

MOTHERCARE PLC

Interim Results

Mothercare plc, the global retailer for parents and young children, today announces Interim results for the 28-week period to 11 October 2014.

Highlights for H1 FY2014/15

New strategic plan commenced

- Our vision is to be the leading global retailer for parents and young children
- Our strategy is based around six pillars:
 - Become a digitally led business
 - Supported by a modern retail estate
 - Offering style, quality and innovation in product and great service
 - Stabilise and recapture gross margin
 - Running a lean organisation while investing for the future
 - Expanding further internationally
- £100 million rights issue to fund the turnaround successfully completed and new bank facilities secured to May 2018, after close of the half year

Financial highlights

- International like-for-like sales¹ up 4.9%, constant currency sales up 11.8%, total International sales down 0.5% and underlying International profits² largely unchanged at £25.3 million (£25.2 million last year), as a result of the anticipated currency headwinds
- UK like-for-like sales¹ up 1.5% with gross margin rate flat on last year, total UK sales down 1.2% as further loss-making stores were closed and underlying UK losses² lower at £13.5 million (£14.9 million last year)
- Worldwide sales¹ down 0.7% at £633.1 million. Underlying profit before tax² up 65.0% at £3.3 million (£2.0 million last year)
- Reported profit before tax of £5.5 million (loss of £11.0 million last year), as a result of lower exceptional items and a credit from 'marking to market' foreign currency contracts

Operating highlights

- International space up 12.9% as 79 new stores opened since the beginning of the year resulting in 1,300 stores in 60 countries
- International online sales up strongly, from a small base, now accounting for 2.6% of International retail sales
- Reshaping of the UK business continues with the planned closure of 14 loss-making stores and two refits implemented in continuing stores
- Multi-channel growth, with UK online sales up 14.1% and now representing 27% of total UK sales (23% last year)
- Mobile continuing to grow rapidly and now accounting for 71% of UK online sessions (59% last year)
- Click and collect growing in importance and now accounting for 35% of all online orders (32% last year)

Group performance

	H1 2014/15 28 weeks to 11 Oct 2014 £million	H1 2013/14 28 weeks to 12 Oct 2013 £million	% change vs. last year
International			
International like-for-like sales ¹	+4.9%	+4.8%	-
Total International sales	397.5	399.3	(0.5)
Underlying International profit ²	25.3	25.2	+0.4
UK			
UK like-for-like sales ¹	+1.5%	(1.4%)	-
Total UK sales	235.6	238.4	(1.2)
Underlying UK loss ²	(13.5)	(14.9)	+9.4
Group			
Worldwide sales ¹	633.1	637.7	(0.7)
Total group sales	372.7	376.3	(1.0)
Group underlying profit before tax ²	3.3	2.0	+65.0
Exceptional charge & non-underlying items	2.2	(13.0)	-
Group profit/loss before tax after exceptional and non-underlying items	5.5	(11.0)	-
Underlying EPS ²	3.0p	1.9p	+57.9
Net debt	(54.2)	(48.0)	+12.9

Mark Newton-Jones, Chief Executive of Mothercare plc, said:

"With the support of our shareholders we have successfully completed the rights issue, which now gives us the financial resources and flexibility to implement our strategy. Whilst it is still early days the results, this morning, show some improvement. In the UK, we have made progress towards re-establishing ourselves as a full price retailer. For this approach to be sustainable, we must continue to improve our style, quality, design and innovation in product while modernising our presentation both online and in store. Our International partners continue to see growth opportunities and are encouraged by our plans to modernise the UK business.

"Trading conditions remain challenging, but we are making progress building the foundations for the future of the business both in the UK and across our International territories. Our vision is clear, to be the leading global retailer for parents and young children."

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Notes:

1 – UK like-for-like sales are defined as sales from stores that have been trading continuously from the same selling space for at least a year and include online sales.

International retail sales are the estimated total retail sales of overseas franchise and joint venture partners to their customers. International like-for-like sales are the estimated franchisee retail sales at constant currency from stores that have been trading continuously from the same selling space for at least a year and include online sales on a similar basis.

Total International sales are International retail sales plus International Wholesale sales. Worldwide sales are total International sales plus total UK sales. International stores refer to overseas franchise and joint venture stores.

2 – Underlying profit refers to profit before exceptional and non-underlying items. Underlying EPS is calculated on the basis of underlying profit.

3 – This announcement contains certain forward-looking statements concerning the Group. Although the Board believes its expectations are based on reasonable assumptions, the matters to which such statements refer may be influenced by factors that could cause actual outcomes and results to be materially different. The forward-looking statements speak only as at the date of this document and the Group does not undertake any obligation to announce any revisions to such statements, except as required by law or by any appropriate regulatory authority.

4 – Mothercare plc will release its Q3 Trading Update for the 13 weeks to 10 January 2015 on Thursday 15 January 2015.

CHIEF EXECUTIVE'S REVIEW

Overview

This has been a productive first half as we make a step change at Mothercare. Since joining, first in an interim capacity in March and subsequently on a permanent basis as Chief Executive in July, we have been putting in place the plans and building the foundations for a modern, digitally-led retail business. The successful rights issue, which concluded just a few weeks ago, gives us the necessary financial resources and flexibility to push ahead with our plans to modernise our business and bring to life our vision of being the leading global retailer for parents and young children.

As we highlighted in October, our strategic plan is based around six pillars that form our management to-do list. As part of our regular reporting we will look to report on our progress against these points:

1. Become a digitally led business
2. Supported by a modern retail estate
3. Offering style, quality and innovation in product and great service
4. Stabilise and recapture gross margin
5. Running a lean organisation while investing for the future
6. Expanding further internationally

Work has already started against each of the points.

Group profits improved on last year

On an underlying basis the group's profit was up 65.0% at £3.3 million (H1 2013/14: £2.0 million) with International profit flat at £25.3 million (H1 2013/14: £25.2 million) and the UK loss lower at £13.5 million (H1 2013/14: £14.9 million). Corporate expenses and interest charges were flat at £4.3 million and £3.6 million respectively, while the cost of share based payments increased to £0.6 million (H1 2013/14: £0.4 million). This half year, principally as a result of the required 'marking to market' of the foreign currency contracts, the group recorded a credit from exceptional and non-underlying items of £2.2 million compared to a charge of £13.0 million in the previous year, which contributed to the overall reported profit for the half year period. As a result, the group reported a half year profit before tax of £5.5 million compared to a loss of £11.0 million in the previous half year.

	H1 2014/15	H1 2013/14	
	28 weeks to	28 weeks to	% change
	11 Oct 14	12 Oct 13	vs. last year
Underlying International profit ²	£25.3m	£25.2m	+0.4%
Underlying UK loss ²	(£13.5m)	(£14.9m)	+9.4%
Corporate expenses	(£4.3m)	(£4.2m)	+2.4%
Underlying profit from operations²	£7.5m	£6.1m	+23.0
Underlying interest charge	(£3.6m)	(£3.7m)	(2.7%)
Share based payments	(£0.6m)	(£0.4m)	+50.0%
Underlying profit before tax²	£3.3m	£2.0m	+65.0%
Exceptional items	(£3.2m)	(£5.1m)	(37.3%)
Non-cash foreign currency adjustments	£5.9m	(£7.4m)	n/a
Amortisation of intangibles	(£0.5m)	(£0.5m)	0.0%
Reported profit / (loss) before tax	£5.5m	(£11.0m)	n.a.

