

Company Registration No. 00533087

Mothercare UK Limited

Annual Report and Financial Statements

For the 52 weeks ended 28 March 2015

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Mothercare UK Limited

Annual report and financial statements For the 52 weeks ended 28 March 2015

Contents	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	6
Directors' responsibilities statement	8
Independent auditor's report	9
Profit and loss account	11
Statement of total recognised gains and losses	12
Balance sheet	13
Reconciliation of movement in shareholders' funds	14
Notes to the financial statements	15

Mothercare UK Limited

Annual report and financial statements For the 52 weeks ended 28 March 2015

Officers and professional advisers

Directors

T Ashby
C J Cull
M Newton Jones (appointed 4 August 2014)
G Kibble (appointed 9 March 2015)
R Smothers (appointed 23 March 2015)
S Purkis (appointed 23 March 2015)
K Doyle (appointed 2 June 2014)
M Stringer
P Dayraud (resigned 15 December 2014)
L Palmer (resigned 21 October 2014)
M Smith (resigned 20 January 2015)

Company Secretary

T Ashby

Registered Office

Cherry Tree Road
Watford
Hertfordshire
WD24 6SH

Bankers

HSBC Bank plc
City of London Corporate Office
8 Canada Square
London
E14 5XL

Barclays Bank plc
Level 27, 1 Churchill Place
London
E14 5HP

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London

Mothercare UK Limited

Strategic report

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

This enhanced business review is prepared for the members of Mothercare UK Limited and for no other purpose. Consequently, any forward looking statements have been made in good faith by the directors based on information available to them at that time. Such statements should be treated with caution given the inherent uncertainties including economic and business risk factors underlying such statements.

The results for the 52 weeks ended 28 March 2015 are set out at pages 11 to 41. They should be read in conjunction with the Key Performance Indicators (KPIs) set out in this report.

Activities and prospects

Mothercare UK Limited is the principal operating company within the Mothercare plc group.

The Company is a specialist retailer of products for mothers-to-be, babies and children up to the age of eight. Mothercare offers a wide range of maternity and children's clothing, furniture and home furnishings, bedding, feeding, bathing, travel equipment and toys through its retail and internet operations in the United Kingdom, and also operates internationally through retail franchises in Europe, the Middle East, Africa, the Far East, Asia Pacific and Latin America under the Mothercare brand name.

The company is continuing to progress with improvements to the UK business and to further develop the International business for continued long term growth.

Review of the business

At Mothercare, we aim to be the leading global retailer for parents and young children. We aim to meet the needs of mothers-to-be, babies and children up to the age of eight years. Our Clothing & footwear product includes ranges for babies, children and maternity wear and has a growing selection of branded product. Home & travel includes pushchairs, car seats, furniture, bedding, feeding and bathing equipment. Toys are mainly for babies and complements our ELC ranges well.

This strategy is based on the following six strategic pillars:

- Become a digitally led business
- Supported by a modern retail estate
- Offering style, quality and innovation in product and great service
- Stabilise and recapture margin
- Running a lean organisation while investing for the future
- Expanding further internationally

UK sales increased by 2.5% with fourteen underperforming stores closed during the period. During the period two stores were fully refurbished and a further five stores converted to a new clothing based format.

Direct has benefitted from the improvement in our online platform, customer interface and improved service with Direct in home growing by 7.3% and Direct in store by 49.5%. Direct sales now account for 27.7% of all UK stores, with click and collect now accounting for over a third of all online orders.

We operate our overseas stores through International franchising, which remains a significant growth opportunity for the Company. It offers significant potential for growth in developed and emerging markets through our unique network of strong franchise partners and our logistics network. Like for like international sales increased by 5.6%. However adverse currency impacts have resulted in reported turnover decreasing by 1.7%.

Our International franchise model has allowed rapid growth with minimal capital investment for Mothercare. We earn profits from our royalties, as a fixed percentage of International retail sales.

Mothercare UK Limited

Strategic report (continued)

Key performance indicators

Sales increased by £4.8 million to £586.8 million (2014: £582.0 million). International revenue is down 1.7% to £227.9 million (2014: £231.9 million) and UK revenue increased by 2.5% to £358.8 million (2014: £350.1 million). The number of UK stores at period end was 174 (2014: 189), with 14 loss making stores closed during the period. The number of stores operated by our international partners increased by 89 from 819 to 908.

There were exceptional costs in the period of £25.7 million (2014: £29.1 million), including £32.8 million for property and restructuring costs relating to store restructuring and a strategic review (2014: £14.7 million), offset by a £0.2 million credit for the reversal of historic impairments of investment in joint venture (2014: £2.2 million charge) and a £6.9 million credit for non-cash foreign currency adjustments (2014: £12.2 million charge).

Loss before taxation has decreased to £15.8 million (2014: loss before tax £16.3 million) largely driven by a reduction in exceptional costs (down £3.3 million) including a swing in the non-cash foreign currency adjustment of £19.0m, as well as decreased losses in the UK due to better trading and closures of underperforming stores.

Further details of the Company's results for the 52 weeks ended 28 March 2015 are shown in the profit and loss account, balance sheet and related notes to the financial statements.

Principal risks and uncertainties

The business review sets out progress made during the period against the challenges that the Mothercare plc board has set for the business. In this section some of the principal risks and uncertainties that face the business are set out. This section also forms part of the business review requirements.

The board and the Company do not represent that the risks identified below include all of the risks, whether material or otherwise, of which they ought to be aware. The principal risks and uncertainties facing the Company may include those set out below. It should be borne in mind that this is not an exhaustive list and that there may be other risks that have not been considered or risks that the board consider now are insignificant or immaterial in nature, but that may arise and have a larger effect than originally expected.

External risks

The Company is reliant upon manufacturers in other countries, particularly China, India and the Far East. Global economic conditions will affect the performance of the company's businesses through the effect of exchange rates, principally the US dollar; cost price (including raw material) inflation; governmental and other external regulations affecting imports; taxation; duties and levies.

A failure to react appropriately to changes in the economic environment generally or consumer confidence issues affecting the company's core customers in the UK, particularly from a reduction in real disposable income caused by, amongst other things, increases in personal and indirect taxation, interest rate movements affecting housing and social costs and the availability of consumer credit.

