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Carpetright plc

Full Year results for the 52 weeks ended 28 April 2018

"Underlying losses in line with guidance – statutory losses reflect cost and accounting impact of restructuring to address legacy property issues in the UK"

Financial Highlights

Group

- Group revenue decreased by 3.0% to £443.8m (2017: £457.6m).
- Underlying EBITDA of £6.4m (2017: £28.6m).
- Underlying loss before tax of £8.7m (2017: profit of £14.4m), in-line with previous guidance.
- Net debt position of £53.0m (2017: £9.8m) reflecting the decline in operating performance and tightening of credit terms by suppliers responding to adverse publicity surrounding the Group's restructuring.
- Separately reported items of £61.8m (2017: £13.5m), driven mainly by the costs and accounting impact of the restructuring activity, of which £49.0m is non-cash, leading to a statutory loss before tax of £70.5m (2017: profit of £0.9m).

UK

- In tough trading conditions, like-for-like sales in the full year declined by 3.6% (2017: decline of 0.5%) with a decrease of 7.8% in second half of the year offsetting the increase of 0.7% reported for the first half.
- Underlying EBITDA of £2.9m (2017: £20.9m), the combination of the sales decline and a lower margin rate.

Rest of Europe

- Like-for-like sales growth of 1.2% (2017: 2.5%), driven by service related income and currency translation.
- Decline in underlying EBITDA to £3.5m (2017: £7.7m) a result of a lower margin rate and inflationary cost pressures.

Strategic progress

- Legacy property issues being addressed with a Company Voluntary Arrangement – 81 UK trading stores to close by end of September 2018.
- Further progress made with the introduction of new branding and contemporary store-fit – 227 stores in the UK trading under the new brand identity by the end of April 2018 (55% of the UK estate).
- Refurbished stores continue to outperform the uninvested estate.
- All remaining UK stores to be receive additional investment by the end of the CVA period in 2021 with priority being given to most profitable sites.
- UK like-for-like sales of hard flooring increased by 9.2% reflecting our greater strategic focus on this category.
- £65m of equity financing completed after the period end to fund implementation of the CVA and provide the necessary capital to refurbish and modernise the ongoing store estate and upgrade our digital platform.

Current trading

- As expected, trading in the first eight weeks of the new financial year was heavily impacted by the disruption arising from the Group's restructuring activity, in particular stock shortages as some suppliers had withdrawn supply, and the period of exceptionally warm weather.
- In more recent weeks, following the approval of the CVA and completion of the recapitalisation, the Group has begun to see the benefits of stock replenishment by suppliers and less negative publicity, although UK like-for-like sales remained negative.
- Sales growth has been restored in the Rest of Europe following appointment of new leadership.

Commenting on the results Wilf Walsh, Chief Executive, said:

"After a difficult trading year impacted by reduced consumer spend, increased competition and the legacy of an unsustainable, over rented store portfolio - the CVA and recapitalisation offers us the chance to rebuild Carpetright which remains the clear market leader in floor coverings with outstanding consumer brand awareness. This will be a transitional year for the Group as we work through our recovery plan."

Group financial summary

	2018 **£m**	2017 £m	Change
BUSINESS PERFORMANCE			
Group revenue	**443.8**	**457.6**	**(3.0%)**
UK	*360.4*	*381.0*	*(5.4%)*
Rest of Europe	*83.4*	*76.6*	*8.9%*
Underlying EBITDA	**6.4**	**28.6**	**(77.6%)**
UK	*2.9*	*20.9*	*(86.1%)*
Rest of Europe	*3.5*	*7.7*	*(54.5%)*
Underlying (loss)/profit before tax	**(8.7)**	**14.4**	
Underlying (loss)/earnings per share	**(6.8p)**	**16.4p**	
Net debt	**(53.0)**	**(9.8)**	
STATUTORY REPORTING			
Separately reported items	**(61.8)**	**(13.5)**	
(Loss)/profit before tax	**(70.5)**	**0.9**	
Basic (loss)/ earnings per share	**(94.6p)**	**1.0p**	

Notes
1. Revenue represents amounts payable by customers for goods and services after deducting VAT and other charges.
2. 'Underlying' excludes separately reported items and related tax.
3. Net debt is calculated as the total of cash-in-hand, or at bank, offset by borrowings, finance leases and unamortised fees.
4. Sales represents amounts payable by customers for goods and services before deducting VAT and other charges.
5. Like-for-like sales calculated as this year's sales compared to last year's sales for all stores that are at least 12 months old at the beginning of our financial year. Stores closed during the year are excluded from both years. No account is taken of changes to store size or introduction of third party concessions.
6. Comparative period for the year is the 52 week period ended 29 April 2017.

