation at those dates and is not representative of the years then ended. The following assumptions were made:

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

Based on the Group's net debt position at the year end a 1% change in interest rates would affect the Group's profit before tax by approximately £0.3m (2011: £0.6m).

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

	2012					2011				
	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m
Sterling	0.2	6.1	–	4.8	10.9	0.1	4.5	–	10.8	15.3
Euro	1.2	3.2	–	4.6	7.8	1.2	3.6	–	4.7	8.3
Zloty	–	0.3	–	–	0.3	–	0.2	–	0.1	0.3
Total financial assets		9.6	–	9.4	19.0		8.3	–	15.6	23.9
Sterling	1.0	(15.4)	(2.7)	(72.2)	(90.3)	2.6	(48.5)	(3.1)	(69.0)	(120.6)
Euro	2.2	(10.6)	–	(12.8)	(23.4)	4.0	(16.1)	(6.3)	(13.4)	(35.8)
Zloty	–	–	–	–	–	–	–	–	–	–
Total financial liabilities		(26.0)	(2.7)	(85.0)	(113.7)		(64.6)	(9.4)	(82.4)	(156.4)

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 year and forecast free cash flow and monitoring the level of the Group's financial and leasehold debt in the context of Group performance.

Notes to the accounts continued

23. Financial instruments continued

(ii) Fair value of financial assets and liabilities

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

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

	Group 2012		Group 2011		Company 2012		Company 2011	
	Nominal value £m	Carrying and fair value £m	Nominal value £m	Carrying and fair value £m	Nominal value £m	Carrying value and fair value £m	Nominal value £m	Carrying value and fair value £m
At cost:								
Cash and cash equivalents	–	9.6	–	8.3	–	6.1	–	4.7
Loans and receivables at amortised cost:								
Trade and other receivables	–	9.4	–	15.6	–	53.1	–	56.4
Total financial assets	–	19.0	–	23.9	–	59.2	–	61.1
Financial liabilities at amortised cost:								
Borrowings and overdrafts	–	(26.0)	–	(70.9)	–	(21.9)	–	(61.9)
Finance lease obligations	–	(2.7)	–	(3.0)	–	(1.6)	–	(2.0)
Financial liabilities at cost:								
Trade and other payables	–	(85.0)	–	(82.4)	–	(86.6)	–	(87.0)
Derivative financial instruments used for hedging:								
Interest rate swaps	–	–	6.3	(0.1)	–	–	6.3	(0.1)
Total financial liabilities	–	(113.7)	6.3	(156.4)	–	(110.1)	6.3	(151.0)
Net financial liabilities	–	(94.7)	6.3	(132.5)	–	(50.9)	6.3	(89.9)

Determination of fair values

The fair values of derivatives are estimated using future cash flows discounted at risk-adjusted discount rates based on market yield curves. As the yield curves are observable the fair values fall into level two of the three tier hierarchy. The carrying values of all other financial assets and liabilities are deemed to reflect fair value.

(iii) Derivative financial instruments

The Group has various Euro and Sterling-denominated borrowings which bear interest at floating rates. Interest on the Sterling borrowing is charged at LIBOR plus a margin. The Euro-denominated borrowings bear interest at the prevailing EURIBOR rate plus a margin. Group interest rate swaps matured in October 2011. In the previous financial year interest rate swaps fixed a portion of the floating interest charge on term debt at fixed rates of interest ranging from 3.52% to 4.34%.

Derivative financial instruments are not purchased for speculative purposes.

Non-current liabilities	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Interest rate swaps – cash flow hedges	–	(0.1)	–	(0.1)

(iv) Hedge accounting

(a) Cash flow hedges

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

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

(b) Net investment hedges

Euro-denominated borrowings are designated as hedging instruments of Euro-denominated net assets of the Group's foreign operations in order to protect the Group from currency risk in respect of the Group's Euro-denominated foreign operations. Borrowing balances are carried at amortised cost which approximates fair value since borrowings bear interest at the prevailing floating rate. The carrying value of borrowings amounted to €6.7m (2011: €13.9m).

