



Mothercare plc
Annual report
and accounts 2016

www.mothercareplc.com



At a glance

Our vision at Mothercare is clear – to be the leading global retailer for parents and young children.

Worldwide sales*

£1,149m (4.5)%

Group sales

£682m (4.4)%

Underlying profit

£19.6m +51%

Statutory profit

£9.7m compared to loss of £(13.1)m

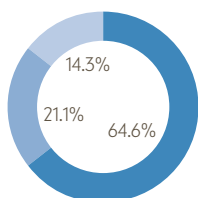
* Total UK sales plus retail sales achieved by our franchise partners, joint ventures and international wholesale



Product

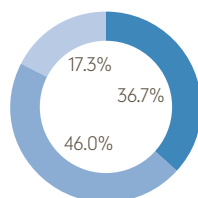
International

- Clothing & Footwear
- Home & Travel
- Toys



UK

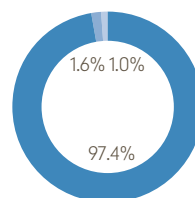
- Clothing & Footwear
- Home & Travel
- Toys



Worldwide Sales

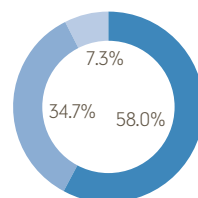
International

- Stores
- Online
- Wholesale



UK

- Stores
- Online
- Wholesale



Our brands

Mothercare

Our aim is to meet the needs of mothers-to-be, babies and children up to the age of eight years. Our **Clothing & Footwear** product includes ranges for babies, children and maternity wear and has a growing selection of branded product. **Home & Travel** includes pushchairs, car seats, furniture, bedding, feeding and bathing equipment. **Toys** is mainly for babies and complements our ELC ranges.

STORES

UK – in town: **66**

UK – out of town: **96**

International partners: **947**



Early Learning Centre

Our aim is to provide children up to the age of eight years with toys that nurture and encourage learning through play. Whilst the ranges are mainly own brand and are designed and sourced through our facilities in Hong Kong, we selectively bring in branded product that enhances our ranges.

STORES

UK – in town: **8**

UK – inserts: **121**

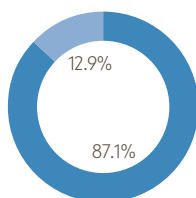
International partners: **363**



Space

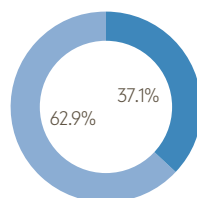
International

- Mothercare
- ELC



UK

- New, modern & refitted format
- Still to be refitted



Overview

ifc At a glance

01 Contents and financial highlights

Strategic report

02 Chairman's statement

04 Business model

06 Chief Executive's review

12 Our strategy

13 Strategic pillars

24 KPIs – Financial and non-financial

26 Risks – Principal risks and uncertainties

32 Financial review

40 Corporate responsibility

Governance

46 Board of Directors

47 Executive Committee

48 Corporate governance

55 Audit and Risk Committee

61 Nomination Committee

62 Directors' report

66 Directors' remuneration report

Financial statements

93 Directors' responsibilities statement

94 Independent auditor's report to the members of Mothercare plc

99 Consolidated income statement

100 Consolidated statement of comprehensive income/(expense)

101 Consolidated balance sheet

102 Consolidated statement of changes in equity

103 Consolidated cash flow statement

104 Notes to the consolidated financial statements

Company financial statements

143 Company balance sheet

144 Statement of changes in equity

145 Notes to the Company financial statements

148 Five year record

149 Shareholder information

Chairman's statement

In the last 12 months significant progress has been made both in the transformation of Mothercare and delivering improved profitability for our shareholders.



Alan Parker CBE
Chairman

There has been a further reduction of losses in the UK driven by stronger trading and margin improvement. Our International business has had a more difficult year with challenges in consumer markets and foreign exchange. We have worked together with our International partners to reduce the impact on sales and profitability.

Proceeds from the successful rights issue completed in October 2014 have been used to reduce debt and invest in UK retail stores. Customers have responded positively to the modern store format with sustained year-on-year sales growth. This investment programme will continue in the year ahead to include a major improvement in the Group's IT systems infrastructure.

The new executive leadership team, led by Mark Newton-Jones, not only improved operating performance, but also laid the foundations for future

growth. There is now a redefined brand proposition and product improvements based on a clear understanding of target customer needs. We still have much to do. However, I believe the actions taken over the year are significant progress with a high proportion of the benefit still to come.

In January, Daniel Talisman was appointed General Counsel and Group Company Secretary, following the resignation of Tim Ashby. After 35 years with the Company, Jerry Cull has decided to step down as Managing Director of International. Jerry was responsible for the growth of our International partner network from very small beginnings. Jerry will continue to support the business in the year ahead while Mark Newton-Jones takes over direct responsibility for our International regional managing directors.

There were no Board changes during the year. I would like to recognise the collective experience of both the executive and non-executive directors, which has proved invaluable in navigating the challenges of the previous 12 months. A Board evaluation was undertaken which confirmed that non-executive members worked both well together and with the executive members whilst remaining independent in the spirit of good governance.

I would like to thank everyone involved in our two great brands of Mothercare and Early Learning Centre around the world, in our stores, support centres, sourcing offices and suppliers for their hard work and enthusiasm.

Finally our International partners are a powerful asset to our business and we recognise that their local insight and commitment to our brands give us a competitive edge globally. We look forward to working together in the next 12 months on the strategy for future growth.



Alan Parker CBE
Chairman, Mothercare plc



Business model

Our vision is to be the leading global retailer for parents and young children.



The Mothercare business model describes how we operate and create value for shareholders, our customers and other key stakeholders.

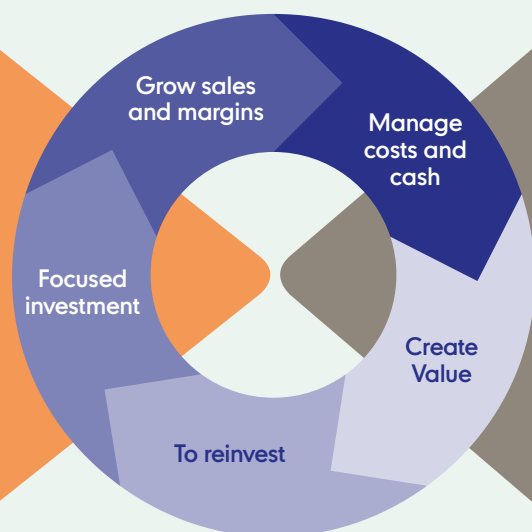
Our resources

Shareholders' equity	International partners
£89m	45
Cash in bank	Suppliers
£14m	1,422
Employees	with orders worth £595m
5,346	

Relationships

What differentiates us

Trusted own brand	Effective logistics	
Exclusive product	6 DCs	2 Hubs
Expertise and service	Efficient sourcing	
Understanding customers	17 countries	7 offices
2.4m customers on database	Full service vendors	
Trusted own brand	621 suppliers	36 countries
Innovation, quality and style		



How we create value

For customers

£1,149m

Worldwide sales

For International partners

£690m

Sales

For employees

£71m

Total pay and benefits

For social

£15m

Total tax contribution (TTC)

For suppliers

£595m

Total payment

Value capture

The products we offer

Home & Travel

175 3,200

brands options

Clothing & Footwear

16 5,100

brands options

Toys

80 2,650

brands options

How our customers buy from us

UK Stores

74 96

in town out of town

UK online

37%

of UK retail sales

International

12 1,310

countries stores
online & 1.6% of international sales

Two years into our turnaround, we have delivered 51% growth in underlying PBT and our first statutory profit in five years.



Mark Newton-Jones
Chief Executive

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

For further information see pages 12 and 13

Overview

We have made solid progress in each of our six strategic pillars in this past year as we continue to transform and modernise our business. In the UK almost 40% of space is now in the new and much improved format. We have invested in product, service, systems and the team which is delivering a significantly improved experience for our customers both in store and online. Like-for-like sales are up for the second year in a row and margins, after five years of decline, are up 70 bps reflecting our improved product quality and design, better buying negotiations and a focus on full price sales. Combined, this has resulted in a 64% reduction in losses compared to the previous year and we are on track to return the UK to profit.

International has been more of a challenge, but we remain focused on building a strong and more resilient business for the future. Our plan has been to fix the UK business by transforming it in to a modern and professional retailer and, by doing so, make it more exportable. We are now taking the lessons learned and

the new practices from the UK into our International markets which will improve our partners' businesses and indeed the management of our brand globally. Despite the challenges faced in our International markets, where sales and profit have been impacted by economic and currency headwinds, we are still opening new space. We have also recently completed a full review of our International operations, looking for ways in which we can improve and strengthen the business. We believe we can work even more closely with our partners to support their businesses and strengthen the franchise model, ensuring that we will be best placed to benefit when market conditions improve.

I'd like to thank our teams and our International partners for all of their effort in this past year, as we transform and modernise our business.

We have made further progress against each of our six strategic pillars. Overall the business is on a firmer footing and we are positioning ourselves well for the future.

c40%

UK space in new format

66%

Product sold at full price

1 Become a digitally led business

- Online sales up 15%, accounting for 37% of UK retail sales (FY2014/15: 32%). In-store online ordering continuing to grow, up 25% year-on-year and now accounting for 41% (FY2014/15: 38%) of all online sales
- Mobile now 81% of online traffic and 58% of online sales for customers ordering from outside our retail store network

2 Supported by a modern retail estate

- 56 UK stores, or almost 40% of UK space, in new and much improved format
- Closed 19 underperforming stores, refurbished 47, resited four and opened two new stores in the UK

3 Offering style, quality and innovation in product and great service

- Improved style, quality, innovation and design for all three product categories
- Launched ‘Smile’ by Julien Macdonald, our first designer collaboration

4 Stabilise and recapture gross margin

- Margin up by 70 bps driven by less discounting and improved buying
- Significantly lower levels of stock going into sale with 66% of product sold at full price compared to 57% two years ago

5 Running a lean organisation while investing for the future

- Continued tight control of costs, despite need to invest selectively in some areas
- £34 million of free cash generated, before capital expenditure

6 Expanding further internationally

- Space up 4.6% with 1,310 stores in 57 countries as a net 37 new stores opened
- Closing stores in unprofitable markets including Honduras, Slovenia and Uzbekistan

Group results

We now trade from 1,480 stores in 58 countries across the world. Global retail space was up 0.6% year-on-year at 4.6 million sq.ft., despite challenging market conditions in many of our International markets and continued planned store closures in the UK. In the UK space was down (6.4%) and we ended the year with 170 stores and 1.6 million sq.ft. of retail space. International continued to grow space, which was up 4.6% and we ended the year with 1,310 stores and 3.0 million sq.ft. of retail space.

	52 weeks to 26 Mar 16 £ million	52 weeks to 28 Mar 15 £ million	% change vs. last year
Underlying International profit	40.3	45.9	(12.2)%
Underlying UK loss	(6.4)	(18.0)	+64.4%
Corporate expenses	(8.1)	(8.6)	+5.8%
Underlying profit from operations	25.8	19.3	+33.7%
Underlying net finance costs	(3.2)	(5.0)	–
Share-based payments	(3.0)	(1.3)	–
Underlying profit before tax	19.6	13.0	+50.8%
Exceptional items	(10.2)	(32.0)	–
Non-cash foreign currency adjustments	1.2	6.9	–
Amortisation of intangibles	(0.9)	(1.0)	–
Reported profit before tax	9.7	(13.1)	–

Chief Executive's review

continued

Worldwide sales were down (4.5%) at £1,149 million with total UK sales up 0.4% and total International sales down (7.4%). Group sales were down (4.4%) at £682 million, reflecting the gain of 0.4% in the UK and more than offset by the (13.0%) reduction in receipts from our International partners as a result of the adverse currency impact and destocking in some key markets.

Despite the decline in sales, underlying Group profit before tax was up 51% at £196 million. The UK reduced losses by 64% delivering a loss of (£6.4 million), while International profits were down (12%) at £40.3 million. Other Group expenses were down (5.8%) during the year with corporate costs of (£8.1 million), finance costs of (£3.2 million) and share-based payments of (£3.0 million).

Non-underlying costs were significantly reduced with a charge of (£10.2 million) for exceptional items, a credit of £1.2 million for non-cash foreign currency adjustments and a charge of (£0.9 million) for amortisation of intangible assets. As a result we ended the year with a reported profit before tax of £97 million compared to a loss in the previous year (FY2014/15: loss of (£13.1 million)).

Our balance sheet remains strong with a net cash balance of £13.5 million (FY2014/15: £31.5 million) after investing £392 million in the business over the year.

UK

In the UK we have made significant progress over the last year with total UK sales up 0.3% at £460 million and UK losses reduced by 64% at (£6.4 million).

We now have 56 stores in the new and significantly improved format, which along with the improvements in product and service (both in-store and online), have contributed to the results this year. We are now confident in our approach and will continue to roll out the new store format to the rest of the UK store portfolio. The new and improved format will also be adopted by our International partners for both new store openings and refurbishments of existing stores.

	52 weeks to 26 Mar 16	52 weeks to 28 Mar 15	% change vs. last year
UK like-for-like sales growth	+3.6%	+2.0%	–
UK online sales	£159.4m	£138.4m	+15.2%
UK retail sales (including online)	£426.1m	£425.7m	+0.1%
UK wholesale sales	£33.6m	£32.4m	+3.7%
Total UK sales	£459.7m	£458.1m	+0.3%
Underlying loss	£(6.4)m	£(18.0)m	+64.4%

Become a digitally led business

Online sales were up 15% at £159.4 million with in-store online sales via iPads now accounting for 41% of the mix. This continued level of growth means online sales now account for 37% (FY2014/15: 32%) of UK retail sales, which is significantly above the UK average of c18%.

Our target customers are digitally enabled millennials who use their mobile devices whilst out and about to browse merchandise, review content, read reviews and purchase product. Our focus on content and enhancing the customer journey is helping to support conversion rates. Mobile now accounts for 81% (FY2014/15: 70%) of online traffic and 58% (FY2014/15: 53%) of online sales for customers ordering from home or outside our retail store network. Click-and-collect remains an important delivery option for our busy customers and represents about a third of all online orders placed.

Supported by a modern retail estate and great service

Our store network has seen a step change over the last year. We closed 19 underperforming stores (13 Mothercare and six ELC), refurbished 47 stores, resited four and opened two new stores. Nearly 40% of retail space in the UK is now in the new, modern and much improved format.

New stores have clearly marked departments. In Clothing & Footwear we have sections for Maternity and Newborn. In Home & Travel we have departments for Car Seats, Pushchairs, Feeding and Nursery Furniture. ELC also received a makeover. The new departments make it easier for

customers to navigate around and browse our stores and locate the products that meet their needs. Our larger stores have coffee shops and soft play areas, which are helping to increase dwell times. These facilities are increasingly used by our customers as somewhere to meet like-minded mums and dads and relax over a coffee while their toddlers have a run around in a play zone.

Whilst only a few of our stores have been trading in the new format for more than a year, we are pleased with their performance since refurbishment. Early indications are that they are largely performing in line with their business plans. There are however a small number of stores that are not meeting expectations and we have been able to identify the cause and put in place remedial action plans while also learning from these for future refurbishments.

As a result of these changes 56 of our 170 stores (162 Mothercare and eight ELC) or nearly 40% of UK retail space is in the new format. We are also continuing to migrate our estate to larger stores and ended the year with 96 out-of-town Mothercare stores, 66 Mothercare in town and eight ELC in town stores with 121 ELC inserts within Mothercare stores. As a result our out-of-town stores now account for 75% of UK space.

Whilst our strategy of closing underperforming stores reduced UK space by (6.4%) year-on-year and reduced UK sales by (£14 million), it contributed positively towards the overall performance of the UK by reducing UK losses by £3.5 million.

75%

UK space in out-of-town

+15%

UK online sales growth

Offering style, quality and innovation in product

Improving stores without a similar improvement in product wouldn't deliver the sorts of results we are seeing. The teams have been busy over the last year upgrading our style, quality and value for money.

In **Clothing & Footwear**, we have continued to work with brands to sit alongside our own in-house designed product. The branded product has good sell through rates at full price and also helps our range architecture in the 'Best' category of Clothing & Footwear as we improve our own ranges. In our own designed product we have successfully moved from four phases of product each year to seven – introducing more newness to the customer offer.

In 'Newborn', an area of strength, we increased the level of Special Occasion product which also helped increase our gift sales both in store and online. These ranges have higher than average selling prices. In 'Maternity', another area where we have traditionally been strong, we reacted to customer feedback and introduced a range of Maternity Essentials at entry price points while also adding brands like 'Ripe' and 'Hotmilk'. In addition, in our refurbished stores, we have introduced discrete Maternity Departments with a boutique feel to differentiate the department and improve the display of product. Again the customer response has been encouraging and we will continue to work with our customers to offer them the products that they need at this important time in their lives. By upgrading our quality and style, we have migrated our ranges such that 21% of our own brand product is now in the 'Best' category compared to just 11% two years ago. The addition of 'Smile' by Julien Macdonald, an occasion wear range and our first designer collaboration, gives this transition further impetus.

In **Home & Travel** we continued to work with our suppliers to increase the level of exclusive product and offers for our customers. At the same time we have invested in our own brand ranges with products like our first own brand ISO fix car seat and the award-winning XSS Pockit stroller weighing less than 4kg and folding down to just 34cm by 14cm (Junior Design Award for Best Lightweight Buggy: October 2015). Our in store and online product presentation took another step change with the creation of shop-in-shops, giving a more boutique feel in store and through brand stores online. Our store staff are using iPads effectively and have continued to improve service levels for customers. In some of our stores we are seeing up to half of Home & Travel sales originating from iPads in our advisers' hands.

In **ELC Toys** our work has focused on improving the ranges and introducing more newness, going back to our heritage of educational toys. Brand additions, including Mellisa & Doug and LeapFrog, have helped towards this goal. We now have 17% of sales coming from brands compared to 13% a year ago and for peak trading we had 48% of products as new compared with just 32% in the previous year.

Stabilise and recapture margin

It is pleasing to see the results of all of the work we have done in improving our product and controlling the markdown and promotional activity. Following five years of significant margin decline, we were able to stabilise margins in FY2014/15. Our continued focus on both buying and reducing discounting has resulted in a strong out-turn in FY2015/16 with margin up 70 bps. This is within our stated range of 50-100 bps improvement in the year.

Chief Executive's review

continued

+22%

International online sales growth

We would not have been able to achieve this result had it not been for the hard work of all of our teams and our unrelenting focus on product and stock levels which allowed us to increase full price sales. Compared to two years ago, full price sales have increased by nearly 10% in total with clothing sales at full price improving nearly 15%.