Certain statements in this report are forward looking. Although the Group believes that the expectations reflected in these forward looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements contain risks and uncertainties, actual results may differ materially from those expressed or implied by these forward looking statements. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

Results presentation
Carpetright plc will hold a presentation to analysts at Citigate Dewe Rogerson, 3 London Wall Buildings, London Wall, London EC2M 5SY at 09:00 today.

Analysts unable to attend in person may listen to the presentation live at 09:00 by using the details below:

Telephone number: +44 (0) 20 3003 2666

Password: Carpetright

Webcast link: https://edge.media-server.com/m6/p/qf2sjezz.

A copy of this statement can be found on our website www.carpetright.plc.uk

For further enquiries please contact:

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Forthcoming news flow:
Carpetright will release its first half trading update on 16 October 2018.

Notes to Editors
Carpetright plc is Europe's leading specialist floor coverings and beds retailer. Since the first store was opened in 1988 the business has developed both organically and through acquisition within the UK and other European countries. The Group is organised into two geographical regions, the UK and the Rest of Europe (comprising The Netherlands, Belgium and the Republic of Ireland).

Chief Executive's Review

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

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

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

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

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

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

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

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

Who we are
We are the clear market leader in floorcoverings in the UK with a significant double-digit market share. We are also, by quite some way, the leader in terms of brand awareness, with a prompted brand awareness of 89% and a spontaneous brand awareness of 63%, compared to only 78% and 19% respectively for our closest competitor.

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

Refurbishment of the store estate and introduction of our new branding and contemporary store-fit remained a major focus during the year, although there was a significant reduction in capital spending activity post-Christmas. By the end of April 2018, we had 227 stores in the UK trading under the new brand identity, some 55% of the estate, and we completed 28 refurbishments during the year.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Interest Free Credit (up to four years) grew to 19% participation at the end of the financial year. While our average transaction value was £382 in 2018, under IFC this grows to £1,387.
- Customer satisfaction is essential – especially the recommendations needed to generate repeat business. Our “Do We Measure Up” score means that 76% of our customers are “highly satisfied”, while a further 20% are “satisfied”. 71% who experience our Home Flooring Surveyors and 65% of those who deal with third party fitters who are established under our “Which Trusted Trader” accreditation are also “highly satisfied”. We remain focused on driving these metrics higher, particularly those in the latter area where we should be getting higher scores. In simple terms, “highly satisfied” customers spend 3.4 times more on average and are significantly more likely to recommend Carpetright.
- Value and our all-embracing proposition that we are “Never Beaten on Price” is a key element in our heritage and we will always match a quote on the same product from any of our competitors. Similarly, while “50% off” appears to be the default promotion proposition for most big-ticket retailers – added value such as half price underlay and other enhancements are vital to attract people into store. Selling the right product, with underlay and associated accessories as well as offering our “Uplift and Disposal” service, is key to growing ATV.

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

- Category A – 195 sites comprising of 176 trading stores and 19 warehouses. These stores average £22,500 per week in sales, have a rent to sales ratio of 15.4% and individually each make a good profit. These leases are not compromised as part of the CVA.
- Category B of which:
    - B1 – 82 stores, average sales of £13,200 per week, have a rent to sales ratio of 18.8% and make a small profit but insufficient to cover their supporting overhead. The CVA compromise is a 30% rent reduction for three years.
    - B2 – 31 stores, average sales of £12,200 per week, have a rent to sales ratio of 20.7% and are marginally profitable. The CVA compromise is a 50% rent reduction for three years.
- Category C – 92 sites, comprising of 81 trading stores, 1 warehouse and 10 closed/sublet stores with average sales per week of £11,500 and rent to sales ratio of 28.9%. These do not make any profit contribution. The compromise is a 50% rent reduction with the option to exit these stores on or after 23 September 2018.

While some landlords have been critical of CVA processes generally, we received approval on our approach from the British Property Federation as well as an endorsement from the Pension Protection Fund. Reluctantly, a CVA was genuinely our only viable option and we look forward to building profitable relationships with landlords over the three-year period of the CVA and beyond.

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

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

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

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

Summary

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

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

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

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

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

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

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

We are Carpetright.

