Staples UK Retail Limited

Report and Financial Statements

30 January 2016

Directors
P Legro
A Gaynor

Auditors
Ernst & Young LLP
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Forbury Road
Reading
Berkshire RG1 1YE

Bankers
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Bucks HP11 1JU

Registered No. 2430955

Strategic report

The directors present their strategic report for the period ended 30 January 2016.

Review of the business

The company's principal activities during the period continued to be the sale of office supplies.

The company's key financial and other performance indicators during the period were as follows:

	2016	*2015*	*Change*
	£000	*£000*	*%*
Turnover	198,090	219,622	(9.8)%
Gross profit	95,035	104,171	(8.8)%
Gross margin percentage	48.0%	47.4%	0.6%
Operating loss before restructure costs	(10,551)	(4,466)	136.3%
Number of stores at end of period	107	112	(4.4%)

Turnover decreased by 9.8% in the period due to the continuing challenging market conditions with discount supermarkets having a bigger impact and the demand for computers and tablets weakening. Following further pricing work and the introduction of a rule based pricing model (a pricing model driven by adjustable parameters setting suggested prices for every item) in Q4 gross margin rates increased from 47.4% to 48.0% in the period. The company continued to pursue efficiencies in the real estate portfolio, with two store downsizes and one relocation in the period, as well as taking the opportunity to close five loss making stores where an acceptable deal had been available to exit the leases. Restructuring in stores and the operations department towards the end of the period are forecast to drive annual cost savings. Early results from a marketing econometrics model show radio and television advertising have a positive impact on sales.

In July 2015, as part of a capital restructuring designed to settle a number of intercompany loans within the group, the company issued three additional shares to Staples UK Real Estate Limited in exchange for cash of £42.1 million. The company subsequently paid £6.9 million to Staples Mail Order UK Limited and £35.2 million to Staples International BV in partial payment of outstanding loans. In November 2015 the company issued one share at a nominal value of £1 and a share premium of £1.3 million to Staples UK Real Estate Limited in exchange for capitalisation of an intercompany loan of £1.3 million.

While the period was a challenging one a number of key initiatives have been implemented to drive improved profitability in coming periods – 1) rule based pricing continues to drive margin improvements, 2) restructured stores and operations model will deliver significant savings, 3) marketing econometrics model will allow better targeting of marketing spend, 4) continue Inspired Selling culture will help drive footfall, conversion and customer satisfaction.

Principal risks and uncertainties

The company dedicates resources to manage risk areas in the following categories:

Strategic risk

The directors and management teams closely monitor performance and, working with the global Staples group, have targeted strategies aligned to the challenging trading conditions. The company monitors competitors in the office supplies sector and supermarkets to ensure the product ranges are appropriate and priced to maximise the profitability of the business.

Financial risk

The main area of financial risk management is exchange rate movements. The company has inter-company loans and transaction in both sterling and euros, but currency risk is managed on a group basis, and is hedged elsewhere within the group in Europe and the US.

Strategic report (continued)

Exposure to liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company, as a wholly owned subsidiary within the Staples Inc. group operates in a European and Global treasury facility. Intercompany banking arrangements are in place to allow free flow of funds to support all business requirements. The company has no external debt or borrowings and the directors are satisfied that all funding requirements will be met for the next twelve months from the signing of these financial statements.

Operational risk

Store managers, supported by regional management, manage our stores at a local level and deliver consistent and compliant standards. Regular audits of the store, systems and infrastructure ensure consistency of performance.

Financial risk management

The Company's operations expose it to a number of financial risks that include credit risk and interest rate risk relating to inter-company borrowing. The Company has in place a risk management policy that seeks to minimise any financial risk via the monitoring of cash balances and working capital requirements. The directors consider that the main material risks or uncertainties relate to exchange rate movements. The company has inter-company loans and transaction in both sterling and euros, but currency risk is managed on a group basis, and is hedged elsewhere within the group in Europe and the US.

Health and safety

The business takes its health and safety responsibilities very seriously. We ensure in all areas that we seek to comply with all relevant legislation and allocate management time to this subject at the highest level on a regular basis.

Leased properties

The company has a large number of leased retail properties across the United Kingdom. The directors and management closely monitor the portfolio of leased properties using a dedicated property management team to manage the risk of dilapidation and lease liabilities.

On behalf of the Board

P Legro
Director

Date: 2 December 2016

Registered No. 2430955

Directors' report

The directors present their report for the period ended 30 January 2016.

Results and dividends

The loss for the period after taxation amounted to £21,713,000 (period ended 31 January 2015 – loss of £7,552,000). The directors do not recommend the payment of a dividend (period ended 31 January 2015 – £nil).

Future developments

Following early results from the company's econometric model, marketing monies will be redirected to radio advertising every weekend and television advertising at core times (such as the Back To School and Back To Work periods). The future operating strategy will be decided on by the new owners of the business.

Events since the year end date

In April 2016, as part of a further capital restructuring designed to settle a number of intercompany balances within the Staples Inc. group, Staples UK Retail Limited issued one share to its immediate parent, Staples UK Real Estate Limited, in exchange for cash of £43.7 million.

In July 2016 the Chadwell Heath store was closed.

In November 2016 it was announced that the Chelmsford, Chatham and Loughborough stores would close by January 2017.

On 17 November 2016 Staples Mail Order UK Limited sold its entire shareholding in OO Retail Limited, which is the sole shareholder of Staples UK Retail Limited, to HUK 70 Limited. HUK 70 Limited is ultimately a subsidiary of Hilco London Limited. While beneficial and legal ownership of the company now rests with HUK70 Limited completion of the transaction is subject to certain matters which are expected to be completed within 10 business days of the Sale and Purchase Agreement dated 17 November 2016. Staples UK Real Estate Limited remains the company's immediate parent undertaking.