The Company is potentially vulnerable to adverse movements in exchange rates in both its payment to suppliers and its royalty income. The Company hedges the exposure to adverse exchange rates with the use of forward contracts.

With the continued expansion of the Company's international franchise operations the Company may be exposed to sales concentration risk as certain franchise partners extend their activities in their own and additional territories. In addition, the Company is potentially exposed to commercial risk in the default of payment for amounts due on royalties and goods supplied, as well as political restrictions on remittance of funds to the UK or refusal to enforce the Company's intellectual property against infringers.

Mothercare UK Limited

Strategic report (continued)

Internal risks

The anticipated turnaround of the Company's UK business may not be achievable if it fails to implement effectively key aspects of its new strategic plan. In order to mitigate this risk, the company is implementing its strategic plan to refurbish all ongoing stores, varying from light touch re-fits to full refurbishment, within the three-year plan, whilst maintaining a lean organisation through tight management of resources and controlling the Company's cost base

Mothercare has a reputation for quality, safety and integrity. This may be seriously undermined by adverse press or regulatory comment on aspects of its business both in the UK and overseas, whether justified or not. To this end, the Company takes all reasonable care to safeguard the reputation of its brand, particularly in product manufacture and supply areas, by engaging independent third parties to validate critical areas of its manufacturing and supply chain for compliance with its ethical code.

Any disruption to the relationship with key suppliers could adversely affect the Company's ability to meet its sales and profit plans if suitable alternatives could not be found quickly.

Two of the key integration performance streams affect the Supply Chain and Information Technology functions of the brand. Any failure of the Company's logistics, distribution and information technology platforms may restrict the ability of the Company to make product available in its stores and Direct businesses thereby failing to meet customer expectations and thereby adversely affecting sales and profits.

Against this background, the system of internal control is designed to manage rather than eliminate risks.

In order to effectively manage risk, a rolling programme of structured risk assessments of those areas having a significant effect on the future of the business is carried out. The intended purpose of the programme is to identify the appropriate risk management processes, controls established, residual risks evaluated and that the necessary action and risk avoidance measures taken or monitoring undertaken. Elements of the programme are reviewed by the group internal audit function during the period. The Mothercare plc Audit and Risk committee regularly reviews the process and output of the programme of risk management on behalf of the group.

The internal audit function of the Mothercare plc group (a combination of internal resources and external resource provided by PricewaterhouseCoopers LLP) supplements the risk-based approach set out above. Furthermore, the group has adopted procedures to ensure auditor independence.

The board believes that the system of internal control described can provide only reasonable and not absolute assurance against material misstatement or loss.

During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Financial risk management objectives and policies

Foreign currency risk

All international sales to franchisees are invoiced in pounds sterling or US dollars. International sales represent approximately 39 per cent of Company sales. Of these sales, 27 per cent were invoiced in foreign currency. The Company therefore has some currency exposure on these sales, but it is used to offset or hedge in part the Company's dollar denominated product purchases.

The Company purchases product in foreign currency, representing some 48 per cent of purchases. The Company policy is that all material exposures are hedged by using forward currency contracts.

Mothercare UK Limited

Strategic report (continued)

Financial risk management objectives and policies (continued)

Interest rate risk

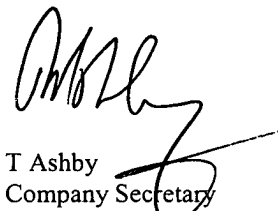
During the period the group of which Mothercare UK Limited is part of has negotiated a new revolving credit facility, which as at 28 March 2015 has not had any amounts drawn down on it. However, should the Group draw down on this facility in the future, the Company would incur interest rate risk again.

Treasury policy and financial risk management

The Company operates treasury policies approved by the Mothercare plc board and senior management directly controls day-to-day operations within these policies.

The major financial risks to which the Company is exposed relate to movements in exchange rates. Where appropriate, cost effective and practicable the Company uses financial instruments and derivatives to manage these risks. No speculative use of derivatives, currency or other instruments is permitted.

Approved by the Board of Directors and signed on behalf of the Board:



T Ashby
Company Secretary
22 July 2015

Mothercare UK Limited

Directors' report

The directors present their annual report together with the audited financial statements and the auditor's report for the 52 weeks ended 28 March 2015.

A review of the business strategy, including commentary on the performance of the Company and details of the principal risks and uncertainties facing the Company are set out in the preceding Strategic report.

Directors

The directors who served throughout the period, except as noted, are shown on page 1.

Directors' indemnities

Directors' and officers' indemnity insurance has been purchased by the ultimate parent company during the period.

Dividends

The Company did not pay any dividend during the period (2014: £nil million).

Employees

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through briefings, bulletins, e-mail and video presentations and formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

The Company is an equal opportunities employer and ensures that recruitment and promotion decisions are made solely on the basis of suitability for the job. Disabled people are given due consideration for employment opportunities and, if employees become disabled, every effort is made to retain them by making reasonable adjustments.

Going concern

The Company's focus remains to put its UK business on a firmer footing and further develop its International business for continued long-term growth. This approach will help the group realise its goal of being the leading global retailer for parents and young children.

During the year, the Company's parent received £93.7 million of funds (net of expenses) from the rights issue and repaid its term loan and revolving credit facility in full. Under the multi-currency term and revolving facilities agreement referred to above, which was amended during the year, Barclays Bank PLC and HSBC Bank PLC provide the Group with a credit facility to be used for general business purposes. During the year the agreement was amended and restated on two occasions: on 20 May 2014 with the credit facility being increased from £90 million to £100 million (and including a provision to provide further headroom on the financial covenants) available to be utilised until 10 October 2014; and again on 23 September 2014, such that following completion of the rights issue and the receipt of proceeds (which occurred on 30 October 2014), the term loan would be repaid in full and the credit facility would remain at £50 million. Further, the term of the amended agreement was extended to May 2018.

The Group has therefore significantly improved its overall shareholder funds and its net cash position and intends to use this to deliver its new strategic plan which is expected to return the Company to profitability and provide a platform to accelerate international growth. At the end of the year the Group had a cash balance of £31.5 million and was debt free. The covenants in the facilities are reviewed monthly and tested as part of the forecast process and are based around gearing, fixed charge cover and guarantor cover. Therefore the directors believe that the Group is able to continue to support the company as necessary.