Running a lean organisation

Despite the significant investment in the business, we have not lost sight of cost control. Whilst costs were up in certain areas as we invested in the future, overall we were able to take £1.8 million of costs out of the business. In particular, we have been able to deliver reductions in areas like rent, contracts and some salaries. We have also invested in the key areas of marketing and product, in particular to strengthen our capabilities in digital, buying, merchandising and design.

International

Review of International

The recent macro-economic challenges across our International markets have led us to review our International business model in more detail and, after extensive analysis, we firmly believe that the franchise model is still the appropriate strategy, being low risk, capital light and scalable. However we recognise that in the past the business has been managed as the International division of an essentially UK business, and to some degree at arm's length, with a relatively loose

operating framework. We recognise that this needs to change and as such we aim to build closer ties with our partners to become a truly global business, with the UK seen as a division of the whole. We are working with our International partners to increase collaboration between ourselves as franchisor and them as franchisees, sharing best retail practice but also developing better services for them in buying, merchandising, digital, marketing and training.

Our progress in the UK has given confidence to our partners that we are developing a more modern and professional business to franchise. We have invested in the International team, with three Managing Directors each with regional responsibility, to provide more depth. Importantly we have also extended the responsibility of the Executive Committee to include International in their remit. Whilst Jerry Cull will be stepping down as Managing Director of International, he will continue to be onboard supporting us with his knowledge and experience as we progress with our strategy in International.

International performance

Our International markets have been faced with ongoing macroeconomic headwinds for some time. The weaker oil price is now beginning to impact consumer sentiment and demand in the Middle East, while China has also seen a slowdown in consumer spending as GDP growth has slowed.

	52 weeks to 26 Mar 16	52 weeks to 28 Mar 15	% change vs. last year
International like-for-like sales growth	(4.5)%	+5.6%	–
International retail sales: constant currency	(1.4)%	+12.4%	–
International retail sales: actual currency	(7.4)%	+2.1%	–
International retail sales	£682.9m	£737.3m	(7.4)%
International wholesale sales	£6.7m	£8.1m	(17.3)%
Total International sales	£689.7m	£745.4m	(7.5)%
Underlying profit	£40.3m	£45.9m	(12.2)%

Currency devaluation has also had an adverse impact, particularly in important markets like Russia where the rouble has devalued significantly and so had a material impact on the cost of goods and our profits in sterling. Despite these challenges, our International partners have looked to strengthen and grow their store portfolios where appropriate whilst also closing underperforming stores. Equally our partners are investing to put the foundations in place to build their digital capability, either in the form of a traditional website or, in the less mature online markets, by building a database.

Additionally, we are working with our International partners to ensure the trading approach is appropriate for current market conditions including de-stocking where necessary to ensure that old stock is cleared to create open-to-buy for our new improved ranges. By looking to strengthen our International business in this downturn, we believe we will be well positioned for a stronger recovery when market conditions improve.

Expanding further internationally

We are working with our partners to take a more proactive approach to space growth, exiting where we see issues manifest and growing where we see opportunity. As a result we believe that we are laying the foundations for a more robust business. During the year we closed 92 stores, reducing space by 214,387 sq.ft., while at the same time opening 129 stores and increasing space by 346,548 sq.ft. On a net basis space was up 4.6% with 37 stores and 132,161 sq.ft. of space added during the year. Like the UK, our International stores are now migrating to a larger format and will continue to do so over the next few years as we replicate the best learnings from the UK.

International like-for-like sales were down (4.5%) year-on-year with Europe, including Russia, the only one of our four regions in growth. International sales in constant currency were down (1.4%) with all but the Middle East in growth. Whilst growth in the Middle East slowed over the course of the year, the region saw a marked slowdown during the last quarter as oil prices began to impact consumer confidence. With currency moves continuing to have an adverse impact, International sales in actual currency were down (7.4%) at £683 million, despite beneficial currency moves from the Middle East and to a lesser degree Asia.

Wholesale sales were down at £6.7 million resulting in a decline of (75%) in total International sales to £690 million.

International profit was down (12.2%) at £40.3 million, with adverse currency moves, particularly the rouble, having a £1 million impact for the year and cost recovery also being weaker with lower volumes of product to our International partners. International remains an important and significant part of our Group business and now accounts for 66% of worldwide space and 60% of worldwide sales.

Outlook

In the UK, we are making solid progress against our strategic pillars and expect to see further improvement in the year ahead. Online sales growth remains strong and is supporting like-for-like sales and total UK sales growth. We will continue to invest in digital, our stores, improve product and upgrade service and systems. Together these initiatives should deliver further improvement in UK profitability in the year ahead.

Our International businesses will continue to face the challenges of economic and currency headwinds in their markets. However, we are continuing to build these businesses with our partners, investing in stores and online and exporting the lessons learned from our successes in the UK. Mothercare is a global brand and by working more closely with our partners we will operate as a global business with the UK a division of the whole.

Whilst we recognise that there is still much to be done in the transformation of our Group, we have made good progress overall and our vision remains clear – to be the leading global retailer for parents and young children.

Mark Newton-Jones
Chief Executive Officer

Our strategy

The birth of a new baby is a life-changing event which brings pure joy, but it can also be a scary time for new mums and dads. That's where we come in. Mothercare is a haven for support, advice, guidance and help – somewhere to draw strength from. So we are focusing our energy on uniting mums and dads to take on parenting together.

We have redefined what Mothercare stands for by talking to our customers to better understand their needs and aspirations.



OUR VISION ►

The leading global retailer for parents and young children



OUR ROLE ►

Uniting mums and dads to take on parenting together



OUR STRATEGY ►

Six strategic pillars



Four foundations



OUR VALUES ►

Make it better

Make it happen

Do it Right

Six strategic pillars

Our step-by-step strategy

01

Become a digitally led business

02

Supported by a modern retail estate

03

Offering style, quality and innovation in product

04

Stabilise and recapture gross margin

05

Running a lean organisation while investing for the future

06

Expanding further internationally

Four foundations

Modern Systems

Robust and reliable systems are the backbone of a modern business. We are investing appropriately to ensure our teams have accurate and timely information on which to base critical business decisions.

Infrastructure

An easily scalable warehouse and supply chain are essential to ensure stock is in the right place and at the right time for our customers both in the UK and for our International markets, whilst also allowing us to manage stock levels tightly.

People

Our people are our biggest asset. We have a clear set of values and behaviours for our employees and are investing in their futures through targeted training and clear standards. At the same time we recognise achievement through promotion and cross-departmental secondments.

Governance

Our governance structure puts in place a series of processes which ensures that the appropriate checks and balances are embedded to deliver our transformational change programmes in the right way. We want to give our people the tools to work within an efficient, moral, legal and ethical framework.

Strategic pillars

Become a digitally led business

01



▶ Zapp codes introduced in Spring/Summer 2016 catalogue



ONLINE PENETRATION

1.6%
£11m

of International retail sales

37.4%
£159m

of UK retail sales

Our customers are digitally enabled and have responded well to our improved online experience, which is optimised by device. Online sales are up 15% in the UK and 22% internationally.



Gary Kibble
Global Brand and Marketing Director

Our omni-channel customers

Our interaction with our customers is increasingly omni-channel – be it through our stores and catalogue or via our customers' desktop/laptop or tablet/mobile phone. A single transaction can often touch several or even all of these channels making their experience of Mothercare omni-channel, particularly when you consider that our customers can choose to take delivery either in their homes or at one of our stores. Online accounts for 37% of UK retail sales, with mobile becoming ever more important now that we have over 1,000 iPads in stores. Over 80% of customer traffic is from a mobile device, which converts to nearly 60% of online sales.

We recently launched Augmented Reality (AR), which allows us to give additional content, through product information, photos, video and customer reviews, by simply using a mobile phone to scan the Zapp code (bar codes). We started with 46 Zapp codes in our Spring/Summer 2016 catalogue and will be expanding its use over the months ahead with more codes and across all channels – store, catalogue and online.

Enhancing our customers' web experience

We now have 2.4 million active customers who appreciate that our product has four to five photos on average with at least one video and real customer reviews to help in their decision making process. Our customers can move seamlessly from product to product, while also looking at customer reviews, photos, videos and product information. We are continually looking to improve our customers' experience and will be upgrading our website during the year, which will greatly improve its look and feel, functionality, navigation and robustness.

Our brand and what we mean to customers

Our customers come to Mothercare looking not just for product but also guidance on how to look after and care for both themselves during pregnancy and their new babies. Modern mums and dads are increasingly turning to new parents in a similar place to themselves for advice and support. At Mothercare, we find that we can play a unifying role by welcoming new mums and dads to the club whilst also giving them a place to meet, chat and seek out advice – both online and in our stores, some of which include coffee shops and play areas.

See KPI
Online sales

Strategic pillars

Supported by a modern retail estate



37.1%

of space in new and improved format

+3.6%

like-for-like sales growth

UK space

2016	1,552k sq.ft	(6.4%)
2015	1,658k sq.ft	(4.6%)
2014	1,737k sq.ft	(3.8%)

Our new store format is reinvigorating the business – giving customers a significantly improved experience across an array of goods and services.



Matt Stringer
Managing Director, UK

Improved in-store shopping experience for customers

We have, over the last year, refurbished 47 stores and opened an additional six stores in our new improved store format. These stores contain new equipment, modern fixtures, clear signage and a strong digital presence allowing us to showcase our critical departments – Maternity, Newborn, Car Seats, Pushchairs, Nursery Furniture and ELC – better than ever before to our customers. Our larger stores offer coffee shops and soft play areas to entertain mums, dads and children, which encourages longer dwell times. We have invested heavily in iPads to enable our store colleagues to offer our extended range of products to customers and utilise improved online content to enhance customer service. Stock management disciplines, including product availability, have been sharpened by investment in hand held terminals. UK store performance is improving as a result of our refurbishment programme and elements of this are being implemented in our International business.

Service to meet customer needs

Our growing capability in stores is an integral part of our plans to serve customers more seamlessly as they shop across Mothercare channels. Taking customer details in the store allows us to contact them with appropriate communication via our Customer Relationship Management (CRM) activity, reflecting their needs through pregnancy and parenthood. Products viewed online can be demonstrated in stores and then extended product ranges and a complete colour palette can be shown via an iPad and customer reviews accessed before a purchase is made.

National coverage

Our chain of 170 stores and our online capability give us the ability to project the complete extended range nationwide. There is growing fulfilment via our collect-in-store service, driving further footfall into stores and now served by designated areas in most of our refurbished stores. The powerful combination of improved goods and services is being welcomed by landlords who are coming forward with attractive sites for new or relocated stores. The new stores which have opened this year in Manchester, Cribbs Causeway (Bristol), Newport, Norwich, Bromborough and Lisburn (Northern Ireland) are testament to this, with a pipeline of further opportunities to extend our reach next year.

See KPI
UK store estate invested in

Strategic pillars



Toys

Toys for baby and toddler account for c40% of sales in Toys, compared to the market generally at c10%. We have invested in this category and in particular have focused on the outdoor category, helping children with coordination, dexterity and social skills. We have added more branded products to our ranges, which now account for 17% of UK sales and 14% of International sales with brands like Mellisa and Doug and LeapFrog represented in our product mix.

Offering style, quality and innovation in product



Clothing & Footwear

We listened to our customers and adjusted our ranges. We now have 20% of our own brand clothing ranges in the 'Best' category, compared to 11% a year ago. In so doing, we increased the number of options for 'Little Bird' by Jools Oliver and 'Baby K' by Myleene Klass while also introducing 'Smile' by Julien Macdonald. The 'Peter Rabbit' range is another good addition to our product offering in the 'Best' category with matching product across Clothing & Footwear, Home & Travel and Toys. We relaunched our 'My First' range with upgraded fabric and style, and it now complements our 'Best' category product as a gifting option albeit at the 'Better' pricing level.

In Maternity, where we retain a strong market position – particularly for essentials, we have upgraded our ranges and improved our fashion credentials. Increasing the contribution from brands like Envie de Fraise, Mamalicious and Hotmilk has helped support the upgrades brought through on our own brand, Blooming Marvellous.





03



Home & Travel

Over the last year we increased the number of brands in our pushchair and car seat ranges, which resulted in an increase in our 'Better' and 'Best' categories to over 80% of options in Home & Travel. Our investment in our own brand has seen its contribution increase to c40% of all Home & Travel product and includes cutting edge technology like our own ISO fix car seat and the ultralight XSS Pockit Stroller. Exclusivity remains a focus particularly in branded product now accounting for 72% of sales. This in turn helped us increase full price sales in this category to over 60% compared to just over 50% two years ago.



Karl Doyle
Global Product Director

We have, based on customer feedback, made further improvements in product offering across all three categories, focusing in particular on our heartland – 0-2 year olds. Working with our supplier base, we have invested in design, quality, fashion and durability, whilst maintaining our position as a full price retailer and keeping sight of profitability. We continue to take great care ensuring our product is responsibly sourced and extending our audits to include full service suppliers, which means our entire supplier base is now audited.

See KPI
Product mix

03

Stabilise and recapture gross margin

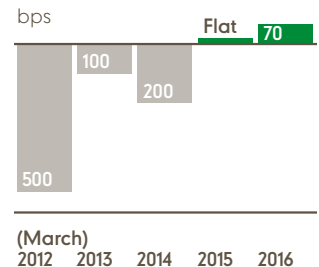
Core to our strategy is our plan to stabilise and then grow margin in the UK. We achieved the first part of this plan in FY2014/15 by delivering a gross margin that was flat on the previous year and in FY2015/16 started on the second part of the strategy with a 70 bps gain. We are at the beginning of this process and are working with our suppliers to deliver additional benefits for all our stakeholders – shareholders, customers and suppliers, amongst others.

Working through our critical path we have been able to simplify our buying practices to include fewer suppliers whilst also giving suppliers greater

volumes. We have done so while ensuring improved efficiency and accuracy, which again helps to enhance our margin. Increasing the number of phases of product into stores has also required a much tighter control of stock to ensure limited end-of-season inventory. Over the year, we have grown full price sales whilst maintaining a tight promotional calendar, discounting decisively and deeply where required for our end-of-season sale.

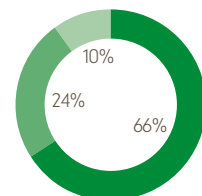
Our focus over the year ahead will be to continue to maintain a tight control on stock, increasing full price sales while also investing more in the core product for our customers.

UK margin



UK product

- Full price
- Promotion
- Reduced to clear



Running a lean organisation while investing for the future

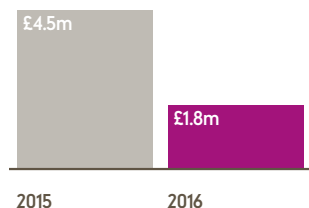
It is our intention to maintain a tight control on costs despite the significant investment currently going into the business. Over the last year we reduced operating costs across the business by a further £1.8 million, building on gains made in the previous year. In particular, we were able to reduce our rental bill by £3.6 million (or 7.5%) and reduce our bill for wages and salaries by £4.2 million (or 5.9%) despite upward pressures in some areas like marketing and departments like buying, merchandising and digital.

See KPI
Running a lean organisation

05

Strategic report

Reduction in operating costs (year-on-year)



06



This has been a challenging year for our International business, with many of our International partners facing economic and currency headwinds. Despite these challenges we have preserved profitability, whilst also evaluating our strategy.

Expanding further internationally



Diversified store portfolio
Our partners operate in 57 markets and have over 1,300 stores of varying sizes to fit with the needs of local customers. We would normally expect to see some level of stability in overall performance as a result of this diversification. However, many of our markets are dependent on oil prices and with the added pressure from currency devaluation, we have seen many more markets adversely affected but with good underlying opportunity.

Opportunity for further growth
International remains a significant part of our global business with 66% of space and 60% of worldwide sales whilst also contributing very

meaningfully to profit. Our International partners remain committed to our brands and have continued to develop their businesses despite the ongoing headwinds. Space was up 4.6% with some degree of rationalisation of underperforming space, similar to the strategy adopted in the UK, albeit on a much smaller scale. We continue to believe that there remains opportunity for growth, with many of our markets still far from maturity.

Learning from the UK
Our partners have taken great interest in the developments in the UK – product, store format, online and CRM usage of data. With nearly 60 stores now in the new format in the UK,

our International partners are looking to incorporate some of the learnings from the UK with the first new format store opening in Dubai. Product and service have also moved on significantly and stores are now taking on more newness and exploring the opportunity for online sales, which remains small but offers significant opportunity.

See KPI
International growth

KPIs

Measuring our performance

The Mothercare KPIs are aimed at measuring our performance against each of our six strategic pillars.

1 Online sales

UK



£159.4m
+15%

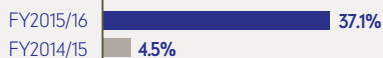
International



£11.0m
+22%

2 UK store estate invested in

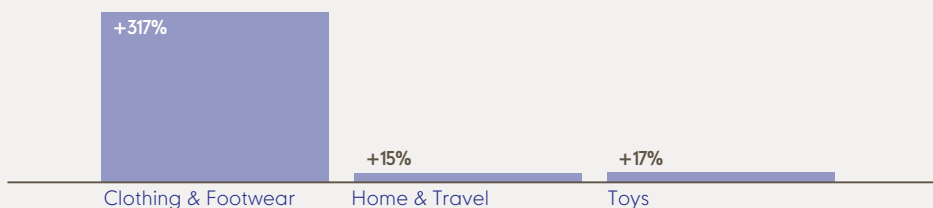
UK



37.1%

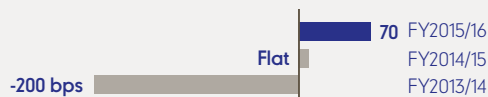
3 Product mix

Growth in branded product mix



4 UK margin

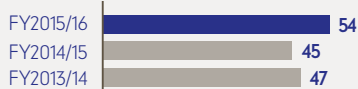
UK



+70 bps

5 Running a lean organisation

Inventory days cover



54 days

6 International growth

Constant currency sales growth



-1.4%

Risks

Principal risks and uncertainties

Mothercare operates in an environment where understanding and managing risk is of overriding importance to our brands. Our attitude to risk is all inclusive and is designed to permeate throughout the organisation.

The Board takes overall responsibility for risk management with a particular focus on determining the nature and extent of significant risks, it is willing to take in achieving its strategic objectives.