Staples UK Retail Limited is a party to a Transitional Services Agreement with Staples Inc., Staples Europe BV and Staples Mail Order UK Limited to disentangle the UK retail business from the rest of the Staples Inc. group. Under that agreement Staples Inc. and Staples Europe BV will provide specified services as part of the disentanglement of the company from the Staples Inc. group for a fixed period on a transitional basis after Completion, subject to and on the terms and conditions of that Agreement. An element of the Transitional Agreement relates to the re-branding of the Retail operations and this exercise will take place over the coming weeks as the Staples brand is withdrawn from the stores.

Prior to completion of the transaction Staples International BV, a fellow subsidiary of the Staples Inc. group waived £29.6m of the outstanding loan with Staples UK Retail Limited, reducing the balance from £41.1m to £11.5m.

Registered No. 2430955

Directors' report (continued)

Going concern

At the year-end the company had net liabilities and through to 17 November 2016 has met its day-to-day working capital requirements through an overdraft facility with the Staples European cash pool.

Post year end the company has received capital contributions of £43.7 million from its parent via Staples International BV, which reduced the level of overdraft from 30 January 2016.

Staples Inc., the then ultimate shareholder and controlling party of the company, announced on 12 May 2016 the strategic decision to sell its Staples Europe operations of which this company is a component. As noted in the events since the year end date section above, that sale of Staples UK Retail Limited and its immediate holding company Staples UK Real Estate Limited took place on 17 November 2016 subject to certain completion matters which are expected to be fulfilled shortly. If the open completion matters are not satisfied it is possible that the sale may be rescinded. The Board are confident that the completion matters will be satisfied within the prescribed timescale.

Prior to completion of the transaction Staples International BV waived £29.6million of the outstanding loan with the company reducing the balance on that specific loan from £41.1million to £11.5million.

The company has prepared cashflow forecasts while within the Staples Inc. Group for the period to 27 January 2018 which indicate that the company will continue to require access to further funding. In common with prior years the company has been financed through a letter of support from its indirect parent undertaking, Staples International BV, with that arrangement being cancelled in conjunction with the sale of the company from the Staples Inc. group on 17 November 2016 referred to in the events since the year end date.

The Directors are confident in assuming the satisfactory completion of the sale, but the future operating strategy of the company will be determined by the new owners and financial support will also be determined by the new owners. New working facilities of up to £35.25m have been made available post completion by OO Retail Limited, a parent company of the company.

Certain Directors responsible for preparing and approving these financials statements will resign as part of fulfilling the open completion matters referred to above. The strategy for the future direction and operation of the company that the new owners follow may be different to that intended by Staples and the cash flow requirements of that future strategy may be more than or less than that previously forecast. The quantum of that funding and source and adequacy of funding will be determined by the new owners.

Financial Reporting Standard 102.3.9 states that when management is aware, in making its going concern assessment, of "material uncertainties" related to events or conditions that cast significant doubt upon the company's ability to continue as a going concern that the company shall disclose those uncertainties. The Directors consider that the uncertainty regarding the company's future strategy and associated funding and source of that funding described above meets the definition of a "material uncertainty". Nevertheless, after making enquiries and considering the uncertainty described above, the directors have a reasonable expectation that the company has access to adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements. The financial statements do not reflect any adjustments that would be required to be made if they were prepared on a basis other than the going concern basis.

Registered No. 2430955

Directors' report (continued)

Directors

The directors who served the company during the period were as follows:

P Legro
L Landis (resigned 18 November 2016)
C Boevé (resigned 18 November 2016)
A Gaynor (appointed 18 November 2016)

Disclosure of directors' interests including options in the company's ultimate parent undertaking are not required under regulations issued under the Companies Act 2006 as the company's ultimate parent undertaking is incorporated outside Great Britain.

Disabled employees

The company gives full consideration to applicants for employment from disabled persons where a handicapped or disabled person can adequately fulfil the requirements of the job.

Where existing employees become disabled it is the company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Employee involvement

During the period, the policy of providing employees with information about the company has been continued through regular email and newsletter communication to all employees. Regular meetings are held between local management, national management and employees to encourage a free flow of information and this involves representatives from all functions and locations.

Employees are given the opportunity to invest in Staples Inc. via participation in both approved and non-approved share purchase schemes.

Directors' Liabilities

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that they are obliged to take as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

P Legro
Director

Date: 2 December 2016

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the directors' 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 FRS102 'The Financial Reporting Standard Applicable in the UK and Ireland'. 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 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 the hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of Staples UK Retail Limited

We have audited the financial statements of Staples UK Retail Limited for the period ended 30 January 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 'The Financial Reporting Standard Applicable in the UK and Ireland'.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 January 2016 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS102 'The Financial Reporting Standard Applicable in the UK and Ireland'.; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion, which is not modified, we have also considered the adequacy of the disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The conditions described in note 1 indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Independent auditor's report (continued)

to the members of Staples UK Retail Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP
....
David Brown (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
Reading

2 December 2016
....
Date

Statement of comprehensive income

for the period ended 30 January 2016

	Notes	*2016* *£000*	*2015* *£000*
Turnover	3	198,090	219,622
Cost of sales		(103,055)	(115,451)
Gross Profit		95,035	104,171
Distribution costs		(2,578)	(2,716)
Administrative expenses:			
Before exceptional items		(103,924)	(106,745)
Restructure costs	5	(5,668)	(258)
		(109,592)	(107,003)
		(17,135)	(5,548)
Other operating income		916	824
Operating loss	4	(16,219)	(4,724)
Loss on disposal of fixed assets		(314)	(113)
Loss on ordinary activities before interest and taxation		(16,533)	(4,837)
Interest receivable and similar income	7	1	47
Interest payable and similar charges	8	(5,181)	(2,762)
Loss on ordinary activities before taxation		(21,713)	(7,552)
Tax	9	-	-
Loss for the financial period		(21,713)	(7,552)
Total other comprehensive income		-	-
Total comprehensive loss for the financial period		(21,713)	(7,552)

All amounts relate to continuing activities.