Worldwide sales were down 0.7% at £633.1 million (H1 2013/14: £637.7 million). Total International sales were down 0.5% at £397.5 million (H1 2013/14: £399.3 million), as a result of the anticipated currency depreciation and UK sales were down 1.2% at £235.6 million (H1 2013/14: £238.4 million), as further planned loss making stores were closed. Group sales, which reflect total UK sales and

reported revenues from our International partners, were down 1.0% at £372.7 million (H1 2013/14: £376.3 million).

Space across all 61 UK and franchise partners' markets was up 6.0% year-on-year at 4.5 million sq.ft. across 1,506 stores. We grew our International footprint by 12.9% year-on-year and reduced our UK footprint by 3.8% year-on-year. Our International partners now operate from 60 countries with 1,300 stores and 2.8 million sq.ft. of space. In the UK, we now have 206 stores and 1.7 million sq.ft. of retail space (H1 2013/14: 237 store and 1.8 million sq.ft. of retail space).

We ended the period with £54.2 million of net debt, which is in line with our expectations. Following the successful rights issue to raise £95 million net of fees, we have paid down our fixed term loan of £40 million and the balance on the revolving credit facility, which means we expect to have a net cash position of approximately £30 million at the year end.

International profits flat despite significant currency headwinds

	H1 2014/15 28 weeks to 11 Oct 14	H1 2013/14 28 weeks to 12 Oct 13	% change vs. last year
International like-for-like sales growth	+4.9%	+4.8%	-
International retail sales: constant currency	+11.8%	+11.9%	-
International retail sales: moving currency	(0.6%)	+13.3%	-
International retail sales	£393.2m	£395.5m	(0.6%)
International wholesale sales	£4.3m	£3.8m	+13.2%
Total International sales	£397.5m	£399.3m	(0.5%)
Underlying profit	£25.3m	£25.2m	+0.4%

Our International business now accounts for around 62% of worldwide space and worldwide sales.

The International business has once again delivered on our growth expectations. Space was up 12.9% year-on-year, with all four regions making a meaningful contribution. Since the beginning of the year, in conjunction with our partners we opened a further 79 stores adding 172k sq.ft. of retail space. As a result, our International business now operates from 1,300 stores with 2.8 million sq.ft. of space.

Like-for-like sales grew by 4.9% and all four regions made a positive contribution. As previously highlighted, this has been another period of significant currency devaluation for some currencies where we have a large exposure. So whilst International retail sales were up 11.8% in constant currency, retail sales in moving currency were down 0.6% at £393.2 million (H1 2013/14: £395.5 million). Wholesale sales were up 13.2% to £4.3 million (H1 2013/14: £3.8 million), resulting in a decline of 0.5% for total International sales at £397.5 million (H1 2013/14: £399.3 million).

Reported International sales, which reflect receipts from our partners, were down 0.6% at £137.1 million (H1 2013/14: £137.9 million).

Despite the adverse currency moves, the impact of which is being managed through hedging contracts where we have approximately 50% of our currency hedged, the underlying profit was up 0.4% at £25.3 million (H1 2013/14: £25.2 million).

Our strategy of helping our partners take their businesses to the next level in a digital world is making progress. We now have 11 transactional web-sites in nine countries.

Europe is our largest region with 532 stores in 28 countries and our partners in this region grew space by 12.6% year-on-year. Like-for-like sales were positive and retail sales in constant currency saw high-single digit growth for the first half of the year. This region continues to be the most impacted by adverse currency moves, which means moving currency retail sales have declined. We have transactional websites in Russia (Mothercare and ELC), Ukraine, Ireland, Spain and now Estonia.

Asia is our fastest growing region with 372 stores in 12 countries. Space was up 21.0% year-on-year and like-for-like sales were up high-single digits while retail sales in both constant and moving currency were up double digits. Our partners now have transactional sites in China (both TMall and our own), India and Indonesia.

The Middle East and Africa, our oldest region, now has 340 stores in 13 countries and saw space grow by 7.3% year-on-year during the first half of the year. Like-for-like sales, retail sales in constant currency and retail sales in moving currency were all up on the previous year and our partners continue to see plenty of opportunity for growth. Kuwait remains the only country with a transactional website.

Latin America is our smallest region with 56 stores in 7 countries. Our partners in this region grew space by 7.0% and delivered positive growth for like-for-like sales and retail sales in both constant and moving currency. We currently do not have transactional websites in this region.

Our partners are excited by the changes we are making to the UK business and recognise that what we do in the UK they import in turn, inspiring their own regions.

UK losses reduced

	H1 2014/15 28 weeks to 11 Oct 14	H1 2013/14 28 weeks to 12 Oct 13	% change vs. last year
UK like-for-like sales growth	+1.5%	(1.4%)	-
UK online sales	£63.9m	£56.0m	+14.1 %
UK retail sales (including online)	£219.0m	£222.2m	(1.4%)
UK wholesale sales	£16.6m	£16.2m	+2.5%
Total UK sales	£235.6m	£238.4m	(1.2%)
Underlying loss	(£13.5m)	(£14.9m)	+9.4%

We remain committed to fixing the UK and returning the business to profitability. The recent successful right issue gives us the financial resources and flexibility to press ahead with our plans to modernise Mothercare and Early Learning Centre and to re-establish ourselves as the clear first choice for parents and young children.

Since the beginning of the year, our strategy has been to move towards being more of a full price retailer. As a result sales have been volatile with some weeks of very strong double digit sales growth, which in turn have been countered by weeks of similarly large declines as we anniversary discounting and promotional periods from the previous year. In addition, the sector has been undergoing significant change with a number of competitors closing retail stores. The positive like-for-like sales growth of 1.5% is encouraging, but it should be viewed in the context of these changes. By stepping away from an ongoing promotional stance we have stabilised the gross margin rate, which is flat on the previous year. The gross margin rate has been in decline over the last five years.

In line with our plans to modernise and realign the UK store portfolio, we closed a further 14 loss making stores (six Mothercare and eight Early Learning Centre) during the first half of the year. This means at the end of the period we had 206 (183 Mothercare and 23 Early Learning Centre) stores and 1.7 million sq.ft. of retail space. As a result of these closures space was down 3.8% year-on-year, which coupled with the positive like-for-like sales resulted in total UK sales falling 1.2% to £235.6 million (H1 2013/14: £238.4 million). Flat gross margin rate and the focus on our goal of running a lean organisation, has led to a smaller loss of £13.5 million (H1 2013/14: loss of £14.9 million).

As part of the realignment of the store portfolio we completed full refurbishments for our Solihull and Gateshead stores and converted our stores in Peckham, Woolwich, Surrey Quays, Cheltenham

and Livingston to a new clothing format, which is in trial and is encouragingly showing early signs of improved cash margin and thus store profitability.

