Company Registration No. 00533087

Mothercare UK Limited

Annual Report and Financial Statements

For the 52 weeks ended 24 March 2018

Mothercare UK Limited

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Contents

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Officers and professional advisers

Directors

G Hughes (appointed 1 December 2017)
K Homer (appointed 7 July 2017)
G Kibble (resigned 2 June 2017)
M Newton-Jones (resigned 4 April 2018)
K Rusling (appointed 5 April 2017)
R Smothers (resigned 1 December 2017)
M Stringer
D Talisman (resigned 4 August 2017)
D Wood (appointed 4 April 2018)

Company Secretary

L Medini

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
Statutory Auditor
2 New Street Square
London
United Kingdom
EC3A 3BZ

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 24 March 2018 are set out at pages 14 to 47. 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 of companies referred to as the 'Group' in this document.

The Company is a specialist retailer of products for mothers-to-be, babies and children up to pre-school age. 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 and retail partners 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. The past year has been a challenging one for the Company where, after positive like for like sales performance in the UK in the first six months, we witnessed some very difficult trading conditions over the second half in light of a significant drop in consumer confidence which led to lower footfall and spend both in-store and online, affecting sales and profits.

The tough consumer backdrop meant that towards the end of the financial year we entered into discussions with our lenders regarding our financing arrangements and we have been working to reach a resolution which can support the ongoing transformation and create a sustainable future for the business.

The Group of which this Company is a part, launched a comprehensive refinancing and restructuring package on 17 May 2018, to support its transformation plan. As part of this, the Group's existing banks agreed to provide a revolving credit facility conditional on the approval of a Company Voluntary Arrangement ("CVA") in Mothercare UK Limited, and a successful equity raise. The CVA was approved on 1 June 2018 and the challenge period has been subsequently concluded. The equity raise, for £32.5 million gross proceeds, has been underwritten by Numis Securities Limited, and the related prospectus was launched on 9 July 2018. The equity raise is expected to be completed in July 2018.

The CVA proposal in respect of Childrens World Limited (a subsidiary of Mothercare UK Limited) was not carried by its creditors, and Childrens World Limited was placed into administration on 9 July 2018 following the transfer of 13 of its 22 stores to Mothercare UK Limited.

Review of the business and future developments

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 pre-school age. 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. The toys in Mothercare's range are mainly for babies and complement the Group's ELC ranges well.

Mothercare UK Limited

Strategic report (continued)

Review of the business and future developments (continued)

This strategy is based on the following six strategic pillars:

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

Digital continued to be a key priority for the business. Online sales were up over the year and now account for over 40% of total UK retail sales with sales via iPads in stores contributing to the mix despite the impact of lower store footfall over the second half.

Mobile also continued to contribute to online reflecting the ways in which customers are browsing and shopping for products.

Click and Collect orders, now account for 24% of online sales (2017: 25%), giving customers the flexibility to collect in store, with the additional benefit of driving footfall.

Improvements to the website, particularly on simplifying and optimising the experience to ensure it is as navigable and intuitive as possible, led to online conversion improving to 1.84% (2017: 1.65%).

The business is mindful of the new General Data Protection Regulation (GDPR) legislation and has a full programme in place to ensure compliance with the new regulations.

The business continued to focus on right-sizing the UK store estate through the ongoing store closure programme, closing 15 stores in the year and opening 2 new stores. We now have an agile store estate with an average lease length of 4.5 years and 78% of our UK store estate is now in the new 'club' format.

The business continued to work with suppliers to introduce new brands and unique ranges, whilst adapting to the more difficult trading conditions during the year as necessary. The business began to sharpen its focus on the core markets of maternity, newborn, baby and toddler up to pre-school and rationalising its ranges. There was also a focus on reducing stock holding to improve working capital.

After an increase in gross margin year on year in the first half, the business saw sales of full price products fall over the second half as a result of a deteriorating consumer environment. In a competitive climate, promotional activity was necessary to stimulate demand and customers bought more heavily into discounted items, particularly over the peak Christmas period.

The increase on cost of goods from the devaluation of sterling against the US dollar was partly negotiated away, but resulted in price increases for customers of 3-5%. These increases only began to flow towards the end of the first half.

The business finished the year with a gross margin reduction and the percentage of full price product sales was 58% (2017: 60%).

Over the year the business took decisive action to reduce the central cost base to become a leaner business. There remains a tight control over costs and further cost reduction initiatives have been identified in order to accelerate business simplification and to drive further central overhead savings and efficiencies. The business also continued to invest in key areas such as warehousing, where the consolidation is now complete and it can now fulfil products for store and online from one single site.

Strategic report (continued)

Review of the business and future developments (continued)

We operate the overseas stores through International franchising and retail partners, which remains a growth opportunity for the Company. International markets remained challenging this year, but Mothercare saw an improved performance in the second half and a moderate return to growth in the Middle East which was encouraging. As part of the International restructure which began in the prior period, the Company has sought to strengthen the franchise model and focus activity where there are the biggest opportunities for growth. This will mean investing more time and resource in our most important territories and over time consolidating or exiting some of our small territories. In the year, 94 stores were opened and 115 closed as part of the rationalisation programme in those territories. During the period the business transitioned its joint venture in China to a franchise operation in order to maximise opportunities in that particular market. Mothercare also entered into the Vietnam market through a franchised store and a further two are in development.

Key performance indicators

Revenue was down by £2.0 million to £551.2 million (2017: £553.2 million). International revenue was up 3.8% to £196.5 million (2017: £189.3 million) driven by higher shipments year on year and UK revenue fell by 2.5% to £354.7 million (2017: £363.9 million). The number of UK stores at the reporting date was 134 (2017: 147), with 15 underperforming stores closed and 2 opened during the period. The number of stores operated by our international partners reduced from 953 to 932.

There were adjusted items in the period of £199.8 million (2017: £17.4 million), including £138.2 million for impairment of amounts due from group undertakings as a result of the CVA, £55.6 million for property costs including store impairments/closures and provision for onerous leases (2017: £5.5 million), £7.0 million relating to head office restructuring and financing (2017: £3.7 million), a £2.9 million credit for foreign currency adjustments (2017: £1.3 million credit) and £1.0 million charge for joint venture trade receivable costs (2017: £4.0 million).

The loss before taxation has increased to £204.8 million (2017: loss before tax £10.4 million) largely driven by the increase in adjusted items (up £182.4 million) and a reduction in gross margin.

Net liabilities are now £183.6 million (2017: £59.6 million net liabilities). This movement is driven mainly by the provision against amounts due from group undertakings as a result of the restructure of the Group following the CVA partly offset by an increase in capital in the year of £80.0 million due to the reassignment of an intra-Group balance, and the actuarial gain on the defined benefit scheme.

Further details of the Company's results for the 52 weeks ended 24 March 2018 are shown in the income statement, 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.

Principal risks and uncertainties (continued)

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 take the necessary action, risk avoidance measures or monitoring required. Elements of the programme were 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 Group 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.