Statement of financial position

At 30 January 2016

	Notes	*2016* *£000*	*2015* *£000*
Fixed assets			
Tangible assets	10	17,983	22,524
Current assets			
Stocks	11	41,895	48,585
Debtors:	12		
amounts falling due within one year		18,987	18,596
amounts falling due after one year		123	123
		19,110	18,719
Cash at bank and in hand		2,905	3,057
		63,910	70,361
Creditors: amounts falling due within one year	13	(72,400)	(71,912)
Net current (liabilities)		(8,490)	(1,551)
Total assets less current liabilities		9,493	20,973
Creditors: amounts falling due after more than one year	14	(41,261)	(73,302)
Provisions for liabilities	15	(3,355)	(4,404)
Net liabilities		(35,123)	(56,733)
Capital and reserves			
Called up share capital	16	3,050	3,050
Share premium account	17	104,016	60,609
Capital contribution	17	12,855	12,855
Profit and loss account		(155,044)	(133,247)
Shareholders' deficit		(35,123)	(56,733)

P Legro

Director

Date: 2 December 2016

Statement of changes in equity

for the period ended 30 January 2016

	Share capital *£000*	*Share premium* *£000*	*Capital contributi on* *£000*	*Profit and loss account* *£000*	*Total share-holders' (deficit)* *£000*
At 2 February 2014	3,050	60,609	12,855	(125,633)	(49,119)
Loss for the period	-	-		(7,552)	(7,552)
Other comprehensive income	-	-		-	-
Total comprehensive loss for the period	-	-	-	(7,552)	(7,552)
Share-based payment	-	-		(62)	(62)
At 31 January 2015	3,050	60,609	12,855	(133,247)	(56,733)
Loss for the period	-	-	-	(21,713)	(21,713)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(21,713)	(21,713)
Share issue during the period	-	43,407	-	-	43,407
Shared-based payment	-	-	-	(84)	(84)
At 30 January 2016	3,050	104,016	12,855	(155,044)	(35,123)

Notes to the financial statements

at 30 January 2016

1. Going concern

The financial statements have been prepared on a going concern basis.

At the year-end the company had net liabilities and through to 17 November 2016 has met its day-to-day working capital requirements through an overdraft facility with the Staples European cash pool.

Post year end the company has received capital contributions of £43.7 million from its parent via Staples International BV, which reduced the level of overdraft from 30 January 2016.

Staples Inc., the then ultimate shareholder and controlling party of the company, announced on 12 May 2016 the strategic decision to sell its Staples Europe operations of which this company is a component. As noted in the events since the year end date section above, that sale of Staples UK Retail Limited and its immediate holding company Staples UK Real Estate Limited took place on 17 November 2016 subject to certain completion matters which are expected to be fulfilled shortly. If the open completion matters are not satisfied it is possible that the sale may be rescinded. The Board are confident that the completion matters will be satisfied within the prescribed timescale.

Prior to completion of the transaction Staples International BV waived £29.6million of the outstanding loan with the company reducing the balance on that specific loan from £41.1million to £11.5million.

The company has prepared cashflow forecasts while within the Staples Inc. Group for the period to 27 January 2018 which indicate that the company will continue to require access to further funding. In common with prior years the company has been financed through a letter of support from its indirect parent undertaking, Staples International BV, with that arrangement being cancelled in conjunction with the sale of the company from the Staples Inc. group on 17 November 2016 referred to in the events since the year end date.

The Directors are confident in assuming the satisfactory completion of the sale, but the future operating strategy of the company will be determined by the new owners and financial support will also be determined by the new owners. New working facilities of up to £35.25m have been made available post completion by OO Retail Limited, a parent company of the company.

Certain Directors responsible for preparing and approving these financials statements will resign as part of fulfilling the open completion matters referred to above. The strategy for the future direction and operation of the company that the new owners follow may be different to that intended by Staples and the cash flow requirements of that future strategy may be more than or less than that previously forecast. The quantum of that funding and source and adequacy of funding will be determined by the new owners.

Financial Reporting Standard 102.3.9 states that when management is aware, in making its going concern assessment, of "material uncertainties" related to events or conditions that cast significant doubt upon the company's ability to continue as a going concern that the company shall disclose those uncertainties. The Directors consider that the uncertainty regarding the company's future strategy and associated funding and source of that funding described above meets the definition of a "material uncertainty". Nevertheless, after making enquiries and considering the uncertainty described above, the directors have a reasonable expectation that the company has access to adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements. The financial statements do not reflect any adjustments that would be required to be made if they were prepared on a basis other than the going concern basis.

Notes to the financial statements

at 30 January 2016

2. Accounting policies

Statement of compliance

Staples UK Retail Ltd is a limited liability company incorporated in England. The Registered Office is Hampden Court, Kingsmead Business Park, High Wycombe, Bucks HP11 1JU.

The company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the company for the period ended 30 January 2016.

The company transitioned from previously extant UK GAAP to FRS 102 as at 2 February 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 23.

Basis of preparation

The financial statements are prepared in accordance with FRS 102, and were approved for issue by the directors on 2 December 2016. The company has taken advantage of section 390 of the Companies Act 2006, which allows a variation of the accounting period reference date of up to seven days. The financial statements are made up to the nearest Saturday to 31 January, so as to coincide with Staples Inc.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £'000.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the year end date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Operating lease commitments

The company obtains use as a lessee of property, plant and equipment. The classification of such leases as operating or finance lease requires the company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the statement of financial position.