Our online business is also showing signs of benefitting from the changes we are making. Overall online sales were up 14.1% at £63.9 million (H1 2013/2014: £56.0 million) driven by the growth of customers placing online orders in stores. We are continuing to collect customer data at the point of sale and our customer database now has around 1.7 million active customers across both brands. Online sales now make up 27% of total UK sales (H1 2013/14: 23%) with mobile accounting for 71% of online sessions (H1 2013/14: 59%) and 35% of online orders are now collected in store (H1 2013/14: 32%).

Clothing and footwear priority has been to improve quality and design, which in turn should reduce our dependence on promotional activity to drive sales. This approach is beginning to have the desired effect and we are seeing better sell through rates for some of our ranges. We also extended our 'best' ranges, Little Bird and Baby K, such that they are now available in over half our stores. Finally, we are trialling a number of national brands, such as Converse, to sit alongside our own-bought and designed ranges.

In **Home and Travel** we have worked with our suppliers to increase the level of exclusivity, which ultimately will help support a more stable gross margin. We have launched new brands – iCandy, Mamas and Papas and EasyWalker. We shall look to innovate and bring more new products and brands to our customers.

ELC Toys remains a more promotional category, particularly during the peak Christmas period. We are already beginning to see sales of key gifts, particularly dolls' houses, kitchens and train tables come through. Encouragingly, our train table, has recently won the Best Toy Design award in the 3-5 year category at the Junior Toy Award. As part of our strategy we are moving away from stand-alone toy shops and towards shop-in-shops in our Mothercare stores. We are also trialling soft play areas that sit adjacent to our ELC toy department and should increase dwell time in stores.

Summary and outlook

We have delivered a small profit for the first half of the year. Losses were reduced in the UK and International profits were broadly unchanged despite significant levels of currency devaluation across some of our major markets.

Our International partners continue to see growth opportunities and are encouraged by our plans to modernise the UK business. Space growth is in line with our plans, with plenty of opportunity to expand further in both existing and new territories.

In the UK, we have made progress towards re-establishing ourselves as a full price retailer. For this approach to be sustainable, we must continue to improve our style, quality, design and innovation in product while modernising our presentation both online and in-store. The second half of the year will see the introduction of new brands and in particular more exclusive product in our ranges.

Trading conditions remain challenging, but we are making progress building foundations for the future of the business both in the UK and also across our International markets. Our vision is clear, to be the leading global retailer for parents and young children.

FINANCIAL REVIEW

RESULTS SUMMARY

Group underlying profit before tax was £3.3 million, for the 28 weeks to 11 October 2014, (H1 2013/14: £2.0 million profit). Underlying profit excludes exceptional items and other non-underlying items which are analysed below. Exceptional items include a retail restructuring programme and bank refinancing costs. After exceptional and non-underlying items, the Group recorded a pre-tax profit of £5.5 million (H1 2013/14: loss of £11.0 million).

Income statement

£ million	H1 14/15	H1 13/14	FY 13/14
Revenue	372.7	376.3	724.9
Underlying profit from operations before share based payments	7.5	6.1	16.0
Share based payments	(0.6)	(0.4)	(0.1)
Net finance costs	(3.6)	(3.7)	(6.4)
Underlying profit before tax	3.3	2.0	9.5
Exceptional items	(3.2)	(5.1)	(19.9)
Non-cash foreign currency adjustments	5.9	(7.4)	(14.9)
Amortisation of intangible assets	(0.5)	(0.5)	(1.0)
Profit/(loss) before tax	5.5	(11.0)	(26.3)
Underlying EPS – basic	3.0p	1.9p	7.7p
EPS – basic	5.1p	(9.8p)	(31.0p)

Profit from operations before share based payments includes all of the Group's trading activities, but excludes the share based payment charge to the income statement in accordance with IFRS 2 (see below).

Non-underlying items

Underlying profit before tax excludes the following non-underlying items (see note 4):

Exceptional items:

- Retail restructuring programme and bank refinancing costs totalling £3.2 million.

Other non-underlying items:

- Prior to January 2014 the Group did not adopt hedge accounting under IAS 39 "Financial Instruments: Recognition and Measurement." Therefore non-cash adjustments principally relate to mark to market adjustment of commercial foreign currency hedges taken out prior to January 2014 at the period end. As hedges are taken out to match future stock purchase commitments, these are adjustments which we are required to make under IAS 39 and IAS 21. These standards require us to revalue stock and our commercial foreign currency hedges to spot. This volatile adjustment does not affect the cash flows or ongoing profitability of the Group and reverses at the start of the next accounting period.
- Amortisation of intangible assets (excluding software).

Results by segment

The primary segments of Mothercare plc are the UK business and the International business.

£ million – Revenue	H1 14/15	H1 13/14	FY 13/14
UK	235.6	238.4	462.3
International	137.1	137.9	262.6
Total	372.7	376.3	724.9

£ million – Underlying profit/(loss)	H1 14/15	H1 13/14	FY 13/14
UK	(13.5)	(14.9)	(21.5)
International	25.3	25.2	45.3
Corporate	(4.3)	(4.2)	(7.8)
Underlying profit from operations before share based payments	7.5	6.1	16.0
Share based payments	(0.6)	(0.4)	(0.1)
Net finance costs	(3.6)	(3.7)	(6.4)
Underlying profit before tax	3.3	2.0	9.5

UK sales have declined as a result of the planned closure of loss making stores offset by a positive LFL of 1.5%. Profitability has however benefited from the removal of net 14 loss-making stores during the period and delivering planned cost savings.

International retail sales have increased 11.8% on a constant currency basis with all four regions delivering positive growth. As a result of the anticipated impact of currency movements, reported sales are marginally down by 0.6%, with profit slightly up on last year.

Corporate expenses represent board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property.

Share based payments

Underlying profit before tax also includes a share based payments charge of £0.6 million (H1 2013/14: £0.4 million charge) in relation to the company's long-term incentive schemes.

Like-for-like sales, total International sales and network sales

Like-for-like sales are defined as sales for stores that have been trading continuously from the same selling space for at least a year and include Direct in Home and Direct in Store.

International retail sales are the estimated retail sales of overseas franchisees and joint ventures and associates to their customers (rather than Mothercare sales to franchisees as included in the statutory or reported sales numbers). Total International sales are International retail sales plus International wholesale sales. Group network sales are total International sales plus total UK sales. Group network sales and reported sales are analysed as follows:

£ million	Reported sales				Network sales			
	H1 14/15	H1 13/14	%	FY 13/14	H1 14/15	H1 13/14	%	FY 13/14
UK retail sales	219.0	222.2	(1.4)	432.6	219.0	222.2	(1.4)	432.6
UK wholesale sales	16.6	16.2	2.5	29.7	16.6	16.2	2.5	29.7
Total UK sales	235.6	238.4	(1.2)	462.3	235.6	238.4	(1.2)	462.3
International retail sales	132.8	134.1	(1.0)	255.3	393.2	395.5	(0.6)	721.9
International wholesale sales	4.3	3.8	13.2	7.3	4.3	3.8	13.2	7.3
Total International sales	137.1	137.9	(0.6)	262.6	397.5	399.3	(0.5)	729.2
Group sales	372.7	376.3	(1.0)	724.9	633.1	637.7	(0.7)	1,191.5

Financing and taxation

Financing represents interest receivable on bank deposits, interest payable on borrowings, the amortisation of costs relating to bank facility fees and the net interest charge on the liabilities/assets of the pension scheme (see note 5).