24. Share capital

Group and Company	Number of allotted, called up and fully paid ordinary shares Millions	Share capital £m	Share premium £m	Treasury shares £m	Total £m
At 1 May 2010	67.2	0.7	15.4	(0.2)	15.9
Purchase of own shares by Employee Benefit Trust	–	–	–	(0.1)	(0.1)
Transfer of Treasury shares to participants	–	–	–	–	–
At 30 April 2011	**67.2**	**0.7**	**15.4**	**(0.3)**	**15.8**
Issue of new shares	**0.3**	**–**	**0.9**	**–**	**0.9**
At 28 April 2012	**67.5**	**0.7**	**16.3**	**(0.3)**	**16.7**

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. The assets, liabilities, income and costs of the LTIP and Trust are included in both the Company and the consolidated financial statements. During the period the Trust did not purchase any ordinary shares (2011: – 10,000 shares for £0.1m). At the year end the Trust held 27,869 (2011: 27,869) ordinary shares of 1p each with a market value of £0.2m (2011: £0.2m).

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

25. Share based payments

Included within administrative expenses is a charge of £0.3m (2011: credit of £0.3m) 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 25 to 31. 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 Incentive Plan.

Notes to the accounts continued

25. Share based payments continued

During the period contingent entitlements to 360,778 shares were awarded (LTIP 2010: 214,022). The amount recognised in the income statement in respect of all LTIP awards is a charge of £0.1m (2011: credit of £0.4m). The fair values of the 2009 awards were determined using a Monte Carlo simulation model which takes account of the performance conditions described in the preceding paragraph. The fair value per share is based on the expected number of shares that will vest. Subsequent awards, where there is no market condition, are valued using a Black-Scholes option pricing model. The Group's LTIP Trust is administered by the Equity Trust (Jersey) Limited and it waives its right to dividends on the shares held.

Reconciliation of movements in the periods ended 28 April 2012

	LTIP 2011		LTIP 2010		LTIP 2009	
	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m	Share awards '000s	Fair value £m
Outstanding at 1 May 2010	–	–	–	–	227.6	1.8
Granted	–	–	214.0	1.4	–	–
Forfeited	–	–	–	–	–	–
Vested	–	–	–	–	–	–
Expired	–	–	–	–	–	–
Outstanding at 30 April 2011	**–**	**–**	**214.0**	**1.4**	**227.6**	**1.8**
Granted	**360.7**	**1.6**	**–**	**–**	**–**	**–**
Forfeited	**(27.8)**	**(0.1)**	**(57.2)**	**(0.4)**	**(79.7)**	**(0.6)**
Vested	**–**	**–**	**–**	**–**	**–**	**–**
Expired	**–**	**–**	**–**	**–**	**–**	**–**
Outstanding at 28 April 2012	**332.9**	**1.5**	**156.8**	**1.0**	**147.9**	**1.2**
Exercisable at 28 April 2012	**–**	**–**	**–**	**–**	**–**	**–**
Exercisable at 30 April 2011	–	–	–	–	–	–

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

Valuation assumptions	LTIP 2011 award	LTIP 2010 award	LTIP 2009 award
Fair value per share (pence)	459	675	776
Share price at grant (pence)	486	740	853
Exercise price (pence)	1.0	1.0	1.0
Expected volatility (%)[1]	39.7	44.6	46.3
Vesting period (years)	3.0	3.0	3.0
Dividend yield (%)	1.8	3.0	3.1
Risk free interest rate (%)	0.8	2.0	2.0

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

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

Three and five year SAYE schemes were introduced in 2004. Employees and Executive Directors are invited to subscribe for options over shares in the Company at a 20% discount. The options are 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 £250 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 £0.1m (2011: £0.1m).