The following are the company's key sources of estimation uncertainty:

Impairment of non-financial assets

Where there are indicators of impairment of individual assets, the company performs a recoverability test by comparing the sum of the estimated undiscounted future cash flows attributable to the asset group (store) in question to their carrying amounts. The future cash flow projections reflect only those expenses that are directly associated with, and that are expected to arise as a direct result of, the use of the asset group. For the asset groups that fail the recoverability test the company recognizes an impairment charge to the extent the asset group's carrying value exceeds its estimated fair value. It is assumed that the fair value of the asset groups approximates the net present value of the groups' tax-effected future operating cash flows as measured in step one of the impairment test, plus the current estimated market value of any owned real estate assets. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Stock obsolescence

The company maintains a reserve to provide for obsolete stock. The reserve is calculated with regards to the ageing of the stock and excess stock criteria. Exclusions from the calculation are made based on the timing of seasonal promotional campaigns and bulk initial purchases of new technology. The value of the reserve at the year end date was £3,113,000 (2015 - £4,284,000).

Notes to the financial statements

at 30 January 2016

2. Accounting policies (continued)

Disclosure exemptions

On the basis that the company is a qualifying entity, the directors have taken advantage of the following disclosure exemptions in FRS102:

- The requirements of Section 4 Statement of Financial Position paragraph 4.12 (a)(iv).
- The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17 (d).
- The requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23.
- The requirement of Section 33 Related Party Disclosures paragraph 33.7.

Turnover

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

Tangible fixed assets

Tangible fixed assets, other than investment properties, are stated at cost, net of depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold buildings	–	over 40 years
Leasehold improvements	–	over estimated useful life (10-25 years) or over life of lease if shorter
Fixtures and fittings	–	over 5-10 years
Computers and electronic equipment	–	over 3-4 years

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

Investment properties

Certain of the company's properties are held for long-term investment. Investment properties are accounted for as follows:

- Investment properties are initially recognised at cost which includes purchase cost and any directly attributable expenditure.
- Investment properties whose fair value can be measured reliably are measured at fair value. The surplus or deficit on revaluation is recognised in the income statement.

Impairment of non-financial assets

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate impairment has taken place. If any such indication exists the company estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset the company estimates the recoverable amount of the cash generating unit to which the assets belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value and its value in use. If the recoverable amount is less than its carrying amount the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in the income statement. A recognised impairment loss is reversed in a subsequent period if the reasons for the impairment loss have ceased to apply. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

Notes to the financial statements

at 30 January 2016

2. Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value as follows:

Goods for resale – purchase cost on a first-in, first-out basis.

Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective lines where appropriate.

Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provision is made for future net property lease rentals and dilapidation costs payable on vacant and sub-let leasehold premises.

Provision is made for assigned leasehold premises to reflect the risk of leases being assigned back to Staples in the event that the assignee defaults on the lease obligations. An appropriate risk based discount is applied to each individual assigned lease.

Termination benefits

Termination benefits are recognised as a liability and an expense when the company is demonstrably committed either to terminate the employment of an employee or group of employees before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Current and Deferred taxation

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

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Leasing commitments

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease term.

Notes to the financial statements

at 30 January 2016

2. Accounting policies (continued)

Landlord incentives

Incentives receivable from landlords at the inception of store leases are credited to the income statement on a straight line basis over the lease term rather than on a cash basis. The unamortised balance is shown as deferred income.

The rental savings attributable to rent free periods are credited to the income statement on a straight line basis over the lease term rather than being recognised in the rent free period.

Loan notes

Loan notes which are basic financial instruments are initially recorded at the present value of future payments discounted at a market rate of interest for a similar loan. Subsequently, they are measured at amortised cost using the effective interest method. Loan notes that are receivable within one year are not discounted.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

Short-term creditors and debtors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price.

Share-based payments

As a member of a group whose employees are granted a share-based payment award by Staples Inc. the company recognises and measures the share-based payment expense on the basis of a reasonable allocation of the expense for the group, the basis of the allocation being the charge recognised under US GAAP in Staples Inc.'s accounts in respect of the employees of the company.

Cost of sales

Cost of sales consists of all costs of the goods being sold to the point of sale, net of promotional funding and commercial income, and includes property, manufacturing, warehouse and transportation costs. Store depreciation, store overheads and store-based employee costs are also allocated to cost of sales.

Promotional funding

Promotional funding refers to investment in the customer offer by suppliers by way of promotion. The calculation of funding is system generated based on a funding level on a unit sales basis agreed in advance with the supplier. Funding is recognised as units as sold and invoiced in accordance with the specific supplier agreement. Funding is recorded effectively as a direct adjustment to the cost price of the product in the period. Funding is invoiced and collected through the year, shortly after the promotions have ended.

Notes to the financial statements

at 30 January 2016

2. Accounting policies (continued)

Commercial income

Commercial income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The company only recognises commercial income where there is documented evidence of an agreement with an individual supplier and when associated performance conditions are met.

The types of commercial income recognised by the company, and the recognition policies, are:

Marketing and advertising funding

Examples include income in respect of in-store marketing and point of sale, as well as funding for advertising. Income is recognised over the period as set out in the specific supplier agreement. Income is invoiced once the performance conditions in the supplier agreement have been achieved.

Volume-based rebates

Income earned by achieving volume purchase targets set by the supplier for specific products over specific periods. Income is recognised through the year based on actual purchase volumes and the terms of the supplier agreement. Income is invoiced throughout the year in accordance with the specific supplier terms.