The underlying tax charge comprises of corporation taxes incurred and deferred tax charge. The total tax charge was £1.0 million (H1 2013/14: credit of £2.3 million) – see note 6.

Pensions

The Mothercare defined benefit pension schemes were closed with effect from 30 March 2013. Details of the income statement net charge, total cash funding and net assets and liabilities are as follows:

£ million	H1 14/15	H1 13/14	FY 13/14
Income statement			
Running costs	(0.6)	(0.6)	(1.1)
Net (interest on liabilities)/return on assets	(1.1)	(1.5)	(2.7)
Net charge	(1.7)	(2.1)	(3.8)
Cash funding			
Regular contributions	(0.5)	(0.5)	(0.6)
Deficit contributions	(2.7)	(2.6)	(5.6)
Total cash funding	(3.2)	(3.1)	(6.2)
Balance sheet			
Fair value of schemes' assets	259.8	242.4	253.3
Present value of defined benefit obligations	(323.3)	(298.2)	(303.0)
Net liability	(63.5)	(55.8)	(49.7)

In consultation with the independent actuaries to the schemes, the key market rate assumptions used in the valuation and their sensitivity to a 0.1% movement in the rate are shown below.

	H1 14/15	H1 13/14	2014/15 Sensitivity	2014/15 Impact on scheme liabilities £ million
Discount rate	4.0%	4.6%	+/- 0.1%	+7.1/-6.9
Inflation – RPI	3.1%	3.4%	+/- 0.1%	+5.8/-6.4
Inflation – CPI	2.0%	2.4%	+/- 0.1%	+5.8/-6.4

Balance sheet and cash flow

The balance sheet includes identifiable intangible assets arising on the acquisition of the Early Learning Centre of £6.5 million and goodwill of £26.8 million. These assets are allocated to the International business.

The Group is seasonal with much of the cash generation in the second half. In the first half the Group had a cash inflow from operations of £0.2 million.

After investing £4.4 million of capital expenditure (£2.8 million net of lease incentives received), the net debt position at the half year end is £54.2 million (H1 2013/14: net debt of £48.0 million).

Going concern

The directors have reviewed the going concern principle in the light of the guidance provided by the FRC. The Group's objective with respect to managing capital is to maintain a balance sheet structure that is both efficient in terms of providing long-term returns to shareholders and safeguards the Group's ability to continue as a going concern. As appropriate, the Group can choose to adjust its capital structure by varying the amounts of dividends paid to shareholders, returns of capital to shareholders, issuing new shares or varying the level of capital expenditure.

Subsequent to half year end, the Group has received £95 million of funds (net of expenses) from the Rights Issue and re-paid the term loan and Revolving Credit Facility in full. New banking facilities with the Group's existing banks were signed on 22nd October 2014 for £50 million, a Revolving Credit Facility expiring in May 2018. The Group has therefore significantly improved its overall shareholder funds and its net cash position. This will enable the Group to deliver its new strategic plan which will return the UK business to profitability and provide a platform to accelerate international growth.

The group's latest forecasts and projections, which incorporate the strategic initiatives outlined above, have been sensitivity tested for reasonably possible adverse variations in trading performance and foreign currency fluctuations. This indicates the group will operate within the terms of its borrowing facilities and covenants for the foreseeable future.

After considering the trading performance, future strategic plans and shareholder funds, the directors have a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements are prepared on the going concern basis.

Capital additions

Total capital additions for the half year was £4.4 million (H1 2013/14: £5.3 million), of which £1.3 million was for software intangibles and £3.1 million for tangible fixed assets. Landlord contributions of £1.6 million (H1 2013/14: £0.2 million) were received, partially offsetting the £4.4 million outflow. Net capital expenditure after landlord contributions was £ 2.8 million (H1 2013/14: £5.1 million).

Earnings per share and dividend

Basic underlying earnings per share were 3.0 pence (H1 2013/14: 1.9 pence). In April 2012 the Group announced that the dividend would not be resumed until there was a marked improvement in the Group's results. Accordingly there will be no dividend for the first half of the year.

Treasury policy and financial risk management

The Board approves treasury policies and senior management directly controls day-to-day operations within these policies. The major financial risk to which the Group is exposed relates to movements in foreign exchange rates and interest rates. Where appropriate, cost effective and practicable, the Group uses financial instruments and derivatives to manage the risks.

No speculative use of derivatives, currency or other instruments is permitted.

Foreign currency risk

All International sales to franchisees are invoiced in Pounds sterling or US dollars.

International reported sales represent approximately 37 per cent of Group sales. Total International sales in the 28 week period represent approximately 63 per cent of Group network sales. The Group therefore has some currency exposure on these sales, but they are used to offset or hedge in part the Group's US dollar denominated product purchases. The Group policy is that all material exposures are hedged by using forward currency contracts. To help mitigate against the currency impact on royalty receipts, the Group have hedged against its major market currency exposure.

Interest rate risk

The Group has drawn down £40.0 million on its term borrowing facility and £30.0 million on the Revolving Credit Facility offset by cash of £14.4 million and the amortised facility fee of £1.4 million. The Group hedges all of the floating interest rate on this term facility using interest rate swaps. These financial instruments are accounted for as a cash flow hedge with changes in the fair value of the financial instrument that are designated as effective, recognised in comprehensive income and any ineffective portion recognised immediately in the income statement.

Shareholders' funds

Shareholders' funds amount to £12.7 million, a decrease of £2.5 million in the 28 week period. This represents £0.14 per share compared to £0.17 per share at the year end. The retained deficit in the condensed balance sheet is £41.1 million.

Post balance sheet event

Subsequent to half year end, the Group received £95 million of funds (net of expenses) from the Rights Issue and re-paid the term loan and Revolving Credit Facility in full.

The Rights Issue will enable the Group to deliver on its new strategic plan designed to turnaround the Group's UK business and to transform the Group into a digitally-led business, supported by a modern store estate, well-invested IT systems and an efficient operational infrastructure.

New banking facilities with the Group's existing banks were signed on 22nd October 2014 for £50 million Revolving Credit Facility expiring in May 2018.

Condensed income statement

For the 28 weeks ended 11 October 2014

		28 weeks ended 11 October 2014 (unaudited)			28 weeks ended 12 October 2013 (unaudited)		52 weeks ended 29 March 2014
	Note	Underlying ¹ £ million	Non- underlying ² £ million	Total £ million	Underlying ¹ £ million	Non- underlying ² £ million	Total £ million
Revenue		372.7	-	372.7	376.3	-	376.3
Cost of sales		(346.0)	4.3	(341.7)	(355.0)	(7.9)	(362.9)
Gross profit		26.7	4.3	31.0	21.3	(7.9)	13.4
Administrative expenses		(19.6)	(2.1)	(21.7)	(15.4)	(5.1)	(20.5)
Profit/(loss) from retail operations		7.1	2.2	9.3	5.9	(13.0)	(7.1)
Other exceptional items	4	-	-	-	-	-	-
Share of results of joint ventures and associates		(0.2)	-	(0.2)	(0.2)	-	(0.2)
Profit/(loss) from operations		6.9	2.2	9.1	5.7	(13.0)	(7.3)
Net finance costs	5	(3.6)	-	(3.6)	(3.7)	-	(3.7)
Profit/(loss) before taxation		3.3	2.2	5.5	2.0	(13.0)	(11.0)
Taxation	6	(0.6)	(0.4)	(1.0)	(0.3)	2.6	2.3
Profit/(loss) for the period attributable to equity holders of the parent		2.7	1.8	4.5	1.7	(10.4)	(8.7)
Profit/(loss) per share							
Basic	8	3.0p		5.1p	1.9p		(9.8p)
Diluted	8	3.0p		5.0p	1.9p		(9.8p)

All results relate to continuing operations.