Mothercare UK Limited

Directors' report (continued)

Going concern (continued)

The group's latest forecasts and projections, which incorporate the strategic initiatives outlined above, have been sensitivity-tested for reasonably possible adverse variations in trading performance and foreign currency fluctuations. This indicates the group will operate within the terms of its borrowing facilities and covenants for the foreseeable future. To the extent that future trading is worse than a reasonably possible downside, which the directors do not consider a likely scenario, then there are mitigating actions available, which would enable the group to continue to operate within the terms of the borrowing facilities and covenants for the foreseeable future.

After considering the forecasts, sensitivities and mitigating actions available to management, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements are therefore prepared on the going concern basis.

Post balance sheet events

On 8 May 2015 the Company disposed of its joint venture in India, Rhea Retail Private Limited, for consideration of £2.4 million. There was no gain or loss on disposal

Auditor


Each of the persons who is a director of the Company at the date when this report was approved confirms that:

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by:



T Ashby
Company Secretary
22 July 2015

Mothercare UK Limited

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report to the members of Mothercare UK Limited

We have audited the financial statements of Mothercare UK Limited for the fifty-two weeks ended 28 March 2015 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the reconciliation of movement in shareholders' funds and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of financial statements

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

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 March 2015 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on matters prescribed in the Companies Act 2006

In our opinion the information in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Mothercare UK Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Ian Waller

Ian Waller (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

23.7.

2015

Mothercare UK Limited

Profit and loss account

For the 52 weeks ended 28 March 2015

		52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
	Notes		
Turnover	2	586,782	581,973
Cost of sales (including an exceptional credit of £6,874,000, 2014: charge of £12,228,000, see note 6)		(537,671)	(554,615)
Gross profit		49,111	27,358
Other administrative expenses (including an exceptional credit of £198,000, 2014: charge of £2,160,000, see note 6)		(33,743)	(27,331)
Operating profit	5	15,368	27
Exceptional charge	6	(32,844)	(14,704)
Investment income	7	15,121	12,117
Interest payable and similar charges	8	(13,404)	(13,709)
Loss on ordinary activities before taxation		(15,759)	(16,269)
Tax (charge) / credit on loss on ordinary activities	9	(1,660)	179
Loss for the financial period		(17,419)	(16,090)

All results relate to continuing operations.

Mothercare UK Limited

Statement of total recognised gains and losses For the 52 weeks ended 28 March 2015

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Loss for the financial period	(17,419)	(16,090)
Actuarial (loss)/gain on defined benefit pension schemes	(39,277)	7,014
UK deferred tax attributable to actuarial (loss)/gain	7,855	(1,403)
UK deferred tax attributable to change in rate	-	(2,706)
Gains/ (Losses) recognised on cashflow hedge	8,404	(348)
UK deferred tax attributable to cashflow hedge	(1,611)	-
	<hr/>	<hr/>
Total recognised gains and losses for the financial period	(42,048)	(13,533)

Mothercare UK Limited

Balance sheet

As at 28 March 2015

	Notes	28 March 2015 £'000	29 March 2014 £'000
Fixed assets			
Intangible assets	10	17,731	16,128
Tangible assets	11	59,061	61,434
Investments	12	66,103	65,905
		<u>142,895</u>	<u>143,467</u>
Current assets			
Stocks	13	73,268	74,504
Debtors	15	263,654	224,141
Cash at bank and in hand		4,885	1,357
		<u>341,807</u>	<u>300,002</u>
Creditors: amounts falling due within one year	16	<u>(326,996)</u>	<u>(277,876)</u>
Net current assets		<u>14,811</u>	<u>22,126</u>
Total assets less current liabilities		<u>157,706</u>	<u>165,593</u>
Creditors: amounts falling due after more than one year	17	<u>(74,993)</u>	<u>(76,995)</u>
Provisions for liabilities	18	<u>(35,013)</u>	<u>(25,270)</u>
Net assets excluding pension liability		<u>47,700</u>	<u>63,328</u>
Pension liability (net of deferred tax asset)	20	<u>(64,960)</u>	<u>(39,760)</u>
Net (liabilities) / assets including pension liability		<u>(17,260)</u>	<u>23,568</u>
Capital and reserves			
Called-up share capital	22	28,446	28,446
Share premium account	23	35,542	35,542
Profit and loss account	23	(89,304)	(40,072)
Hedging reserve	23	8,056	(348)
		<u>(17,260)</u>	<u>23,568</u>
Shareholders' funds		<u>(17,260)</u>	<u>23,568</u>

The financial statements of Mothercare UK Limited (registered number 00533087) were approved by the Board of Directors and authorised for issue on 22 July 2015.

Signed on behalf of the Board of Directors:

R Smothers

Director

Mothercare UK Limited

Reconciliation of movements in shareholders' funds For the 52 weeks ended 28 March 2015

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Total losses recognised for the financial period	(42,048)	(13,533)
Credit to equity for share based payments	1,220	133
Net reduction in shareholders' funds	(40,828)	(13,400)
Opening shareholders' funds	23,568	36,968
Closing shareholders' funds	(17,260)	23,568

Mothercare UK Limited

Notes to the financial statements For the 52 weeks ended 28 March 2015

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The main accounting policies, which have been applied consistently throughout the 52 weeks ended 28 March 2015 and the preceding 52 weeks ended 29 March 2014 are described below.

Basis of presentation

The financial statements have been prepared on the historical cost basis and on a going concern basis in accordance with the rationale set out in the going concern statement in the directors' report.

Going concern

After making enquiries and taking into account the Company's latest forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual financial statements. Further information is included in the directors' report.

Goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is currently estimated at 20 years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land and assets in course of construction, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	50 years
Fixed equipment in freehold buildings	20 years
Leasehold improvements	the lease term
Fixtures, fittings, and equipment	3 to 10 years

Residual value is calculated on prices prevailing at the date of acquisition.

Impairment of tangible fixed assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that an asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

1. Accounting policies (continued)

Impairment of tangible fixed assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Stocks

Stocks consist substantially of goods for resale and are stated at the lower of cost and net realisable value. Cost includes an appropriate element of overhead expenditure. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolescence, slow moving or defective items where appropriate.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

1. Accounting policies (continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed. Sales to international franchise partners are recognised when the significant risks and rewards of ownership have transferred which is on dispatch.