Uncollected commercial income at the balance sheet date is classified with the financial statements as follows:

Debtors: Outstanding invoiced commercial income at the balance sheet date is included within trade debtors. Where commercial income is earned and not invoiced to the supplier at the balance sheet date, this classified within accrued commercial income.

Stock: The carrying value of stock is adjusted to reflect unearned elements of commercial income as the stock has not yet been sold. This income is subsequently recognised in cost of sales when the product has been sold.

3. Turnover

Turnover arises from the company's principal activity in the United Kingdom and is attributable to one continuing activity.

4. Operating loss

This is stated after charging/(crediting):

		2016	*2015*
		£000	*£000*
Auditors' remuneration –	audit fees	120	103
	Other assurance services	7	-
		127	103
Cost of stocks recognised as an expense (included in costs of sales)		116,334	132,181
Including – write down of stocks to net realisable value		2,563	343
Foreign exchange (gain)		(1,358)	(2,910)
Depreciation of owned fixed assets		4,575	4,115
Rent receivable		(849)	(891)
Operating lease rentals –	plant and machinery	1,437	1,472
–	land and buildings	28,012	29,759
Exceptional items (note 5)		5,668	258

Notes to the financial statements

at 30 January 2016

5. Exceptional costs

	2016 *£000*	*2015* *£000*
Recognised in arriving at operating loss:		
Severance costs	1,509	(227)
Leases restructure costs	1,462	-
Head office relocation costs	-	485
Restructure costs:	2,971	258
Impairment (note 10)	2,697	-
Total exceptional items	5,668	258

The store operational structure was reorganised during the period resulting in a reduction of store managers, sales managers and regional office employees leading to severance costs of £1,494,000.

In January 2016 two stores were closed and provision was made for onerous lease obligations (£1,462,000) and severance costs (£56,000). These costs were offset by a release of £41,000 of overprovision from previous periods.

Notes to the financial statements

at 30 January 2016

6. Staff costs

(a) Staff costs

	2016	*2015*
	£000	*£000*
Wages and salaries	24,331	26,780
Social security costs	1,775	2,045
Other pension costs	782	858
Share based payment (credit)	(84)	(62)
	26,804	29,621

The average monthly number of employees during the period was made up as follows:

	No.	*No.*
Stores	1,084	1,112
Administration	148	171
	1,232	1,283

(b) Directors' remuneration

	2016	*2015*
	£000	*£000*
Remuneration	345	850
Company contributions paid to defined contribution pension schemes	5	42
	No.	*No.*
Members of defined contribution pension schemes	2	2
In respect of the highest paid director		
Remuneration	281	607
Company contributions paid to defined contribution pension schemes	2	41

The other directors of the company are also directors of a number of other companies within the Staples Inc. Group. The directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for any incidental services to the company for the periods ended 30 January 2016 and 31 January 2015. The directors' remuneration are disclosed in the financial statements of the ultimate parent undertaking, Staples Inc.

The number of directors exercising share options in the ultimate parent undertaking, Staples Inc. in the period was nil (period ended 31 January 2015 – nil).

Notes to the financial statements

at 30 January 2016

7. Interest receivable and similar income

	2016	*2015*
	£000	*£000*
Intercompany loan interest	1	47
	1	47

8. Interest payable and similar charges

	2016	*2015*
	£000	*£000*
Intercompany loan interest	5,181	2,761
Other interest payable	-	1
	5,181	2,762

9. Tax

	2016	*2015*
	£000	*£000*
Current and deferred tax:		
Total tax per income statement	-	-

The charge for the year can be reconciled to the profit per the income statement as follows:

	2016	*2015*
	£000	*£000*
Profit/(loss) for the period – continuing operations	(21,713)	(7,552)
Tax on profit/(loss) at standard UK tax rate of 20.16% (2015:21.33%)	(4,378)	(1,611)
Effects of:		
Disallowed expenses and non-taxable income	1,568	685
Depreciation in excess of capital allowances	1,548	901
Other timing differences	(162)	(171)
(Utilisation)/carry forward in trading losses	1,424	196
Tax charge for the period	-	-

Notes to the financial statements

at 30 January 2016

9. Tax (continued)

Deferred tax amounts recognised in the balance sheet are as follows:

	2016	*2015*
	£000	*£000*
Included in debtors (note 12)	123	123
Included in provisions for liabilities (note 15)	(123)	(123)
	-	-

	2016	*2015*
	£000	*£000*
Tax losses carried forward	123	123
Revaluation of investment property	(123)	(123)
	-	-

The deferred tax provision relates to the recognised tax liability arising as a result of the revaluation of the investment property. This is expected to be realised at the point of sale of the property. A previously unrecognised deferred tax asset arising from non-trading losses has consequently been recognised in the same amount.

Deferred tax amounts not recognised (at the closing tax rate):

	2016	*2015*
	£000	*£000*
Depreciation in excess of capital allowances	11,321	11,249
Other short-term timing differences	1,210	1,396
Tax losses	4,709	3,050
Capital loss	256	284
	17,496	15,979

	£000
At 1 February 2015	15,979
Rate change	(1,598)
Prior year adjustments to taxable profits:	
Reclassification of capital item	(131)
Adjust exchange gain on intercompany loan	493
Adjust for movement in general provisions	344
Miscellaneous	(40)
Current year impact	2,449
At 30 January 2016	17,496

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date.

The standard rate of corporation tax in the UK reduced from 23% to 21% with effect from 1 April 2014 and to 20% from 1 April 2015.

Notes to the financial statements

at 30 January 2016

9. Tax (continued)

Further reductions reducing the main rate of corporation tax to 19% and 18% from April 2017 and April 2020 were substantively enacted by the statement of financial position date. The closing deferred tax liability has therefore been calculated at a tax rate of 18% (2015: 20%) as this was the rate substantively enacted as at the statement of financial position date.