Wilf Walsh
Chief Executive Officer
26 June 2018

Financial review

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

Overview

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

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

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

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

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

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

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

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

UK – Performance review

The key financial results for the UK were:

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

The UK portfolio is now as follows:

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

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

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

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

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

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

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

- store payroll costs increased by £0.9m to £60.6m, representing 16.8% of revenue (2017: £59.7m, 15.7% of revenue). The principal drivers of this movement were a combination of increases in basic pay structures designed to attract and retain colleagues in key roles, alongside the additional costs incurred from new legislative requirements from the introduction of holiday pay commissions, and the apprenticeship levy. These were partially offset by reduced commissions from lower revenue volumes.

- store occupancy costs (rent, rates & other) decreased by £0.4m, 0.3%, to £108.1m, being 30.0% of revenue (2017: £108.5m, 28.5% of revenue), primarily driven by the impact of the store closures, offset in part by inflationary costs increases in utilities, costs associated with the 'uplift and disposal' service offer and statutory maintenance work. These expenses are net of a release of £4.3m associated with the onerous lease provision (2017: £3.9m); and
- marketing and central support costs decreased by 6.8% to £37.2m, representing 10.3% of revenue (2017: £39.9m, 10.5% of revenue), reflecting management activities introduced to mitigate the profit impact from the decline in revenue.

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

Rest of Europe – Performance review

The key financial results for the Rest of Europe were:

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

The Rest of Europe portfolio is now as follows:

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

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

The reported growth of 8.9% has three component parts:

1. Sales of products – Whilst we experienced single digit growth in the Republic of Ireland, this was more than offset by a decline in sales in the Netherlands and Belgium. The latter being a result of changes made to the promotional strategy in the first half that failed to improve average transaction values and resulted in lower customer numbers. It took time to reverse these changes, and ultimately resulted in the decision

to change the leadership of the business. The net result was a fall in product revenue of 5.0% in local currency terms.

2. Sales of services – Dutch sales were boosted by the addition of service related income which added 8.6% to total segment revenue growth. Previously, the customer paid third party fitters directly but, following a change in legislation, this is now invoiced to the customer at the time of the order and the Company then pays the independent fitter, after deducting an administration fee.
3. Currency translation – the effect of movements in exchange rates added 5.3% to revenue growth on conversion to reported currency.

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

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

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

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

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

Group financial review

Net finance charges and taxation

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

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

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

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

Separately reported items

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

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

Non cash items

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

A strategic review of the store portfolio as part of the CVA procedures initiated during the year resulted in a revised assessment of the onerous lease costs for loss-making stores. The impact of these judgments is a net charge of £2.3m (2017: £11.0m). This charge reflects changes in property costs and lease length of onerous leases for UK stores as a result of the implementation of the CVA. A £13.9m provision for onerous leases remained on the balance sheet at the year end 2018. Of this, £4.8m is expected to be utilised against UK stores earmarked for closure during the first half of the financial year 2019. The remaining £9.2m is associated with UK stores not subject to the CVA and stores in the Republic of Ireland. It is expected that the majority of this will be utilised over a period of four years.

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

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

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

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

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

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

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

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

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

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

Dividend

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

Balance sheet

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

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

Non-current assets

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

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

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

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

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

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

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

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

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

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

Cash flow

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

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

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

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

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

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

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

Current liquidity

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

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

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

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

Going concern

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

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

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

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

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

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

Neil Page
Chief Financial Officer
26 June 2018

Consolidated income statement
for 52 weeks ended 28 April 2018

	Notes	Group 52 weeks to 28 April 2018 Underlying performance £m	Separately reported items £m	Total £m	Group 52 weeks to 29 April 2017 Underlying performance £m	Separately reported items £m	Total £m
Revenue	3	443.8	–	443.8	457.6	–	457.6
Cost of sales		(194.2)	–	(194.2)	(188.2)	–	(188.2)
Gross profit	3	249.6	–	249.6	269.4	–	269.4
Administration expenses		(245.6)	(59.5)	(305.1)	(243.2)	(9.3)	(252.5)
Other operating income/(loss)		2.4	(2.3)	0.1	2.4	(4.2)	(1.8)
Operating profit/(loss) before depreciation and amortisation		6.4	(61.8)	(55.4)	28.6	(13.5)	15.1
Depreciation		(11.0)	–	(11.0)	(10.2)	–	(10.2)
Amortisation		(1.3)	–	(1.3)	(2.0)	–	(2.0)
Operating (loss)/profit		(5.9)	(61.8)	(67.7)	16.4	(13.5)	2.9
Finance costs		(2.8)	–	(2.8)	(2.0)	–	(2.0)
(Loss)/profit before tax		(8.7)	(61.8)	(70.5)	14.4	(13.5)	0.9
Tax	5	4.1	2.2	6.3	(3.3)	3.1	(0.2)
(Loss)/profit for the financial period attributable to equity shareholders of the Company		(4.6)	(59.6)	(64.2)	11.1	(10.4)	0.7
Basic (loss)/earnings per share (pence)	7	(6.8)		(94.6)	16.4		1.0
Diluted (loss)/earnings per share (pence)	7			(94.6)			1.1