- (1) Before items described in note 2 below.
(2) Includes exceptional items property costs, restructuring costs and impairment charges and other non-underlying items of amortisation of intangible assets (excluding software) and the impact of non-cash foreign currency adjustments under IAS 39 and IAS 21 as set out in Note 4 to the financial statements.

Condensed statement of comprehensive income

For the 28 weeks ended 11 October 2014

	28 weeks ended 11 October 2014 (unaudited)	28 weeks ended 12 October 2013 (unaudited)	52 weeks ended 29 March 2014
	£ million	£ million	£ million
Profit/(loss) for the period	4.5	(8.7)	(27.5)
Items that will not be reclassified subsequently to the income statement:			
actuarial (loss)/gain on defined benefit pension schemes	(15.3)	4.8	9.5
Income tax relating to items not reclassified	3.1	(3.6)	(4.5)
	(12.2)	1.2	5.0
Items that may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations	0.6	(1.0)	(1.3)
Cash flow hedges: gains/(losses) arising in the period	4.0	0.2	(0.1)
	4.6	(0.8)	(1.4)
Other comprehensive (expense) / income for the period	(7.6)	0.4	3.6
Total comprehensive expense for the period wholly attributable to equity holders of the parent	(3.1)	(8.3)	(23.9)

Condensed balance sheet

As at 11 October 2014

	Note	11 October 2014 (unaudited) £ million	12 October 2013 (unaudited) £ million	29 March 2014 £ million
Non-current assets				
Goodwill		26.8	26.8	26.8
Intangible assets		16.1	17.8	17.4
Property, plant and equipment	10	55.3	65.1	59.6
Investments in joint ventures		7.4	9.9	7.7
Deferred tax asset	6	21.0	20.7	18.5
		126.6	140.3	130.0
Current assets				
Inventories		114.0	112.8	93.1
Trade and other receivables	12	70.4	59.6	59.8
Cash and cash equivalents		14.4	14.0	17.3
Current tax asset		1.2	1.1	-
Derivative financial instruments	16	3.9	-	-
		203.9	187.5	170.2
Total assets		330.5	327.8	300.2
Current liabilities				
Trade and other payables	13	(135.6)	(120.3)	(106.0)
Current tax liabilities		-	(0.3)	(0.4)
Borrowings	11	(41.6)	(15.5)	(27.6)
Short term provisions	14	(12.8)	(16.4)	(17.4)
Derivative financial instruments	16	-	(1.8)	(6.6)
		(190.0)	(154.3)	(158.0)
Non-current liabilities				
Trade and other payables	13	(23.6)	(25.9)	(24.1)
Borrowings	11	(27.0)	(46.5)	(36.2)
Retirement benefit obligations	15	(63.5)	(55.8)	(49.7)
Long term provisions	14	(13.7)	(14.4)	(17.0)
		(127.8)	(142.6)	(127.0)
Total liabilities		(317.8)	(296.9)	(285.0)
Net assets		12.7	30.9	15.2
Equity attributable to equity holders of the parent				
Share capital		44.4	44.3	44.4
Share premium account		6.3	6.2	6.3
Other reserve		-	6.2	-
Own shares		(0.4)	(0.4)	(0.4)
Translation and hedging reserve		3.5	(0.5)	(1.1)
Retained deficit		(41.1)	(24.9)	(34.0)
Total equity		12.7	30.9	15.2

Condensed statement of changes in equity

For the 28 weeks ended 11 October 2014

	Share capital	Share premium account	Other reserve	Own shares	Translation and hedging reserve	Retained deficit	Total equity
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Balance at 30 March 2014	44.4	6.3	-	(0.4)	(1.1)	(34.0)	15.2
Other comprehensive expense for the period	-	-	-	-	4.6	(12.2)	(7.6)
Profit for the period	-	-	-	-	-	4.5	4.5
Total comprehensive expense for the period	-	-	-	-	4.6	(7.7)	(3.1)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	0.6	0.6
Shares transferred to employees on vesting	-	-	-	-	-	-	-
Balance at 11 October 2014 (unaudited)	44.4	6.3	-	(0.4)	3.5	(41.1)	12.7

For the 28 weeks ended 12 October 2013

	Share capital	Share premium account	Other reserve	Own shares	Translation and hedging reserve	Retained deficit	Total equity
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Balance at 31 March 2013	44.3	6.2	6.2	(0.6)	0.3	(17.6)	38.8
Other comprehensive income for the period	-	-	-	-	(0.8)	1.2	0.4
Loss for the period	-	-	-	-	-	(8.7)	(8.7)
Total comprehensive expense for the period	-	-	-	-	(0.8)	(7.5)	(8.3)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	0.4	0.4
Shares transferred to employees on vesting	-	-	-	0.2	-	(0.2)	-
Balance at 12 October 2013 (unaudited)	44.3	6.2	6.2	(0.4)	(0.5)	(24.9)	30.9

For the 52 weeks ended 29 March 2014

	Share capital	Share premium account	Other reserve	Own shares	Translation and hedging reserve	Retained deficit	Total equity
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Balance at 30 March 2013	44.3	6.2	6.2	(0.6)	0.3	(17.6)	38.8
Other comprehensive income for the period	-	-	-	-	(1.4)	5.0	3.6
Loss for the period	-	-	-	-	-	(27.5)	(27.5)
Total comprehensive expense for the period	-	-	-	-	(1.4)	(22.5)	(23.9)
Transfer between reserves	-	-	(6.2)	-	-	6.2	-
Issue of equity shares	0.1	0.1	-	-	-	-	0.2
Credit to equity for equity-settled share-based payments	-	-	-	-	-	0.1	0.1
Shares transferred to employees on vesting	-	-	-	0.2	-	(0.2)	-
Balance at 29 March 2014 (audited)	44.4	6.3	-	(0.4)	(1.1)	(34.0)	15.2

Condensed cash flow statement

For the 28 weeks ended 11 October 2014

	Note	28 weeks ended 11 October 2014 (unaudited)	28 weeks ended 12 October 2013 (unaudited)	52 weeks ended 29 March 2014
		£ million	£ million	£ million
Net cash flow from operating activities	18	0.2	(5.3)	4.0
Cash flows from investing activities				
Purchase of property, plant and equipment		(3.1)	(3.8)	(7.9)
Purchase of intangibles – software		(1.3)	(1.5)	(3.0)
Investments in joint ventures		-	(2.1)	(2.9)
Net cash used in investing activities		(4.4)	(7.4)	(13.8)
Cash flows from financing activities				
Interest paid		(2.2)	(1.7)	(2.7)
Facility fees paid		(0.6)	-	(1.4)
Net bank loans raised		5.0	12.0	15.0
Issue of ordinary share capital		-	-	0.2
Net cash raised in financing activities		2.2	10.3	11.1
Net (decrease)/increase in cash and cash equivalents		(2.0)	(2.4)	1.3
Cash and cash equivalents at beginning of period		17.3	17.6	17.6
Effect of foreign exchange rate changes		(0.9)	(1.2)	(1.6)
Net cash and cash equivalents at end of period		14.4	14.0	17.3

Notes

1 General information

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Chief Executive's review and the financial review and include a summary of the Group's financial position, its cash flows and borrowing facilities and a discussion of why the directors consider that the going concern basis is appropriate.