Liquidity and cash management

Current trading challenges may not deliver sufficient cash and failures in cash management may result in breaches to banking covenants and forced administration. The Company's existing bankers have agreed to provide further financing conditional on the approval of a CVA, which the Group launched on 17 May 2018 and which was subsequently approved on 1 June 2018 and a successful equity raise (see Note 27). The equity raise, for £32.5 million gross proceeds, has been underwritten by Numis Securities Limited, and the related prospectus was launched on 9 July 2018. The equity raise is expected to be completed in July 2018.

The Group has also secured the support of its franchise partners that will allow the Group to drawdown a loan against outstanding trade receivables. There is continued focus on liquidity management and a cash committee in place to regularly review the cash position.

Brand and reputation

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.

International markets and franchisee model

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. There is a strategic focus on the 5 key markets. The Company has improved commercial agreements, disciplines and relationship management and audit checks are conducted with consequences in place if any compliance issues arise.

Transformation strategy and impact

The anticipated turnaround of the Company's UK business may not be achievable if it fails to implement effectively key aspects of its strategic plan. In order to mitigate this risk, the Company is implementing its strategic plan, whilst maintaining a lean organisation through tight management of resources and controlling the Company's cost base with close Executive oversight.

Principal risks and uncertainties (continued)

Supply chain and 3rd parties

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 strategic review of supply chain is in place together with a Brexit risk perspective. Business continuity plans are regularly updated across the Company.

Political climate and uncertainty

The Company may be affected by challenging economic conditions and political developments affecting both Home and International markets in which it operates.

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. The Company works with franchise partners to manage movements in foreign exchange, review pricing, and improve products and customer service.

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

L Medini

Company Secretary

19 July 2018

Directors' report

The Directors present their annual report together with the audited financial statements and the independent auditor's report for the 52 weeks ended 24 March 2018.

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 are shown on page 1. With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation.

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 (2017: £nil).

Employees

The Company involves all of its employees in the delivery of its strategy. It regularly discusses with all its employees its corporate objectives, trading results and performance, as well as the economic environments in which the Company trades in. This is achieved through the Company employee intranet, weekly briefings by the Group Chief Executive Officer and other Operating Board members, updates on financial performance and through other email and video presentations. These communications are extended to the Company's overseas offices in Hong Kong and to stores in the UK. During the year an employee consultative form (ECF) was formed to support colleagues through a major restructuring. Following the conclusion of the restructuring the ECF was disbanded and three new colleague engagement groups (CEGs) were formed. The CEG is a forum for the exchange of information and views on matters that affect Mothercare employees and serve as consultative bodies where required. They are made up of elected representatives.

The Company aspires to develop a loyal and high performing team through development of its culture and values. Annual and mid-year performance reviews are carried out with all employees and objectives set that align with the business strategy. The Company offers a wide variety of development opportunities to enable employees to improve their skills.

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 business activities and the factors likely to affect its future development are set out in the Strategic Report, as is the financial position of the Company.

Going concern (continued)

As stated in the Strategic report, the Group of which this Company is a part, launched a comprehensive refinancing and restructuring package on 17 May 2018, to support its transformation plan. The Directors are of the view that upon the successful completion of the Company Voluntary Arrangement ("CVA") and subsequent equity issue, the Group will have sufficient financing to deliver its transformation plan, with a significantly reduced store estate, supported by ongoing savings in store costs and a lower working capital requirement. As part of the refinancing package, the Group's existing banks agreed to provide a revolving credit facility conditional on the approval of a CVA in Mothercare UK Limited, and a successful equity raise. The CVA was approved on 1 June 2018 and the challenge period has been subsequently concluded. The equity raise, for £32.5 million gross proceeds, has been underwritten by Numis Securities Limited, and the related prospectus was launched on 9 July 2018. The equity raise is expected to be completed in July 2018.

Based on this and on a written commitment of financial support from its ultimate parent company, Mothercare plc, the Directors are of the opinion that the Group and the Company will operate within the terms of its revised borrowing facilities and covenants for the foreseeable future. Notwithstanding this, and therefore our preparation of the financial statements on a going concern basis, we recognise that the dependency on the final completion of the equity raise represents a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern.

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 35.6% of Company sales (2017: 34.2%). Of these sales, 30% 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 64% of purchases. The Company policy is that all material exposures are hedged by using forward currency contracts.

Interest rate risk

The principal interest rate risk of the group arises in respect of the drawdown of the revolving credit facility. This facility is at a fixed rate plus LIBOR and it exposes the Group to cash flow interest rate risk. The interest exposure is monitored by management but due to low interest rate levels during the period the risk is believed to be minimal and no interest rate hedging has been undertaken.

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.

Post balance sheet events

Mark Newton-Jones stepped down as director on 4 April 2018 and David Wood was appointed on the same date.

Mothercare UK Limited

Directors' report

Refinancing and funding review

The Group of which this Company is a part, launched a comprehensive refinancing and restructuring package on 17 May 2018, to support its transformation plan. As part of this, the Group's existing banks agreed to provide a revolving credit facility (£67.5 million comprising two tranches; £50.0 million stepping down to £30.0 million in September 2020 with final maturity in December 2020 and £17.5 million, maturing in November 2018, at which point an overdraft of £5.0 million becomes uncommitted outside of the revolving credit facility) conditional on the approval of a Company Voluntary Arrangement ("CVA") in Mothercare UK Limited, and a successful equity raise.

The CVA was approved on 1 June 2018 and the challenge period has been subsequently concluded. The equity raise, for £32.5 million gross proceeds, has been underwritten by Numis Securities Limited, and the related prospectus was launched on 9 July 2018. The equity raise is expected to be completed in July 2018.

The CVA proposal in respect of Childrens World Limited (a subsidiary of Mothercare UK Limited) was not carried by its creditors, and Childrens World Limited was placed into administration on 9 July 2018 following the transfer of 13 of its 22 stores to Mothercare UK Limited.

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 (as defined in the Companies Act 2006) 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(2) 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:

L Medini
Company Secretary
19 July 2018

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 year. 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), including FRS 101 "Reduced Disclosure Framework". 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 judgments and accounting 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 and disclose with reasonable accuracy at any time the financial position of the Company and 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.

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Mothercare UK Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 24 March 2018 and of its loss for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that following the parent company's (Mothercare plc) refinancing and restructuring package, including a Company Voluntary Arrangement, announced on 17 May 2018 and approved on 1 June 2018, Mothercare UK Limited remains dependent on the successful completion of the forthcoming £32.5 million equity raise. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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.