Consolidated statement of comprehensive income
for 52 weeks ended 28 April 2018

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

Consolidated statement of changes in equity

for 52 weeks ended 28 April 2018

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

Consolidated balance sheet
As at 28 April 2018

	Notes	Group 2018 £m	Group 2017 £m
Assets			
Non-current assets			
Intangible assets	8	27.0	57.3
Property, plant and equipment	9	98.7	102.0
Investment property	10	10.5	15.3
Investment in subsidiary undertakings		–	–
Deferred tax assets		2.0	1.9
Trade and other receivables		0.7	0.4
Total non-current assets		138.9	176.9
Current assets			
Inventories		35.7	41.1
Trade and other receivables		25.4	25.8
Cash and cash equivalents		6.6	12.5
Total current assets		67.7	79.4
Total assets		206.6	256.3
Liabilities			
Current liabilities			
Trade and other payables		(69.4)	(83.9)
Obligations under finance leases		(0.1)	(0.1)
Borrowings and overdrafts		(57.8)	(20.1)
Provisions for liabilities and charges	11	(10.6)	-
Current tax liabilities		(0.8)	(1.7)
Total current liabilities		(138.7)	(105.8)
Non-current liabilities			
Trade and other payables		(28.0)	(34.5)
Obligations under finance leases		(1.7)	(2.1)
Provisions for liabilities and charges	11	(9.1)	(17.5)
Deferred tax liabilities		(9.0)	(15.2)
Retirement benefit obligations		(0.8)	(3.2)
Total non-current liabilities		(48.6)	(72.5)
Total liabilities		(187.3)	(178.3)
Net assets		19.3	78.0
Equity			
Share capital		0.7	0.7
Share premium		19.1	17.8
Treasury shares		(1.4)	(1.6)
Other reserves		0.9	61.1
Total equity attributable to equity shareholders of the Company		19.3	78.0

Consolidated statement of cash flows
For the 52 weeks ended 28 April 2018

	Group 52 weeks to 28 April 2018 £m	Group 52 weeks to 29 April 2017 £m
Cash flows from operating activities		
(Loss)/profit before tax	(70.5)	0.9
Adjusted for:		
Depreciation and amortisation	12.3	12.2
Loss on property disposals	2.3	3.3
Separately reported non-cash items	47.8	9.2
Separately reported cash items	11.2	-
Share based payments	0.5	1.0
Net finance costs	2.8	2.0
Operating cash flows before movements in working capital	6.4	28.6
Decrease/(Increase) in inventories	5.7	1.0
(Increase)/decrease in trade and other receivables	-	(5.4)
(Decrease)/increase in trade and other payables	(22.7)	(8.2)
Net expenditure on exit of operating leases	(1.9)	(2.2)
Restructuring costs	(2.6)	
Contributions to pension schemes	(5.5)	(0.9)
Provisions paid	(0.9)	(5.2)
Cash generated by operations	(21.5)	7.7
Interest paid	(1.8)	(1.3)
Corporation taxes paid	(1.4)	(0.9)
Net cash generated from operating activities	(24.7)	5.5
Cash flows from investing activities		
Purchases of intangible assets	(4.5)	(0.6)
Purchases of property, plant and equipment and investment property	(15.7)	(16.8)
Proceeds on disposal of property, plant, equipment & investment property	0.3	3.4
Net cash generated used in investing activities	(19.9)	(14.0)
Cash flows from financing activities		
Purchase of treasury shares by employee benefit trust	–	(0.3)
Repayment of finance lease obligations	(0.3)	(0.3)
Movement in borrowings	32.0	13.0
New loans advanced	12.0	-
Net cash used in financing activities	43.7	12.4
Net increase/(decrease) in cash and cash equivalents in the period	(0.9)	3.9
Cash and cash equivalents at the beginning of the period	5.4	1.2
Exchange differences	0.3	0.3
Cash and cash equivalents at the end of the period	4.8	5.4