Our Approach to Risk

The Audit and Risk Committee has full responsibility for overseeing the effectiveness of sound risk management and internal control systems and processes. The Executive Committee is responsible for delivering the Company's strategy and managing reputational, financial and operational risk, and the internal risk management process has been reinforced through the Risk Committee which acts as a forum to monitor and manage risk processes and to assess and identify any emerging risks through horizon scanning. The Company has set out clear strategic objectives aligned to the six pillars. Risks are considered against each of the six pillars:

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

Risk Management Process

Mothercare evaluates risks by determining the 'impact' of a risk event and the 'likelihood' of the worst case scenario occurring. Risks are then evaluated, senior management owners assigned and appropriate mitigations put in place. The diagram below explains the key steps:



Risk Committee

The Risk Committee meets monthly with senior executives from key departments. In addition, the Committee is empowered to call upon any experts when necessary. Horizon scanning and the introduction of any emerging risks are agenda items. They are given sufficient time to fully explore any implications to the business the risk may have, possible mitigating actions and whether to escalate the risk to the Executive Committee.

Executive Committee

The Executive Committee places risk on the agenda every quarter to debate Principal Risks and Uncertainties and defines any movement in risk score, taking into account the assessment given by the Risk Committee. Any risk that is not mitigated adequately by management action planning is returned to the Risk Committee for further evaluation and is allocated to the appropriate senior manager for additional process improvements to lessen the risk. The Executive Committee also ensures that delegation of authority is appropriate for all senior leadership team (SLT) members to discharge their responsibilities around the management of risk.

Board

The Board has overall responsibility for risk. In conjunction with setting the appetite for risk within which framework the Group can operate, the Board challenges the Executive Committee, through the CFO, to continually evolve risk management and governance in the business. In addition, the Board evaluates annually the Group's risk management strategy to ensure industry best practice is being followed.

The Board's appetite for risk can be determined as follows:

Risk Appetite	Type of Risk
High Tolerance	<ul style="list-style-type: none"> • Strategic risks • Operational and transformational risks
Medium Tolerance	<ul style="list-style-type: none"> • Macroeconomic risks • Geopolitical risks
Low Tolerance	<ul style="list-style-type: none"> • Health and Safety risks • Manufacturing risks • Bribery and slavery risks • Regulatory and compliance risks • Brand reputational risks

2015 Risk Management Actions

A thorough bottom up review was conducted by the Executive Committee to challenge what the principal risks in the organisation are and whether appropriate mitigations are in place. This resulted in a reduction in the number of Principal Risks to a more focused group with an additional focus on mitigating actions.

In addition, a full Business Continuity (BC) Planning event was conducted with senior management engagement and involvement. Mothercare has a maturing Incident Management Team, able to react quickly to an incident adopting the policies laid down in the BC plans.

Additional Actions

In conjunction with the internal risk identification process and subsequent management action to mitigate risks, Mothercare utilises the services of PwC to provide due diligence on the methodology used to identify risks, in particular any emerging risks that may have been noted in the retail sector that have not presented themselves to management's attention through the internal process. The full risk register translates into the risk universe from which the half-yearly internal audit plan is formulated. By working in this way management is confident that, as far as is reasonably possible, risk management is proactive and not reactive within the organisation.

In accordance with C.2.1 of the UK Corporate Governance Code, the Directors confirm they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.


Below are the Principal Risks and Uncertainties and the ratings as agreed by the Board for FY2015/16.








Risks

Principal risks and uncertainties

Risk description	Impact	Mitigation	Change on last year
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> The Group is unable to compete with other key players in the UK, including multi-channel retailers as well as internet only businesses causing the Group's in store sales to decline and reduce profits. <p>This risk impacts the following strategic pillars:</p> 	<ul style="list-style-type: none"> Rigorous project governance managing the key spend areas of store refurbishment and IT systems with audit oversight. Strategic plan to refurbish all ongoing stores, varying from light touch re-fits to full refurbishment, within the three year plan – 47 stores refurbished during FY2015/16. Maintaining a lean organisation through tight management of resources and controlling the Group's cost base. Simplify customers' online journey and enhance the customer experience by way of improved photo and video presentation and customer reviews. Improve the product delivery proposition, including enabling customers to better track their product orders and provide greater convenience and choice as to delivery and collection points with stores enabled to pick product for customers from store stock. 	 <p>No change</p>
<ul style="list-style-type: none"> 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 results of operation may be affected by foreign exchange risk. 	<ul style="list-style-type: none"> As the UK economy continues to strengthen, the economic and political uncertainty enveloping eastern/southern Europe, oil based economies, and those dependent on China could have a material adverse effect on the Group's business. Hedging foreign exchange does not eliminate the Group's exchange or interest rate risks entirely and may not be fully effective. Any significant losses on the Group's hedging positions could have a material adverse effect on the Group's business, results of operations or financial condition. <p>This risk impacts the following strategic pillars:</p> 	<ul style="list-style-type: none"> Improved products, presentation and service, including exclusivity in branded offerings. Franchise partners have the ability to source product locally. Improved customer service with investment in training of management and store teams to improve the quality and consistency. improved customer propositions targeting improved credit finance proposition in partnership with third party credit providers, personal shopping and online booking of specialist services and activities in store. Group's hedging policy agreed by the Board. The largest five franchisees have their trading currencies hedged. Hedging undertaken by Treasury signed off by the Director of Finance, using six to nine month horizon for the five largest franchisees and 15 months for US Dollar exposure. Limited exposure to Eurozone countries. 	 <p>Increase in risk over the year</p>

Strategic pillar objectives:





01  Become a digitally led business	04  Stabilise and recapture gross margin
02  Supported by a modern retail estate	05  Running a lean organisation while investing for the future
03  Offering style, quality and innovation in product	06  Expanding further internationally

Risk description	Impact	Mitigation	Change on last year
<ul style="list-style-type: none"> The Group is materially dependent on a small number of franchise partners that make up a significant proportion of its International business. 	<ul style="list-style-type: none"> Any damage to, or loss of, the Group's relationship with Alshaya or any of its other key franchise partners could have a material adverse effect on the Group's business, results of operation or financial condition. <p>This risk impacts the following strategic pillars:</p> <p>06 </p>	<ul style="list-style-type: none"> Strong personal and business relationships built up over a long time with key franchise partners. Regular senior management visits to key franchise partners markets, including the Executive Committee Credit insurance in place for the major Franchisees. Development plan agreed for franchise markets. 	 No change
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Any perceived or actual concerns related to the Group's products, supply chain or its franchise partners and/or its wholesale customers may be widely disseminated online, on consumer blogs or other social media sites or via print or broadcast media. Similarly, any litigation that the Group may face could subject it to increasing negative attention in the press. <p>This risk impacts the following strategic pillars:</p> <p>03 </p>	<ul style="list-style-type: none"> Significant group investment in product quality management resource. High standards communicated throughout supply chain with in-house responsible sourcing team working in Bangladesh, India and China. Global code of conduct communicated and applied through the system using an e-learning tool for sign-off. Focus on pre despatch quality checks. Established product recall process managed by crisis management team. The Company participates in the Bangladesh Safety Accord. Group trade marks are formally logged in country of operation. IP awareness courses are run through teams and regular checks/searches are conducted. 	 No change
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> If the Group is unable to secure ongoing support, or attractive commercial terms from its existing suppliers, or is unable to find replacement suppliers in the event of a particular source of supply no longer being available, this could have a material adverse effect on the Group's stock management, profitability and competitiveness and may result in a loss of market share. <p>This risk impacts the following strategic pillars:</p> <p>03  04 </p>	<ul style="list-style-type: none"> Company Code of Conduct and Conflict of Interest – compliance self-certification. Corporate Responsible Sourcing team in place. Tone from the top delivered at International supplier meetings. Adherence to EU timber laws. 	 No change

Risks

Principal risks and uncertainties continued



Manufacturing and product

Risk description	Impact	Mitigation	Change on last year
<ul style="list-style-type: none"> The Group relies on its ability to improve existing products and successfully develop and launch new innovative products. 	<ul style="list-style-type: none"> Failure to bring new innovative product to the market may have a material adverse effect on the Group's business, results of operation or financial condition. <p>This risk impacts the following strategic pillars:</p> 	<ul style="list-style-type: none"> Shortening product lead times and restructure its 'Good, Better, Best' product architecture. Introducing new phases. Demonstrate good value products across all price points and supplement these with exclusive third-party products and new brands. Enhance the customer experience in-store through newly refurbished stores with improved presentation and merchandising standards. 	 <p>No change</p>
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Any failure to attract and retain key personnel to meet the Group's operational needs may delay or curtail the achievement of major strategic objectives and could have a material adverse effect on the continuity of the Group's operations. <p>This risk impacts the following strategic pillars:</p> 	<ul style="list-style-type: none"> Share save scheme open to all employees. Performance related bonus scheme open to all employees. Quarterly performance reviews against objectives. People plan now in place. Regular senior leadership team (SLT) meetings. 	 <p>No change</p>

Strategic pillar objectives:

- 01 **Become a digitally led business**
- 02 **Supported by a modern retail estate**
- 03 **Offering style, quality and innovation in product**
- 04 **Stabilise and recapture gross margin**
- 05 **Running a lean organisation while investing for the future**
- 06 **Expanding further internationally**

People and infrastructure

Risk description	Impact	Mitigation	Change on last year
<ul style="list-style-type: none"> Any unauthorised access or disclosure of confidential information stored or obtained by the Group, either by criminal cyber-attack or a speculative loner, could have a material effect on its business. 	<ul style="list-style-type: none"> If any third party with whom the Group interacts violates applicable laws or the Group's data protection policies, whether intended or not, could result in legal claims or regulatory action, which may subject the Group to liability and litigation. <p>This risk impacts the following strategic pillars:</p> <p>01</p>	<ul style="list-style-type: none"> End to end encrypted Pin Entry Devices (PED) rolled out to the store estate. No customer cardholder detail is kept on internal systems. All sensitive and confidential information that falls within the Data Protection Act is overseen by the Risk Committee. Constant review of cyber security framework. Regular reporting of attacks. Regular penetration tests conducted. 	<p style="text-align: center;"></p> <p>Increase in risk over the year</p>
<ul style="list-style-type: none"> The Group supplies and sources its products and operates in a number of countries in which bribery and corruption pose significant risks. 	<ul style="list-style-type: none"> The Group also deals with a significant amount of cash in its operations and is subject to various reporting and anti-money laundering regulations. Any violation of money-laundering laws or regulations by the Group could have a material adverse effect on its business, reputation or results of operation. <p>This risk impacts the following strategic pillars:</p> <p>03 06</p>	<ul style="list-style-type: none"> Company Code of Conduct and Conflict of Interest – compliance self-certification. Awareness of the UK Modern Slavery Act 2015 being presented to all employees globally. In-house responsible sourcing team working in Bangladesh, India and China who are fully trained in how to deal with attempts at bribery. 	<p style="text-align: center;"></p> <p>No change</p>

Financial review

Results summary

Group underlying profit before tax increased by £6.6 million to £19.6 million (FY2014/15: £13.0 million). Underlying profit excludes exceptional items and other non-underlying items which are analysed below. Exceptional items include costs relating to activity on property. After exceptional and non-underlying items, the Group recorded a pre-tax profit of £9.7 million (FY2014/15: loss of £13.1 million).

Income statement

£ million	52 weeks ended 26 March 2016	52 weeks ended 28 March 2015
Revenue	682.3	713.9
Underlying profit from operations before interest and share-based payments	25.8	19.3
Share-based payments	(3.0)	(1.3)
Net finance costs	(3.2)	(5.0)
Underlying profit before tax	19.6	13.0
Exceptional items	(10.2)	(32.0)
Non-cash foreign currency adjustments	1.2	6.9
Amortisation of intangible assets	(0.9)	(1.0)
Profit/(Loss) before tax	9.7	(13.1)
Underlying EPS – basic (pence)	9.6	8.6
EPS – basic (pence)	3.8	(12.6)

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

Results by segment

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

£ million – Revenue	52 weeks ended 26 March 2016	52 weeks ended 28 March 2015
UK	459.7	458.1
International	222.6	255.8
Total	682.3	713.9
Underlying Profit/(loss)	52 weeks ended 26 March 2016	52 weeks ended 28 March 2015
UK	(6.4)	(18.0)
International	40.3	45.9
Corporate	(8.1)	(8.6)
Profit from operations before share-based payments	25.8	19.3
Share-based payments	(3.0)	(1.3)
Net finance costs	(3.2)	(5.0)
Underlying profit before tax	19.6	13.0

UK like-for-like sales have increased by 3.6% with support from online sales which were up 15.2% year-on-year. Total UK sales were marginally higher year-on-year, with underlying trading offsetting the impact of 25 planned store closures. The business continued to sell more at full price, and this along with improved buying margins and planned efficiencies improved profitability.

International retail sales decreased by 1.4% on a constant currency basis with all four regions seeing a reduction in both constant and actual currency sales. As a result of the ongoing economic and currency headwinds, reported sales are down by 13%, with profit down 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, and were lower year-on-year.

Share-based payments

Underlying profit before tax also includes a share-based payments charge of £3.0 million (FY2014/15: £1.3 million) in relation to the Company's long-term incentive schemes. There are a number of long-term share-based incentive schemes including the Long Term Incentive Plans, the Save As You Earn schemes and the Company Share Option Plan. Full details can be found in note 28 in the consolidated financial statements.

The charges as calculated under IFRS 2 are calculations based on a number of market based factors and estimates about the future including estimates of Mothercare's future share price, future profitability and TSR in relation to a comparator group of retailers. As a result it is difficult to estimate or reliably predict future charges.

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

UK '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 online sales.

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

£ million	Reported sales		Worldwide sales*	
	52 weeks ended 26 March 2016	52 weeks ended 28 March 2015	52 weeks ended 26 March 2016	52 weeks ended 28 March 2015
UK retail sales	426.1	425.7	426.1	425.7
UK wholesale sales	33.6	32.4	33.6	32.4
Total UK sales	459.7	458.1	459.7	458.1
International retail sales	215.9	247.7	683.0	737.3
International wholesale sales	6.7	8.1	6.7	8.1
Total International sales	222.6	255.8	689.7	745.4
Group sales/Group worldwide sales	682.3	713.9	1,149.4	1,203.5

* Estimated

Analysis of worldwide sales movement

£ million – Worldwide sales

Sales for 52 weeks ended 28 March 2015	1,203.5
Currency impact	(44.3)
Pro forma sales for 52 weeks ended 28 March 2015	1,159.2
Decrease in International like-for-like	(29.5)
Increase in International space	19.5
Increase in UK like-for-like	14.2
Decrease in UK space	(13.8)
Decrease in wholesale	(0.2)
Sales for 52 weeks ended 26 March 2016	1,149.4

Sales in the year ended 26 March 2016 were lower by £54.1 million primarily as a result of an adverse currency impact of £44.3 million.

Excluding the currency impact, worldwide sales have decreased by 0.8% driven by International sales; a decrease in like-for-like sales by 4.5% and an increase in space by 4.6%.

UK like-for-like sales have grown strongly by 3.6%, but have been offset by a decrease in UK space as a result of planned store closures.

Financial review

continued

Analysis of profit movement

£ million – underlying profit before tax	
Underlying profit for 52 weeks ended 28 March 2015	13.0
Currency impact	(1.0)
Pro forma underlying profit for 52 weeks ended 28 March 2015	12.0
Decrease in International volumes	(6.4)
UK closures of loss-making stores	3.5
UK new and re-site stores	0.5
UK sales and margin improvement	8.2
Decrease in costs	1.8
Underlying profit before tax for 52 weeks ended 26 March 2016	19.6

On a pro forma basis (i.e. excluding the currency impact) underlying profit has increased by £7.6 million. This is driven by UK sales and margin improvement, the closure of UK loss-making stores, and a reduction in the cost base. This is partly offset by a decrease in International volume.

Foreign exchange

The main exchange rates used to translate the consolidated income statement and balance sheet are set out below:

	52 weeks ended 26 March 2016	52 weeks ended 28 March 2015
Average:		
Russian rouble	95.40	70.57
Indonesian rupiah	20,418	19,484
Saudi riyal	5.68	6.03
Emirati dirham	5.54	5.91
Closing:		
Russian rouble	98.09	88.67
Indonesian rupiah	18,959	19,499
Saudi riyal	5.43	5.61
Emirati dirham	5.32	5.49

The principal currencies that impact our results are Russian rouble, Indonesian rupiah, Saudi riyal and Emirati dirham. The Russian rouble continued to weaken against sterling in the year impacting profit significantly. The net effect of currency translation caused worldwide sales and underlying operating profit from ongoing operations to decrease by £44.3 million and £1.0 million respectively compared with 2015 as shown below:

	Worldwide Sales £ million	Underlying Operating profit £ million
Russian rouble	(35.8)	(2.1)
Euro – Ireland	(2.2)	(0.1)
Euro – Greece	(2.0)	(0.1)
Indonesian rupiah	(1.2)	(0.1)
Saudi riyal	6.2	0.6
Emirati dirham	4.8	0.4
Other currencies	(14.1)	0.4
	(44.3)	(1.0)

The profit impacts are somewhat mitigated by our hedging strategy on royalty receipts.

In addition to the translation exposure, the Group is also exposed to movements on certain of its transactions, principally movements in the US dollar. These exposures are largely hedged and therefore did not significantly impact underlying profit.

Net finance cost

Financing represents interest receivable on bank deposits, fees payable on borrowing facilities, the amortisation of costs relating to bank facility fees and the net interest charge on the liabilities/assets of the pension scheme. The net finance cost is materially lower than last year as the Group was largely in a net cash position during the year.

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Net interest on liabilities/return on assets on pension	2.7	2.1
Other net interest	0.5	4.4
Net finance costs	3.2	6.5

Taxation

The underlying tax charge is comprised of current overseas taxes and a prior year adjustment for UK taxes and is offset by UK deferred tax. The effective tax rate is 16.4% (FY2014/15: 19.2%). The effective tax rate is lower than the standard tax rate of 20% mainly due to the utilisation of brought forward tax losses. An underlying tax charge of £3.2 million (FY2014/15: £2.5 million) has been included for the period and in total the tax charge was £3.3 million (FY2014/15: £2.3 million). The cash tax payments were £2.4 million.

Non-underlying items

Underlying profit before tax excludes the following non-underlying items (see note 6):

Exceptional items (see note 6):

- Assets written off at net book value with respect to the store restructuring and refurbishment programme of £5.6 million.
- A credit for the release of store property provisions in relation to the UK business of £0.8 million.
- International bad debt costs of £1.9 million.
- Impairment of joint venture by £3.3 million.

Exceptional items in FY2014/15 included restructuring costs of the UK and head office organisation totalling £91 million, a credit for the release of the store impairment provision in relation to the UK business of £4.8 million, property-related exceptional costs of £25.9 million and costs relating to re-financing completed in October 2014 of £1.5 million.

Other non-underlying items:

- The retranslation of foreign cash, payables and receivables.
- The revaluation of outstanding forward contracts, these represent contracts that have not yet been matched to the purchase of stock. (note: the prior year credit included the fair value movement of contracts taken out before hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' was adopted in January 2014).
- Amortisation of intangible assets (excluding software).