Sukhbinder Kooner (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London,
19th July 2018

Mothercare UK Limited

Income Statement
For the 52 weeks ended 24 March 2018

	Notes	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Revenue	3	551.2	553.2
Cost of sales (including an adjusted items[1] credit of £2.0m, 2017: charge of £4.2m, see Note 6)		(515.3)	(506.8)
Gross profit		35.9	46.4
Other operating expenses (including an adjusted items[1] charge of £201.8m, 2017: £13.2m, see Note 6)		(239.6)	(52.9)
Operating loss	5	(203.7)	(6.5)
Interest receivable and similar income	7	9.6	10.3
Interest payable and similar charges	8	(10.7)	(14.2)
Loss on ordinary activities before taxation		(204.8)	(10.4)
Tax on loss on ordinary activities	9	(3.2)	0.4
Loss for the financial period		(208.0)	(10.0)

1. Adjusted items are considered to be one-off or significant in nature and/or value. Adjusted items include property costs, restructuring costs and impairment charges, provisions for receivables and the impact of foreign currency adjustments under IAS 39 and IAS 21 set out in Note 6 to the financial statements.

The accompanying notes form an integral part of these financial statements.

All results relate to continuing operations.

Mothercare UK Limited

Statement of comprehensive income
For the 52 weeks ended 24 March 2018

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Loss for the financial period	(208.0)	(10.0)
Items that will not be reclassified subsequently to the income statement:		
Remeasurement of net defined benefit liability – actuarial gain/(loss) on defined benefit pension schemes	36.0	(9.7)
Deferred tax relating to items not reclassified	(21.1)	0.5
	14.9	(9.2)
Items that may be reclassified subsequently to the income statement:		
Cash flow hedges: (losses)/gains arising in the period	(14.0)	14.3
Deferred tax relating to items reclassified	0.7	0.8
	(13.3)	15.1
Other comprehensive income for the period	1.6	5.9
Total comprehensive expense for the period attributable to owners of the Company	(206.4)	(4.1)

Mothercare UK Limited

Balance sheet
As at 24 March 2018

	Notes	As at 24 March 2018 £m	As at 25 March 2017 £m
Non current assets			
Intangible assets	10	34.8	29.7
Tangible assets	11	54.9	79.4
Investments in subsidiaries	12	-	63.7
Derivative financial instruments	15	-	0.2
		89.7	173.0
Current assets			
Inventories	13	74.1	86.9
Debtors	16	62.3	263.0
Cash at bank and in hand		4.9	1.6
Derivative financial instruments	15	-	6.1
		141.3	357.6
Current liabilities			
Trade and other payables	17	(295.7)	(394.3)
Provisions	19	(16.8)	-
Derivative financial instruments	15	(7.1)	(0.8)
		(319.6)	(395.1)
Net current liabilities		(178.3)	(37.5)
Total assets less current liabilities		(88.6)	135.5
Non-current liabilities			
Trade and other payables	18	(20.0)	(92.7)
Provisions	19	(36.8)	(22.3)
Derivative financial instruments	15	(0.5)	-
Retirement benefit obligations	21	(37.7)	(80.1)
		(95.0)	(195.1)
Net liabilities		(183.6)	(59.6)
Capital and reserves			
Called-up share capital	23	28.4	28.4
Share premium account	24	35.5	35.5
Capital acquisition reserve	24	80.0	-
Hedging reserve	24	(7.4)	3.4
Profit and loss account	24	(320.1)	(126.9)
Shareholders' deficit		(183.6)	(59.6)

The financial statements of Mothercare UK Limited (registered number 00533087) were approved by the Board of Directors and authorised for issue on 19 July 2018.

Signed on behalf of the Board of Directors:

G Hughes, Director

Mothercare UK Limited

Statement of changes in equity
For the 52 weeks ended 24 March 2018

	Called up share capital £m	Share premium account £m	Capital acquisition reserve £m	Hedging reserve £m	Profit and loss account £m	Total £m
Balance at 27 March 2016	28.4	35.5	-	6.8	(108.5)	(37.8)
Loss for the period	-	-	-	-	(10.0)	(10.0)
Other comprehensive income/ (expense) for the period	-	-	-	15.1	(9.2)	5.9
Total comprehensive income/(expense) for the period	-	-	-	15.1	(19.2)	(4.1)
Transfer from equity to inventories during the period	-	-	-	(18.5)	-	(18.5)
Credit to equity for equity settled share based payments	-	-	-	-	0.8	0.8
Balance at 25 March 2017	28.4	35.5	-	3.4	(126.9)	(59.6)
Loss for the period	-	-		-	(208.0)	(208.0)
Other comprehensive (expense)/income for the period	-	-		(13.3)	14.9	1.6
Total comprehensive expense for the period	-	-	-	(13.3)	(193.1)	(206.4)
Transfer to equity from inventories during the period	-	-	-	2.5	-	2.5
Capital addition	-	-	80.0	-	-	80.0
Charge to equity for equity-settled share based payments	-	-	-	-	(0.1)	(0.1)
Balance at 24 March 2018	28.4	35.5	80.0	(7.4)	(320.1)	(183.6)

Mothercare UK Limited

Notes to the financial statements
For the 52 weeks ended 24 March 2018

1. Accounting policies

The financial statements are prepared in accordance with Financial Reporting Standard 101 reduced disclosure framework (FRS 101) and the UK Companies Act. The main accounting policies are summarised below. They have been applied consistently throughout the 52 weeks ended 24 March 2018 and the preceding 52 weeks ended 25 March 2017 and are described below.

General information

Mothercare UK Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic report on pages 2 to 6.

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Basis of accounting

These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below, and on a going concern basis in accordance with the rationale set out in the going concern statement in the Directors' report.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements, because it is included in the group financial statements of Mothercare plc. Details of the parent in whose consolidated financial statements the Company is included are shown in Note 28 to the financial statements. These financial statements therefore present the information about the Company not about its group.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group financial statements of Mothercare plc. The group financial statements of Mothercare plc are available to the public and can be obtained as set out in Note 28.

Notes to the financial statements (continued)
For the 52 weeks ended 24 March 2018

1. Accounting policies (continued)

Going concern

As stated in the Directors' report and Strategic report, the Group of which this Company is a part, launched a comprehensive refinancing and restructuring package on 17 May 2018, to support its transformation plan. The Directors are of the view that upon the successful completion of the Company Voluntary Arrangement ("CVA") and subsequent equity issue, the Group will have sufficient financing to deliver its transformation plan, with a significantly reduced store estate, supported by ongoing savings in store costs and a lower working capital requirement. As part of the refinancing package, the Group's existing banks agreed to provide a revolving credit facility conditional on the approval of a "CVA" in Mothercare UK Limited, and a successful equity raise. The CVA was approved on 1 June 2018 and the challenge period has been subsequently concluded. The equity raise, for £32.5 million gross proceeds, has been underwritten by Numis Securities Limited, and the related prospectus was launched on 9 July 2018. The equity raise is expected to be completed in July 2018.

Based on this and on a written commitment of financial support from its ultimate parent company, Mothercare plc, the Directors are of the opinion that the Group and the Company will operate within the terms of its revised borrowing facilities and covenants for the foreseeable future. Notwithstanding this, and therefore our preparation of the financial statements on a going concern basis, we recognise that the dependency on the final completion of the equity raise represents a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern.

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 stated at cost and is subject to annual impairment reviews.

Revenue recognition

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

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.

Adjusted items

Due to their significance or one-off nature, and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Company, certain items have been classified as adjusted.