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

Notes to the financial statements

1. Principal accounting policies

General information

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

The preliminary announcement does not constitute full financial statements. The results for the year ended 28 April 2018 included in this preliminary announcement are extracted from the audited financial statements for the year ended 28 April 2018 which were approved by the Directors on 26 June 2018. The auditor's report on those financial statements was unqualified and, without modification, draws attention to a material uncertainty relating to going concern by way of emphasis. It did not include a statement under Section 498(2) or 498(3) of the Companies Act 2006.

2. Principal accounting policies (abridged)

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

Basis of preparation

The consolidated financial statements of the Group and the Company are drawn up to within seven days of the accounting record date, being 30 April of each year. The financial period for 2018 represents the 52 weeks ended 28 April 2018. The comparative financial period for 2017 was 52 weeks ended 29 April 2017.
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRS IC) interpretations as adopted by the European Union, together with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

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

Going concern

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

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

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

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

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

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

Alternative Performance Measures

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

Sales

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

Underlying performance

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

Gross profit ratio

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

Separately reported items
Defined below.

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

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

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

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

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

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

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

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

Foreign exchange rates

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

	Euro 2017	Euro 2016	**Zloty 2017**	Zloty 2016
Average rate	1.13	1.36	5.21	5.77
Closing rate	1.14	1.28	5.01	5.62

3. Segmental analysis

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

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

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

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

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

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

Following trigger events driven by market capitalisation and trading performance since December 2017, assets across both segments have been reviewed for impairment. Goodwill of £29.8m has been impaired in the UK and £4.9m in the Rest of Europe segment. Freehold and long-leasehold assets in the UK have been impaired by £0.6m and £4.5m in the Rest of Europe. Store leasehold assets have been impaired by £5.5m in the UK and £0.2m in the Rest of Europe. Refer to note 4 for further information.

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

4. Separately reported items

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

	Group 2018 £m	Group 2017 £m
Underlying (loss) /profit before tax	(8.7)	14.4
Property disposal costs		
Loss on disposal of properties	(1.7)	(1.9)
Store refurbishment – asset write-offs	(0.6)	(1.4)
	(2.3)	(3.3)
Other non-cash		
Goodwill impairment	(34.7)	-
Freehold and investment property (impairment)/reversal/	(5.1)	2.2
Store asset impairment	(5.7)	(0.4)
Net onerous lease charge	(2.3)	(11.0)
	(47.8)	(9.2)
Share based payments	(0.5)	(1.0)
Restructuring costs		
Redundancy provisions	(3.8)	-
Store closure costs associated with the CVA	(2.0)	-
Professional fees	(6.4)	-
Release of fixed rent accruals and lease incentives	2.8	-
ERP dual running costs	(1.5)	-
Legacy pension costs	(0.3)	-
	(11.2)	-
Total separately reported items	(61.8)	(13.5)
Statutory (loss)/profit before tax	(70.5)	0.9

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

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

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

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

A strategic review of the store portfolio as part of the CVA procedures initiated during the year resulted in a revised assessment of the onerous lease costs for loss-making stores. The impact of these judgments is a net charge of £2.3m (2017: £11.0m). This charge reflects changes in property costs and lease length of onerous leases for UK stores as a result of the implementation of the CVA. A £13.9m provision for onerous leases remained on the balance sheet at the year end 2018. Of this, £4.8m is expected to be utilised against UK stores earmarked for closure during the first half of the financial year 2019. The remaining £9.2m is associated with UK stores not subject to the CVA and stores in the Republic of Ireland. It is expected that the majority of this will be utilised over a period of four years.