Financial review

continued

Earnings per share and dividend

Basic earnings per share were 3.8 pence compared to a loss per share of 12.6 pence in FY2014/15. Basic underlying earnings per share were 9.6 pence compared to 8.6 pence last year.

	52 weeks ended 26 March 2016 million	52 weeks ended 28 March 2015 million
Weighted average number of shares in issue	170.6	122.2
Dilution – option schemes (for underlying results only)	6.0	3.6
Diluted weighted average number of shares in issue	176.6	125.8
Number of shares at period end	170.9	170.5
	£ million	£ million
Profit/(loss) for basic and diluted earnings per share	6.4	(15.4)
Exceptional items and other non-underlying items (note 3)	9.9	26.1
Tax effect of above items	0.1	(0.2)
Underlying earnings	16.4	10.5
Basic earnings/(loss) per share	3.8	(12.6)
Basic underlying earnings per share	9.6	8.6
Diluted earnings/(loss) per share	3.6	(12.6)
Diluted underlying earnings per share	9.3	8.3

The Board has concluded that given the cash investment required to deliver the new strategy the Company will not pay a final dividend for FY2015/16. The total dividend for the year is nil pence per share (FY2014/15: nil pence per share).

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	52 weeks ending 25 March 2017*	52 weeks ending 26 March 2016	52 weeks ended 28 March 2015
Income statement			
Running costs	(2.7)	(2.7)	(1.4)
Net interest on liabilities/return on assets	(2.5)	(2.7)	(2.1)
Net charge	(5.2)	(5.4)	(3.5)
Cash funding			
Regular contributions	(2.2)	(2.2)	(0.6)
Deficit contributions	(7.7)	(8.9)	(5.8)
Total cash funding	(9.9)	(11.1)	(6.4)
Balance sheet			
Fair value of schemes' assets	n/a	287.5	283.4
Present value of defined benefit obligations	n/a	(361.9)	(364.6)
Net liability	n/a	(74.4)	(81.2)

* Estimate

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:

	2015/16	2014/15	2015/16 Sensitivity	2015/16 Sensitivity £ million
Discount rate	3.6%	3.5%	+/- 0.1%	-6.4/+6.4
Inflation – RPI	3.1%	3.1%	+/- 0.1%	+6.3/-6.3
Inflation – CPI	2.0%	2.0%	+/- 0.1%	+6.3/-6.3

Cash flow

Underlying free cash flow was £(5.6) million with cash generated from operations of £35.8 million.

Capital expenditure of £392 million reflected the investment in the year in store refurbishment and IT infrastructure.

Working capital outflow of £nil is higher than 2015 reflecting the timing profile of payments for stock.

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Underlying profit from operations before interest and share based payments	25.8	19.3
Depreciation and amortisation	17.5	16.7
Retirement benefit schemes	(8.4)	(5.0)
Change in working capital	–	(9.8)
Other movements	0.9	(3.2)
Cash generated from operations	35.8	18.0
Capital expenditure	(39.2)	(12.7)
Interest and tax paid	(2.2)	(6.2)
Underlying Free cash flow	(5.6)	(0.9)
Exceptional	(12.9)	(16.7)
Free cash flow	(18.5)	(17.6)
Net bank loans repaid	–	(65.0)
Issue of ordinary share capital	0.4	95.3
Exchange differences	0.1	1.5
Cash and cash equivalents at beginning of period	31.5	17.3
Net cash and cash equivalents at end of period	13.5	31.5

Financial review

continued

Balance sheet

The balance sheet includes identifiable intangible assets arising on the acquisition of Early Learning Centre of £5.5 million and goodwill of £26.8 million. These assets are allocated to the International business.

	26 March 2016 £ million	28 March 2015 £ million
Goodwill and other intangibles	53.9	45.9
Property, plant and equipment	69.4	56.4
Retirement benefit obligations (net of tax)	(58.1)	(64.9)
Net cash	13.5	31.5
Derivative financial instruments	11.2	9.3
Other net liabilities	(0.8)	(0.5)
Net assets	89.1	77.7
Share capital and premium	146.4	146.0
Reserves	(57.3)	(68.3)
Total equity	89.1	77.7

Shareholders' funds amount to £89.1 million, an increase of £11.4 million in the year driven mainly by a fall in the defined benefit obligation of £6.8 million. This represents £0.52 per share compared to £0.46 per share at the previous year end.

Going concern

The directors have reviewed the going concern principle according to revised guidance provided by the FRC.

The Group's business activities and the factors likely to affect its future development are set out in the Principal Risks and Uncertainties section. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial review.

At the end of the year the Group had a cash balance of £13.5 million and was debt free with sufficient headroom against covenants.

The directors have reviewed the Group's latest forecasts and projections, which have been sensitivity-tested for reasonably possible adverse variations in performance. This indicates the Group will operate within the terms of its borrowing facilities and covenants for the foreseeable future. To the extent that future trading is worse than a reasonably possible downside, which the directors do not consider a likely scenario, then there are mitigating actions available, which would enable the Group to continue to operate within the terms of the borrowing facilities and covenants for the foreseeable future. Based on this, 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 therefore prepared on the going concern basis.

Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the Code, the directors have assessed the prospects and viability of the Company and its ability to meet liabilities as they fall due over the medium term. The directors concluded that a period of three years is a suitable time period for their review for the following reasons:

- this period aligns with our business planning cycle and delivery of strategic goals; and
- performance is significantly impacted by both UK and International economic conditions which are difficult to predict beyond this period.

The assessment was made by considering the principal risks facing the Company, and stress testing the strategic plan to model the impact of a combination of these risks occurring together to drive severe and extreme pressure on the business over the three-year period to FY2018/19. The review included detailed financial projections covering profit, cash flows and banking facility covenants. Two different scenarios were modelled.

The first scenario assumed a continuation of severe external macroeconomic and currency pressures across key International markets over an 18-month period, alongside a marked downward turn in consumer confidence in the UK market over the same timeframe, with the impact equivalent to the worst UK performance over a five-year historic period. Modest recovery is assumed thereafter across the Group. Projections under this scenario factored in short term high single digit negative like-for-like growth in International, and negative like-for-like and margins in the UK. The second scenario assumes a less severe but sustained negative impact on both the UK and International businesses, with smaller declines each year over the entire period.

In both of the above scenarios, the profitability of the business would be significantly impacted, and profit-related bank covenants would require renegotiation in H2 FY2016/17 in order to retain the current overdraft and rolling credit facility totalling £50 million (due for renewal in May 2018). However, the directors concluded that while management would need to take significant mitigating actions such as an immediate and material reduction in capital spend and costs, there would be sufficient cash available for the business to remain liquid in both of the above scenarios over the period reviewed.

Based on the results of this review, the directors confirm they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for the next three years.

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 33% of Group sales. Total International worldwide sales in the 52-week period represent approximately 60% of Group worldwide 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 has hedged against its major market currency exposure.

Interest rate risk

The Group remained cash positive during the year ended 26 March 2016 and is not currently exposed to any material interest rate risk.

The Group has a revolving credit facility, which as at 26 March 2016 has not had any amounts drawn down on it. However, should the Group draw down on this facility in the future, the Group would incur interest rate risk again.

Events after the balance sheet date

There have been no post balance sheet events.

Corporate responsibility

Our Corporate Responsibility programme has four key pillars:

- 1 Responsible Sourcing** – ensuring that our suppliers and partners treat people with respect and dignity and offer them decent working conditions and pay.
- 2 Environment** – understanding and reducing our environmental impacts.
- 3 People** – investing in our people is fundamental to our success.
- 4 Communities** – engaging with charities and communities.

At Mothercare, we are committed to our Corporate Responsibility (CR) programme, for the benefit of all our stakeholders. As a responsible retailer, our social and environmental commitments sit alongside our vision to be the leading global retailer for parents and young children.

The team comprises ten Responsible Sourcing (RS) professionals, based in China, India and Bangladesh, reporting into the Group's Global Head of Corporate Responsibility. In addition, internal and external stakeholders contribute to the success of our CR programme.

Our approach is one of continuous improvement and collaboration with partners such as suppliers, other retailers, non-governmental organisations (NGOs) and other advisors.

In late 2015 we carried out a strategic review of our CR programme. This was to ensure that our work is in line with our vision and values. As a result, we are now developing a new CR strategy with input from key stakeholders, to be launched later in 2016.

The strategic direction of our CR programme is developed and agreed through the CR Steering Committee, which is chaired by two Executive Committee members: Karl Doyle, Global Product Director and Daniel Talisman, General Counsel and Group Company Secretary. The Committee is made up of members of the Senior Management team and reports to the Board through the Audit and Risk Committee.

This report provides an overview of our activities over the last 12 months and an update on the targets we set ourselves.

Highlights

In FY2015/16, the Mothercare Group:

- exceeded its UK environmental targets to:
 - reduce CO₂ emissions through buildings by 5%; we achieved 15%;
 - reduce CO₂ emissions through transport by 5%; we achieved 5%; and
 - reduce packaging per £100 (kg, UK only) by 1%; we achieved 7%;
- had 52% of senior management positions (below Board level) filled by women; and
- continued to drive its commitment to RS.

1 Responsible Sourcing

For Mothercare Group, RS means partnering with suppliers that:

- provide decent, safe and fair working conditions for their employees;
- treat employees with dignity and respect;
- reduce the environmental impacts of their operations; and
- commit to continuous improvements.

Our Approach

RS of all Mothercare and ELC products is a major focus for our CR work. We acknowledge the material risks and opportunities of our supply chains and aim to address these proactively.

We are active members of the Ethical Trading Initiative (ETI) and our Code of Practice is based on the ETI's Base Code, which outlines the labour standards expected at factories. Before production is approved, all factories must provide an independent factory ethical audit from a shortlist of providers, to demonstrate that they comply with our Code. Our internal RS teams based in our sourcing offices review and grade these audits.

In addition to third party audits, our RS teams cover Bangladesh, Cambodia, China, India, Sri Lanka and Vietnam where they carry out announced and unannounced assessments of factories and support them to implement improvements.

Investing in our own internal RS team gives us a significant advantage because it allows us to take a practical and proactive approach with suppliers. This means we increase the visibility of our supply chain and focus on working with factories to make sustainable improvements based on management systems which address root causes.

Much of our work in RS is particularly relevant to the UK government's Modern Slavery Act 2015, which applies to Mothercare. We believe the new law is an opportunity for progressive organisations to share the work they are doing and to encourage more action on this serious topic. In line with the law, we will be reporting our actions under the Modern Slavery Act on our website at www.mothercareplc.com in early FY2016/17.

Supply Chain and Ethical Auditing

As a global retailer of fashion and footwear, home and travel products and toys, our supply chain involves a diverse number of product types and processes. Despite this, many of our key suppliers across all divisions have been working with Mothercare for over 10 years, investing in product development to deliver innovative, high quality and stylish products.

We source from approximately 500 factories. China, India, Turkey, Bangladesh and the UK account for 89% of our production sites.

This year we reviewed over 500 independent audits of factories, including new factories and annual updates. We accept a shortlist of globally recognised third party audit types and companies in order to help factories reduce duplication of auditing. However, this year we removed two auditing types from our accepted list due to concerns around quality.

We carried out a validation exercise of our supply chain reminding suppliers of our sub-contracting policy (sub-contracting of primary processes must be declared and approved in advance and secondary processes must be recorded and monitored). As a result we disengaged and approved a number of primary sites across our supply chain.

Supplier Development

This year our internal RS team has carried out over 340 factory assessments across all divisions in China, India and Bangladesh. Our approach is to encourage transparency, capacity building and continuous improvement and our team is skilled at building partnerships with our commercial teams and suppliers to encourage investment in their businesses, rather than simply auditing. As part of this, the internal teams provide factories with training, advice and practical tools.

With this approach, we have been pleased to see over 60% of the factories involved have made enough improvements to be 'downgraded' (e.g. from an 'orange' rating to a 'yellow' or a 'green' rating). However, if findings are serious and if factories do not make progress after receiving an opportunity to improve, we have no option but to cease working with them.

Collaboration with Stakeholders

In addition to our own work, we believe that dialogue and collaboration with stakeholders such as other brands and retailers, investors, NGOs, government and industry bodies, are the most effective ways to influence long-lasting improvements. Concerns identified during factory audits are often industry-wide and cannot be resolved by individual retailers. In order to address this, we continue to be members of the ETI and are involved in working groups such as the China Caucus group and the Southern India working group (see below).

Project Updates

Over the last year, in addition to working with our supply base on assessments, improvements and the Supplier Development Programme (SDP), we have been actively involved in the following initiatives:

- A** ETI Southern India Programme;
- B** ETI China Caucus;
- C** Supplier Environmental Performance;
- D** Indian CSR Law;
- E** Rights and Responsibilities Training;
- F** Bangladesh Accord; and
- G** Benefits for Business and Workers (BBW).

A Ethical Trading Initiative (ETI) – Southern India Programme

Over the last few years, reports by NGOs have brought to light concerns about labour practices in Tamil Nadu's garment and textile industry. Mothercare has been a member of the ETI's programme since 2012, called TNMS (Tamil Nadu Multi-Stakeholders) which brings together diverse stakeholders to address these concerns. We support the need for our combined efforts to understand and improve the recruitment and employment practices in Tamil Nadu.

This remained a very strong focus for the Group in FY2015/16. Three of our suppliers' mills took part in the ETI's training, covering over 1,500 workers on topics related to health and wellbeing. A further two mills have signed up to do this next year. The ETI also recently launched the next stage in their training for mills, which relates to Rights and Responsibilities, and we expect to support this training also.

In addition to supporting the ETI work, we continued our project which began in FY2014/15 to include spinning mills owned by our suppliers in the scope of our assessments and improvement work. Although we do not have any direct commercial relationships with these mills, suppliers in general have been co-operative with these efforts and we are pleased to see improvements from this work, such as building new living quarters for workers, developing and following clear leave policies and providing access to bank accounts for remote units.

Corporate responsibility

continued

B ETI China Caucus

We are active members of the ETI's China Caucus group and have been involved in two projects this year. The first project was entitled 'Social Dialogue for Harmonious Labour Relations in Chinese Supply Chains'. Mothercare representatives and our suppliers contributed to the development of a toolkit for brands and their suppliers about social dialogue in China.

The second project is a collaboration with the International Labour Organization (ILO) SCORE (Sustaining Competitive and Responsible Enterprise) project. The project supports practical training and in-factory counselling that improves productivity and working conditions in small and medium enterprises. The initial scoping and proposal phases are complete and the project is due to launch in May 2016.

C Supplier Environmental Performance

Environmental sustainability is an integral aspect of our Code of Practice and we are committed to helping suppliers reduce the environmental impacts of manufacturing. All of our assessments provide guidance on environmental compliance, such as ensuring that effluents are treated properly, that hazardous waste is handled, stored and disposed correctly and that natural resources are not wasted.

In FY2015/16 we have also been in contact with a Chinese environmental NGO for advice on developing an environmental scorecard for six key suppliers, which we can then use for all Chinese suppliers. This work will continue into FY2016/17.

D Indian Corporate Social Responsibility Law

In accordance with the Indian Companies Act 2013, Mothercare India will donate annually at least 2% of its previous three years' average net profits on relevant Indian CSR activities.

This year we donated over £16,000 to an Indian NGO called SAMVADA, which aims to 'help women go out to work through learning opportunities and child care support'. The project has two key objectives:

- I To support women factory workers by providing a community crèche that provides child care support for infants, pre-schoolers and children who need after-school care. The location of this crèche will be near an industrial area where many women work in factories; and
- II To equip disadvantaged women with valuable job skills through a three month course in Early Childhood Care and Education so that they can meet their livelihood needs whilst supporting the crèche to provide quality child care for women who go out to work.

E Rights and Responsibilities Training

In FY2015/16, Mothercare, with other retailers, sponsored the Hindi dubbing of a training video developed by the Centre for Responsible Business (CRB) based in India. The video and accompanying training course explain worker rights and responsibilities in the workplace.

The video was already available in two languages, Kannada and Tamil, and we believed that having this in Hindi would benefit a large number of workers in North India and those who have migrated to the South. So far, all of our key suppliers in the Tirupur region have attended the trainings.

F Bangladesh Accord

Although we were not involved in the Rana Plaza tragedy in April 2013, we continue to make efforts to ensure that factories in our supply chain meet building, fire and electrical safety standards, as well as other labour standards as part of our Code of Practice. We signed the Bangladesh Accord on Building and Fire Safety in Bangladesh in 2013 and are committed to ensuring that standards are constantly monitored and improved.

All of our suppliers' factories in Bangladesh have been inspected by independent experts for structural, fire and electrical safety and are working towards remediation. Although many factories across the entire Accord factory base are taking longer to make progress than was previously hoped, our factories are showing progress which is above the average and some have received recognition letters for completing initial remediation. However, there is still much to do and we will continue to encourage further completion of this work next year.

G Benefits for Business and Workers (BBW)

BBW is an HR and Productivity training programme developed by two consultancies: Impactt (a leading labour standards consultancy) and Rajesh Bheda Consulting (production consultancy). The programme helps transform factories into good businesses providing great jobs for their workers by developing a skilled, well paid, safe and loyal workforce.

Many of our factories in India and Bangladesh have already benefited from this training. In FY2015/16, two key factories in Bangladesh started the training and one has already graduated. This factory made very encouraging progress, with worker absenteeism reducing from 9% to 3%, worker turnover reducing by 60% and average pay increasing by 19%.

2 Environment

Key performance indicators	FY2015 Performance	FY2016 Performance	FY2016 vs FY2015 (+/-)%	Target
Building energy use (m kWh)	43.74	37.95	-13%	–
Transport fuel used (m litres)	0.92	0.88	-4%	–
Transport mileage (m miles)	2.57	2.22	-13%	–
CO ₂ e emissions (tonnes)*	20,847	18,049	-13%	–
CO ₂ e emissions (per '000 sq.ft.)	12.57	11.62	-8%	–
Of which:				
Buildings	18,453	15,769	-15%	-5%
Transport	2,394	2,279	-5%	-5%
Packaging used (tonnes, UK only)	6,185	5,758	-7%	–
Packaging per £100 (kg, UK only)	13.50	12.53	-7%	-1%
Total waste (tonnes, UK only)	5,098	4,539	-11%	–
Recycled waste (%)	95%	91%	-4% points	90%

* Greenhouse Gas emissions methodology: we have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within the activities for which we have operational control. There are no material exclusions from this data. The data has been prepared in accordance with the UK Government's Environmental Reporting Guidance (2013 version).

Building emissions – target to reduce emissions by 5% against FY2014/15 – achieved

Buildings emissions relate to electricity and gas consumption at our UK stores, UK and overseas offices and distribution centres. During FY2015/16, we achieved a 15% reduction in emissions compared with the previous year. This reduction was achieved due to planned store closures, a warmer winter and a programme of replacing the gas heating boilers at our UK office with new energy efficient equipment, which began in late FY2015/16.