The gains and losses on these items, such as provision for onerous leases, impairment charges, and restructuring costs can have a material impact on the trend in the profit from operations and the result for the period. Adjusting for these items is consistent with how business performance is measured internally by the Board and the Operating Board.

Further details of the adjusted items are provided in Note 6.

1. **Accounting policies (continued)**

Supplier funding income

The Company receives income from its suppliers, mainly in the form of early settlement discounts and volume based rebates. They are recognised as a reduction in cost of sales in the year to which they relate. Any supplier funding income received in respect of unsold stock at the period end is deferred on the balance sheet. At the period end the Company is sometimes required to estimate supplier income due from annual agreements for volume rebates. The Company also receives promotional contributions which are recognised when the promotional period it relates to has ended. Promotional income directly attributable to marketing costs is recognised as a deduction to administrative expenses.

Included in the balance sheet are amounts receivable of £3.2 million in respect of supplier funding income, comprising £1.0 million of settlement discounts invoiced but not yet settled and £2.2 million of promotional and retrospective rebate contributions earned but not yet invoiced, netted against £1.4 million of deferred rebate income on stock not yet sold.

Foreign currencies

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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 income statement. Exchange differences are recognised in the income statement in the period in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks.

Hedge accounting

The Company designates its forward currency contracts as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Changes in the fair value of financial instruments designated as effective are recognised in the statement of comprehensive income and any ineffective portion is recognised immediately in the income statement. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item. Movements in the hedging reserve in equity are detailed in the statement of comprehensive income.

Pension costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in other comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds.

1. Accounting policies (continued)

Pension costs (continued)

The Group has an unconditional right to a refund of surplus under the rules.

In consultation with the independent actuaries to the schemes, the valuation of the retirement benefit obligations has been updated to reflect current market discount rates, and also considering whether there have been any other events that would significantly affect the pension liabilities. The impact of these changes in assumptions and events has been estimated in arriving at the valuation of the retirement benefit obligations.

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. The tax currently payable is based on taxable profit for the financial period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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.

The company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1. Accounting policies (continued)

Intangible assets - software

Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use. These costs are amortised on a straight-line basis over their expected useful lives, which is normally five years.

Tangible fixed assets

Tangible fixed assets are carried at cost less accumulated depreciation and any recognised impairment losses. Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the 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 20 years

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

Impairment of tangible and intangible 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.

The 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. 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, including investments in subsidiaries, are shown at cost less provision for impairment.

1. **Accounting policies (continued)**

Inventories

Inventories consist substantially of goods for resale and are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost formula. Net realisable value is based on estimated selling price, less all estimated costs to completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolescence, slow moving or defective items where appropriate.

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 income statement 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.

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.

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.

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 income statement 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 to mitigate the risk of movements in exchange 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.

1. Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments (continued)

Derivative financial instruments that are economic hedges that do not meet the strict IAS 39 'Financial Instruments: Recognition and Measurement' hedge accounting rules are accounted for as financial assets or liabilities at fair value through the income statement and hedge accounting is not applied.

The forward contracts in place are considered an effective cash flow 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.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Onerous leases

Present obligations arising out of onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Property fit out contributions

Contributions received in respect of property fit-out costs are amortised over the term of the lease.

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 an 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.

1. Accounting policies (continued)

Share based payments (continued)

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.

2. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, which are described in Note 1, management has made the following judgements that have an effect on the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Company's accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and judgements which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

2a. Critical accounting judgements

Adjusted items

The Directors believe that the adjusted item measure provides additional useful information on the performance of the business.

These measures are consistent with how business performance is measured internally by the Board and the Operating Board.

The classification of adjusted items requires significant management judgement after considering the nature and intentions of a transaction and may not be directly comparable with adjusted item classifications used by other companies.

Note 6 provides further details on current period adjusted items and their adherence to Company policy.

Deferred tax

The Directors have to consider the recoverability of the deferred tax assets based on forecast profits and whether tax assets should be retained. To the extent that it is considered that there are future profits available to utilise the tax assets the value of the asset has been retained on the balance sheet.

2a. Critical accounting judgements (continued)

Impairment of assets

The Company reviews the carrying value of assets on a periodic basis, and whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Such circumstances or events could include: a pattern of losses involving the fixed asset; a decline in the market value for the fixed asset; and an adverse change in the business or market in which the fixed asset is involved. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount and the asset's residual value, if any. Estimates of future cash flows and the selection of appropriate discount rates relating to particular assets or groups of assets involve the exercise of a significant amount of judgement.

Supplier funding

Supplier funding is recognised as a reduction in cost of sales in the year to which it relates. Volume and other rebates require judgement to be made as to the quantum and timing of income recognised, which are dependent upon achieving pre-agreed purchasing targets over an extended period of time.

2b. Key sources of estimation uncertainty

Retirement benefits

Retirement benefits are accounted for under IAS 19 'Employee Benefits'. For defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at fair value.

As a result of changing market and economic conditions, the expenses and liabilities actually arising under the plans in the future may differ materially from the estimates made on the basis of these actuarial assumptions. The plan assets are partially comprised of equity and fixed-income instruments. Therefore, declining returns on equity markets and markets for fixed-income instruments could necessitate additional contributions to the plans in order to cover future pension obligations. Also, higher or lower withdrawal rates or longer or shorter life of participants may have an impact on the amount of pension income or expense recorded in the future.

At year end both defined benefit schemes were in the process of implementing revised de-risking strategies with only the Staff pension scheme expected to have a new global synthetic equity mandate following the proposed changes. There was a strategic allocation of 24% to diversified growth funds for both Schemes.

The interest rate used to discount post-employment benefit obligations to present value is derived from the yields of senior, high-quality corporate bonds at the balance sheet date. These generally include AA-rated securities. The discount rate is based on the yield of a portfolio of bonds whose weighted residual maturities approximately correspond to the duration necessary to cover the entire benefit obligation.

Pension and other post-retirement benefits are inherently long-term and future experience may differ from the actuarial assumptions used to determine the net charge for 'pension and other post-retirement charges'. Note 21 describes the principal discount rate, inflation and pension retirement benefit obligation assumptions that have been used to determine the pension and post-retirement charges in accordance with IAS 19. The calculation of any charge relating to retirement benefits is clearly dependent on the assumptions used, which reflects the exercise of judgement. The assumptions adopted are based on prior experience, market conditions and the advice of plan actuaries.

At 24 March 2018, the Company's pension liability was £37.7 million (2017: £80.1 million). Further details of the accounting policy on retirement benefits are provided in Note 1.

Sensitivities on assumptions are included in Note 21.

2b. Key sources of estimation uncertainty (continued)

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 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 these provisions to change.

Allowances against the carrying value of inventory

The Company reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Company is required to make judgements as to future demand requirements and to compare these with current inventory levels. Factors that could impact estimated demand and selling prices are timing and success of product ranges.

Allowances against the carrying value of joint venture receivables

The Company reviews the recoverable amount of its receivables on a periodic basis. Provisions for receivables are established based upon the difference between the receivable value and the estimated net collectible amount.