Reconciliation of movements in the periods ended 28 April 2012

	SAYE 2012		SAYE 2011		SAYE 2010		SAYE 2009		SAYE 2008		SAYE 2007		SAYE 2006	SAYE 2005
	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	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	Number of options '000s	Number of options '000s
Outstanding at 1 May 2010	–	–	–	–	36.5	29.0	364.5	310.4	23.6	25.2	6.2	5.7	7.7	38.9
Granted	–	–	97.5	30.0	–	–	–	–	–	–	–	–	–	–
Forfeited	–	–	(3.4)	–	(11.5)	(8.3)	(36.3)	(25.3)	(2.4)	(2.6)	(6.2)	(1.7)	(0.9)	(38.9)
Vested	–	–	–	–	–	–	(2.4)	–	(8.0)	–	–	–	–	–
Outstanding at 30 April 2011	**–**	**–**	**94.1**	**30.0**	**25.0**	**20.7**	**325.8**	**285.1**	**13.2**	**22.6**	**–**	**4.0**	**6.8**	**–**
Granted	**266.0**	**42.8**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Forfeited	**(3.4)**	**–**	**(49.3)**	**(14.1)**	**(9.5)**	**(14.6)**	**(13.8)**	**(36.2)**	**(8.0)**	**(6.0)**	**–**	**(0.4)**	**(6.8)**	**–**
Vested	**–**	**–**	**–**	**–**	**–**	**–**	**(283.4)**	**(3.2)**	**(5.2)**	**–**	**–**	**–**	**–**	**–**
Outstanding at 28 April 2012	**262.6**	**42.8**	**44.8**	**15.9**	**15.5**	**6.1**	**28.6**	**245.7**	**–**	**16.6**	**–**	**3.6**	**–**	**–**
Exercisable at 28 April 2012	**–**	**–**	**–**	**–**	**–**	**–**	**28.6**	**–**	**–**	**–**	**–**	**3.6**	**–**	**–**
Exercisable at 30 April 2011	–	–	–	–	–	–	–	–	13.2	–	–	–	6.8	–

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

Valuation assumptions	SAYE 2012		SAYE 2011		SAYE 2010		SAYE 2009		SAYE 2008		SAYE 2007	
	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr	3 yr	5 yr
Fair value per share (pence)	**179**	**231**	264	298	333	331	95	81	148	132	322	352
Share price at grant (pence)	**529**	**529**	792	792	941	941	474	474	723	723	1,237	1,237
Exercise price (pence)	**423**	**423**	634	634	753	753	295	295	618	618	1,040	1,040
Expected volatility (%)[1]	**40.0**	**44.1**	41.6	39.9	47.4	38.7	42.4	35.2	33.6	29.7	19.9	21.6
Vesting period (years)	**3.1**	**5.1**	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1	3.1	5.1
Dividend yield (%)	**2.3**	**2.3**	2.3	2.3	3.1	3.1	6.8	6.8	7.2	7.2	3.8	3.8
Risk free interest rate (%)	**2.9**	**2.9**	1.6	2.4	3.1	3.1	2.2	2.6	4.1	4.1	5.5	5.3
Possibility of ceasing employment before vesting (%)	**40**	**50**	40	50	40	50	40	50	40	50	40	50

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

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

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

26. Capital and other financial commitments

Capital commitments at 28 April 2012 for which no provision has been made in the accounts relate to the acquisition of tangible and intangible assets, and are:

	Group 2012 £m	Group 2011 £m	**Company 2012 £m**	Company 2011 £m
Authorised and contracted	**2.5**	5.2	**1.8**	4.9

Notes to the accounts continued

27. Operating lease commitments

At 28 April 2012 the future minimum lease payments in respect of land and buildings and other assets under operating leases are:

Group	2012 Land and buildings £m	2012 Other £m	2011 Land and buildings £m	2011 Other £m
Operating leases payable:				
Amounts payable within one year	**88.0**	**1.1**	86.9	1.5
Amounts payable between one and five years	**319.0**	**1.3**	310.9	1.9
Amounts payable after five years	**467.5**	**0.5**	459.2	0.2
	874.5	**2.9**	857.0	3.6

Company	2012 Land and buildings £m	2012 Other £m	2011 Land and buildings £m	2011 Other £m
Operating leases payable:				
Amounts payable within one year	**80.4**	**1.0**	78.9	1.2
Amounts payable between one and five years	**299.5**	**1.2**	296.2	1.6
Amounts payable after five years	**456.3**	**0.5**	456.0	0.2
	836.2	**2.7**	831.1	3.0

Operating lease payments are negotiated for an average of 6.5 years (2011: 7 years). The Group enters into sublease agreements in respect of some of its operating leases for stores. At the reporting date the Group had contracted with tenants for future minimum operating sublease receipts amounting to £9.8m (2011: £11.5m).