Transport emissions – target to reduce emissions by 5% against FY2014/15 – achieved

Transport emissions relate to diesel consumption for deliveries from our distribution centres to stores. During FY2015/16 we introduced new transport routes, incorporating greater use of double decker trailers. We also replaced our ageing trailer fleet. This achieved a 13% reduction in distance travelled and a 4% reduction in fuel consumption and led to an overall reduction in transport emissions of 5%.

Packaging handled – target to reduce kg per £100 of sales by 1% against FY2014/15 – achieved

Product packaging tonnage fell by 7% during FY2015/16 as we sold a greater proportion of products with lighter packaging. We also continued our efficiency projects to reduce product packaging. For example, we recently updated all of our own-label Innosense packaging, which will result in significant waste reduction and cost savings.

This decrease in packaging tonnage contributed to an 11% reduction in total waste across our stores and distribution centres. 91% of waste was recycled, in line with our objective to recycle at least 90% of waste each year.

During the second half of FY2015/16 carrier bag charging came into force in England – matching Wales, Scotland and Northern Ireland. Compared with the previous year, in FY2015/16 the number of carrier bags used by customers fell by circa 80%.

Targets FY2016/17

For FY2016/17 we will continue to set reduction targets as follows:

- Reduce CO₂ emissions through buildings by 5%;
- Reduce CO₂ emissions through transport by 5%; and
- Reduce packaging per £100 (kg, UK only) by 1%.

Corporate responsibility

continued

3 People

We employ directly 5,346 people in the UK and 175 in Asia, not including those colleagues who work for our global network of International partners.

We have a diverse workforce with a third of our Board and 51% of our senior management roles (not including executive management) held by females. Throughout the rest of the business 91% of our UK retail colleagues and 76% of our UK office colleagues are female.

We communicate with all colleagues in a variety of ways and have been regularly sharing video updates about the progress of the Company from Mark Newton-Jones, our CEO, and others with colleagues across the globe.

We are laying the foundations for our employer value proposition that supports the brand. In terms of attracting talent, we have reviewed our resourcing methodologies and are trialling new methods for volume recruitment to reduce cost, improve candidate experience, consistency and quality of hires.

We have continued to invest in our people through a number of learning and development initiatives. We have focused particularly on our buying and merchandising teams, with 306 individuals trained through our Buying and Merchandising Academy during the year, to develop best practice. In retail operations, a large proportion of our management teams have been through The Retail Academy, equipping them with essential management skills and readiness for the changing organisation. Car seat and bra fitting training sessions continue, working closely with suppliers.

'Inspire' the Group learning management system was launched in FY2015/16 and is now in regular use enabling employees across the Group to remotely access and develop a number of core skills, from compliance and product knowledge to personal development. New content is being developed and uploaded continually and we continue to embed this into the business to ensure the facility reaches its full potential.

Finally, we completed a values and behaviours programme. It was led by the Senior Leadership Team who built the programme from the ground up and then led the cascade across the organisation. The process facilitated the engagement of the entire business, which has gone a long way towards building a stronger team while also fostering closer and more collaborative working relationships across the Company.

4 Communities

During FY2015/16 we developed a fresh approach to charity. The Mothercare Group Foundation (MGF)'s trustees defined Mothercare's charitable role and purpose in a new Mission Statement, as follows:

The Mothercare Group Foundation aims to help parents in the UK and worldwide meet the needs and aspirations for their children and to give them the very best chance of good health, education, wellbeing and a secure start in life.

The MGF donations will be focused on three areas:

- I ensuring the good health and well-being of mums-to-be, new mums and their children;
- II special baby care needs and premature births; and
- III parenting initiatives (or charities) that support families on the parenting journey.

It was agreed by the trustees that the revenue from the MGF will be shared across two beneficiaries:

i A Charity of the Year

Our official FY2016/17 Charity of the Year is Tommy's. We received a number of nominations both from charities and colleagues. The clear winner was Tommy's, the charity which funds research into pregnancy problems and provides information to parents. The charity believes it is unacceptable that one in four women loses a baby during pregnancy and birth. In FY2016 we donated £20,000 to the charity. To find out more about Tommy's, please go to www.tommys.org.

ii Employee sponsorship matching fund

This year we also launched a matching fund meaning that Mothercare will match employees' own fundraising activities up to a cap of £250 per activity and up to a total of £5,000 per year.

In addition to the MGF donations, Mothercare Group will donate all income received from the charges for single-use carrier bags in England, Scotland and Wales (Northern Ireland pay the levy to the government) to our chosen environmental charity, 'Trees for Cities', due to its educational, community and international reach. To find out more about the charity, please visit www.treesforcities.org.

Store Communities

We are committed to uniting mums and dads to take on parenting together. Through our store events, we provide education and information to parents in the community.

My Mothercare Expectant Parent Events run in around 130 of our stores across the UK, three times a year (usually in February, June and October). In-store experts give advice on in-car safety, sleep safety and nursery, pushchair choices and the best toys for baby's first year. Midwives, health visitors and first aid trainers from St. John Ambulance, St Andrew First Aid and the British Red Cross attend frequently to offer advice to expectant parents. The My Mothercare website has the event's details: www.mymothercare.com

We also support National Breastfeeding Week. Midwives and health visitors attend our stores and run advice points for mums and mums-to-be, offering their help and support.

Providing a place for mums, dads and families to meet

We have cafés and soft play areas at our Mothercare stores at Cribbs Causeway (Bristol), Manchester, Gateshead, Solihull, Romford, Edmonton, Leeds, Sprucefield (Northern Ireland) and Dudley, which offer a practical meeting space for parents to relax whilst out shopping with young children.

Board of Directors and Executive Committee



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Board of Directors

- 01 Alan Parker
- 02 Mark Newton-Jones
- 03 Richard Smothers
- 04 Angela Brav
- 05 Lee Ginsberg
- 06 Amanda Mackenzie
- 07 Richard Rivers
- 08 Imelda Walsh
- 09 Nick Wharton

Executive Committee

- 10 Karl Doyle
- 11 Gary Kibble
- 12 Sarah Purkis
- 13 Matt Stringer
- 14 Daniel Talisman

Board of Directors

Alan Parker CBE Chairman

R N F D

Appointed: August 2011.

Skills, competencies, experience

A former chief executive of a FTSE 100 company and with extensive experience in the hospitality sector, Alan provides substantial commercial, leadership and strategic knowledge and experience. Executive Chairman of Mothercare plc from 17 November 2011 to 30 April 2012. Formerly Chief Executive of Whitbread plc and Managing Director EMEA of Holiday Inn, he has also served on the boards of Burger King Worldwide, Jumeirah Group LLC and VisitBritain.

Other Directorships

Non-executive chairman of Darty plc. Chairman of Parkdean Resorts, non-executive director of US based Restaurant Brands International*. President of the British Hospitality Association and a board member/investor in Winnow Solutions.

* Alan has announced his intention not to stand for re-election and his appointment will therefore cease on 9 June 2016.

Angela Brav Non-executive director

R N F

Appointed: January 2013.

Skills, competencies, experience

Angela has extensive experience with a major multinational organisation which provides the Company with international and franchise expertise. Angela has held various senior roles within the InterContinental Hotels Group since joining in 1991 including Senior Vice President Americas Franchise Operations and Applied Technology Senior Vice President Applied Technology, for the Americas Region, Senior Vice President Integrated Technology Solution, And Senior Vice President Quality and Service. Angela has also worked at IHG's headquarters in Brussels, Belgium and Guadalajara, Mexico.

Other Directorships

Chief Executive Europe of InterContinental Hotels Group plc (IHG).

Lee Ginsberg Non-executive director and Audit and Risk Committee Chair

A N F D

Appointed: July 2012.

Skills, competencies, experience

Lee has substantial financial experience working in listed companies, and in-depth knowledge of international franchise models and systems. Previously Chief Financial Officer of Domino's Pizza Group plc (until 2 April 2014) and prior to that Group Finance Director at Health Club Holdings Limited (formerly Holmes Place plc) where he also served as Deputy Chief Executive. Lee is a Chartered Accountant having qualified with Pricewaterhouse Coopers.

Other Directorships

Non-executive director and Chair of the Audit Committee at Trinity Mirror plc; Deputy Chairman, Senior Independent Non-executive director at Patisserie Holdings plc; Senior

Independent Non-executive director and Chairman of the audit committee at On The Beach plc; Senior Independent Non-executive director and Chairman of the Audit Committee at Softcat plc; and Non-executive Chairman of Oriole Restaurants Limited.

Amanda Mackenzie OBE **A N F**
Non-executive director

Appointed: January 2011.
Skills, competencies, experience
 Amanda has significant marketing and communications experience having held director roles at BT, HP, BA Airmiles and British Gas. She was a member of Aviva's Executive Committee for seven years and was Executive sponsor for diversity and a member of Lord Davies' steering group to increase the number of women on boards. She is now on secondment to Project Everyone from Aviva having helped launch the UN's Global Goals for sustainable development. She is a board member of the National Youth Orchestra and a past President of the Marketing Society.

Other Directorships
 National Youth Orchestra, The Thirty Club of London.

Mark Newton-Jones **F D**
Chief Executive Officer

See Executive committee for biography.

Richard Rivers **R N F D**
Senior independent non-executive director

Appointed: July 2008.
Skills, competencies, experience
 Formerly Chief of Staff and Head of Corporate Strategy at Unilever. Richard provides marketing, strategic and corporate knowledge to the Company as well as remuneration committee expertise.

Other Directorships
 A member of the board of Channel 4 Television Corporation, a director of Lumene Oy and a member of the Advisory Board of WPP plc.

Richard Smothers **F D**
Chief Financial Officer

See Executive committee for biography.

Imelda Walsh **R N F**
Non-executive director and Remuneration Committee Chair

Appointed: June 2013.
Skills, competencies, experience
 Imelda provides the Company with the benefit of her extensive experience and knowledge of remuneration and HR policies. Formerly Group HR Director of J Sainsbury plc, non-executive director and Chair of the Remuneration Committee at Sainsbury's Bank plc, and previously with roles at Barclays plc, Coca Cola & Schweppes Beverages Limited and Diageo plc.

Other Directorships
 Non-executive director and Chair of the Remuneration Committee of William Hill plc, Mitchells & Butlers plc and FirstGroup plc.

Nick Wharton **A N F**
Non-executive director

Appointed: November 2013.
Skills, competencies, experience
 Nick provides the Company with extensive experience within the retail sector and the benefit of being a plc Chief Executive and Chief Financial Officer, supporting the financial and strategic direction of the Company. Formerly Chief Executive Officer of Dunelm Group plc (until 11 September 2014), Chief Financial Officer of Halfords Group plc, and held finance and international positions at The Boots Company plc and Cadbury Schweppes plc.

Other Directorships
 Chief Financial Officer of SuperGroup plc.

Executive Committee

Mark Newton-Jones
Chief Executive Officer

Appointed: July 2014.
Skills, competencies, experience
 Mark has almost 30 years of experience working with, and developing some of, the industry's leading retail brands in both stores and online. Before joining the Company as interim CEO in March 2014, Mark was previously Group CEO of Shop Direct, owner of the Littlewoods and Very brands. Under his stewardship, Shop Direct embarked on one of the largest retail integrations in Europe, merging and integrating Littlewoods and Great Universal stores and a significant transformation journey from a failing large scale bricks-and-mortar operation to one of the UK's leading multi-channel retailers with seamlessly integrated mobile, online and digital platforms. Prior to Shop Direct, Mark held various director roles at Next plc including as the director of the Next Directory taking it online in 1998 becoming one of the UK's first online retailers. Mark began his career in his family-run retail and wholesale business working alongside his father and grandfather.

Other Directorships
 Non-executive director at Boohoo plc and Chairman of Graduate Fashion Week.

Richard Smothers
Chief Financial Officer

Appointed: March 2015.
Skills, competencies, experience
 Extensive financial experience of working within listed companies; Richard's work overseas will provide relevant experience in the Company's international operations and growth ambitions. Strong financial, accounting, strategic and corporate finance experience and skills. Previous appointments include Director of Group Finance at Rexam plc. Before joining Rexam, Richard spent 14 years in a number of senior finance roles at Tesco plc (including Finance Director Asia, CFO Tesco Lotus (Thailand) and Finance Director for UK operations) and prior to that worked at Cargill in both financial and operational roles. Richard was also a director and treasurer of the British Chamber of Commerce in Thailand.

Other Directorships
 Member of the Finance Committee, University College London since October 2014, Treasurer and Audit and Risk Chair, Trustee at NCT since March 2016.

Karl Doyle
Group Product Director

Appointed: June 2014.
 Formerly Executive Group Product Director at Shop Direct. Prior to that, Karl was the Kidswear Director at Marks & Spencer for eight years; he also spent over 10 years at Next as Head of Merchandising.

Gary Kibble
Group Brand and Marketing Director

Appointed: March 2015.
 Formerly Director of Business Transformation and prior to that, Group Brand Director at Shop Direct. Gary also spent ten years with WH Smith becoming accountable for the Books business unit.

Sarah Purkis
Group HR Director

Appointed: March 2015.
 Formerly Chief People Officer at World Duty Free Group. Prior to that, Sarah held a number of senior HR positions in companies including PRS Alliance Limited, Britvic plc and Virgin Retail.

Matt Stringer
Managing Director, UK

Appointed: February 2013.
 Formerly Managing Director of Carphone Warehouse; various roles at Marks & Spencer including International Operations Director and Head of GM Stock Management and New Buying.

Daniel Talisman
General Counsel and Group Company Secretary

Appointed: January 2016.
 Significant plc experience as former General Counsel and Group Company Secretary for GVC Holdings Plc and prior to that, occupying the same role with Sportingbet Plc for over a decade until its eventual sale. Previously associate solicitor, Finers Stephens Innocent LLP.

Corporate governance



Alan Parker CBE
Chairman

Dear Shareholder

The Company believes that establishing and maintaining high standards of corporate governance are critical to the successful delivery of the Groups' strategy and to safeguarding the interests of its shareholders, customers, staff, international partners and other stakeholders. The Group delivers this through a corporate governance framework in its activities globally.

General

The Company considers that it has complied throughout the 52-week period ended on 26 March 2016 with the relevant provisions set out in the 2014 UK Corporate Governance Code.

The Board

The Board fulfilled last year's commitment to an externally facilitated Board evaluation which took place in FY2016.

The leadership of the Mothercare plc business is provided by the Mothercare plc Board. The Board operates on a unitary basis and ordinarily comprises the non-executive Chairman, six independent non-executive directors, and two full-time executive directors being the Chief Executive Officer and the Chief Financial Officer.

Mothercare plc Main Board (as at 26 March 2016):

Chairman/non-executive
Alan Parker CBE (Chairman)
Angela Brav
Lee Ginsberg
Amanda Mackenzie OBE
Richard Rivers
(Senior Independent Director)
Imelda Walsh
Nick Wharton

Executive

Mark Newton-Jones
Richard Smothers

Board changes

There were no changes to the Board during the year. The Nomination Committee was required to conduct a search for a new company secretary following the resignation of Tim Ashby who left the Company on 24 July 2015. Daniel Talisman joined the Company on 11 January 2016 as General Counsel and Group Company Secretary and, in the intervening period, the Company benefited from the services of an experienced company secretary on an interim basis.

The Board and its directors

The Board of Mothercare plc meets regularly and maintains overall control of the Group's affairs through a schedule of matters reserved for its decision. These include setting the Group strategy, the approval of the annual budget and financial statements, major acquisitions and disposals, capital raising, defence and bid approaches, authority limits for capital and other expenditure and material treasury matters.

The Board has approved formally the roles and responsibilities of the Chairman and Chief Executive Officer, with the Chairman responsible for matters such as the leadership and management of the Board (and for dealing with any takeover approach), and the Chief Executive Officer responsible for the leadership of the business and managing it within the authorities delegated by the Board.

Throughout the period the Board has been supplied with information and papers submitted at each board meeting which ensures that the major aspects of the Group's affairs are reviewed regularly in accordance with a rolling agenda and programme of work. All directors, whether executive or non-executive, have unrestricted access to the General Counsel and Group Company Secretary and executives within the group on any matter of concern to them in respect of their duties. In addition, new directors are given appropriate training on appointment to the Board (including meetings with principal advisers to the Company) and have a formal induction process that continues following their appointment.

Appropriate time is made during the year for continuing training on relevant topics concerning the functioning of the Board and obligations of directors. The Company has undertaken to reimburse legal fees to the directors if circumstances should arise in which it is necessary for them to seek separate, independent, legal advice in furtherance of their duties.

The non-executive directors are independent and free from any business or other relationship that could interfere with their judgement. The non-executive directors do not participate in any bonus, share option or pension scheme of the Company.

The business commitments of each member of the Board are set out in the biographical details on pages 46 and 47. Notwithstanding such commitments, each member of the Board is able to allocate sufficient time to the Company to discharge his or her responsibilities effectively. The Board considers that the balance achieved between executive and non-executive directors during the period was appropriate and effective for the control and direction of the business.

In accordance with the 2014 UK Corporate Governance Code the Board has resolved that all directors should offer themselves for re-election at regular intervals subject to continued satisfactory performance. The Company has applied annual re-elections at its Annual General Meetings since 2013.

The Chairman is of the opinion that following formal performance evaluation as part of Wickland Westcott's Board review, the Company's directors have continued to give effective counsel and commitment to the Company and accordingly should be reappointed by shareholders at the AGM. As Richard Rivers has served more than six years his reappointment was subject to particularly rigorous review.