Allowances against the carrying values of amounts due from group undertakings

Amounts due from group undertakings are recognised at fair value. Under the terms of the CVA referred to in the Strategic report, amounts owed by various group undertakings have been compromised such that the obligation reduced to 5% of the net amount outstanding at 1 June 2018. This may impact on the recoverability of other group undertakings and as a result a total impairment charge of £138.2 million against group receivables has been made.

Notes to the financial statements (continued)
For the 52 weeks ended 24 March 2018

3. Revenue

Revenue comprises the value of sales (excluding sales taxes and net of discounts) of goods and services provided in the normal course of business. All revenue is derived from one class of business.

Revenue by geographical market can be analysed as follows:

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
UK	354.7	363.9
International	196.5	189.3
	551.2	553.2

4. Staff costs

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

	52 weeks ended 24 March 2018 number	52 weeks ended 25 March 2017 number
Average number of persons employed (including directors)		
UK stores	3,870	4,234
Head office	642	703
Total average number of persons employed	4,512	4,937
Full-time equivalent	2,604	2,870

Staff costs during the period (including directors)	**£m**	**£m**
Wages and salaries (including bonuses, excluding share-based payment charges)	56.1	59.8
Social security costs	4.4	4.9
Pension costs	5.5	5.0
	66.0	69.7

5. Operating loss

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Operating loss is stated after charging:		
Net total foreign exchange gains	(6.1)	(6.3)
Depreciation - owned assets	13.6	14.0
Amortisation of software	8.0	4.0
Impairment of property plant and equipment	16.0	3.3
Loss on disposal of property plant and equipment	-	5.0
Rentals under operating leases	38.5	41.3
Cost of inventories recognised as expense	377.5	362.1
Write down of inventories to net realisable value	2.9	3.8
Provision for impairment against subsidiary undertaking (Note 12)	63.7	-
Impairment of amounts due from other group undertakings (Note 16)	138.2	-
Release of amount payable to subsidiary undertaking (Note 17)	(63.7)	-
Fees payable to the Company's auditor for the audit of the annual financial statements	0.1	0.1
Staff costs (including bonuses, excluding share-based payment charges)	66.0	69.7

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

6. Adjusted items

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Adjusted items included in cost of sales		
Restructuring costs	0.9	5.5
Foreign currency adjustments	(2.9)	(1.3)
Total adjusted items in cost of sales	(2.0)	4.2
Adjusted items included in operating expenses		
Property related costs	55.6	5.5
Non property related costs	7.0	3.7
Net impairment of amounts due from and investments in, group undertakings	138.2	-
Joint venture costs	1.0	4.0
Total adjusted items in operating expenses	201.8	13.2
Total adjusted items	199.8	17.4

6. Adjusted items (continued)

Adjusted items included in cost of sales

Restructuring costs - £0.9 million

Restructuring costs include £0.9 million relating to the warehouse development project. The Company completed significant changes to the warehouse and order management systems and the consolidation of warehouse facilities.

These costs are considered to be an adjusted item as they are significant in value and one-off in nature.

Foreign currency adjustments - £2.9 million credit

During the period, a net credit of £2.9 million (2017: £1.3 million) was recognised in cost of sales as a result of foreign currency adjustments.

Foreign currency adjustments include:

- The retranslation of foreign currency denominated cash, debtor and creditor balances (predominantly US$) to closing spot rate
- Stock purchases where payment is outstanding to the historic rate at the date of purchase

The volatility in the spot rate at period end and the associated gains and losses on unsettled transactions do not present the users of the accounts with a true picture of underlying performance during the reported period. Including these items within adjusted items is in line with how the business performance is measured internally by the management of the business.

Adjusted items included in operating expenses

Property related costs

The charge of £55.6 million (2017: £5.5 million) includes £5.8 million store closure provision for expected closure costs, £16.0 million UK store impairment following annual impairment review (2017: £1.9 million), and a £33.8 million onerous lease provision (2017: £3.6 million for onerous lease and disposal of property interests). A net charge of £5.8 million was recognised with respect to store closures, including property dilapidations, redundancy and lease exit costs. UK store impairment testing during the period has identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores. As a result a charge of £16.0 million has been incurred with respect to the impairment of the assets associated with these stores.

While costs associated with the closure of the UK store estate will recur across financial periods, the Company considers that they should be treated as an adjusted item given that they are part of a strategic programme and are significant in value.

The charges associated with the impairment of stores and onerous leases have been classified as adjusted items on the basis of the significant value of the charge in the period to the Company.

Non property related costs - £7.0 million

During the period, the Company undertook a review of central costs and its head office structure. This resulted in a reduction of circa 192 head office roles (14 deferred to the period ending 30 March 2019) achieved through redundancy and natural attrition. The reorganisation cost of £5.9 million comprised redundancy payments, legal fees and other one-off costs.

6. Adjusted items (continued)

Non property related costs - £7.0 million (continued)

In January 2018 the Group of which Mothercare UK Limited forms a part entered into refinancing discussions and a review of additional funding sources. Costs of £1.1 million have been incurred relating to consultancy and other advisor costs.

The restructure and refinancing activities are part of the 2018 transformation strategy and are considered significant in value and relating to a strategic initiative. As a result they are not considered to be normal operating costs of the business.

Net impairment of amounts due from and investments in group undertakings - £138.2 million

The CVA proposal in respect of Childrens World Limited (a subsidiary of Mothercare UK Limited) was not carried by its creditors, and Childrens World Limited went into administration on 9 July 2018 following the transfer of 13 of its 22 stores to Mothercare UK Limited. As a result an impairment of £63.7 million was made in respect of the investment in this subsidiary and a corresponding creditor of £63.7 million was released.

As a result of the CVA and the compromise arrangements included within it (see Note 27), the Company has carried out a detailed impairment review of amounts due from other group undertakings and as a result a provision of £138.2 million (2017: £ nil) has been made.

The restructure and refinancing activities are part of the 2018 transformation strategy and are considered significant in value and relating to a strategic initiative. As a result they are not considered to be normal operating costs of the business.

Joint venture costs - £1.0 million

In December 2017 the Group of which Mothercare UK Limited forms a part fully disposed of its joint venture in China and entered into a new franchise agreement. A charge of £1.0 million has been recognised; £0.5 million for gross trade receivables write off and £0.5 million for legal fees.

The restructure of the joint venture is considered significant in value and one-off in nature. As a result it is not considered to be normal operating costs of the business.