The recently announced reduction in the corporation tax rate to 17% from 2020 was not substantively enacted at the statement of financial position date and therefore is not taken in to account.

10. Tangible fixed assets

	Freehold land and buildings £000	*Leasehold Improve-ments £000*	*Fixtures, fittings and equipment £000*	*Total £000*
Cost or valuation:				
At 1 February 2015	3,429	42,259	46,564	92,252
Additions	-	2,075	1,314	3,389
Disposals	-	(2,390)	(3,060)	(5,450)
At 30 January 2016	3,429	41,944	44,818	90,191
Depreciation and impairment:				
At 1 February 2015	136	27,693	41,899	69,728
Depreciation charge for the period	12	2,551	2,012	4,575
Impairment	-	2,406	291	2,697
Disposals	-	(1,825)	(2,967)	(4,792)
At 30 January 2016	148	30,825	41,235	72,208
Net book value:				
At 30 January 2016	3,281	11,119	3,583	17,983
At 31 January 2015	3,293	14,566	4,665	22,524

The directors do not believe that there is any significant difference between the book and market value of land.

The impairment charge for the period (£2,697,000) is recognised within administrative expenses.

The carrying amount of land and buildings comprises:

	2016 £000	*2015 £000*
Investment properties at fair value		
Freehold	1,150	1,150
Other properties at cost	2,131	2,143
At 30 January 2016	3,281	3,293

The freehold investment properties were valued by an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the investment property being valued, Bilfinger GVA, on the basis of market value in accordance with the requirements as to competence and the definitions of an External Valuer within the RICS Valuation – Professional Standards UK January 2014 (revised April 2015).

Significant assumptions applied in determining the market value were a market rent of £16.66 per square foot and an equivalent yield as determined by the expert to be 6.50%. There are no restrictions on the realisability of investment of investment property or the remittance of income and proceeds of disposal.

Notes to the financial statements

at 30 January 2016

11. Stocks

	2016 £000	2015 £000
Goods for resale	41,895	48,585

The difference between purchase price or production cost of stocks and their replacement cost is not material.

12. Debtors

	2016 £000	2015 £000
Trade debtors	8,368	9,252
Amounts due from group undertakings	1,139	3
Prepayments and accrued income	9,480	9,341
Deferred tax	123	123
	19,110	18,719

Amounts falling due after more than one year included above are:

	2016 £000	2015 £000
Deferred tax	123	123
	123	123

The deferred tax asset is recognised as a result of the revaluation of the investment property.

13. Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	9,762	13,581
Amounts owed to group undertakings	50,265	38,297
Sterling loan owed to group undertaking: 1.54% repayable March 2015	-	6,962
Other taxes and social security costs	2,694	2,430
Accruals and deferred income	9,679	10,642
	72,400	71,912

The sterling loan at 1.54% was renewed and then repaid in July 2015 as part of a capital restructuring designed to settle a number of intercompany loans.

Notes to the financial statements

at 30 January 2016

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

	2016	*2015*
	£000	*£000*
Amounts owed to group undertakings:		
Sterling loan: interest free repayable January 2020	-	2,435
Sterling loan: 0.375% above libor repayable June 2017	39,778	38,826
Euro loan: interest free repayable October 2016	-	31,353
Deferred income:		
Unamortised rent free year benefit	1,483	688
	41,261	73,302

Interest on the interest bearing Sterling loan above has been suspended from 29 July 2012 to 30 July 2016. In July 2015, as part of a capital restructuring designed to settle a number of intercompany loans within the group, the company paid the full balance of the interest free sterling loan repayable in January 2020 and the interest free Euro loan repayable in October 2016.

15. Provisions for liabilities

	Property provisions	*Other Restructure provisions*	*Deferred tax*	*Total provisions*
	£000	*£000*		*£000*
At 1 February 2015	4,041	240	123	4,404
Utilised	(618)	(173)	-	(791)
Reclassification	(646)	-	-	(646)
Additions	1,458	255	-	1,713
Release	(1,283)	(42)	-	(1,325)
At 30 January 2016	2,952	280	123	3,355

Property provisions

Provision is made for future net property lease rentals and dilapidation costs payable on vacant and sub-let leasehold premises. Provision is also made for dilapidations on trading properties. This is expected to be utilised over the remaining lives of the leases or until the leases are exited.

Provision is made for assigned leasehold premises to reflect the risk of leases being assigned back to Staples in the event that the assignee defaults on the lease obligations. An appropriate risk based discount is applied to each individual assigned lease. This is expected to be utilised over the remaining lives of the assigned leases and to be fully utilised by January 2027.

Reclassification has been made in order to correctly reflect the long term onerous rent provision previously held in accruals.

Other restructure provisions

The other restructure provision relates to the remainder of the severance and other cost provisions for the severances which will take place as part of the Europe-wide transformation project. The restructuring plan was announced to the employees of the company in January 2014 and was completed by June 2016.

Deferred tax provision

The deferred tax provision relates to the recognised tax liability arising as a result of the revaluation of the investment property. This is expected to be realised at the point of sale of the property.

Notes to the financial statements

at 30 January 2016

16. Issued share capital

		2016		2015
Allotted, called up and fully paid	*No.*	*£000*	*No.*	*£000*
Ordinary shares of £1 each	3,050,004	3,050	3,050,000	3,050

In July 2015 the company issued three shares at a nominal value of £3 and a share premium of £42.1 million to Staples UK Real Estate Limited in exchange for cash. In November 2015 the company issued one share at a nominal value of £1 and a share premium of £1.3 million to Staples UK Real Estate Limited in exchange for capitalisation of an intercompany loan of £1.3 million.