Key activities of the Board

Regular agenda items:

Group strategy
 Financing, going concern, viability and liquidity
 Reports from Board committees
 Business performance and financial results
 Annual budget and financial statements
 Consideration of acquisitions and disposals
 Risk management and review
 Operational oversight

Key agenda items also considered in the year included:

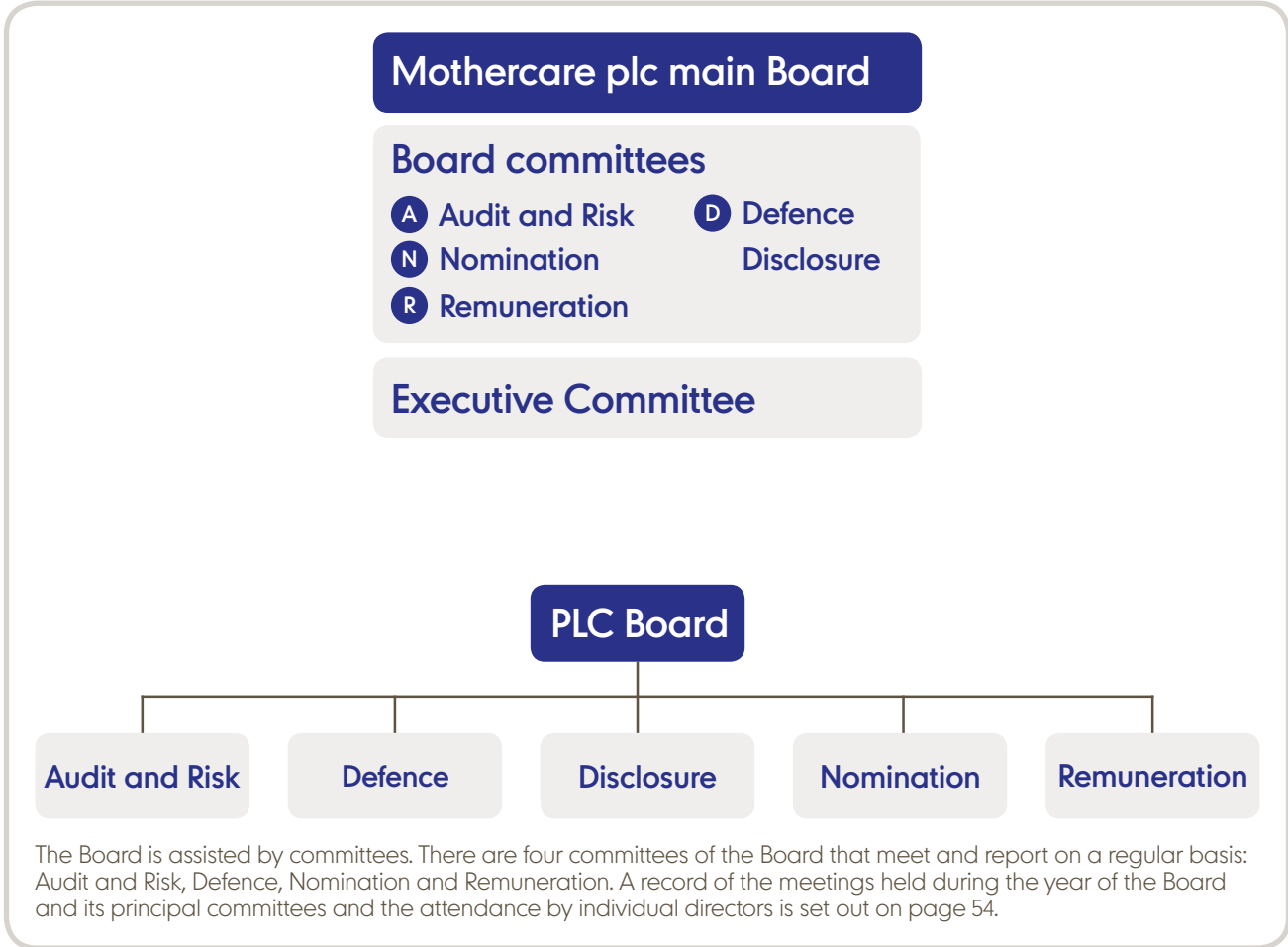
UK and International strategy days

Corporate governance

continued

Governance and Committees

A key element of the Board's responsibility is monitoring and reviewing the effectiveness of the Company's system of internal control, and the non-executive directors challenge and scrutinise its effectiveness and integrity.



A

Audit and Risk Committee

- **Committee members:** Lee Ginsberg (Chair), Amanda Mackenzie, Nick Wharton
- **Key roles and responsibilities:** Review the scope and issues arising from the audit and matters relating to financial control, review of corporate governance, financial statements and accounts, responsibility for risk management, internal and external audit.

N

Nomination Committee

- **Committee members:** Alan Parker (Chair), Angela Brav, Lee Ginsberg, Amanda Mackenzie, Richard Rivers, Imelda Walsh, Nick Wharton
- **Key roles and responsibilities:** Proposals on the size, structure, composition (including diversity) and appointments to the Board, managing the selection process and agreeing to the terms of appointment of non-executive and executive directors of the Board, review succession planning of Board members and the Executive Committee annually.

R

Remuneration Committee

- **Committee members:** Imelda Walsh (Chair), Angela Brav, Alan Parker, Richard Rivers
- **Key roles and responsibilities:** Establishes the remuneration policy, preparation and approval of the Directors' remuneration report, approval of specific arrangements for the Chairman and executive directors, review comment and propose to the Board the proposed arrangements for the Executive Committee including short- and long-term incentive programmes.

D

Defence Committee

- **Committee members:** Alan Parker (Chair), Richard Rivers, Lee Ginsberg, Mark Newton-Jones, Richard Smothers
- **Key roles and responsibilities:** Advises the Board in a bid situation, appoints professional advisers to support the Committee and the Board, maintains and reviews the defence process of the Company.

The Board has established a Disclosure Committee that is responsible for the establishment and maintenance of disclosure controls and procedures in the Company (and their evaluation), for the appropriateness of the disclosures made (after due consideration of the obligations of the Company under the Listing Rules and the Disclosure and Transparency Rules) and for compliance with the Group's share trading rules. It reports to the Board through the Chief Executive (or through the Chairman in the absence of a Chief Executive). The Disclosure Committee comprises the Chairman, Chief Executive, Senior Independent Director, CFO and General Counsel and Group Company Secretary.

Each of the committees has clear terms of reference and reports to the Board on its area of responsibility. Details of the terms of reference of the Board's committees are set out in the corporate governance sections of the Company's website at www.mothercareplc.com.

In addition, the Company's Executive Committee reports to the Board through the Chief Executive.

Executive Committee

The executive management of the Company (principally through the Executive Committee) has operated within a structure with defined lines of responsibility and delegations of authority, and within prescribed financial and operational limits. The system of internal control is based on financial, operational,

compliance and risk control policies and procedures together with regular reporting of financial performance and measurement of key performance indicators. Risk management, planning, budgeting and forecasting procedures are also in place together with formal capital investment and appraisal arrangements.

The Board has delegated day-to-day and business management control of the group to the Executive Committee. As at 26 March 2016 the Executive Committee consisted of the Chief Executive, CFO, Managing Director, UK, the Global Product Director, the Global Brand and Marketing Director, the Group HR Director and the General Counsel and Group Company Secretary.

Corporate governance

continued

Board effectiveness and balance

In autumn 2015 and in line with last year's commitment, the Chairman initiated a detailed externally facilitated evaluation of the Board (conducted by Wickland Westcott), and of its effectiveness and operation. This evaluation included individual interviews of each Board Director, reviews with the Chairman and General Counsel and Group Company Secretary and a subsequent presentation to the Board and resulting discussion. This evaluation identified some recommendations to enhance the collective power of the executive and non-executive components of the Board. The Board has subsequently approved these with their implementation in FY2015/16 continuing through into the new financial year. Wickland Westcott has no other connection with the Company.

In the year ahead the Board intends to support the Chief Executive in the continuing delivery of the agreed strategy and to provide guidance on risk planning and risk management.

The Board believes that it has an appropriate range of breadth and expertise to manage the Group's activities. As at 26 March 2016, the Board had six non-executive directors, of which three are women. Details of the experience and background of each director is set out on pages 46 and 47.

Diversity

The importance of improving the diversity balance (including gender) on boards of UK listed companies is recognised. At the date of this report, the main Board (including the executive directors) comprises three women and five men, and the Executive Committee (excluding the executive directors) has one woman and four men.

The Company has a senior management team that reflects gender diversity, with 52% of the senior management positions (the two grades below Executive Committee) being held by women as at 26 March 2016 (2015: 51%). The Company believes it is well positioned to support gender diversity at all senior levels.

Going concern

The Directors have reviewed the going concern principle according to revised guidance provided by the FRC and details are set out in the Financial review on page 38.

Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects and viability of the Company and its ability to meet liabilities as they fall due over the medium term. The viability statement is set out on page 38 of the Financial review.

Risk management

The effective management of risks within the Group is essential to underpin the delivery of its objectives and strategy. The Board is responsible for ensuring that risks are identified and appropriately managed across the Group and has delegated responsibility to the Audit and Risk Committee for reviewing the Group's internal controls, including the systems established to identify, assess, manage and monitor risks. The Company has an internal audit function which reports through the CFO to the Audit and Risk Committee.

The activities of the internal audit function are supplemented by external resources as necessary. The external auditors also report to the Audit and Risk Committee on the efficiency of controls as part of the audit.

Employee gender diversity

	Male	%	Female	%	Total
Directors of the Company (including the Chairman and executive directors)	6	67%	3	33%	9
Executive Committee (excluding executive directors)	4	81%	1	20%	5
Senior management positions	25	49%	26	51%	51
Total senior managers other than directors of the Company	29	52%	27	48%	56
Other retail support centre employees	157	24%	484	76%	641
Total retail support centre employees	186	27%	511	73%	697
Total retail employees of the Group	427	9%	4,370	91%	4,797
Grand total employees of the Group (retail support centre and retail)	613	11%	4,881	89%	5,494

The Principal Risks and Uncertainties facing the Company are set out on pages 26 to 31.

The programme of specific risk management activity of the Company's UK operations continued during the year across the activities of both brands. Under this programme, all individual stores are tested against a risk assessment model that emphasises health and safety, fire safety and internal process compliance.

For many years, the Company has applied its risk management principles to its International business, for example by carrying out audits of its International partners, and taking out trade insurance against key franchise receivables. The Company has additional controls in place with its joint venture partners.

Sourcing/overseas operations

The Group operates a supply and sourcing function with offices in India, Bangladesh, China and Hong Kong. It sources its products primarily from India, China and Bangladesh. The sourcing offices are responsible for ensuring that appropriate governance standards are observed by the suppliers used by the Group, and has a dedicated corporate responsibility team. More details are set out in the corporate responsibility section on pages 40 to 45.

The Board believes that the system of internal control described can provide only reasonable and no absolute assurance against material misstatement or loss. During the course of its review of the system of internal control, the Board has not identified nor been advised of any failings or weaknesses which it has determined to be significant.

Bribery Act 2010

The Bribery Act 2010, which came into force on 1 July 2011, consolidated previous legislation and introduced (amongst other things) a new corporate offence of 'failure to prevent bribery'. Non-compliance with this Act could expose the Group to unlimited fines and other consequences.

Accordingly, the Group introduced additional measures into the business to reinforce its zero tolerance approach to bribery and corruption. The Group Global Code of Conduct (with specific reference to the Bribery Act) was issued to all non-store level employees both in the UK and overseas in 2011 and annually since then. The Group's position on bribery and corruption has been explained to its suppliers, franchisees and joint venture partners. The Group maintains a global 'whistleblower' hotline accessible in a number of languages.

Shareholder relations

The Company maintains regular dialogue with institutional shareholders following its presentation of the financial performance of the business to the investing communities.

Opportunities for dialogue take place at least four times a year following the announcement of the half and full year results (in November and May respectively) and trading statements at the AGM (Quarter 1 results) and post-Christmas (Quarter 3 results). During such meetings the Company is able to put forward its objectives for the business and discuss performance against those objectives and develop an understanding of the views of major shareholders. The outcome of meetings with major shareholders is reported by the Chief Executive at Board meetings on a periodic basis. In addition, leading corporate shareholders are able to access the Company's Director of Investor Relations.

The Company seeks to reach a wider audience by the use of its website (www.mothercareplc.com), which was updated during the year, and, with a view to encouraging full participation of those unable to attend the AGM. It provides an opportunity for shareholders to ask questions of their Board through its website or by e-mail to investorrelations@mothercare.com. The Company provides electronic voting facilities through www.sharevote.co.uk. Those shareholders who wish to use this facility should review the notes and procedures set out in the Notice of Meeting.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than a third-party indemnity provision between each director and the Company. The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors.

The Directors also have the benefit of the indemnity provision contained in the Company's Articles of Association. These provisions, which are qualifying third-party indemnity provisions as defined by Section 236 of the Companies Act 2006, were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts and interests in the shares of the Company are set out in the Directors' remuneration report.

Corporate governance

continued

The Company also provides an indemnity for the benefit of each person who was a director of Mothercare Pension Trustees Limited, which is a corporate trustee of the Company's occupational pension schemes, in respect of liabilities that may attach to them in their capacity as directors of that corporate trustee. These provisions, which are qualifying pension scheme indemnity provisions as defined in Section 235 of the Companies Act 2006, were in force throughout the year and are currently in force.

Directors' conflict of interest

The Board has maintained procedures whereby potential conflicts of interest are reviewed regularly. These procedures have been designed so that the Board may be reasonably assured that any potential situation where a director may have a direct or indirect interest which may conflict or may possibly conflict with the interests of the Company are identified and where appropriate dealt with in accordance with the Companies

Act 2006 and the Company's Articles of Association. The Board has not had to deal with any conflict during the period.

Director attendance

Director attendance statistics at meetings for the 52-week period ended 26 March 2016:

	Committee				
	Board	Audit and Risk	Nomination	Remuneration	Defence
Maximum number of meetings	10	4	2	4	2
Director:					
Alan Parker	10		2	4	2
Angela Brav	9		1	3	
Lee Ginsberg	9	4	2		2
Amanda Mackenzie	10	4	2		
Richard Rivers	10		2	4	2
Imelda Walsh	10		2	4	
Nick Wharton	10	4	2		
Mark Newton-Jones	10		1		2
Richard Smothers	10		1		2

Note: the table sets out for each director both the number of meetings attended and the maximum number of meetings that could have been attended. Only the attendance of members of the committees is shown in the table although other directors have also attended at the invitation of the respective committee Chairs.

Notes:

- Mark Newton-Jones and Richard Smothers attended meetings of the Audit and Risk Committee and the Remuneration Committee upon the invitation of the respective Chairs of those committees.
- Alan Parker attended meetings of the Audit and Risk Committee upon the invitation of the Chair of that committee.
- In addition to the Board meetings above there were two ad hoc Board meetings which approved the interim and full year report and accounts respectively, both of which were constituted by the Board from those members available at that time having considered the views of the whole Board beforehand.

Audit and Risk Committee



Lee Ginsberg
Chairman of the
Audit and Risk Committee

Dear Shareholder

This report details the key activities and focus of the Audit and Risk Committee during the year in addition to its principal and ongoing responsibilities.

This Committee is committed to monitoring the integrity of the Group's reporting process and financial management, as well as maintaining sound systems of risk management and internal control. There were further developments throughout the year, including for example, the business continuity planning tests carried out during the year.

The Committee scrutinises the interim and full year financial statements before proposing them to the Board for approval, and reviews in detail any accounting judgements that are made by the Company.

The Committee provides oversight of the risks affecting the business, and the Company's own Risk Committee provides reports on a quarterly basis. In turn, the Committee reports to the Board on matters of existing and emerging risk affecting the Group.

Composition of the Committee

The Committee currently comprises Lee Ginsberg as Chairman, and Amanda Mackenzie and Nick Wharton as the non-executive directors. The General Counsel and Group Company Secretary acts as secretary to the Committee. Both Lee Ginsberg and Nick Wharton are chartered accountants with considerable financial and commercial experience with listed companies. Biographical details of the directors are set out on pages 46 and 47 of this report.

The Committee meets regularly during the year in line with the financial reporting timetable, and met four times in the period covered by this report. Each member's attendance at these meetings is set out on page 54 of the corporate governance report.

No specific remuneration of the Non-executive directors is ascribed to membership of the Committee other than a supplement of £7,500 per annum paid to Lee Ginsberg for the period in respect of which he acts as Chair of the Committee.

The Audit and Risk Committee regularly invites the Group's Chief Executive, CFO, Director of Finance and General Counsel and Group Company Secretary to attend its meetings. Other Board directors and executives are invited to attend from time to time.

The Committee works closely with Deloitte LLP as its external auditors. The audit partner of Deloitte LLP is invited to attend all of the scheduled Committee meetings. PwC is engaged to provide internal audit consultancy and support, and is invited to attend Committee meetings when required (usually three times a year).

The relevant audit partners of both Deloitte LLP and PwC hold meetings with the Committee (and separately with the Chair of the Committee) at which representatives of the Company are not present.

Audit and Risk Committee

continued

Activities of the Committee

The remit of the Audit and Risk Committee is to review the scope and issues arising from the audit and matters relating to financial control and risk. It assists the Board in its review of corporate governance and in the presentation of the Company's financial results through its review of the interim and full year accounts before approval by the Board, focusing in particular on compliance with accounting principles, changes in accounting practice and major areas of judgement.

Additionally, as part of its risk remit, the Committee reviews its financial and contractual arrangement with International partners around the world, including the process and standard franchise agreements used by the Company. Also, the Committee recognises that the size of the International business (about two-thirds of worldwide retail space and 60% of worldwide retail sales) means that the Group is more exposed to geopolitical events, the price of oil and the risk of exchange rate fluctuations (in particular, regarding the Russian rouble) being ever more material to the profitability of the Group. The impact of these issues were felt in the International divisions during FY2015/16.

Heading	Scope	Action
Audit	The review of the Company's accounts and financial statements, and of any accounting policies and judgements	<ul style="list-style-type: none"> reviewed the financial statements both in the interim report and full year report and accounts, having in both cases received a report from the external auditors on their review and audit of the respective reports and accounts challenged management's judgements and recommendations on key financial issues, and provided oversight of controls relating to finance and tax reviewed the processes necessary to ensure that the Board is able to confirm that the Annual Report is 'fair, balanced and understandable' assisted the Board in its detailed review of the going concern and viability in light of the Financial Reporting Council's additional guidance on going concern, viability and liquidity risk
Risk	Oversight of the Company's risk appetite, its risk management process and internal audit controls, risk mitigation and insurance; oversight of the Company's agreements with International partners	<ul style="list-style-type: none"> formalised reporting structure of risk within the Group considered the output of the procedures used to evaluate and mitigate risk within the Group including a crisis management rehearsal supported the Company in its decision to implement currency hedging on royalty receipts from some International markets monitoring of geopolitical risk review of standard International agreement terms considered international debt management and the Group's joint venture arrangements in China supplier funding and revenue recognition
Governance	Compliance with the Bribery Act and the Group's Global Code of Conduct, compliance with the UK Corporate Governance Code, and policies on the use of auditors	<ul style="list-style-type: none"> considered the management letter from the external auditors on their review of the effectiveness of internal controls agreed the fees and terms of appointment of the external auditors agreed the work plan of the internal audit function, reviewed the resultant output from that plan, and ensured that proper processes are in place to report on any actions required reviewed and assessed the Group's compliance with corporate governance principles and any disclosures made under the Code of Conduct or from the Group's 'whistleblowing' hotline
Effectiveness	A review of the effectiveness of the Committee and its internal and external audit	<ul style="list-style-type: none"> reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report reviewed both the internal and the external audit effectiveness commenced the recruitment of a Head of Risk and Assurance

The planned increase in size of the International business and continued volatility in foreign exchange rates means that the monitoring of foreign exchange risk (and mitigating that risk through treasury policy) will become more important each year and the Committee will provide specific oversight of this aspect of risk management.