7. Interest receivable and similar income

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Other interest receivable	0.1	-
Other investment income	0.8	-
Interest income on pension assets (see Note 21)	8.7	10.3
	9.6	10.3

8. Interest payable and similar charges

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Bank and other interest payable	-	1.3
Interest expense on pension liabilities (see Note 21)	10.7	12.9
	10.7	14.2

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

The (charge)/credit for tax on loss on ordinary activities comprises:

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Current tax:		
UK corporation tax charge at 19% (2017: 20%)	(1.1)	(0.9)
Adjustment in respect of prior periods	-	(0.1)
Total current tax	(1.1)	(1.0)
Deferred tax: (see Note 14)		
Current period (charge)/credit	(2.5)	0.9
Adjustment in respect of prior periods	0.4	0.6
Adjustment in respect of change in rate	-	(0.1)
Total deferred tax	(2.1)	1.4
Tax (charge)/credit on loss on ordinary activities	(3.2)	0.4

UK corporation tax is calculated at 19% (2017: 20%) of the estimated assessable loss for the period.

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the balance sheet date being 20% with effect from 1 April 2015, 19% effective from 1 April 2017 and 17% effective from 1 April 2020. The closing deferred tax assets and liabilities have been calculated at 17%, on the basis that this is the rate at which those assets and liabilities are expected to unwind.

HMRC are in the process of reviewing Mothercare's compliance with the National Minimum Wage legislation. The investigation is ongoing at the present time and no provision for any potential liability has been made.

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

The (charge)/credit for the period can be reconciled to the loss for the period in the income statement as follows:

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Loss on ordinary activities before taxation	(204.8)	(10.4)
Loss on ordinary activities before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	38.9	2.1
Effects of:		
Expenses not deductible for tax purposes	(27.8)	(0.8)
Group relief claimed free of charge from other group companies	-	(0.2)
Impact of difference in current tax and deferred tax rates	(1.1)	(0.2)
Impact of overseas tax rates	(1.1)	(0.9)
Rate change on deferred tax	-	(0.1)
Adjustment in respect of prior periods – current tax	-	(0.1)
Deferred tax not recognised/ written off	(12.5)	-
Adjustment in respect of prior periods – deferred tax	0.4	0.6
Total tax (charge)/credit	(3.2)	0.4

In addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations, share-based payments and cash flow hedges amounting to £20.4 million (2017: credit of £1.3 million) has been charged directly to other comprehensive income.

Notes to the financial statements (continued)
For the 52 weeks ended 24 March 2018

10. Intangible assets

	Goodwill £m	Software £m	Total £m
Cost			
At 26 March 2017	20.9	57.8	78.7
Additions	-	8.4	8.4
Reclassification from tangible assets	-	6.3	6.3
At 24 March 2018	20.9	72.5	93.4
Amortisation and impairment			
At 26 March 2017	20.9	28.1	49.0
Charge for the period	-	8.0	8.0
Reclassification from tangible assets	-	1.6	1.6
At 24 March 2018	20.9	33.7	58.6
Net book value			
At 24 March 2018	-	34.8	34.8
At 25 March 2017	-	29.7	29.7

11. Tangible assets

	Freehold properties £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Total £m
Cost				
At 26 March 2017	9.4	85.5	144.6	239.5
Additions	0.2	5.4	4.2	9.8
Reclassification to intangible assets	-	-	(6.3)	(6.3)
Disposals	-	(6.3)	(8.7)	(15.0)
At 24 March 2018	9.6	84.6	133.8	228.0
Accumulated depreciation				
At 26 March 2017	1.3	57.2	101.6	160.1
Charge for the period	-	4.2	9.4	13.6
Impairment (see Note 6)	-	10.3	5.7	16.0
Reclassification to intangible assets	-	-	(1.6)	(1.6)
Disposals	-	(6.3)	(8.7)	(15.0)
At 24 March 2018	1.3	65.4	106.4	173.1
Net book value				
At 24 March 2018	8.3	19.2	27.4	54.9
At 25 March 2017	8.1	28.3	43.0	79.4

Mothercare UK Limited

Notes to the financial statements (continued)
For the 52 weeks ended 24 March 2018

11. Tangible assets (continued)

The net book value of leasehold improvements includes £21.0 million (2017: £28.7 million) in respect of short leasehold properties.

12. Investments in subsidiaries

The Company's investments are as follows:

Name	Holding	Interest	Country of incorporation
Childrens World Limited	Ordinary shares	100%	Great Britain (1)
Gurgle Limited	Ordinary shares	100%	Great Britain (1)
Mothercare International (Hong Kong) Limited	Ordinary shares	100%	Hong Kong (2)
Mothercare Sourcing India Private Limited	Ordinary shares	100%	India (3)

Registered office address;

(1) Cherry Tree Road, Watford, Hertfordshire, WD24 6SH, United Kingdom

(2) 18 Floor Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong

(3) Number 100, N.A Elixir, 2nd Floor, 4th B Cross, 5th Block Industrial Layout, Koramangala, Bangalore, 560095, India

	£m
Cost	
At 26 March 2017 and at 24 March 2018	65.6
Provision for impairment	
At 26 March 2017	(1.9)
Impairment charge	(63.7)
At 24 March 2018	(65.6)
Net book value	
At 24 March 2018	-
At 25 March 2017	63.7

The CVA proposal in respect of Childrens World Limited (a subsidiary of Mothercare UK Limited) was not carried by its creditors, and Childrens World Limited was placed into administration on 9 July 2018 following the transfer of 13 of its 22 stores to Mothercare UK Limited. As a result the investment in Childrens World Limited has been fully impaired and the payable to Childrens World Limited released (Note 5).

13. Inventories

	As at 24 March 2018 £m	As at 25 March 2017 £m
Finished goods and goods for resale	74.1	86.9

There is no material difference between the balance sheet value of the inventories and their replacement costs.

14. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Company and movements thereon during the current reporting period:

	Accelerated Tax depreciation £m	Other temporary differences £m	Retirement benefit obligations £m	Share based payments £m	Tax Losses £m	Total £m
At 26 March 2017	4.7	2.3	13.6	0.2	1.7	22.5
(Charge)/credit to income statement	(4.7)	(3.0)	7.5	(0.2)	(1.7)	(2.1)
Credit/(charge) to other comprehensive income	-	0.7	(21.1)	-	-	(20.4)
At 24 March 2018	-	-	-	-	-	-

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	As at 24 March 2018 £m	As at 25 March 2017 £m
Deferred tax liabilities	-	(8.0)
Deferred tax assets	-	30.5
	-	22.5

The Company has taken a prudent approach given the uncertainty around future profitability of the Company and as at the balance sheet date deferred tax assets of £9.8 million on accelerated depreciation, £2.9 million on short term timing differences and £6.4 million on retirement benefit obligations have not been recognised.

At the balance sheet date, the Company has unused tax losses of £48.4 million (2017: £7.5 million) available for offset against future profits. No deferred tax asset has been recognised for any losses (2017: £1.7 million).

15. 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. The Company recognises derivative financial instruments as assets and liabilities measured at their fair value at the balance sheet date and gains/losses have been recognised through reserves. 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. The fair value of foreign currency forward contracts is measured using quoted foreign exchange rates and yield curves from quoted rates matching the maturities of the contracts.

It is the policy of the Company to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts within 50 per cent to 100 per cent of the exposure generated depending on the period covered, up to 18 months forward.

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 income statement.