17. Reserves

Share premium account

This reserve records the amount above the nominal value received for shared sold.

Staples UK Real Estate Limited holds 3,050,004 (2015 – 3,050,000) shares in the company. In July 2015 the company issued three shares at a nominal value of £3 and a share premium of £42.1 million to Staples UK Real Estate Limited in exchange for cash. In November 2015 the company issued one share at a nominal value of £1 and a share premium of £1.3 million to Staples UK Real Estate Limited in exchange for capitalisation of an intercompany loan of £1.3 million.

Capital contribution

This reserve records the difference between the present value of intercompany loans at the date of inception and their nominal value.

18. Pensions

The company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions outstanding at the period end are £nil (2015 – £nil).

19. Obligations under leases and hire purchase contracts

At 30 January 2016 the company had future minimum payments due under non-cancellable operating leases as set out below:

		2016		2015
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£000	*£000*	*£000*	*£000*
Amounts payable:				
Within one year	27,412	2,013	29,201	1,879
In two to five years	87,888	3,683	98,389	3,498
Over five years	31,342	-	45,828	-
	146,642	5,696	173,418	5,377

Notes to the financial statements

at 30 January 2016

19. Obligations under leases and hire purchase contracts (continued)

The company holds one building as an investment property which is let to a third party. The company also sublets parts of some of its leased properties. These non-cancellable leases have remaining terms of between 3 and 7 years.

At 30 January 2016 the company had future minimum rent payments receivable under non-cancellable operating leases as set out below:

	2016	*2015*
	£000	*£000*
Amounts receivable:		
Within one year	821	902
In two to five years	2,674	3,098
Over five years	695	1,198
	4,190	5,198

20. Share-based payments

Stock award plans

Staples Inc. may grant options to purchase Common Stock and determine the number of shares of Common Stock to be covered by each option, the exercise price of each option and the conditions and limitations applicable to the exercise of each option as it considers necessary or advisable. Staples Inc. shall establish the exercise price of each option or the formula by which such exercise price will be determined. The exercise price shall be specified in the applicable option agreement. The exercise price shall be not less than 100% of the fair market value per share of Common Stock as determined by (or in a manner approved by) Staples Inc. on the date the option is granted; provided that if Staples Inc. approves the grant of an option with an exercise price to be determined on a future date, the exercise price shall be not less than 100% of the fair market value on such future date. Each option shall be exercisable at such times and subject to such terms and conditions as Staples Inc. may specify in the applicable option agreement; provided, however, that no option will be granted with a term in excess of 10 years. Options may be exercised by delivery to Staples Inc. of a notice of exercise in a form (which may be electronic) approved by Staples Inc., together with payment in full of the exercise price for the number of shares for which the option is exercised. Shares of Common Stock subject to the option will be delivered by Staples Inc. as soon as practicable following exercise.

Restricted stock

Staples Inc. may grant awards entitling recipients to acquire shares of common stock ("Restricted Stock"), subject to the right of Staples Inc. to repurchase all or part of such shares at their issue price or other stated or formula price (or to require forfeiture of such shares if issued at no cost) from the recipient in the event that conditions specified by Staples Inc. in the applicable award are not satisfied prior to the end of the applicable restriction period or periods established by Staples Inc. for such award. Staples Inc. may also grant awards entitling the recipient to receive shares of common stock or cash to be delivered at the time such award vests ("RSUs"). Staples Inc. shall determine the terms and conditions of Restricted Stock and RSUs, including the conditions for vesting and repurchase (or forfeiture) and the issue price, if any. Upon the vesting of and/or lapsing of any other restrictions (i.e., settlement) with respect to each RSU, the participant shall be entitled to receive from Staples Inc. the number of shares of common stock specified in the award agreement or (if so provided in the applicable award agreement) an amount of cash equal to the fair market value of such number of shares.

Notes to the financial statements

at 30 January 2016

20. Share-based payments (continued)

As a member of a group whose employees are granted a share-based payment award by Staples Inc. the company recognises and measures the share-based payment expense on the basis of a reasonable allocation of the expense for the group, the basis of the allocation being the charge recognised under US GAAP in Staples Inc.'s accounts in respect of the employees of the company.

21. Related party transactions

The company has taken advantage of the exemption under FRS 102 Section 33.1A. from providing details of transactions with related parties that are wholly owned within the Staples Inc. group of companies. There were no other related party transactions requiring disclosure.

22. Post year end events

In April 2016, as part of a further capital restructuring designed to settle a number of intercompany balances within the Staples Inc. group, Staples UK Retail Limited issued one share to its immediate parent, Staples UK Real Estate Limited, in exchange for cash of £43.7 million.

In July 2016 the Chadwell Heath store was closed.

In November 2016 it was announced that the Chelmsford, Chatham and Loughborough stores would close by January 2017.

On 17 November 2016 Staples Mail Order UK Limited sold its entire shareholding in OO Retail Limited, which is the sole shareholder of Staples UK Retail Limited, to HUK 70 Limited. HUK 70 Limited is ultimately a subsidiary of Hilco London Limited whose ultimate parent undertaking and controlling party is Hilco Trading LLC, a company registered in the USA. While beneficial and legal ownership of the company now rests with HUK70 Limited completion of the transaction is subject to certain matters which are expected to be completed within 10 business days of the Sale and Purchase Agreement dated 17 November 2016. Staples UK Real Estate Limited remains the company's immediate parent undertaking. Following the satisfaction of the completion matters the company's ultimate parent undertaking and controlling party will be Hilco Trading LLC, a company registered in the USA.