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

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

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

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

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

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

5. Tax

(i) Analysis of the charge in the period	**Group 2017 £m**	**Group 2017 £m**
UK current tax	–	(0.2)
Overseas current tax	0.2	0.1
Total current tax	0.2	(0.1)
UK deferred tax	(4.2)	(1.0)
UK deferred tax prior year adjustment	(0.1)	(0.2)
Overseas deferred tax	(2.1)	2.2
Overseas deferred tax prior year adjustment	(0.1)	(0.7)
Total deferred tax	(6.5)	0.3
Total tax (credit)/charge in the income statement	(6.3)	0.2

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

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

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

6. Dividends

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

7. (Loss)/earnings per share

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

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

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

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

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

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

8. Intangible assets

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

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

Goodwill is impaired if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. In the absence of a recent market transaction, the recoverable amount of the goodwill held by the Group is determined from value in use calculations.
Management has identified two cash-generating units (CGUs) supporting goodwill which are the UK and Europe, being the Netherlands and Belgium. The goodwill allocated to each CGU at the start of the period was £29.8m (2017: £29.8m) to the UK, and £23.8m (2017: £23.8m) to Europe.

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

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

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

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

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

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

This has resulted in an impairment of £34.7m has been recognised, comprising £29.8m relating to UK acquisitions and £4.9m in the Netherlands. All goodwill relating to UK acquisition has been impaired.

9. 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 30 April 2016	43.8	17.6	16.6	93.5	33.9	205.4
Exchange differences	1.5	0.1	0.1	1.1	2.0	4.8
Additions	-	-	0.7	17.1	1.5	19.3
Transfer between asset classes	-	(1.0)	0.9	0.1	-	-
Transfer to investment property	(1.7)	-	-	-	-	(1.7)
Disposals	(1.6)	(0.3)	(1.2)	(14.7)	(1.1)	(18.9)
At 29 April 2017	42.0	16.4	17.1	97.1	36.3	208.9
Exchange differences	**0.6**	–	**0.1**	**0.6**	**1.1**	**2.4**
Additions	–	–	**0.8**	**12.7**	**0.5**	**14.0**
Transfer	**0.9**	–	–	–	–	**0.9**
Transfer to intangible assets	–	–	–	–	**(0.5)**	**(0.5)**
Transfer from investment property	–	–	**0.1**	–	–	**0.1**
Disposals	**(0.4)**	**(0.2)**	**(0.4)**	**(9.5)**	**(0.9)**	**(11.4)**
At 28 April 2018	**43.1**	**16.2**	**17.7**	**100.9**	**36.5**	**214.4**
Accumulated depreciation and impairment:						
At 30 April 2016	8.3	6.1	11.1	59.2	25.7	110.4
Exchange differences	0.6	0.1	0.1	1.1	1.6	3.5
Impairment/(reversal)	(0.8)	-	-	0.4	-	(0.4)
Depreciation	0.7	0.3	0.8	7.3	0.8	9.9
Transfer between asset classes	-	(0.7)	0.6	0.1	-	-
Transfer to investment property	(0.1)	-	-	-	-	(0.1)
Disposals	(0.9)	(0.2)	(1.1)	(13.1)	(1.1)	(16.4)
At 29 April 2017	7.8	5.6	11.5	55.0	27.0	106.9
Exchange differences	**0.2**	–	**0.1**	**0.5**	**0.8**	**1.6**
Impairment	–	**0.2**	**0.9**	**4.1**	**0.4**	**5.6**
Depreciation	**0.6**	**0.2**	**0.8**	**8.0**	**1.0**	**10.6**
Transfer	**0.8**	–	–	**0.1**	–	**0.9**
Transfer from investment property	–	–	**0.1**	–	–	**0.1**
Disposals	**(0.1)**	**(0.1)**	**(0.3)**	**(8.4)**	**(1.1)**	**(10.0)**
At 28 April 2018	**9.3**	**5.9**	**13.1**	**59.3**	**28.1**	**115.7**
Net book value:						
At 28 April 2018	**33.8**	**10.3**	**4.6**	**41.6**	**8.4**	**98.7**
At 29 April 2017	34.2	10.8	5.6	42.1	9.3	102.0

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

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

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

	2018 £m	2017 £m
Cost	8.7	8.8
Accumulated depreciation and impairment	(3.4)	(3.3)
Net book value	5.3	5.5

The assets held under finance leases comprise buildings.