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

Outstanding contracts	**Average contractual exchange rate**		**Notional value**		**Fair value**	
	As at 24 March 2018 rate	**As at 25 March 2017 rate**	**As at 24 March 2018 £m**	**As at 25 March 2017 £m**	**As at 24 March 2018 £m**	**As at 25 March 2017 £m**
US dollar	1.34	1.30				
Less than one year						
(Liabilities)/assets			101.7	137.3	(7.1)	6.0
More than one year						
(Liabilities)/assets			17.9	31.5	(0.5)	0.2
Embedded derivatives				-	-	(0.1)
Other currencies	-	various				
Assets less than 1 year			-	5.4	-	0.1
Liabilities less than 1 year			-	9.5	-	(0.7)
			119.6	183.7	(7.6)	5.5

Disclosures in respect of the Company's financial instruments are provided in Note 21 to the consolidated financial statements.

16. Debtors

	As at 24 March 2018 £m	As at 25 March 2017 £m
Amounts falling due within one year:		
Trade debtors	33.9	31.7
Amounts owed by group undertakings	13.3	187.9
Other debtors	3.1	7.9
Prepayments and accrued income	11.9	13.0
Corporation tax receivable	0.1	-
Deferred tax	-	22.5
	62.3	263.0

Amounts due from other group undertakings are repayable on demand. No interest is receivable from UK group undertakings on the outstanding balances.

As a result of the CVA and the compromise arrangements included within it (see Note 27), the Company has carried out a detailed impairment review of amounts due from other group undertakings and as a result a provision of £138.2 million (2017: £ nil) has been made.

17. Current liabilities: Trade and other payables

	As at 24 March 2018 £m	As at 25 March 2017 £m
Trade payables	44.7	61.5
Amounts owed to group undertakings	136.0	284.7
Amounts due to ultimate parent company	71.3	-
Other taxes and social security	1.2	1.6
Other payables	4.4	6.8
Accruals and deferred income	33.8	35.4
Landlords' contributions	4.3	4.2
Corporation tax creditor	-	0.1
	295.7	394.3

Amounts due to other group undertakings are repayable on demand. No interest is payable to UK group undertakings on the outstanding balances.

The CVA proposal in respect of Childrens World Limited (a subsidiary of Mothercare UK Limited) was not carried by its creditors, and Childrens World Limited was placed into administration on 9 July 2018 following the transfer of 13 of its 22 stores to Mothercare UK Limited. As a result the investment in Childrens World Limited has been written down to nil and the payable to Childrens World Limited released.

Notes to the financial statements (continued)
For the 52 weeks ended 24 March 2018

18. Non-current liabilities: Trade and other payables

	As at 24 March 2018 £m	As at 25 March 2017 £m
Amounts due to ultimate parent company	-	71.3
Landlords' contributions	20.0	21.4
	20.0	92.7

19. Provisions for liabilities

The movement on provisions can be analysed as follows:

	Property provisions £m	Other provisions £m	Total £m
Balance at 26 March 2017	21.6	0.7	22.3
Charged in period	40.1	-	40.1
Utilised in period	(8.5)	(0.1)	(8.6)
Released in period	(0.2)	-	(0.2)
Balance at 24 March 2018	53.0	0.6	53.6
Short term provisions	16.5	0.3	16.8
Long term provisions	36.5	0.3	36.8
	53.0	0.6	53.6

Property provisions principally represent the costs of store disposals and provisions for onerous 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.

20. 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.

Notes to the financial statements (continued)
For the 52 weeks ended 24 March 2018

20. Financial commitments (continued)

Operating lease arrangements (continued)

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 24 March 2018		As at 25 March 2017	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Within one year	41.3	0.2	41.1	0.2
Within two to five years	99.2	-	117.1	0.2
After five years	63.1	-	72.6	-
	203.6	0.2	230.8	0.4

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

21. Retirement benefit schemes

Defined contribution schemes

The Company operates a defined contribution scheme for which the total cost charged to the income statement was £1.9 million (2017: £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 from 30 March 2013.

The pension schemes' assets are held in a separate trustee administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interest of the fund's beneficiaries.

For the protection of members' interests, the Company has appointed three trustees, two of whom are independent of the Group. To maintain this independence, the trustees and not the Company are responsible for appointing their own successors.

The most recent full actuarial valuations as at 30 March 2017 were updated 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 cost and the past service cost were measured using the projected unit method.

The schemes expose the Company to actuarial risks such as longevity risk, interest rate risk and market (investment) risk.

Included in Mothercare plc group accounts is an outline of the risks, what they are and how to mitigate those risks.

There are a number of other risks of running the UK Pension Fund including operational risks (such as paying out the wrong benefits) and legislative risks (such as the government increasing the burden on pension through new legislation).

The IAS 19 valuation conducted for the period ending 24 March 2018 disclosed a net defined pension deficit of £37.7 million (2017: £80.1 million).

21. Retirement benefit schemes (continued)

Defined benefit schemes (continued)

The major assumptions used for the updated actuarial valuations were:

	2018	2017	2016
Future pension increases	3.0%	3.0%	3.0%
Discount rate	2.7%	2.7%	3.6%
Inflation assumption – RPI	3.1%	3.2%	3.1%
Inflation assumption – CPI	2.0%	2.1%	2.0%

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
		£ m
Discount rate	+/- 0.1%	-7.3 /+ 7.5
Rate of price inflation (RPI)	+/- 0.1%	+4.7 /- 6.8
Life expectancy	+ 1 year	+ 13.4

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.

Amounts expensed in the income statement in respect of the defined benefit schemes are as follows:

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Running costs	3.4	3.0
Net interest on liabilities/ return on assets	2.0	2.6
	5.4	5.6

Running costs are included in underlying administrative expenses, and net interest on liabilities/ return on assets is included in finance costs.

The amount recognised in other comprehensive income for the period ending 24 March 2018 is a gain of £36.0 million (2017: a loss of £9.7 million).

21. Retirement benefit schemes (continued)

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement schemes is as follows:

	As at 24 March 2018 £m	As at 25 March 2017 £m
Present value of defined benefit obligations	389.2	409.7
Fair value of schemes' assets	(351.5)	(329.6)
Liability recognised on the balance sheet	37.7	80.1

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

22. 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 credit for share based payments is £0.1 million (2017: charge of £0.8 million) of which £0.1 million (2017: £0.8 million) was equity settled across the following schemes:

A. Save As You Earn schemes
B. Company Share Option Plan
C. Long Term Incentive Plan
D. Retention Share Plan
E. Value Creation Plan
F. Senior Management Incentive Plan and Management Incentive Plan

Details of the share schemes that the Group operates are provided in the Mothercare plc Annual Report and Accounts 2018 on pages 122 to 125.

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.

A. 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 in trust for a three-year period.

The shares outstanding at 24 March 2018 had a weighted average remaining contractual life of 1.5 years and ranged in price from 90p to 169p.

22. Share-based payments (continued)

B. 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 granted in December 2014 will be awarded to employees still in employment at end of May 2018 subject to achieving the group profit before tax target for the financial year ended March 2018. The awards in this scheme have lapsed due to the Group not meeting the performance conditions.