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably). Royalty arrangements that are based on sales and other measures are recognised by reference to the underlying arrangement.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's carrying amount.

Leases

All of the Company's leased assets are held under operating leases.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as incentives to enter into property leases are spread evenly over the lease term or except where the period to review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade debtors

Trade debtors are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Property provisions

Descriptions of the provisions held at the balance sheet date are given at note 18. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any differences between expectations and the actual future liability are accounted for in the period when such determination is made.

Onerous leases

Provision has been made in respect of leasehold properties for vacant, partly let and loss making trading stores, for the shorter of the remaining period of the lease and the period until in the directors' opinion, they will be able to exit the lease commitment. The amount provided is based on the future rental obligations together with other fixed outgoings, net of any sub-lease income and in the case of trading stores the expected future shortfall in contribution to cover the fixed outgoings. In determining the provision, the cash flows have been discounted on a pre tax basis using a risk free rate of return. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of provision to change.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

1. Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade creditors

Trade creditors are measured at fair value.

Derivative financial instruments

The Company uses forward foreign currency contracts to mitigate the transactional impact of foreign currencies on its performance and interest rate swaps to mitigate the risk of movements in interest rates. The Company's financial risk management policy prohibits the use of derivative financial instruments for speculative or trading purposes and the Company does not therefore hold or issue any such instruments for such purposes.

Forward foreign currency contracts are recognised initially at fair value, which is updated at each balance sheet date. Changes in the fair values are recognised either in the income statement or through reserves depending on whether the contract is designated as a hedging instrument.

Derivative financial instruments that are economic hedges that do not meet the strict FRS 26 'Financial Instruments: Recognition and Measurement' hedge accounting rules are accounted for as financial assets or liabilities at fair value through profit or loss and hedge accounting is not applied.

The interest rate swaps and forward contracts taken out post 5 January 2014 in place are considered an effective cashflow hedge and are accounted for by recognising the gain/loss on the hedge through reserves rather than the income statement, removing volatility within the income statement.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds are received, net of direct issue costs.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

1. Accounting policies (continued)

Share based payments

Mothercare plc issues cash-settled and equity-settled share-based payments to certain employees of Mothercare UK Limited. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis in Mothercare UK Limited over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the valuation technique considered to be most appropriate for each class of award, including Black-Scholes calculations and Monte Carlo simulations. The expected life used in the formula is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date in Mothercare UK Limited.

The Company also provides employees with the ability to purchase Mothercare plc's ordinary shares at 80 per cent of the current market value within an approved Save As You Earn scheme. Mothercare UK Limited records an expense based on an estimate of the 20 per cent discount related to shares expected to vest on a straight-line basis over the vesting period.

Pension costs

For defined benefit schemes, the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Foreign currency

Transactions in foreign currencies are translated into sterling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

Cash flow statement

The Company is exempt from the requirement of FRS1 (Revised) to include a cash flow statement as part of its financial statements because it is a wholly-owned subsidiary of Mothercare plc, which prepares a consolidated cash flow statement, which includes the cash flows of the Company.

Consolidation

The Company has taken advantage of the exemption from preparing consolidated financial statements in accordance with Section 400 of the Companies Act 2006.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

2. Turnover

Turnover comprises the value of sales (excluding sales taxes and net of discounts) of goods and services provided in the normal course of business. All turnover is derived from one class of business in the United Kingdom. Turnover by destination can be analysed as follows:

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
UK	358,836	350,065
International	227,946	231,908
	<u>586,782</u>	<u>581,973</u>

3. Directors' remuneration and transactions

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Directors' emoluments		
Emoluments	3,848	3,192
Company contributions to money purchase pension schemes	202	297
	<u>4,050</u>	<u>3,489</u>

Two directors exercised share options in the parent company in the period (2014: one director). Eight directors received share options under long-term incentive schemes in the period (2014: seven directors). Details of share option schemes and long-term incentive plans are disclosed in the Mothercare plc Annual Report and Accounts.

The number of directors who were members of pension schemes during the period was as follows:

	52 weeks ended 28 March 2015 number	52 weeks ended 29 March 2014 number
Money purchase schemes	<u>5</u>	<u>8</u>

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

3. Directors' remuneration and transactions (continued)

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Emoluments including annual and retention bonuses	1,319	561
Compensation for loss of office	-	295
Money purchase pension scheme	70	75
	<u>1,389</u>	<u>931</u>

The accrued pension entitlement under the Company's defined benefit scheme of the highest paid director at 28 March 2015 was £nil per annum (2014: £nil per annum).

The highest paid director exercised no share options during the period (2014: Nil).

4. Staff costs

The average monthly number of employees (including executive directors) was:

	52 weeks ended 28 March 2015 number	52 weeks ended 29 March 2014 number
Average number of persons employed (including directors) (all employed in the UK and all employed in retail operations)		
Number employed	5,003	4,989
Full-time equivalent	<u>3,002</u>	<u>3,086</u>
Staff costs during the period (including directors)	£'000	£'000
Wages and salaries (including bonuses, excluding share-based payment charges)	64,895	60,114
Social security costs	4,416	4,364
Pension costs	3,593	3,098
	<u>72,904</u>	<u>67,576</u>

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

5. Operating profit

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Operating profit is stated after charging:		
Depreciation - owned assets	14,974	16,802
Amortisation of goodwill	1,046	1,046
Rentals under operating leases:		
- Hire of plant and machinery	611	990
- Other property operating leases	45,390	45,907
Fees payable to the Company's auditors for the audit of annual accounts	136	136
Staff costs (including bonuses, excluding share-based payment charges)	72,904	67,576

Fees disclosed above payable to Deloitte LLP for audit services include the Company accounts only.

6. Exceptional items

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Items below operating profit		
Cost of a fundamental reorganisation:		
Property related costs	23,175	7,673
Organisational restructure costs	8,699	4,492
Store property, plant and equipment impairment	970	2,539
Total costs of a fundamental reorganisation	32,844	14,704
Exceptional credits in cost of sales		
Non-cash foreign currency adjustments	(6,874)	12,228
Exceptional other administrative expenses		
(Reversal)/Impairment of investment in joint venture	(198)	2,160
	(198)	2,160
	25,772	29,092

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

6. Exceptional items (continued)

Property related costs

Provisions of £23.1 million (2014: £7.7 million) have been made for onerous leases and losses on disposal/termination of property interests. The onerous leases relates to vacant, sublet and trading properties having taken into consideration the results for the period and future years' projections. Provisions have been recognised where there is an expected shortfall in the store contribution to cover the fixed rental obligations. A discount rate of 1.5% has been used in calculating the provision, being the risk free rate. The losses on disposals relate to the store reduction programme announced October 2014.