The results for the 28 weeks ended 11 October 2014 are unaudited but have been reviewed by the Group's auditor, whose report forms part of this document. The information for the 52 weeks ended 29 March 2014 included in this report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that period has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified or modified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

2 Accounting Policies and Standards

The annual financial statements of Mothercare plc are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed set of financial statements included in this half yearly report has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

Taxation

The taxation charge for the half-year is calculated by applying the best estimate of the average annual effective tax rate expected for the full year to the profit for the period and recognise a tax credit only to the extent that the resulting tax asset is more than likely not to reverse.

Profit from retail operations

Profit from retail operations represents the profit generated from normal retail trading, prior to any gains or losses on property transactions and impairment charges. It also includes the volatility arising from non-cash foreign currency adjustments under IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 21 'The Effects of Changes in Foreign Exchange Rates'.

Underlying earnings

The Company believes that underlying profit before tax and underlying earnings provides additional useful information for shareholders. The term underlying earnings is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute for, or superior to, IFRS measures of profit. A reconciliation of this alternative measure to the statutory measure required by IFRS is disclosed in note 3. The adjustments made to reported results are as follows:

Exceptional items: Due to their significance or one-off nature, certain items have been classified as exceptional. The gains and losses on these discrete items, such as property costs, impairment charges, restructuring costs and other non-operating items can have a material impact on the absolute amount of and trend in the profit from operations and the results for the period. Therefore any gains and losses on such items are analysed as non-underlying on the face of the income statement. Further details of the exceptional items are provided in note 4.

Notes (continued)

Non-cash foreign currency adjustments

Prior to 5 January 2014 the Group did not adopt hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement'. The effect of not applying hedge accounting under IAS 39 for this period means that the reported results for the 28 week period ended 12 October 2013 reflect the actual rate of exchange ruling on the date of a transaction regardless of the cash flow paid by the Group at the predetermined rate of exchange. In addition, any gain or loss accruing on open contracts taken out before this date at a reporting period end is recognised in the result for the period (regardless of the actual outcome of the contract on close-out). Whilst the impacts described above could be highly volatile depending on movements in exchange rates, this volatility will not be reflected in the cash flows of the Group, which will be based on the hedged rate. In addition, foreign currency monetary assets and liabilities are revalued to the closing balance sheet rate under IAS 21 'The Effects of Changes in Foreign Exchange Rates'. Since January 2014 hedge accounting has been adopted. The adjustment made by the Group therefore is to report its underlying performance consistently with the cash flows, reflecting the hedging which is in place.

Amortisation of intangible assets

The average estimated useful life of identifiable intangible assets is 10 to 20 years for trade names and 5 to 10 years for customer relationships. The amortisation of these intangible assets does not reflect the underlying performance of the business.

Retirement benefits

In consultation with the independent actuaries to the schemes, the valuation of the pension obligation has been updated to reflect current market discount rates, current market values of investments and actual investment returns, and also to consider 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 pension obligation.

3 Segmental information

Information reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance is focused on two operating segments: UK and International. UK comprises the Group's UK store and wholesale operations, catalogue and internet sales. The International business comprises the Group's franchise and wholesale operations, joint ventures and associates outside of the UK.

Segmental information about the UK and International businesses is presented below.

	28 weeks ended 11 October 2014 (unaudited)			
	UK £ million	International £ million	Unallocated Corporate Expenses £ million	Consolidated £ million
Revenue				
External sales	235.6	137.1	-	372.7
Result				
Segment result (underlying)	(13.5)	25.3	(4.3)	7.5
Share-based payments (underlying)				(0.6)
Non-cash foreign currency adjustments (non-underlying)				5.9
Amortisation of intangible assets (non-underlying)				(0.5)
Exceptional items				(3.2)
Profit from operations				9.1
Finance cost				(3.6)
Profit before taxation				5.5
Taxation				(1.0)
Profit for the period				4.5

Notes (continued)

3 Segmental information (continued)

	28 weeks ended 12 October 2013 (unaudited)			
	UK £ million	International £ million	Unallocated Corporate Expenses £ million	Consolidated £ million
Revenue				
External sales	238.4	137.9	-	376.3
Result				
Segment result (underlying)	(14.9)	25.2	(4.2)	6.1
Share-based payments (underlying)				(0.4)
Non-cash foreign currency adjustments (non-underlying)				(7.4)
Amortisation of intangible assets (non-underlying)				(0.5)
Exceptional items				(5.1)
Loss from operations				(7.3)
Finance cost				(3.7)
Loss before taxation				(11.0)
Taxation				2.3
Loss for the period				(8.7)

	52 weeks ended 29 March 2014			
	UK £ million	International £ million	Unallocated Corporate Expenses £ million	Consolidated £ million
Revenue				
External sales	462.3	262.6	-	724.9
Result				
Segment result (underlying)	(21.5)	45.3	(7.8)	16.0
Share-based payments (underlying)				(0.1)
Non-cash foreign currency adjustments (non-underlying)				(14.9)
Amortisation of intangible assets (non-underlying)				(1.0)
Exceptional items				(19.1)
Loss from operations				(19.1)
Finance costs (including £0.8m non-underlying)				(7.2)
Loss before taxation				(26.3)
Taxation				(1.2)
Loss for the period				(27.5)

Corporate expenses not allocated to UK or International represent board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property.

Notes (continued)

4 Exceptional and non-underlying items

Due to their significance or one-off nature, certain items have been classified as exceptional or non-underlying as follows:

	28 weeks ended 11 October 2014 (unaudited) £ million	28 weeks ended 12 October 2013 (unaudited) £ million	52 weeks ended 29 March 2014 £ million
Exceptional items:			
Restructuring costs included in cost of sales	(1.1)	-	1.2
Restructuring costs included in administrative expenses	(2.1)	(5.1)	(6.8)
Store property, plant and equipment impairment included in administrative expenses	-	-	(2.7)
Property related costs in other exceptional items	-	-	(8.2)
Impairment of investment in and receivables due from joint venture/associate in other exceptional items	-	-	(2.6)
Restructuring costs in finance costs	-	-	(0.8)
Total exceptional items:	(3.2)	(5.1)	(19.9)
Other non-underlying items:			
Non-cash foreign currency adjustments under IAS39 and IAS21	5.9	(7.4)	(14.9)
Amortisation of intangibles	(0.5)	(0.5)	(1.0)
Exceptional and non-underlying items before tax	2.2	(13.0)	(35.8)

Restructuring costs included in cost of sales

During the 28 weeks ended 11 October 2014 a charge of £1.1 million was recognised relating to a store restructuring which resulted in an alignment of staff hours to peak trading times.