C. Long Term Incentive Plan

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 ending March 2018 and March 2017 respectively to determine what percentage of the shares vest. No consideration is payable for the grant of these awards.

In June 2015, December 2015 and February 2016 the Group granted further awards under Mothercare plc 2012 Long Term Incentive Plan. The performance conditions relate to group profit before tax and relative total shareholder return weighted equally 50:50. These conditions will be tested in relation to financial year ending March 2019 and financial year ending March 2018 respectively to determine what % of the shares vest. No consideration is payable for the grant of these awards.

In August 2016 the Group granted further awards under Mothercare plc 2012 Long Term Incentive Plan. The performance conditions relate to group underlying basic earnings per share and relative Total Shareholder Return weighted equally 50:50. These conditions will be tested in relation to financial year ending March 2019, three years from date of award to determine what percentage of the shares vest. No consideration is payable for the grant of these awards.

D. Retention Share Plan

In August 2016 the Group granted awards under the Retention Share Plan. The performance conditions are directly linked to the Long Term Incentive Plan awarded in December 2014 and March 2015. The Retention Share Plan will vest if this Long Term Incentive Plan does not vest above 20%. No consideration is payable for the grant of these awards.

E. Value Creation Plan

In August 2017 the Group granted awards under the Valuation Creation Plan (VCP) with the grant of an additional award in September 2017 for the incoming Chief Financial Officer. The VCP grants nil cost options to selected participants based on Total Shareholder Return over a three year period to March 2020. The awards are exercisable in three equal tranches from March 2020 through to March 2022. The fair value at the date of grant was calculated using a Monte Carlo model as the VCP carries a share price based performance condition. The fair value of the allocated VCP thus far is £1.2 million to be spread over a five year period. A charge of £0.2 million was recognised in the financial year.

22. Share-based payments (continued)

F. Senior Management Incentive Plan and Management Incentive Plan

In August 2017 the Group granted awards under the Senior Management Incentive Plan ("SMIP") and Management Incentive Plan ("MIP"). The performance conditions relate to the Total Shareholder Return ("TSR") over the period from grant to March 2020. The incentive schemes are cash settled with values dependant on a share price over £2.00. To the extent that TSR meets or exceeds £2.00, participants in the plan will receive a cash bonus based on a percentage of base salary. A Monte Carlo model has been used to calculate the fair value of awards. The fair value of this award at year end was immaterial with an average time to expiry of 2.01 years.

23. Called-up share capital

	As at 24 March 2018 £m	As at 25 March 2017 £m
Called-up, allotted and fully paid		
28,446,000 ordinary shares of £1 each	28.4	28.4

24. Capital and reserves

	Called-up share capital £m	Share premium £m	Capital acquisition reserve[a] £m	Hedging reserve[b] £m	Profit and loss account £m	Total £m
At 26 March 2017	28.4	35.5	-	3.4	(126.9)	(59.6)
Total comprehensive expense	-	-	-	(13.3)	(193.1)	(206.4)
Transfer to equity from inventories	-	-	-	2.5	-	2.5
Capital contribution	-	-	80.0	-	-	80.0
Charge to equity for share based payments	-	-	-	-	(0.1)	(0.1)
At 24 March 2018	28.4	35.5	80.0	(7.4)	(320.1)	(183.6)

a. During the period a loan of £80.0 million between Mothercare UK Limited's ultimate holding company, Mothercare plc, was reassigned from a fellow subsidiary undertaking (Early Learning Centre Limited) to Mothercare UK Limited. The impact of this in the financial statements of Mothercare UK Limited has been to increase amounts due from group undertakings and to increase capital by an equal amount.

b. The hedging reserve deficit of £7.4 million (2017: £3.4 million credit) represents the movement of gains and losses on cash flow hedges.

25. Related party transactions

The Company has taken advantage of the exemption in FRS 101 'Reduced Disclosure Framework' not to disclose compensation for key management personnel.

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

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Sale of goods	6.0	8.9
Amounts owed by related parties	1.5	5.3

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. No provision is held for doubtful debts in respect of the amounts owed by related parties (2017: £6.3 million).

26. Directors' remuneration and transactions

The Directors' remuneration is set out below.

	52 weeks ended 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Directors' remuneration		
Emoluments	1.6	3.4
Company contributions to money purchase pension schemes	0.2	0.4
Compensation for loss of office	0.3	-
	2.1	3.8

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

	52 weeks ended 24 March 2018 number	52 weeks ended 25 March 2017 number
Money purchase schemes	8	6

26. 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 24 March 2018 £m	52 weeks ended 25 March 2017 £m
Emoluments including annual and retention bonuses	0.6	0.7
Money purchase pension scheme	0.1	0.1
	0.7	0.8

The accrued pension entitlement under the Company's defined benefit scheme of the highest paid director at 24 March 2018 was £nil per annum (2017: £nil per annum).

The highest paid director exercised no share options during the period (2017: nil).

27. Events after the balance sheet date

Directorate changes

Mark Newton-Jones stepped down as director on 4 April 2018 and David Wood was appointed on the same date.

Refinancing and funding review

The Group of which this Company is a part, launched a comprehensive refinancing and restructuring package on 17 May 2018, to support its transformation plan. The capital refinancing plan comprises the following key elements:

- debt facilities of £67.5 million, with a final maturity extended to December 2020 and certain interim step downs;
- £8.0 million of shareholder loans, received on 18 May 2018;
- £32.5 million Capital Raising, due to complete in July 2018;
- working capital initiatives releasing up to £10.0 million from the Group's existing trade debtor balances;
- restructuring of the Group's UK store portfolio through company voluntary arrangements of the Group's subsidiaries, Mothercare UK Limited and Early Learning Centre Limited, approved on 1 June 2018; and
- the administration of Childrens World Limited on 9 July 2018.

27. Events after the balance sheet date

Compromise of Inter-company liabilities

The terms of the Company Voluntary Arrangement "CVA" of Mothercare UK Limited include the compromise of inter group liabilities to 5% at the date of the CVA approval (1 June 2018). The following liabilities will be compromised as set out below:

- Mothercare UK Limited owes Early Learning Centre Limited a net amount of £97.3 million. Mothercare UK Limited will compromise these obligations to 5% of the net amounts outstanding.
- Mothercare UK Limited owes Mothercare Holdings Limited a net amount of £13.0 million. Mothercare UK Limited will compromise these obligations to 5% of the net amounts outstanding.

28. Ultimate parent company

The Company's ultimate parent company and controlling entity 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 and registered in England and Wales. Copies of these consolidated financial statements may be obtained from www.mothercareplc.com/financial-reports.

The Company's immediate controlling party is Mothercare (Holdings) Limited.

As at 24 March 2018, the liabilities of the Company exceeded its total assets. The Company is a subsidiary of Mothercare plc, a company incorporated in Great Britain which has indicated its intention to offer continued financial support for a period of twelve months following the date of the signing of these financial statements.