Staples UK Retail Limited is a party to a Transitional Services Agreement with Staples Inc., Staples Europe BV and Staples Mail Order UK Limited to disentangle the UK retail business from the rest of the Staples Inc. group. Under that agreement Staples Inc. and Staples Europe BV will provide specified services as part of the disentanglement of the company from the Staples Inc. group for a fixed period on a transitional basis after Completion, subject to and on the terms and conditions of that Agreement. An element of the Transitional Agreement relates to the re-branding of the Retail operations and this exercise will take place over the coming weeks as the Stapes brand is withdrawn from the stores.

Prior to completion of the transaction Staples International BV, a fellow subsidiary of the Staples Inc group waived £29.6m of the outstanding loan with Staples UK Retail Limited, reducing the balance from £41.1m to £11.5m.

Notes to the financial statements

at 30 January 2016

23. *Transition to FRS 102*

The company transitioned to FRS 102 from previously extant UK GAAP as at 2 February 2014.

The impact from the transition to FRS 102 is as follows:

Reconciliation of equity at 2 February 2014

	£000
Equity Shareholders funds at 2 February 2014 under previous UK GAAP	(57,765)
Capital contribution	12,855
Restatement of intercompany loans	(5,021)
Revaluation of investment property	812
Recognition of deferred tax asset	123
Recognition of deferred tax liability	(123)
Equity Shareholders funds at 2 February 2014 under FRS 102	(49,119)

Reconciliation of equity at 31 January 2015

	£000
Equity Shareholders funds at 31 January 2015 under previous UK GAAP	(62,812)
Capital contribution	12,855
Restatement of intercompany loans	(7,588)
Revaluation of investment property	812
Recognition of deferred tax asset	123
Recognition of deferred tax liability	(123)
Equity Shareholders funds at 31 January 2015 under FRS 102	(56,733)

The following were changes in accounting policies arising from the transition to FRS 102:

Intercompany loans not at market rate of interest

Under previous UK GAAP the company recorded the amounts owed to group undertakings at transaction value. Under FRS 102 the company is required to measure a financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument on initial measurement, and in subsequent periods at amortised cost using the effective interest rate method. The impact is to reduce the carrying value of the loans by £7,834,000 and £5,267,000 at 2 February 2014 and 31 January 2015 respectively.

Revaluation of investment property

Under previous UK GAAP the Fareham investment property was recognised as a fixed asset held at net book value. Under FRS 102 it has been recognised as an investment property at fair value. The impact is to increase retained earnings by £812,000 at 2 February 2014 and 31 January 2015, and the recognition of a deferred tax liability of £123,000 at 2 February 2014 and 31 January 2015.

Deferred tax

Under FRS 102, deferred tax is recognised on a timing difference plus approach, whereas previous UK GAAP required a timing difference approach.

A deferred tax asset has been recognised up to the value of the deferred tax liability in respect of the investment property referred to above (£123,000 at 2 February 2014 and 31 January 2015).

Notes to the financial statements

at 30 January 2016

23. Transition to FRS 102 (continued)

Reconciliation of total comprehensive income for the period ended 31 January 2015

	£000
Total comprehensive loss for the period ended 31 January 2015 under previous UK GAAP	(4,986)
Restatement of intercompany loans	(2,566)
Total comprehensive loss for the period ended 31 January 2015 under FRS 102	(7,552)

The following were changes in accounting policies arising from the transition to FRS 102:

Intercompany loans not at market rate of interest

As a result of the requirement to measure amounts owed to group undertakings at the present value of the future payments, discounted as a market rate of interest for a similar debt instrument on initial measurement and in subsequent periods at amortised cost, there is a charge of £2,566,000 to the income statement for the period ended 31 January 2015, a combination of recognising the amortisation of the carrying value of the debt instruments using the effective interest rate method (charge of £2,269,000) and the effect of fluctuating exchange rates in respect of the restatement of Euro currency loans (charge of £297,000).

Deferred tax

Under FRS 102, deferred tax is recognised on a timing difference plus approach, whereas previous UK GAAP required a timing difference approach. A deferred tax liability has been recognised as a result of the revaluation of the investment property. This is expected to be realised at the point of sale of the property. This provision has been offset against a recognised deferred tax asset arising from non-trading losses.

Investment properties

Under FRS 102, changes in the fair value of investment properties are recorded in the income statement. Under previous UK GAAP these changes were recorded in the Statement of Total Recognised Gains and Losses.

Share based payments

Under previous UK GAAP the company applied FRS 20 to share based payments. Under FRS 102 the company recognises and measures the share-based payment expense on the basis of a reasonable allocation of the expense for the group, the basis of the allocation being the charge recognised under US GAAP in Staples Inc.'s accounts in respect of the employees of the company. No restatement is required as a result of this change.

Transitional relief

On transition to FRS 102 from previous UK GAAP, the company has taken advantage of transitional relief as follows:

Lease incentives

The company has not applied paragraphs 20.15A or 20.25A to lease incentives where the lease commenced before the date of transition to FRS 102. It has continued to recognise any residual benefit or cost associated with these lease incentives on the same basis that applied prior to transition to FRS 102.

Notes to the financial statements

at 30 January 2016

24. Contingent liability

The company has a number of leased properties with potential dilapidations liabilities which have not been provided for at the year end date. The liabilities are contingent on the repair and maintenance programme to end of the property lease. The company has a maintenance programme in place to ensure properties are in good repair to mitigate exposure to potential dilapidations.

25. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Staples UK Real Estate Limited, a company incorporated in the UK.

In the directors' opinion, the company's ultimate parent undertaking and controlling party at 30 January 2016 was Staples Inc., which is incorporated in Delaware, USA. Copies of its group's financial statements, which include the company, are available from 500 Staples Drive, Framingham, MA 01702, USA. The smallest and largest group in which the results of the company for the period ended 30 January 2016 are included is Staples Inc.