Organisational restructure costs

During the 52 weeks ended 28 March 2015 a charge of £8.7 million (2014: £4.5 million) was recognised relating to head office restructuring, implementation costs, indirect professional fee associated with the rights issue, recruitment and relocation costs. In 2015 this related to the strategic review following the rights issue. Other exceptional costs have been incurred in relation to legal and other costs related to the new banking agreement.

Store property, plant and equipment impairment

During the 52 weeks ended 28 March 2015 the Company has made provision of £1.0 million (2014: £2.5 million) for store impairment where the carrying value of property plant and equipment is higher than the realisable value and value in use.

Non-cash foreign currency adjustments

During the period, a net credit of £6.9 million (2014: net charge of £12.2 million) was recognised in cost of sales as a result of non-cash foreign currency adjustments under FRS 26 and FRS 23.

Impairment of receivable due from related party in other administrative expenses

During the 52 weeks ended 28 March 2015 the Company has reversed a provision of £0.2 million (2014: £2.2 million provision) for impairment where the carrying value of its investment in its Indian joint venture (Rhea Retail Private Limited) is lower than the realisable value following the post-year end disposal of the joint venture.

7. Investment income

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Bank and other interest receivable	321	17
Retirement benefit schemes – return on assets (see note 20)	14,800	12,100
	<u>15,121</u>	<u>12,117</u>

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

8. Interest payable and similar charges

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Bank loans, overdrafts and other loans (repayable within five years, not by instalments)	4	309
Retirement benefit schemes – interest on liabilities (see note 20)	13,400	13,400
	<u>13,404</u>	<u>13,709</u>

9. Tax credit on loss on ordinary activities

The credit for tax on loss on ordinary activities comprises:

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Current tax:		
UK corporation tax credit/(charge) at 21% (2014: 23%)	(1,106)	(1,426)
Adjustment in respect of prior periods	(236)	-
	<u>(1,342)</u>	<u>(1,426)</u>
Deferred tax:		
Current period	1,444	1,997
Adjustment in respect of prior periods	(207)	(2,530)
Adjustment in respect of change in rate	-	956
	<u>1,237</u>	<u>423</u>
Deferred tax on pension scheme		
Current period	(1,555)	480
Adjustment in respect of change in rate	-	702
	<u>(318)</u>	<u>1,605</u>
Tax credit on loss on ordinary activities	<u>(1,660)</u>	<u>179</u>

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

9. Tax (charge)/credit on loss on ordinary activities (continued)

Factors affecting the tax credit/(charge) for the period:

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Loss on ordinary activities before taxation	(15,759)	(16,269)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 21% (2014: 23%)	3,309	3,742
Expenses not deductible for tax purposes	(702)	(1,812)
Depreciation in excess of capital allowances	(2,355)	(5,043)
Group relief claimed free of charge from other group companies	745	1,240
Double tax relief	1,106	580
Foreign tax	(1,106)	(1,426)
Other timing differences	(2,103)	1,293
Adjustment in respect of prior periods	(236)	-
Current tax (charge)/credit	(1,342)	(1,426)
Deferred tax therefore comprises:		
	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Accelerated capital allowances	683	(686)
Other timing differences	1,410	3,153
Deferred tax asset/(liability)	2,093	2,467

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

10. Intangible assets

	Goodwill £'000	Software* £'000	Total £'000
Cost			
At 29 March 2014	20,920	24,325	45,245
Additions	-	6,151	6,151
At 28 March 2015	20,920	30,476	51,396
Amortisation			
At 29 March 2014	12,632	16,485	29,117
Charge for the period	1,046	3,502	4,548
At 28 March 2015	13,678	19,987	33,665
Net book value			
At 28 March 2015	7,242	10,489	17,731
At 29 March 2014	8,288	7,840	16,128

Goodwill relates to the acquisition of the trade and assets of Childrens World Limited in 2002 and is being amortised over 20 years.

* Reclassified from tangible fixed assets

11. Tangible assets

	Freehold properties £'000	Leasehold improvements £'000	Fixtures, fittings and equipment* £'000	Total £'000
Cost				
At 29 March 2014	11,552	90,660	142,281	253,493
Additions	-	3,339	6,861	10,200
Disposals	-	(3,736)	(5,112)	(8,848)
At 28 March 2015	11,552	90,263	144,030	245,845
Accumulated depreciation				
At 29 March 2014	1,175	67,493	114,391	183,059
Charge for the period	60	4,232	7,180	11,472
Impairment	-	673	297	970
Disposals	-	(3,678)	(5,039)	(8,717)
At 28 March 2015	1,235	68,720	116,829	186,784
Net book value				
At 28 March 2015	10,317	21,543	27,201	59,061
At 29 March 2014	10,377	23,167	27,890	61,434

The net book value of leasehold improvements includes £21.1 million (2014: £22.7. million) in respect of short leasehold properties

* Software reclassified from tangible fixed assets to intangible assets

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

12. Investments

The Company's investments are as follows:

Name	Holding	Interest	Country of incorporation
Childrens World Limited	Ordinary shares	100%	Great Britain
Gurgle Limited	Ordinary shares	100%	Great Britain
Mothercare International (Hong Kong) Limited	Ordinary shares	100%	Hong Kong
Mothercare Sourcing India Private Limited	Ordinary shares	100%	India
Rhea Retail Private Limited	Ordinary shares	30%	India

	£'000
Cost	
At 29 March 2014 and 28 March 2015	68,030
Provision for impairment	
At 31 March 2014	(2,125)
Credit for the period	198
At 28 March 2015	(1,927)
Net book value	
At 28 March 2015	66,103
At 29 March 2014	65,905

During the 52 weeks ended 28 March 2015 the Company has reversed a provision for impairment for £0.2 million (2014: £2.1 million charge for impairment) where the carrying value of investment in joint ventures is higher than the realisable value and value in use. This was to reflect the proceeds received post year end upon disposal of the joint venture in India..