28. Contingent liabilities

The Group has no material contingent liabilities at 28 April 2012.

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

29. Movement in cash and net debt

Group	2011 Total £m	2012 Cash flow £m	2012 Exchange differences £m	2012 Revaluation £m	2012 Total £m
Cash and cash equivalents in the balance sheet	8.3				**9.6**
Bank overdrafts	(9.0)				**(8.1)**
Cash and cash equivalents in the cash flow statement	(0.7)	**2.0**	**0.2**	–	**1.5**
Borrowings					
Current borrowings	(12.3)				**(1.4)**
Non-current borrowings	(49.6)				**(16.5)**
	(61.9)	**42.9**	**1.1**	–	**(17.9)**
Obligations under finance leases					
Current obligations under finance leases	(0.1)				**(0.1)**
Non-current obligations under finance leases	(2.9)				**(2.6)**
	(3.0)	–	–	**0.3**	**(2.7)**
Derivative financial instruments	(0.1)	–	–	**0.1**	–
Net debt	(65.7)	**44.9**	**1.3**	**0.4**	**(19.1)**

Group	2010 Total £m	2011 Cash flow £m	2011 Exchange differences £m	2011 Revaluation £m	2011 Total £m
Cash and cash equivalents in the balance sheet	8.3				8.3
Bank overdrafts	(13.3)				(9.0)
Cash and cash equivalents in the cash flow statement	(5.0)	3.4	0.9	–	(0.7)
Borrowings					
Current borrowings	(8.9)				(12.3)
Non-current borrowings	(53.3)				(49.6)
	(62.2)	0.7	(0.4)	–	(61.9)
Obligations under finance leases					
Current obligations under finance leases	(0.1)				(0.1)
Non-current obligations under finance leases	(2.9)				(2.9)
	(3.0)	–	–	–	(3.0)
Derivative financial instruments	(1.1)	–	–	1.0	(0.1)
Net debt	(71.3)	4.1	0.5	1.0	(65.7)

Company	2011 Total £m	2012 Cash flow £m	2012 Exchange differences £m	2012 Revaluation £m	2012 Total £m
Cash and cash equivalents in the balance sheet	4.7				**6.1**
Bank overdrafts	(4.5)				**(4.0)**
Cash and cash equivalents in the cash flow statement	0.2	**2.6**	**(0.7)**	**–**	**2.1**
Borrowings					
Current borrowings	(12.3)				**(1.4)**
Non-current borrowings	(45.1)				**(16.5)**
	(57.4)	**38.7**	**0.8**	**–**	**(17.9)**
Obligations under finance leases					
Current obligations under finance leases	(0.1)				**(0.1)**
Non-current obligations under finance leases	(1.9)				**(1.5)**
	(2.0)	**–**	**–**	**0.4**	**(1.6)**
Derivative financial instruments	(0.1)	**–**	**–**	**0.1**	**–**
Net debt	(59.3)	**41.3**	**0.1**	**0.5**	**(17.4)**

Company	2010 Total £m	2011 Cash flow £m	2011 Exchange differences £m	2011 Revaluation £m	2011 Total £m
Cash and cash equivalents in the balance sheet	3.6				4.7
Bank overdrafts	(9.0)				(4.5)
Cash and cash equivalents in the cash flow statement	(5.4)	6.0	(0.4)	–	0.2
Borrowings					
Current borrowings	(8.9)				(12.3)
Non-current borrowings	(49.0)				(45.1)
	(57.9)	0.7	(0.2)	–	(57.4)
Obligations under finance leases					
Current obligations under finance leases	(0.1)				(0.1)
Non-current obligations under finance leases	(1.9)				(1.9)
	(2.0)	–	–	–	(2.0)
Derivative financial instruments	(1.1)	–	–	1.0	(0.1)
Net debt	(66.4)	6.7	(0.6)	1.0	(59.3)

Notes to the accounts continued

30. Related parties

Group

Related party transactions with the Directors are disclosed in the Directors' Report on page 32.