The full terms of reference of the Committee (which are reviewed and, if necessary, amended during the year) are set out under the corporate governance section of the website at www.mothercareplc.com.

Fair, balanced and understandable

The Committee has reviewed the contents of this year's Annual Report and Accounts and advised the Board that, in its view, taken as a whole, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Areas of significant financial judgement considered by the Committee during the year

During the year the Committee, management and external auditor considered and concluded on what the significant risks and issues were in relation to the financial statements and how these would be addressed.

Throughout the year

In assessing the appropriateness of the financial statements, and in consultation with Deloitte as the external auditors, during this period the Committee concentrated on the following significant audit risks:

Carrying value of joint venture investments and recoverability of receivables from these parties

The Committee reviewed the Group's investments in its joint ventures. The Company sold its investment in the India joint ventures on 8 May 2015. The business in China has not performed in line with expectations and there was a further deterioration in trading in the year. As a result, the Company has fully impaired its investment. The Committee reviewed reports from the Company that detailed the underlying assumptions and estimates in the budgets for each investment. Further, the Committee reviewed the work performed by the external auditor. These matters were discussed specifically with the CFO and the external auditor.

Classification and presentation of exceptional items

The Committee has been careful to ensure that the Company adopts and applies a consistent policy and approach to any items that may be considered as exceptional in the accounts. During the year, the Committee reviewed reports prepared by the Company and the external auditor in considering the appropriateness of each of the items that were classified as exceptional items.

Property closure provisions

For a number of years the Company has pursued a policy of reducing the number of stores operating in the UK and this policy continued with further store closures announced during the period. This has involved an active programme of managing the expiry dates of lease agreements and engaging, and negotiating with landlords the surrender or assignment of other leases. Through this process, the number of UK stores operated by the Group at 26 March 2016 was 170, a reduction from 189 at the same point in the year before. The Committee reviewed reports from the Company that assessed the judgements around future costs, including dilapidations and closure costs, and the timing of potential future landlord settlements on those remaining properties earmarked for closure. The Committee also reviewed the reports from the external auditor which considered the appropriateness of the retained provision.

Onerous lease provision

Given the loss-making status of the UK business, each store lease is assessed to determine if it is considered onerous. The Committee reviewed reports from the Company that consider the assumptions used within the three-year plan to assess this and the appropriateness of any assumptions beyond this three-year timeframe. The Committee also reviewed the reports from the external auditor which considered the appropriateness of the retained provision.

Audit and Risk Committee

continued

Foreign currency

During FY2015/16 there were significant movements in the value of GBP sterling against other currencies around the world and this impacted the Group's profitability. The Group has had a currency hedging policy against purchases denominated in US dollars and Euro for many years as part of its sourcing operation, and in FY2015/16 it implemented a policy to hedge against royalty receipts from International partners in certain territories. The Company's foreign exchange policy means that it hedges in part against the currencies of its core International partners businesses around the world. This does not eliminate the risk of currency movements for the Company but it provides the Company with a level of certainty of its cash flow. The Committee received reports from the Company which considered the appropriateness of the Company's hedging policy.

Inventory/obsolescence provision

The Committee reviewed reports from the Company in respect of the inventory obsolescence provision twice a year and considers the age, value and type of stock whilst assessing the appropriateness of any required provision. The Committee also reviewed the reports from the external auditor in considering the appropriateness of provisions held against the carrying value of inventory.

Supplier funding income

The Company receives income from its suppliers, mainly in the form of early settlement discounts, volume based rebates and promotional contributions. Judgement is involved in ensuring this income is recognised in the accounting period to which it relates. The Committee has considered the assessment made by the Company over the accounting for supplier funding arrangements and has been actively involved in reviewing the Group's controls in place in this area. The Committee has reviewed the nature and value of these arrangements and the timing of recognition in the financial statements, along with the related external audit findings report. The Committee is satisfied with the Company's conclusion that there is no risk of material misstatement in the current and previous year.

Other significant matters considered by the Committee during the year:

Other significant matters	How the Committee addressed those matters
Tax	The Committee has received an assessment from the Company of judgements made in relation to its tax position and of its ongoing relationship with HM Revenue and Customs, and confirmation that there are no material issues with HM Revenue and Customs.

Policies

The Committee reviews its policies at least once every year, including:

- External auditor independence – The Committee reviews at least once a year the independence of the external audit firm and the individuals carrying out the audit by receiving assurances from, and assessing, the audit firm against best practice principles. The Committee seeks to balance the benefits of continuity of audit personnel and the need to assure independence through change of audit personnel by agreeing with the audit firm staff rotation policies. The Committee's review of the independence of its external auditors was by enquiry of them, reviewing the report issued by the auditors regarding their independence, and considering the policy on non-audit services provided by them, and it concluded that Deloitte LLP was independent.
- External auditor appointment – Deloitte LLP has acted as the Group's external auditor since 2002. Its performance is reviewed annually by the Committee. As part of its review in FY2015/16, the Committee noted that the Group audit partner was rotated in 2013 and the current audit partner's five year term will end in FY2016/17. The UK Competition and Markets Authority's Statutory Audit Services Order (CMA Order) states, amongst other matters, that FTSE 350 listed companies should put their external audit contract out to tender at least every 10 years. Under the transitional arrangements permitted by both the CMA Order and the EU legislation, the Company does not need to put the

external audit work out to tender until the financial year commencing after June 2023, provided that another audit partner(s) is appointed by Deloitte LLP at the end of the current audit partner's term. After careful consideration and in compliance with the CMA Order, the Audit and Risk Committee determined that it was not in the best interests of the shareholders to re-tender the external audit at the end of the current lead audit partner cycle. The Committee remains satisfied that there is sufficient auditor independence and effectiveness to ensure a robust audit process. Further, the Committee believes that it would be beneficial to maintain the continuity of external auditor. The Committee has discretion to put the audit out to tender at any time and will continue to keep this under review on an annual basis in conjunction with the assessment of the effectiveness of the external audit process.

- Auditors providing non audit services – A policy in respect of non-audit work by the audit firm is in effect. The general principles are that:
 - the audit firm should not be requested to carry out non-audit services on any activity of the Company where they may in the future be required to give an audit opinion;
 - the appointment of the audit firm for any non-audit work must be approved by the Committee (or by the Chair of the Committee in the case of minor matters), and will be approved only if it is regarded as being in the best interests of the Company; and
 - the Committee will not approve (and the Company will not pay) any non-audit fees to the auditors on a contingent basis (non-audit fees incurred in the year are set in note 7).
- Internal audit – PwC works closely with the internal audit function of the Company and attends meetings of the Committee by invitation (three times in FY2015/16).
- The Committee has assisted the Board in the assessment of the adequacy of the resourcing plan for the internal audit function. In respect of the activities of the function, the Committee has received reports upon the work carried out and the results of the investigations including management responses, their adequacy and timeliness.

Risk management

Under the overall supervision of the Audit and Risk Committee, there are several sub-committees and work groups that oversee and manage risk within the Company and the Group. The Company has a formally established Risk Committee, jointly chaired by the CFO and General Counsel and Group Company Secretary, to provide more regular oversight of risk matters, evaluate emerging risks that may affect the business, and design and oversee a compliance and sub-committee framework that ensures the necessary actions are carried out to mitigate risk. The Company's sub-committees include health and safety, retail store compliance and profit protection, internal audit and corporate responsibility.

The Company, like other retail businesses, continues to face unexpected but material risks on a daily basis. The Company seeks to manage risk in its operations and it has its own business continuity plans in other areas of the business. It has also taken external advice on cyber risks that may affect the business. The Company also undertook full business continuity planning test during the year which included both the Executive Committee and other members of senior management.

Internal audit

The role of internal audit within the business is to provide independent assurance that the Company's risk management, governance and internal control processes are operating effectively. The Company achieves this by using a combination of internal resource for operational reviews and external competent support provided by PwC. The Company's CFO is responsible for internal audit and reports to the Committee.

Audit and Risk Committee

continued

Effectiveness

The Committee considered its effectiveness of its own performance and that of the external audit.

Audit and Risk Committee

It was considered that the work of the Audit and Risk Committee during the year was effective when measured against its terms of reference and general audit committee practice. The Committee was satisfied that the quality of the papers and information presented to its meetings, and the advice received from its external and internal auditors, was of sufficient detail and quality that enabled it to consider matters appropriately, to take decisions and to make recommendations to the Board as appropriate.

External audit

The Committee reviewed the effectiveness of its external audit and considered that Deloitte LLP had carried out its obligations in an effective and appropriate manner. The review considered factors such as the quality and expertise of the personnel leading and working on the account (including the strength and performance of the lead audit partner), the quality of the audit papers and presentations, the competence with which questions relating to key accounting judgements were answered, and the stability that would be provided by continuing to use Deloitte LLP at the current time.

The Committee reviewed the independence of its external auditors during the year (by enquiry of them, and reviewing the report issued by the auditors regarding their independence, and the non-audit services provided by the auditors and the safeguards relating thereto) and considered that Deloitte LLP was independent. The Company did not pay any non-audit fees to the auditors on a contingent basis (non-audit fees incurred in the year are set in note 7).

Having considered these factors, the Committee unanimously recommended to the Board that a resolution for the reappointment of Deloitte LLP as the Company's external auditor be proposed to shareholders at the 2016 AGM.

Conclusion

As a result of its work during the year, the Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence of the external auditors during the year.

The Chair of the Committee will be available at the AGM to answer any questions on the work of the Committee.

Lee Ginsberg
Chair, Audit and Risk Committee

Nomination Committee

Dear Shareholder

FY2015/16 was a year of stability for the Board since the appointments of both Mark Newton-Jones and Richard Smothers as executive directors during FY2014/15.

The Committee was required to conduct a search for a new company secretary following the resignation of Tim Ashby who left the Company on 24 July 2015. I am pleased to report that, following a thorough recruitment process, Daniel Talisman joined the Company on 11 January 2016 as General Counsel and Group Company Secretary and, in the intervening period, the Company benefited from the services of an experienced company secretary on an interim basis. The position of company secretary remains central to the Company's corporate governance programme.

The stability brought by the appointments of both the Chief Executive and CFO was complemented by the four new members of the Executive Committee who joined during FY2014/15. These additions saw a step change in the delivery of the strategy to support the UK turnaround.

Board composition

The Board's policy is to have a broad range of skills, background and experience, and the biographies of the Board members are set out on pages 46 and 47 of this report. The Mothercare Board contains non-executive directors (including myself as Chairman) and executive directors with a wide range of experience, diversity and background.

Governance

The Board conducted an externally facilitated Board evaluation during the year, facilitated by Wickland Westcott. The evaluation, as noted elsewhere in this report, addressed Board composition, size, and skills as part of the process. This evaluation identified some recommendations to enhance the collective power of the executive and non-executive components of the Board. The Board has subsequently approved these with their implementation in FY2015/16 continuing through into the new financial year. Wickland Westcott has no other connection with the Company.

Composition of the Committee

The Committee currently comprises the Chairman and all of the non-executive directors of the Company. When required, the General Counsel and Group Company Secretary provides support.

During the year, when considering the recruitment for the role of company secretary, the Committee worked with Korn Ferry, an independent search company specialising in executive recruitment. Korn Ferry has no other connections to the Company.

Activities of the Committee

During the year, the Committee considered the appointment of an interim and permanent company secretary and in each case made a recommendation to the Board. In addition, it met to consider the output from the externally facilitated board evaluation and proposed the recommendations approved by the Board.

The Committee met formally during the year supported by interviews and other conversations between Committee members.

The full terms of reference of the Committee (which are reviewed and, if necessary, amended during the year) are set out in the corporate governance section of the website at www.mothercareplc.com. As a matter of process, the Committee makes recommendations to the Board, which are then considered by the Board in conjunction with any advice or recommendation from the Remuneration Committee.

Finally, I would like to thank all my fellow directors for their time and support.

I will be available at the AGM to any questions on the work of the Committee.

Alan Parker CBE
Chairman

Directors' report

The directors present their report on the affairs of the Group, together with the financial statements and auditors' report for the 52-week period ended 26 March 2016. The corporate governance statement set out on pages 48 to 54 forms part of this report. The Chairman's statement on pages 2 and 3 gives further information on the work of the Board during the period.

The principal activity of the Group is to operate as a specialist omni-channel retailer, franchisor and wholesaler of products for mothers-to-be, babies and children under the Mothercare and Early Learning Centre brands. The Group operates in the UK principally through its stores and direct business, and globally in a further 57 countries through its extensive International network.

The Companies Act 2006 requires the directors' report to contain a review of the business and a description of the Principal Risks and Uncertainties facing the Group.

The directors' report is prepared for the members of the Company and should not be relied upon by any other party or for any other purpose. Where the directors' report (including the strategic report) contains forward-looking statements these are made by the directors in good faith based on the information available to them at the time of their approval of this report. These statements will not be updated or reported upon further during the year unless the Company is under a legal obligation to do so. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements or information.

Business review

The principal companies within the Mothercare Group for the period under review were Mothercare plc (the 'Company'), Mothercare UK Limited and Chelsea Stores Holdings Limited. Mothercare plc is the group holding company and is listed on the London Stock Exchange; Mothercare UK Limited owns the Mothercare trade marks, operates the UK Mothercare business and acts as the franchisor to Mothercare franchisees worldwide; Early Learning Centre Limited (a subsidiary of Chelsea Stores Holdings Limited) owns the ELC trade marks, operates the UK ELC business and acts as the franchisor to ELC franchisees worldwide.

A review of the business strategy and a commentary on the performance of the Group is set out in the Overview and Strategic Report sections of this report on pages 2 to 45. The Principal Risks and Uncertainties facing the business are detailed in the Strategic Report at page 26 to 31.

The Group's use of financial instruments, the risk management objectives and exposures are set out in the notes to the financial statements and the Strategic Report.

Going concern

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in Financial Review on pages 32 to 39. The Group's going concern position is set out in the Financial review on page 37.

Dividend

The directors are not recommending the payment of a final dividend for the year and no interim dividend was paid during the year (FY2015: nil).

Shares

As at 18 May 2016, the Company's issued share capital was 170,865,812 ordinary shares of 50 pence each all carrying voting rights. The details of the Company's issued share capital as at 26 March 2016 are set out in note 24 to the financial statements. No shares were held in Treasury.

The Company has one class of ordinary shares. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding in the Company nor on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association and legislation. The directors are not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

Details of the Company's employee share schemes are set out in the remuneration report. The trustees of the Mothercare employee trusts abstain from voting their shareholdings in the Company.

Substantial shareholdings

In accordance with the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority, as at 26 March 2016 the Company had been advised by or was aware of the following interests above 3% in the Company's ordinary share capital:

Holder	Number of shares	Percentage of issued share capital
Aberforth Partners	20,696,230	12.11
M&G Investment Management Ltd	19,376,161	11.34
D C Thomson & Company Limited	17,695,691	10.36
Aberdeen Asset Managers Limited	14,459,854	8.46
Capital Research & Management	13,551,000	7.93
UBS Global Asset Management Ltd	8,956,410	5.24
Legal & General Investment Management Ltd	8,452,823	4.95
BlackRock Investment Management Ltd	6,886,112	4.03
Allianz Global Investors	6,366,119	3.73

During the period from 27 March 2016 to 18 May 2016 the following notifications were received:

Holder	Number of shares	Percentage of issued share capital
Greater Manchester Pension Fund	8,872,362	5.19%
Legal & General Group plc	8,633,138	5.05%

Acquisition of own shares

The Company was given a general approval at the AGM in July 2015 to purchase up to 10% of its shares in the market. This authority expires after the AGM on 14 July 2016. The authority has not been used during the year.

Significant agreements and change of control

There are a number of agreements that alter or terminate upon a change of control such as commercial contracts, bank loan agreements and employee share plans. The only one of these which is considered to be significant in terms of likely impact on the business of the Group as a whole is the multi-currency term and revolving facilities agreement entered into by the Group with Barclays Bank PLC and HSBC Bank PLC under which a change of control of the Company would entitle the banks to cancel the facility and require the repayment of all outstanding amounts on a minimum of 30 days' notice.

Under the multi-currency term and revolving facilities agreement referred to above, Barclays Bank PLC and HSBC Bank PLC provide the Group with a credit facility to be used for general business purposes. Following repayment of the term loan after the rights issue, the credit facility remains at £50 million. The term of the facilities agreement is to May 2018.

Other than early vesting under the Group's long term incentive plans, the directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that would occur because of a takeover bid whether successful or not. As at the date of this report, there are no special contractual payments associated with a change of control of the Company.

Directors' report

continued

Directors

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles may be amended by special resolution of the shareholders. The business of the Company is managed by the Board which may exercise all the powers of the Company subject to the provision of the Articles of Association, the Companies Act and any ordinary resolution of the Company.

The following directors served during the 52-week period ended 26 March 2016:

Name	Appointment
Alan Parker	Chairman and non-executive director; Chairman of the Nomination Committee
Mark Newton-Jones	Executive director
Richard Smothers	Executive director
Angela Brav	Independent non-executive director
Lee Ginsberg	Independent non-executive director and Chairman of the Audit Committee
Amanda Mackenzie	Independent non-executive director
Richard Rivers	Independent non-executive director and Senior Independent Director
Imelda Walsh	Independent non-executive director and Chair of the Remuneration Committee
Nick Wharton	Independent non-executive director

In accordance with the requirement of the UK Corporate Governance Code, at the Annual General Meeting of the Company in July 2016 all the directors currently appointed shall retire and offer themselves for re-election.

Details of directors' service arrangements are set out in the remuneration report on page 89.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 77 and 78 respectively. A statement of directors' interests in contracts and indemnity arrangements is set out on page 53.

Employees

The Company involves all of its employees in the delivery of its strategy. It regularly discusses with all employees its corporate objectives, trading results and performance, as well as the economic environments in which the Company trades through its business sectors. This is achieved through the Company employee website and magazine 'SmallTalk', monthly briefings by the Chief Executive and other Executive

Committee members, updates on financial results and trading performance and through other email and video presentations. These communications are extended to the Group's overseas offices in India, Bangladesh, Hong Kong and China, and to the stores in the UK.

The Company aspires to develop a loyal and high performing team through the development of its culture and values. Annual performance reviews are carried out with all employees and objectives are set that align with business strategy. In addition, we offer a variety of development opportunities and training interventions to enable employees to improve their skills.

The Group's remuneration strategy is set out in the remuneration report which includes details of the various incentive schemes and share plans operated by the Group. In addition to the share plans offered to senior management, during the year under review the Company offered employees to participate in an Inland Revenue approved SAYE plan.