13. Stocks

	28 March 2015 £'000	29 March 2014 £'000
Finished goods and goods for resale	73,268	74,504

There is no material difference between the balance sheet value of the stocks and their replacement cost.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

14. Derivative financial instruments

The Company uses forward foreign currency contracts to reduce its exposure to exchange rate movements, primarily on the US dollar. The Company does not hold derivatives for speculative or trading purposes and has chosen not to hedge account for its forward foreign currency contracts. The Company has chosen to adopt FRS 26 'Financial Instruments: Recognition and Measurement' and therefore recognises derivative financial instruments as assets and liabilities measured at their fair values at the balance sheet date and changes in their fair values have been recognised in the profit and loss account. These arrangements are designed to address significant exchange exposures on forecast future purchases of goods for the following period and are renewed on a revolving basis as required.

Derivatives embedded in non-derivative host contracts have been recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the profit and loss account.

The total amounts of outstanding forward foreign currency contracts to which the Company has committed is as follows:

	28 March 2015 £'000	29 March 2014 £'000
At notional value	143,249	144,639
At fair value	8,504	(5,822)
Fair value of forward foreign currency contracts:		
Included in debtors	8,986	-
Included in creditors	(318)	(5,758)
Fair value of embedded derivatives:		
Included in creditors	(164)	(64)
Currency derivative assets	8,986	-
Currency derivative liabilities	(482)	(5,822)
	<u>8,504</u>	<u>(5,822)</u>

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

15. Debtors

	28 March 2015 £'000	29 March 2014 £'000
Amounts falling due within one year:		
Trade debtors	41,170	33,794
Amounts owed by group undertakings	193,127	172,747
Other debtors	15,992	2,646
Prepayments and accrued income	11,272	12,487
Deferred tax	2,093	2,467
	<u>263,654</u>	<u>224,141</u>

Other debtors include derived financial assets of £9.0 million (2014: £nil million).

16. Creditors: amounts falling due within one year

	28 March 2015 £'000	29 March 2014 £'000
Bank loans and overdrafts	16,465	11,106
Trade creditors	46,438	49,682
Amounts owed to group undertakings	213,145	176,439
Other taxes and social security	1,324	1,881
Other creditors	10,399	9,426
Accruals and deferred income	34,439	23,914
Landlords' contributions	4,402	4,402
Corporation tax creditor	384	1,026
	<u>326,996</u>	<u>277,876</u>

Other creditors include derived financial liabilities of £0.4 million (2014: £5.8 million).

17. Creditors: amounts falling due after more than one year

	28 March 2015 £'000	29 March 2014 £'000
Amounts due to ultimate parent	71,291	71,291
Landlords' contributions	3,702	5,704
	<u>74,993</u>	<u>76,995</u>

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

18. Provisions for liabilities

The movement on provisions can be analysed as follows:

	Property provisions £'000	Other provisions £'000	Total £'000
Balance at 29 March 2014	23,885	1,385	25,270
Charged in period	21,339	864	22,203
Utilised in period	(6,158)	(579)	(6,737)
Released in period	(5,723)	-	(5,723)
Balance at 28 March 2015	33,343	1,670	35,013

Property provisions principally represent the costs of store disposals and provisions for oneours leases. The timing of the utilisation of these provisions is variable dependent upon the lease expiry dates of the properties concerned.

Other provisions principally represent provisions for uninsured losses, hence the timing of the utilisation of these provisions is uncertain.

19. Financial commitments

Banking arrangements:

Under the Mothercare plc group banking arrangements, the Company is party to a set-off agreement against other Mothercare plc group member bank accounts.

VAT:

The Company is party to the Mothercare plc group VAT registration.

Operating lease commitment

	28 March 2015		29 March 2014	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire:				
Within one year	1,783	311	2,346	52
Within two to five years	17,175	618	11,329	295
After five years	25,103	-	35,258	-
	44,061	929	45,933	347

The rents payable under these leases are subject to renegotiations at various intervals specified in the leases, typically every five years.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

20. Pension arrangements

Defined contribution schemes

The Company operates a defined contribution scheme for which the total cost charged to income was £2.2 million (2014: £2.0 million).

Defined benefit schemes

The Company previously operated two defined benefit schemes in the UK, these were both closed to future accrual with effect 30 March 2013.

The most recent full actuarial valuations as at March 2014 were updated as at 28 March 2015 for the purpose of these disclosures with the advice of professionally qualified actuaries. The present value of the defined benefit obligation, the related current service costs and the past service cost were measured using the projected unit credit method.

The major assumptions used for the updated actuarial valuations were:

	2015	2014	2013
Rate of increase in pensions in payment	3.0%	3.2%	3.3%
Discount rate	3.5%	4.5%	4.6%
Inflation assumption - RPI	3.1%	3.4%	3.4%
Inflation assumption - CPI	2.0%	2.4%	2.4%

Mortality assumptions are disclosed in the Mothercare plc annual report and accounts.

The effects of movements in the principal assumptions used to measure the scheme liabilities for every change in the relevant assumption are set out below:

Assumption	Change in assumption	Impact on scheme liabilities £ million
Discount rate	+/- 0.1%	+ 6.6/- 6.6
Rate of price inflation	+/- 0.1%	+ 6.1/- 6.1
Life expectancy	+ 1 year	+ 8.7

The above sensitivities are applied to adjust the defined benefit obligation at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide an approximation to the sensitivity of the assumptions shown.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

20. Pension arrangements (continued)

The fair value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at each balance sheet date were:

	2015		2014		2013	
	Per cent	£ million	Per cent	£ million	Per cent	£ million
Equities	n/a	93.2	7.6	100.0	7.0	84.7
Bonds	n/a	116.9	5.0	83.7	4.4	76.5
Property	n/a	-	5.6	5.9	5.0	21.1
Alternative assets	n/a	70.1	6.6	61.3	6.0	47.2
Other assets	n/a	3.2	5.0	2.4	4.4	5.3
Total fair value of assets		283.4		253.3		234.8
Present value of scheme liabilities		(364.6)		(303.0)		(296.4)
Deficit in the schemes		(81.2)		(49.7)		(61.6)
Related deferred tax asset		16.2		9.9		14.2
Net pension liability		(65.0)		(39.8)		(47.4)