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

Contributions to pension schemes are disclosed in note 22. Costs incurred by the Group to administer pension schemes amounted to £0.2m in 2012, (2011: £0.1m).

Company

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

	Sales of goods £m	Amounts due from related parties £m	Amounts due to related parties £m
Subsidiary undertakings			
2011/12	**3.8**	**48.3**	**12.4**
2010/11	3.8	45.8	16.0

The Company guaranteed bank and other borrowings of subsidiary undertakings amounting to £4.1m (2011: £8.9m).

Group five year financial summary

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Summarised income statements:					
Revenue	**471.5**	486.8	516.6	482.8	521.5
Gross profit	**276.0**	298.0	316.0	295.8	323.1
Operating profit	**18.0**	10.9	28.2	22.3	60.8
Underlying operating profit	**8.0**	21.2	34.1	22.8	63.4
Net finance costs	**(4.0)**	(4.3)	(5.9)	(5.6)	(1.3)
Underlying profit before tax	**4.0**	16.9	28.2	17.2	62.1
Exceptional items	**9.5**	(10.3)	(5.9)	(0.5)	(2.6)
Profit before tax	**13.5**	6.6	22.3	16.7	59.5
Tax on ordinary activities	**(2.5)**	(2.0)	(6.5)	(4.9)	(16.7)
Profit for the financial period	**11.0**	4.6	15.8	11.8	42.8
Extracts from balance sheets:					
Non-current assets	**205.2**	243.3	247.1	265.8	254.2
Net assets	**70.7**	67.0	71.2	67.2	74.3
Net debt	**(19.1)**	(65.7)	(71.3)	(97.1)	(57.5)
Ratios and statistics:					
Number of stores at period end	**632**	679	703	695	675
Total space (sq ft – gross) ’000	**5,840**	6,072	6,206	6,155	5,816
Gross margin (%)	**58.5%**	61.2%	61.2%	61.3%	62.0%
Underlying operating margin (%)	**1.7%**	4.4%	6.6%	4.7%	12.2%
Operating margin (%)	**3.8%**	2.2%	5.5%	4.6%	11.7%
Underlying earnings per share (pence)	**4.5p**	18.0p	31.6p	18.2p	63.5p
Basic earnings per share (pence)	**16.4p**	6.8p	23.5p	17.6p	63.2p
Dividends per share (pence)	**–**	8.0p	16.0p	8.0p	52.0p

Independent auditors' report to the members of Carpetright plc

We have audited the financial statements of Carpetright plc for the 52 week period ended 28 April 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Statements of Changes in Equity, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 April 2012 and of the Group's profit and the Group's and Parent Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the lAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 34, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 June 2012

Calendar

2012	
Q1 interim management statement	24 July
Annual General Meeting	6 September
First-half trading update	23 October
First-half ends	27 October
Interim results announcement	11 December

2013	
Q3 interim management statement	29 January
Second-half trading update	23 April
Year ends	27 April

Advisers

Financial advisers
Deutsche Bank AG
1 Great Winchester Street
London
EC2N 2DB

Solicitors
Travers Smith LLP
10 Snow Hill
London
EC1A 2AL

Stockbrokers
Deutsche Bank AG
1 Great Winchester Street
London
EC2N 2DB

Peel Hunt
111 Old Broad Street
London
EC2N 1PH

Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Bankers
National Westminster Bank plc
Tooting Branch
30 Tooting High Street
London
SW17 0RG

Registrars
Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol
BS99 6ZY

Company Secretary and Registered Office
Jeremy Sampson
Carpetright plc
Harris House
Purfleet Bypass
Purfleet
Essex
RM19 1TT
Telephone: 01708 802000

This Report is printed on Core Uncoated. It is produced at a mill that is certified with ISO 14001 and EMAS environmental management standards. The paper is also Totally Chlorine Free and PEFC Certified.

The inks used are all vegetable oil based.

Printed at Principal Colour Ltd, ISO 14001 and FSC® certified.

Designed and produced by Black Sun plc
www.blacksunplc.com

Carpetright plc

Harris House
Purfleet Bypass
Purfleet, Essex RM19 1TT

Telephone +44 (0)1708 802000

www.carpetright.co.uk
www.carpetright.plc.uk