10. Investment property

Group	£m
Cost:	
At 30 April 2016	21.2
Exchange differences	1.2
Transfer from property, plant and equipment	1.7
Disposals	(3.9)
At 29 April 2017	20.2
Exchange differences	0.7
Transfer to property plant and equipment	(0.1)
At 28 April 2018	20.8
Accumulated depreciation and impairment:	
At 30 April 2016	6.7
Exchange differences	0.2
Impairment/(reversal)	(1.4)
Depreciation	0.3
Transfer from property, plant and equipment	0.1
Disposals	(1.0)
At 29 April 2017	4.9
Exchange differences	0.1
Impairment/(reversal)	5.1
Depreciation	0.3
Transfer to property plant and equipment	(0.1)
At 28 April 2018	10.3
Net book value:	
At 28 April 2018	10.5
At 29 April 2017	15.3

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

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

11. Provisions for charges and liabilities

	Onerous lease provision £m	Re-organisation provision £m	Total £m
Opening at 29 April 2017	17.5	-	17.5
Impact of movement in foreign exchange rates	0.1	-	0.1
Added during the period	8.5	5.8	14.3
Released during the period	**(6.2)**		**(6.2)**
Utilised during the period	**(5.5)**	**-**	**(5.5)**
Utilised on disposal	**(0.5)**	-	**(0.5)**
Closing balance at 28 April 2018	**13.9**	**5.8**	**19.7**

	2018 Total £m	2017 Total £m
Non-current	9.1	17.5
Current	10.6	-
	19.7	17.5

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

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

Current provisions represent the provisions for restructuring and the impact of the CVA.

12. Movement in net debt

Group £m	Total 2017	Cash flow	Exchange differences	Other non-cash	Total 2018
Current assets:					
Cash and cash equivalents in the balance sheet	12.5				6.6
Bank overdraft	(7.1)				(1.8)
Cash and cash equivalents in the cash flow statement	5.4	(0.9)	0.3	–	4.8
Current liabilities:					
Current borrowing	(13.0)	(44.0)	–	1.0	(56.0)
Non - Current borrowing	–	–	–	–	–
	(13.0)	(44.0)	–	1.0	(56.0)
Obligations under finance leases:					
Current obligations under finance leases	(0.1)	–	–	–	(0.1)
Non-current obligations under finance leases	(2.1)	–	–	–	(1.7)
	(2.2)	0.3	–	0.1	(1.8)
Total Net (debt)/cash	(9.8)	(44.6)	0.3	1.1	(53.0)

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

13. Events after the reporting period

There have been several post balance sheet events arising from the ongoing restructuring of the business. On 12 April 2018 the Group launched a Company Voluntary Agreement ("CVA") impacting its UK business. While the launch and creditors' vote occurred before the year end, shareholder approval and cessation of the mandatory challenge period occurred after the year end. The CVA was approved and became effective on 30 April 2018. The shareholder approval and end of the challenge period are considered to be adjusting post balance sheet events, with the full impact of the approved CVA reflected in the financial results for the 52 week period ended 28 April 2018.

The Group completed the refinancing of its existing facilities on 11 May 2018, which came into effect on receipt of the Placing and Open Offer proceeds on 11 June 2018. The refinancing including committed banking facilities totalling £54.6 m, consisting of £45.0 m revolving credit facilitiy ("RCF"), £7.5 m Sterling overdraft and €2.4 m Euro overdraft facility. The facilities are committed until 31 December 2019. Pursuant to a loan note agreement dated 11 May 2018, Meditor, a significant shareholder, made available to the Company a Sterling loan note of net £15.0 m (Gross: £17.25 m which includes a £2.25 m arrangement fee). The Meditor Loan Note was drawn by the Company in a single utilisation on 11 May 2018 and is committed until 31 July 2020. The short-term non-bank loan of £12.5 m issued in March 2018 was repaid on 13 June 2018.

The Group launched a Placing and Open Offer on the Main Market of the London Stock Exchange on 18 May 2018, with 232,463,221 new ordinary shares issued on 8 June 2018. Net receipts of £63.5 m (£65.1m gross) were received on 11 June 2018.

As a consequence of large asset impairments booked towards the end of the 52 week period, goodwill in particular, the value of the Company's net assets fell below half of its called up share capital. It is a requirement of the Companies Act that where the net assets of a public company are half or less of its called up share capital, the directors must call a general meeting of the company to consider whether any, and if so what, steps should be taken to deal with the situation. Accordingly, a general meeting held on 6 June 2018 approved the Resolutions such that the Placing and Open Offer and CVA became unconditional. Following receipt of the Placing and Open Offer proceeds, the value of the Company's net assets were greater than half of its' called up share capital.

The company announced on 12 April 2018 that it had identified a technical breach with respect to compliance with the borrowing powers in its Articles and published a Shareholder circular including resolutions to ratify the breach and amend the Articles to prevent future breaches. The resolutions were passed at the Shareholder meeting on 30 April 2018.