Restructuring costs included in administration expenses

During the 28 weeks ended 11 October 2014 a charge of £2.1 million was recognised relating to costs incurred in relation to legal and other costs related to the banking agreement signed in May 2014. In addition costs were recognised for business restructuring in the central functions.

Notes (continued)

5 Net finance costs

	28 weeks ended 11 October 2014 (unaudited) £ million	28 weeks ended 12 October 2013 (unaudited) £ million	52 weeks ended 29 March 2014 £ million
Interest on pension liabilities/return on assets	1.1	1.5	2.7
Other net interest	2.5	2.2	4.5
Net finance costs	3.6	3.7	7.2

6 Taxation

	28 weeks ended 11 October 2014 (unaudited) £ million	28 weeks ended 12 October 2013 (unaudited) £ million	52 weeks ended 29 March 2014 £ million
Current tax – Overseas tax and UK corporation tax	0.4	0.3	2.1
Deferred tax – UK tax charge / (credit) for timing differences	0.6	(2.6)	(0.9)
Total tax charge / (credit)	1.0	(2.3)	1.2

The deferred tax charge arises on UK timing differences.

The net deferred tax asset at 11 October 2014 is £21.0 million (H1 2013/14: £20.7 million) including £12.7 million of deferred tax assets in relation to retirement benefit obligations (H1 2013/14: £11.2 million).

7 Dividends

In April 2012 the Group announced that the dividend would not be resumed until there was a marked improvement in the Group's results. Accordingly there will be no dividend for the first half of the year.

8 Earnings per share

	28 weeks ended 11 October 2014 (unaudited) million	28 weeks ended 12 October 2013 (unaudited) million	52 weeks ended 29 March 2014 million
Weighted average number of shares in issue for the purpose of basic earnings per share	88.7	88.6	88.7
Dilution – option schemes	1.1	1.4	1.3
Weighted average number of shares in issue for the purpose of diluted earnings per share	89.8	90.0	90.0
	£ million	£ million	£ million
Profit/(loss) for basic and diluted earnings per share	4.5	(8.7)	(27.5)
Exceptional and other non-underlying items	(2.2)	13.0	35.8
Tax effect of above items	0.4	(2.6)	(1.5)
Underlying earnings	2.7	1.7	6.8
	Pence	Pence	Pence
Basic earnings/(loss) per share	5.1	(9.8)	(31.0)
Basic underlying earnings per share	3.0	1.9	7.7
Diluted earnings/(loss) per share	5.0	(9.8)	(31.0)
Diluted underlying earnings per share	3.0	1.9	7.6

Notes (continued)

9 Seasonality of the Early Learning Centre

Sales for the Early Learning Centre are more heavily weighted towards the second half of the year, with approximately 36% of annual sales occurring in the third quarter (mid-October to early January).

10 Property, plant and equipment (excluding software intangibles)

Capital additions of £2.6 million were made during the period (H1 2013/14: £3.3 million) comprising additions to stores (£1.3 million; H1 2013/14: £1.8 million), product development (£0.4 million; H1 2013/14: £0.2 million), and other items (£0.9 million; H1 2013/14: £1.3 million).

11 Bank loans and overdrafts

As at 11 October 2014, the Group had drawn down £40.0 million of its term loan and £30.0million of the Revolving Credit Facility. The term loan attracts an interest rate of 2.5 per cent to 3.5 per cent above LIBOR. The Group hedges all of its floating interest rate risk using an interest rate swap exchanging variable rate interest for fixed rate interest.

12 Trade and other receivables

	11 October 2014 (unaudited) £ million	12 October 2013 (unaudited) £ million	29 March 2014 £ million
Trade receivables	50.4	40.3	42.1
Prepayments and accrued income	16.6	16.6	14.1
Other receivables	3.4	2.7	3.6
	70.4	59.6	59.8

13 Trade and other payables

	11 October 2014 (unaudited) £ million	12 October 2013 (unaudited) £ million	29 March 2014 £ million
Current liabilities:			
Trade payables	87.8	75.7	63.5
Payroll and other taxes, including social security	3.2	2.7	2.0
Accruals and deferred income	40.0	37.0	35.8
VAT payable	-	0.2	-
Lease incentives	4.6	4.7	4.7
	135.6	120.3	106.0
Non-current liabilities:			
Lease incentives	23.6	25.9	24.1

Notes (continued)

14 Provisions

	11 October 2014 (unaudited) £ million	12 October 2013 (unaudited) £ million	29 March 2014 £ million
Current liabilities:			
Property provisions	12.1	15.6	16.7
Other provisions	0.7	0.8	0.7
Short term provisions	12.8	16.4	17.4
Non-current liabilities:			
Property provisions	13.2	13.5	16.3
Other provisions	0.5	0.9	0.7
Long-term provisions	13.7	14.4	17.0
Total liabilities:			
Property provisions	25.3	29.1	33.0
Other provisions	1.2	1.7	1.4
Total provisions	26.5	30.8	34.4

The movement on total provisions is as follows:

	Property provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 30 March 2014	33.0	1.4	34.4
Utilised in period	(7.8)	(0.2)	(8.0)
Charged in period	0.1	-	0.1
Balance at 11 October 2014 (unaudited)	25.3	1.2	26.5

Property provisions principally represent the costs of store disposals or closures relating to the optimisation of the UK portfolio which involves the closure of loss making Mothercare and Early Learning Centre stores and provisions for onerous lease costs. Provisions for onerous leases have been made for vacant, partly let and trading stores for the shorter of the remaining period of the lease and the period, until the Group will be able to exit the lease commitment. For trading stores the amount provided is based on the shortfall in contribution required to cover future rental obligations together with other fixed outgoings. The majority of this provision is expected to be utilised over the next three financial years.

Other provisions represent provisions for uninsured losses (£1.1 million), hence the timing of the utilisation of these provisions is uncertain and provisions for an onerous support contract for a decommissioned IT project (£0.1 million) which is expected to be utilised in the current next year.

15 Retirement benefit schemes

The Group updated its accounting for pensions under IAS 19 as at 11 October 2014. This involved rolling forward the assumptions from the prior year end and updating for changes in market rates in the first half. For the UK schemes, based on the actuarial assumptions from the last full actuarial valuations carried out at 31 March 2011, a liability of £63.5 million (H1 2013/14: £55.8 million) has been recognised.

16 Financial instruments' fair value disclosures

The Group held the following financial instruments at fair value at 11 October 2014. 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, and they therefore are categorised within level 2 of the fair value hierarchy set out in IFRS 7.

Notes (continued)

16 Financial instruments' fair value disclosures (continued)

	Fair value measurements at 11 October 2014 (unaudited) £ million	Fair value measurements at 12 October 2013 (unaudited) £ million	Fair value measurements at 29 March 2014 £ million
Financial assets:			
Derivative financial instruments:			
Interest rate swaps and similar instruments	-	(0.2)	-
Forward foreign currency contracts	3.9	(1.6)	(6.6)
	3.9	(1.8)	(6.6)

The derivative financial assets and liabilities whose fair values include the use of level 2 inputs are obtained from the banks or financial instruments with which the derivatives have been transacted, subject to adjustment for own credit risk if necessary.