The analysis of the amount to be charged to operating profit:

	52 weeks ended 28 March 2015 £ million	53 weeks ended 29 March 2014 £ million
Current service cost	-	-

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

20. Pensions arrangements (continued)

Analysis of the amount to be (charged)/credited to net interest receivable:

	52 weeks ended 28 March 2015 £ million	52 weeks ended 29 March 2014 £ million
Expected return on pension schemes' assets	14.8	12.1
Interest on pension schemes' liabilities	(13.4)	(13.4)
	<u>1.4</u>	<u>(1.3)</u>

Analysis of the actuarial gain/(loss) recognised in the statement of total recognised gains and losses under FRS 17:

	52 weeks ended 28 March 2015 £ million	52 weeks ended 29 March 2014 £ million
Actual return less than expected return on pension scheme assets	17.2	10.0
Experience gains and losses arising on the scheme liabilities	(56.5)	(3.0)
	<u>(39.3)</u>	<u>7.0</u>

The total cumulative actuarial loss recognised in statement of total recognised gains and loss is £101.6m.

Movement in scheme deficit during the period:

	2015 £ million	2014 £ million
Deficit at beginning of period	(49.7)	(61.6)
Current service costs	-	-
Normal contributions	-	-
Special contribution	6.4	6.2
Gains on curtailments	-	-
Finance income / (cost)	1.4	(1.3)
Actuarial gain/(loss)	(39.3)	7.0
Deficit at end of period	<u>(81.2)</u>	<u>(49.7)</u>

Movements in the present value of defined benefit obligations and movements in the fair value of scheme assets are disclosed in the Mothercare plc annual report and accounts.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

20. Pensions arrangements (continued)

History of experience gains and losses:

	2015 £ million	2014 £ million	2013 £ million	2012 £ million	2011 £ million
Difference between the expected and actual return on schemes' assets	£17.2m	£10.0m	£5.9m	(£8.5m)	(£2.5m)
As a percentage of schemes' assets	6.1%	3.9%	2.5%	(3.9%)	(1.2%)
Experience gains and losses on schemes' liabilities	£56.5m	£3.0m	£21.9m	£12.7m	(£19.0m)
As a percentage of the present value of schemes' liabilities	15.5%	0.9%	7.4%	4.7%	(7.7%)
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses	(£39.3m)	£7.0m	(£16.0m)	(£21.2m)	£16.5m
As a percentage of the present value of schemes' liabilities	10.8%	2.3%	(5.4%)	(7.9%)	6.7%

21. Share-based payments

Mothercare plc issues cash-settled and equity-settled share-based payments to certain employees of Mothercare UK Limited. An expense is recognised in Mothercare UK Limited based on the fair value of the awards at the date of grant, the estimated number of shares that will vest and the vesting period of each award.

The charge for share based payments is £1.3 million (2014: £0.1 million) of which £1.2 million (2014: £0.1 million) was equity settled across the following schemes:

- A. Executive Share Option Scheme
- B. Save As You Earn Schemes
- C. Company Share Option plan
- D. Performance Share Plan
- E. Long Term Incentive Plan

Details of the share schemes that the group operates are provided in the Mothercare plc Annual Report and Accounts 2015 on pages 123 to 127.

For each scheme, expected volatility was determined with reference to the 90-day volatility of Mothercare plc's share price over the previous three years. The expected life used in each model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

21. Share-based payments (continued)

A. Executive share option scheme

Share options may be granted to executives and senior managers at a price equal to the average quoted market price of the group's shares on the date of grant. The options vest after three years, conditional on the group's share price exceeding 3% per annum compound growth over the vesting period. If the options remain unexercised after a period of ten years from the date of grant, they expire. Furthermore, options are forfeited if the employee leaves the group before the options vest.

The number of options outstanding under the executive share option scheme is as follows:

		52 weeks ended 28 March 2015 Number of shares	52 weeks ended 29 March 2014 Number of shares
	Weighted average exercise price		
Balance at beginning of period	324p	2,500	22,500
Exercised during the period	-	-	(20,000)
Forfeited during period	324p	(2,500)	-
Balance at end of period	-	-	2,500

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

21. Share-based payments (continued)

B. Save As You Earn Schemes

The employee Save As You Earn schemes are open to all employees and provide for a purchase price equal to the daily average market price for three days prior to the date of grant, less 20 per cent.

The share options can be applied for during a two week period in the year of the grant and funds are placed on trust for a three-year period.

The number of shares outstanding under the Save As You Earn schemes is as follows:

	Weighted average exercise price	52 weeks ended 28 March 2015 Number of shares	52 weeks ended 29 March 2014 Number of shares
Balance at beginning of period	145p	2,237,016	2,593,812
Granted during period	148p	998,535	199,071
Rights issue options during the period	111p	536,914	-
Forfeited during period	113p	(145,958)	(204,314)
Exercised during period	91p	(1,713,128)	(140,181)
Cancelled in the period	182p	(161,069)	(110,467)
Expired during period	179p	(18,434)	(100,905)
Balance at end of period	149p	1,733,876	2,237,016

The shares outstanding at 28 March 2015 had a weighted average remaining contractual life of 2.5 years and ranged in price from 91p to 244p.

The fair value of Save As You Earn share options is calculated based on a Black-Scholes model with the following assumptions:

Grant date	December 2014	December 2013	December 2012
Number of options granted	998,525	199,071	299,407
Share price at grant date	178p	410p	340p
Exercise price	148p	310p	242p
Expected volatility	42%	43%	50%
Risk free rate	0.60%	0.86%	0.46%
Expected dividend yield	Nil	Nil	Nil
Time to expiry	3.25 years	3.25 years	3.25 years
Fair value of option	165.8p	169.2p	158.5p

The resulting fair value is expense over the service period of three years on the assumption that 20% of options will lapse over the service period as employees leave the Company.

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

21. Share-based payments (continued)

C. Company Share Option Plan

The company share option plan is open for all employees excluding directors and senior employees who are awarded shares under the long term incentive plan. Shares will be awarded to employees still in employment at end of May 2018 subject to group profit before tax for financial year ending March 2018.

The fair value of Company Share Option plan share options is calculated based on a Black-Scholes model with the following assumptions:

Grant date	December 2014
Number of options granted	2,679,515
Share Price at Grant date	183p
Exercise price	184p
Expected volatility	56.0%
Risk free rate	0.97%
Expected dividend yield	Nil
Time to expiry	3.5 years
Fair value of option	74p

D. Performance Share Plan

The Performance Share Plan is a conditional award of shares based on the expected growth in Mothercare plc's profit before taxation over three years. The number of shares outstanding under the Performance Share Plan is as follows:

	52 weeks ended 28 March 2015 Number of shares	52 weeks ended 29 March 2014 Number of shares
Balance at beginning of period	450,375	674,957
Lapsed during period	(450,375)	(224,582)
Balance at end of period	-	450,375

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

21. Share-based payments (continued)

D. Performance Share Plan (continued)

The fair value of the plan award is calculated based on Mothercare plc's estimate of future profit growth. At the current time the forecasts suggest that the performance share plan is not expected to pay out and consequently the fair value is nil.

Grant date	November 2011	May 2011
Number of shares awarded	376,154	618,653
Share price at date of grant	137p	446p
Exercise price	Nil	Nil
Time to expiry	3 years	3 years
Fair value per share	137p	446p

E: Long Term Incentive Plans

In March 2013 the group announced the first awards under the Mothercare plc 2012 Long Term Incentive Plan. This scheme provides the opportunity for executive directors and senior employees to earn awards which will vest in whole or part subject to the achievement of stretching corporate performance conditions supporting the Transformation and Growth plan. The performance conditions relate to the performance of the Mothercare group profit before tax and share price performance. In addition the UK business must break even in the financial period ending 2015 or 2016. The performance period is from 1 April 2012 to 28 March 2015 and the performance conditions will be tested in relation to the financial period 2015 results to determine what percentage of the shares vest. No consideration is payable for the grant of these awards.

In December 2013 the group granted further awards under the Mothercare plc 2013 Long Term Incentive Plan. The Performance conditions relate to group profit before tax, UK profit before tax and share price performance, these conditions will be tested in relation to financial periods March 2016 and March 2017 to determine what percentage of the shares vests. Specifically the performance period for the group profit before tax and share price performance measures is 31 March 2013 to 26 March 2016, and the performance period for the UK profit before tax performance measure is 31 March 2013 to 25 March 2017. No consideration is payable for the grant of these awards.

Grant date	March 2013	March 2013
	PBT awards	Share price awards
Number of shares awarded	1,152,153	1,152,154
Share price at date of grant	289p	289p
Exercise price	Nil	Nil
Expected volatility	57.8%	57.8%
Risk-free rate	0.28%	0.28%
Expected dividend yield	Nil	Nil
Fair value of share granted	289p	130p
Average time to expiry	2.5 years	2.5 years

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

21. Share-based payments (continued)

	December 2013	December 2013	December 2013
Grant date	PBT awards	Share price awards	Share price awards
Number of shares awarded	242,961	404,934	647,895
Share price at date of grant	443p	443p	443p
Exercise price	Nil	Nil	Nil
Expected volatility	56.4%	49.3%	43.7%
Risk- free rate	0.68%	1.08%	0.63%
Expected dividend yield	Nil	Nil	Nil
Fair value of share granted	443p	443p	228p
Average time to expiry	3 years	4 years	3.5 years

In December 2014 and March 2015 the group granted further awards under Mothercare plc 2012 Long Term Incentive Plan. The performance conditions relate to group profit before tax and share price performance. These conditions will be tested in relation to financial years March 2018 and March 2017 respectively to determine what % of the shares vest. No consideration is payable for the grant of these awards.

	December 2014	December 2014	December 2014	December 2014
Grant date	PBT awards	Share price awards	PBT awards	Share price awards
Number of shares awarded	1,466,718	1,466,718	412,000	412,000
Share price at date of grant	184p	184p	192p	192p
Exercise price	Nil	Nil	Nil	Nil
Expected volatility	56.3%	47.7%	56.3%	47.7%
Risk- free rate	0.92%	0.60%	0.92%	0.60%
Expected dividend yield	Nil	Nil	Nil	Nil
Fair value of share granted	184p	71p	184p	71p
Average time to expiry	3.3 years	2.3 years	3.3 years	2.3 years

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

22. Called-up share capital

	28 March 2015 £'000	29 March 2014 £'000
Called-up, allotted and fully paid		
28,446,000 ordinary shares of £1 each	28,446	28,446

23. Reserves

	Hedging reserve £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
Balance as at 29 March 2014	(348)	35,542	(40,072)	(4,878)
Total gains/(losses) recognised for the financial period	11,600	-	(49,232)	(37,632)
Removal from reserves to stock during the period	(3,196)	-	-	(3,196)
Balance as at 28 March 2015	8,056	35,542	(89,304)	(45,706)

Mothercare UK Limited

Notes to the financial statements (continued) For the 52 weeks ended 28 March 2015

24. Ultimate and controlling parent company

The Company's ultimate controlling entity and parent company is Mothercare plc.

The largest and smallest group in which the results of the Company are consolidated is that headed by Mothercare plc, a company incorporated in Great Britain and registered in England and Wales. Copies of these consolidated financial statements may be obtained from Cherry Tree Road, Watford, WD24 6SH.

25. Related party transactions

As a wholly-owned subsidiary of Mothercare plc, the Company has taken advantage of the exemption in FRS 8 'Related party disclosures' not to disclose transactions with other members of the group headed by Mothercare plc.

During the period, the Company entered into the following transactions with joint ventures and associates:

	52 weeks ended 28 March 2015 £'000	52 weeks ended 29 March 2014 £'000
Sale of goods	14,106	19,591
Amounts owed by related parties	4,327	6,350

Sales of goods to related parties were made at the Company's usual cost prices.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received at the period end. A provision of £0.8 million (2014: £1.0 million) has been made for doubtful debts in respect of the amounts owed by related parties.

No amounts (2014: £0.1 million) have been written off in respect of amounts owed by related parties (see note 6).

Directors' remuneration and transactions are as set out in note 3. No other related party transactions in the current or prior period were noted.

26. Events after the balance sheet date

On 8 May 2015 the Company disposed of its joint venture in India, Rhea Retail Private Limited, for consideration of £2.4 million. There was no gain or loss on disposal.