The valuations incorporate the following inputs:

- interest rates and yield curves at commonly quoted intervals; and
- observable credit spreads.

The directors consider that the carrying value amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values.

17 Share-based payments

An expense is recognised for share-based payments 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 total net charge for share-based payments under IFRS 2 is £0.6 million (28 weeks ended 12th October 2013: £0.4 million) of which £0.6 million (28 weeks ended 12 October 2013: £0.4 million) will be equity settled. The assumptions used to measure the fair values of the share-based payments are in line with those previously published.

Notes (continued)

18 Notes to the cash flow statement

	28 weeks ended 11 October 2014 (unaudited)	28 weeks ended 12 October 2013 (unaudited)	52 weeks ended 29 March 2014
	£ million	£ million	£ million
Profit/(loss) from retail operations	9.3	(7.1)	(7.7)
Adjustments for:			
Depreciation of property, plant and equipment	6.9	7.4	14.7
Amortisation of intangible assets	2.5	3.3	5.6
Impairment of intangible assets	-	-	2.7
Losses on disposal of property, plant and equipment and intangible assets	0.2	0.4	0.4
(Profit)/loss on non-underlying non-cash foreign currency adjustments	(5.9)	7.4	14.9
Equity settled share-based payments	0.6	0.4	0.1
Movement in provisions	(7.7)	(7.1)	(10.8)
Cash payments for other exceptional items	-	-	(0.2)
Amortisation of lease incentives	(2.6)	(2.7)	(5.2)
Lease incentives received	1.6	0.2	0.7
Payments to retirement benefit schemes	(3.3)	(3.1)	(6.2)
Charge to profit from operations in respect of retirement benefit schemes	0.6	0.6	1.1
Operating cash flow before movement in working capital	2.2	(0.3)	10.1
(Increase)/ decrease in inventories	(19.8)	(1.9)	14.4
(Increase)/ decrease in receivables	(10.4)	(1.9)	(3.3)
Increase/(decrease) in payables	30.2	(0.5)	(15.5)
Cash generated/(utilised) from operations	2.2	(4.6)	5.7
Income taxes paid	(2.0)	(0.7)	(1.7)
Net cash inflow/(outflow) from operating activities	0.2	(5.3)	4.0

19. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

Trading transactions:

Joint ventures and associates	Sales of goods £ million	Amounts owed by related parties (net of provisions) £ million
28 weeks ended 11 October 2014 (unaudited)	6.7	5.4
28 weeks ended 12 October 2013 (unaudited)	12.4	7.5
52 weeks ended 29 March 2014	21.1	5.8

Sales of goods to related parties were made at the Group's usual list prices.

The amounts outstanding are unsecured and will be settled in cash

20. Post balance sheet event

Subsequent to half year end, the Group received £95 million of funds (net of expenses) from the Rights Issue and re-paid the term loan and RCFs in full.

The Rights Issue will enable the Group to deliver on its new strategic plan designed to turnaround the Group's UK business and to transform the Group into a digitally-led business, supported by a modern store estate, well-invested IT systems and an efficient operational infrastructure.

New banking facilities with the Group's existing banks were signed on 22nd October 2014 for £50 million Revolving Credit Facility expiring in May 2018.

Risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The principal risks and uncertainties which could impact the Company's long-term performance are summarised below:

- The retail markets in which the Group and its Franchise Partners operate are highly competitive, with few barriers to entry.
- The anticipated turnaround of the Group's UK business may not be achievable if it fails to implement effectively key aspects of its new strategic plan.
- The Group's revenue is dependent on footfall; the shift in consumer purchasing habits towards online and mobile channels may affect sales from the Group's UK store portfolio and the profitability of each store.
- The Group may be affected by challenging economic conditions and political developments affecting the UK and international markets in which it operates.
- The Group's brands and reputation are key to its success both in the UK and internationally; any damage to the Group's brands or concerns relating to its products (including their quality or safety) could have a material adverse effect on the business.
- The Group is materially dependent on a small number of franchise partners that make up a significant proportion of its international income.
- The Group relies on forecasts of like-for-like sales in both of its UK and international businesses; any shortfall in like-for-like sales, particularly in the UK, could impact the Group's results materially.
- The Group's results of operations may be affected by both transactional and translational foreign exchange risk.
- The Group may not be successful in reshaping the UK store footprint and building and further developing its existing online retail platform in the UK.
- The Group's future success depends on the performance of its key senior management and the ability to attract and retain high quality and highly skilled personnel.
- The Group's business is materially dependent on its ability to source products successfully from its suppliers, most of which are based outside the UK. The Group relies on its manufacturers, suppliers and distributors to comply with employment, environmental and other laws.
- The Group's trademarks are central to the value of the Mothercare and ELC brands. The Group may not be able to protect these trademarks in its international markets meaning that these rights may be challenged or invalidated in the future.
- Any unauthorised access or disclosure of confidential information stored or obtained by the Group could have a material adverse effect on its business.
- The Group's franchise partners operate across 60 countries and whilst receipts are in Sterling, US Dollars or Euros, there is a degree of currency risk as franchise partners' revenues are converted to Sterling.

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

Responsibility statement

We confirm that to the best of our knowledge:

- (a) The condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first 28 weeks of the year and description of principal risks and uncertainties for the 24 weeks of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Mark Newton Jones
Chief Executive

Matt Smith
Chief Financial Officer

19 November 2014

Independent review report to Mothercare plc

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the 28 weeks ended 11 October 2014 which comprises the condensed income statement, the condensed balance sheet, the condensed statement of changes in equity, the condensed statement of comprehensive income, the condensed cash flow statement and related notes 1 to 20. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the 28 weeks ended 11 October 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditor
London, UK
19 November 2014

Shareholder information

Financial calendar

2015

Preliminary announcement of results for the 52 weeks ending 28 March 2015	end May
Issue of report and accounts	mid June
Annual General Meeting	mid July
Announcement of interim results for the 28 weeks ended 10 October 2015	mid November

Registered office and head office

Cherry Tree Road, Watford, Hertfordshire WD24 6SH
Telephone 01923 241000
www.mothercareplc.com
Registered number 1950509

Group general counsel and company secretary

Tim Ashby

Registrars

Administrative enquiries concerning shareholders in Mothercare plc for such matters as the loss of a share certificate, dividend payments or a change of address should be directed, in the first instance, to the registrars:

Equiniti Limited
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Telephone 0871 384 2013 (calls to this number are charged at 8p per minute plus network extras)
Overseas +44 (0)121 415 7042
www.equiniti.com

Postal share dealing service

A postal share dealing service is available through the Company's registrars for the purchase and sale of Mothercare plc shares. Further details can be obtained from Equiniti on 0871 384 2248 (calls to this number are charged at 8p per minute plus network extras). Lines are open 08:30 to 17:30, Monday to Friday.

The Company's stockbrokers are:

JPMorgan Cazenove & Co Limited
25 Bank Street
Canary Wharf,
London E14 5JP
Telephone 020 7742 4000

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT
Telephone 020 7260 1000

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. The share transfer form needed to make a donation may be obtained from the Mothercare plc registrars, Equiniti Limited.

Further information about ShareGift is available from www.sharegift.org or by telephone on 020 7930 3737.