The Company is also committed to developing the skills and leadership potential within its workforce. To this end, a senior leadership team (SLT) was created in FY2016 comprising senior managers across the Group. The role of the SLT is to help to deliver the strategy by working collaboratively as a team across functions in all areas of the business. SLT members present to the business on a regular basis and have played a key role in formulating and then delivering the roll-out of the Brand House across the Group – an initiative aimed at resetting the Company's core behaviours and ambitions.

Disabled employees

The Group is an equal opportunities employer and ensures that recruitment and promotion decisions in all of its companies are made solely on the basis of suitability for the job. Disabled people are given due consideration for employment opportunities and, if employees become disabled, every effort is made to retain them by providing relevant support.

The Mothercare Staff Pension Scheme and the Mothercare Executive Pension Scheme were both closed to future accrual with effect from 31 March 2013. The Company continues to make deficit contribution payments to each pension scheme and details of the pension charge are set out in note 29 to the financial statements.

A defined contribution scheme, the Legal & General WorkSave Mastertrust, was made available to all employees with effect from 31 March 2013 and is the designated scheme used for auto-enrolment of workers from 1 May 2013 (the 'auto-enrolment staging date' for the Mothercare Group).

Corporate citizenship

The Group's corporate responsibility ethos and details of the programmes that it runs in its business relationships around the world are set out on pages 40 to 45. The Group maintained its Global Code of Conduct to all its office employees in the UK and overseas, and obtained certificates of compliance from its employees.

Global Code of Conduct – key themes:

- Relations with employees, customers, suppliers and franchise partners
- Shareholders and corporate governance
- Responsible sourcing

Greenhouse gas emissions

The Group's performance against targets for greenhouse gas emissions, waste and packaging is set out in the Corporate Responsibility section of this report on page 43.

Auditors

In the case of each of the persons who were directors of the Company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 (2) of the Companies Act 2006.

Deloitte LLP has expressed its willingness to continue as auditors to the Company and a resolution proposing its re-election will be put to the AGM.

Charitable and political donations

The Company made no donations during the year to the Mothercare Group Foundation. However, the Foundation has received the proceeds from sales of products in the Company's staff shop and was in a position at the end of the year to make a charitable donation. Following consultation with its employees the Mothercare Group Foundation has agreed to support Tommy's as its charity of the year for FY2016/17. Total cash charitable donations made by the Mothercare Group Foundation for the year ended 26 March 2016 were £20,000 (2015: £89,000).

The Company's shareholders donated £7,443.71 to charity through a share-dealing programme.

It is the Company's policy not to make political donations.

Post balance sheet events

Post balance sheet events are disclosed in note 31 to the financial statements.

Annual General Meeting

The 2016 Annual General Meeting will be held on Thursday, 14 July 2016 at 1.00pm in the conference suite at the Company's head office at Cherry Tree Road, Watford, Hertfordshire WD24 6SH.

The Notice of the Meeting and a prepaid form of proxy for the use of shareholders unable to come to the AGM but who wish to vote or to put any questions to the Board of directors are enclosed with this Annual Report for those shareholders who elected to receive paper copies. The Company wishes to encourage as many shareholders as possible to vote electronically. Those shareholders who have elected to, or now wish to participate in electronic voting may register their vote in respect of resolutions to be proposed to the AGM at www.sharevote.co.uk. To use the facility shareholders will need their voting ID, task ID and shareholder reference number from their proxy form and register at www.shareview.co.uk. For full details on how to use this facility please see the Notice of Meeting.

Shareholders may also submit questions via email to investorrelations@mothercare.com. The Chairman will respond in writing to questions received.

As in previous years a copy of the Chairman's opening statement to the meeting, together with a summary of questions and answers given at the meeting, will be prepared following the AGM. This will be made available to shareholders on request to the General Counsel and Group Company Secretary at the Company's head office.

The Notice of Meeting gives explanatory notes on the business to be proposed at the meeting.

By order of the Board

Daniel Talisman
General Counsel and Group Company Secretary
18 May 2016

Directors' remuneration report

Statement from the Chair

I am pleased to present the directors' remuneration report for the financial year ended 26 March 2016.



Imelda Walsh
Chair, Remuneration Committee

Our business continues to grow

As already set out in the Chairman's Statement and the Chief Executive's Review, we have seen another productive year as we progress towards transforming Mothercare into a global business. Following the successful rights issue in 2014, we continued to invest to improve performance in our UK business. Online sales growth remained strong and supported like-for-like and total UK sales growth. We ended the year in a strong position having reduced UK losses by 64%. The new store format, digital technology and improvements in product and service contributed to the UK results and further investments are planned in the coming year.

Our International markets have been faced with tough economic climates and significant currency headwinds for some time. Our International partners have continued to focus on strengthening and growing their store portfolios with International retail space growing by 4.6%. Despite this, International sales declined by 7.4% in actual currencies and we see these challenges continuing into FY2016/17.

Mark Newton-Jones and his team have reviewed our International operations. A number of changes have been made, with more planned in the future, which will enable Mothercare to effectively meet these, largely macroeconomic headwinds and build a strong business with an improved global reach.

We implemented the new National Living Wage (NLW) rates with effect from 27 March 2016 and went beyond the minimum legal obligation (which applies only to age 25 and over) and have applied the new rate of £7.20 to all colleagues aged 21 and above.

FY2015/16 Performance and Reward

The first condition to enable the Remuneration Committee to consider payments under the annual bonus scheme is for the Company to meet a threshold level of profit. Unfortunately, the underperformance of our International business in H2 meant that the Company did not achieve this.

As a result, there was no payment under the FY2015/16 annual bonus plan to the executive directors even though 38.7% of the business scorecard was achieved and Mark Newton-Jones and Richard Smothers both achieved the majority of their personal objectives. Please see page 73 for the targets and weightings.

The LTIP 2 award made in December 2013 was tested in relation to Group PBT and share price at the end of FY2015/16, and neither target was met. There is one further element, UK PBT, which is measured at the end of FY2016/17 and equates to 12.5% of the award. The outcome for this final element will be included in the Annual Report for FY2016/17. There are no executive directors in this scheme.

LTIP awards were granted in December 2014 (LTIP 3) and June 2015 (LTIP 4) respectively. The performance conditions are first assessed at the end of FY2016/17 (share price, LTIP 3) and in FY2017/18 (Group PBT, LTIP 3 and TSR, LTIP 4) respectively.

On joining the Company the Remuneration Committee agreed a grant to Richard Smothers of a conditional share award to compensate him for losses from his previous employer. The award equated to 78,125 ordinary shares vesting one year after commencement of his employment with the Company. On 23 March 2016 the share award vested and on 24 March 2016 Richard Smothers sold such number of shares as were required to meet his National Insurance liability, settled his income tax liability directly with HMRC and retained the remaining shares. Richard elected this course of action in order to build up his personal shareholding, in accordance with the Company's remuneration policy.

Both Mark Newton-Jones and Richard Smothers were granted relocation packages to the gross values of £150,000 and £50,000 respectively. I can confirm that both individuals have now been paid these relocation allowances against receipts over the course of FY2014/15 and FY2015/16 and there are no further relocation amounts due.

Malus and clawback introduced during FY2015/16

As reported in last year's Annual Report and in accordance with best practice, we have introduced a detailed malus and clawback policy, which now forms part of both LTIP and bonus awards and applies to all recipients.

Approach to performance and reward for FY2016/17

Base Salary

The Remuneration Committee reviewed the salaries of the executive directors and took into account the factors set out in the approved policy including individual performance, changes to responsibilities, average pay changes elsewhere in the workforce, affordability and general market conditions. It also noted that both individuals had performed strongly during the year. In respect of Mark Newton-Jones the Committee concluded that an award of 2%, taking Mark's salary to £612,000, was appropriate. In respect of Richard Smothers, the Committee noted that during the year Richard's role had been expanded to include accountability for the IT function and the delivery of the transformation programme. This led the Committee to conclude that an increase of 4%, taking Richard's salary to £355,000, was appropriate.

Annual Bonus Plan

The Remuneration Committee reviewed the measures and weightings for the annual bonus plan during FY2015/16. In line with our approved policy, at least 70% of the bonus must be based on an appropriate mix of financial measures, and for the past two years we have only used Group PBT. For FY2016/17, the weighting for Group PBT will be reduced to 60%, given that the business scorecard includes a number of financial measures covering UK sales, International sales growth, margin and cost. Including Group PBT, the financial elements of the annual bonus plan will represent 80% of the award with the remaining 20% based on personal objectives (10%), customer satisfaction (5%) and product delivery (5%), which are also part of the business scorecard.

Long Term Incentive Plan (LTIP)

Given the challenges facing our International business, which Mark Newton-Jones described at the Preliminary Results Presentation, the Committee has decided to defer making an LTIP award. Over the summer, we will further review the medium term plan and consider what measures and weightings best reflect those aspirations. Our aim is to do this within our approved remuneration policy (the policy is due to be submitted to shareholders again at the Annual General Meeting in 2017). We will also consult fully with leading shareholders before making an award. The Remuneration Committee has also reviewed forecast levels of vesting for LTIP 3 and LTIP 4. Whilst there has been significant progress in the UK, the slowdown in the International business is likely to lead to nil or very limited vesting.

Open and productive communication with our shareholders

We enjoy regular communication with our shareholders on the issue of executive remuneration and look forward to this continuing in FY2016/17. We value an open and transparent dialogue and consider such engagement key in ensuring the Company's remuneration strategy continues to be aligned with the long-term interests of Mothercare's shareholders. As the Company continues its turnaround, the balance of aligning shareholder interests with an incentivising remuneration structure remains complex. I look forward to your support at the forthcoming Annual General Meeting.

Mothercare continues to face many challenges, and the agenda for the Remuneration Committee remains demanding. I am grateful for the time and commitment of my colleagues over the past 12 months.

This report has been prepared taking into account the UK Corporate Governance code 2012, updated in 2014. The report is subject to an advisory vote at the 2016 Annual General Meeting.

Remuneration philosophy

The key principles underpinning the Committee's approach to executive remuneration are:

- To be transparent and aligned to the delivery of strategic objectives at a Company and individual level.
- To be flexible enough to take into account changes to the business or remuneration environment.
- To ensure failure at Company or individual level is not rewarded.
- To ensure that exceptional performance is appropriately rewarded.

The remuneration policy remains fit for purpose again this year supported by the malus and clawback policy introduced during FY2016. The Committee has also focused this year on the wider colleague reward agenda including the introduction of the National Living Wage at the start of the new financial year.

Contents:

At a glance:
page 68

Annual report on Remuneration:
page 70

Remuneration policy report:
page 81

Directors' remuneration report

continued

At a glance

Remuneration Policy

Key component	Key features
Base pay and core benefits	Competitive to reflect market value, experience, competency and performance of executive director.
Pension	Company contribution or cash alternative up to 15% of base pay.
Annual bonus	Opportunity to earn up to a maximum of 125% of base salary; 70% paid in cash, 30% in shares deferred for three years. Malus and clawback policy applies.
LTIP	Normal maximum potential of 200% of base salary for CEO and 175% for CFO. Malus and clawback policy applies.
Share ownership requirements	150% of base salary for CEO and 100% for CFO within five years.

Performance

Metric	Target	Actual	Outcome
PBT	£22.5 million	£19.6 million	0%
Scorecard			38.7%
Personal objectives			
CEO			70%
CFO			70%

Despite meeting the bonus scorecard and personal objectives no bonus was paid as the profit target was not met.

Key financial highlights for FY2015/16

UK like-for-like sales	Eight consecutive quarters of like-for-like growth and 3.6% growth for the year.
UK Margins	Second consecutive year of progression with an improvement of 70 basis points this year.
UK Profit	UK losses reduced significantly year-on-year, reduced by 64% this year, with a clear line of sight to break even.
International	A tough year in challenging economic circumstances with currency headwinds impacting profit; however continued new space investment by our International partners is encouraging.

What we did

Annual Bonus	Approved the targets and weightings.
Long term incentives	Grant of LTIP in June 2015 as detailed in the Annual Report for FY2015/16.
Conditional share award	Granted to Richard Smothers for loss of share awards from previous employer.
Introduction of Malus and Clawback	<ul style="list-style-type: none"> • Applies to all recipients of annual bonus and LTIP • Annual bonus: Malus applies during year of performance • Clawback applies to deferred element for three years • LTIP: Malus applies from grant to performance measurement date either three or four years dependent on measure and scheme. Clawback applies during any holding period
Implementation of the National Living Wage beyond minimum legal obligation	Minimum pay rate of £7.20 for all colleagues aged 21 and above, effective from 27 March 2016.
Salary Increases	Annual salary increase of 2% on base pay applied to all colleagues from July 2015. This annual pay increase was not applied to executive directors or Executive Committee members.

Changes

There are no changes to the remuneration policy

The policy was approved for a period of three years on 17 July 2014 receiving a 99.68% favourable vote.

Directors' remuneration report

continued

Annual report on remuneration

This section reports on the activities of the Remuneration Committee for the financial year ended 26 March 2016. It sets out the details on remuneration during the reporting period, information required by the Regulations and plans for the next financial year. It has been prepared in accordance with Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2008 ('the Regulations') as amended in August 2013. The Group prepared the report in accordance with the Regulations for the first time in the Annual Report for FY2013/14. The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the Annual General Meeting on 14 July 2016.

Contents:

Remuneration in FY2015/16:
page 70

Auditable section:
page 72

Remuneration in FY2016/17:
page 80

Directors' remuneration in FY2015/16

Composition, remit and activity of the Remuneration Committee

The Remuneration Committee currently comprises Imelda Walsh (Chair from 18 July 2013), Angela Brav and Richard Rivers (as independent non-executive directors), and the Chairman of the Company (who, in the view of the directors was deemed to be independent on appointment). The Assistant Group Company Secretary acts as secretary to the Committee.

The Committee's principal duties are the determination of the remuneration for the executive directors, approval of the pay and benefits of the members of the Executive Committee and oversight of remuneration policy for senior management below executive director and Executive Committee members, to ensure that such remuneration is consistent with the delivery of the business strategy and value creation for shareholders. The Committee sets the fee to be paid to the Chairman.

The Committee held a number of meetings during the year. Each member's attendance at the formal meetings is set out on page 54 of the corporate governance report. The table below lists the detail and scope of actions arising from those meetings.

The Committee's detailed terms of reference are available on the Mothercare website at www.mothercareplc.com

Remuneration Committee activity

The Committee considered the following matters during the year:

Heading	Scope	Action
Salary	Approval of any pay awards to the executive directors, or Executive Committee Colleague Reward	<ul style="list-style-type: none"> • Consideration of any grounds or reasons for an increase in salary, particularly if greater than the pay award generally offered to Group employees • Consideration of any general pay award offered to Group employees • Consideration of the proposals laid out for the National Living Wage
Annual bonus	Review of any bonus or short term incentive plan against the purpose and link to strategy outlined in the Remuneration Policy Report	<ul style="list-style-type: none"> • Approval of the annual bonus plan offered to relevant employees for FY2015/16 • Confirmation that executive directors defer 30% of any annual bonus into shares to be held (subject to conditions) for three years
Long-term incentive plan	Review of the long-term incentive plan against the purpose and link to strategy outlined in the Remuneration Policy Report	<ul style="list-style-type: none"> • Grant of an LTIP award in June 2015 as set out in last year's DRR • Review of current and future LTIP performance against targets • Reviewed the appropriateness of future LTIP awards with a view to developing proposals subject to shareholder consultation during FY2016/17
SAYE	Consideration of the all-employee SAYE scheme	<ul style="list-style-type: none"> • Approval of the grant and scheme conditions
Governance	Directors' Remuneration Policy Malus and clawback	<ul style="list-style-type: none"> • Taking relevant advice from remuneration consultants (PwC) • Review of the regulations and also annual reports made by other similar companies • Verifying that the policy is still fit for purpose • Approved and implemented policy on malus and clawback applying to executive directors

Recruitment

There was no recruitment of executive directors or non-executive directors during FY2015/16.

Relocation

Both Mark Newton-Jones and Richard Smothers were provided with relocation assistance up to £150,000 gross (£83,260 net) and £50,000 gross (£30,260 net) respectively. They have both utilised their relocation assistance during FY2015/16 to the maximum spend permitted. The gross amounts are included in the taxable benefits figure of the single total figure remuneration table and no further relocation amounts are due.

Malus and clawback

From FY2015/16 (and set out in our report last year) the Remuneration Committee implemented clawback in addition to malus, which already applied to both annual and long-term incentive plans. This approach applies to all executive directors and Executive Committee members. Malus will typically be an adjustment to the cash award or number of shares before an award has been made or released.

Clawback requires the executive to make a cash repayment to the Company or the surrender of shares or other benefits provided by the Company. The amended provisions apply to all cash and share awards granted in FY2015/16.

The overall intention is that, except in exceptional circumstances, malus will apply before awards are paid or vest. Clawback will apply under the annual bonus scheme, for up to three years from when the cash payment is made, and malus will apply to any deferred shares (awarded at the same time as the cash payment) for the three year period of the deferral. Under the Long Term Incentive Plans (LTIP) clawback will apply for up to two years following a three-year measurement period and for up to one year following a four-year measurement period. As a minimum, the events in which malus and clawback may apply are as follows:

Triggers for malus or reduction of awards	Triggers for clawback or recovery of awards
Material misstatement of financial statements.	Material misstatement of financial statements.
Gross misconduct/fraud of the participant.	Gross misconduct/fraud of the participant.
Where performance has driven vesting which is clearly unsustainable.	Where there has been an error in the calculation of performance outcomes.
Where there has been an error in the calculation of performance outcomes.	

Directors' remuneration report

continued

Single total figure remuneration table (auditable)

The table below shows the single total figure remuneration for qualifying services in FY2015/16 with comparative figures for FY2014/15.

Single Total Figure	Year	Salary and Fees	Taxable Benefits ⁵	Bonus	LTIP	Pension	Other ⁶	Total
Mark Newton-Jones	2016	600	124	–	–	90	–	814
	2015 ¹	415	48	242	–	69	–	774
Richard Smothers	2016	340	62	–	–	51	140	593
	2015 ¹	6	–	–	–	–	–	6
Matt Smith	2016	–	–	–	–	–	–	–
	2015 ²	271	13	–	–	42	–	326
Alan Parker	2016	200	1	–	–	–	–	201
	2015	200	10	–	–	–	–	210
Angela Brav	2016	50	–	–	–	–	–	50
	2015	50	–	–	–	–	–	50
Lee Ginsberg	2016	58	2	–	–	–	–	60
	2015 ³	52	–	–	–	–	–	52
Amanda Mackenzie	2016	50	–	–	–	–	–	50
	2015	50	–	–	–	–	–	50
Richard Rivers	2016	55	2	–	–	–	–	57
	2015 ⁴	60	–	–	–	–	–	60
Imelda Walsh	2016	58	–	–	–	–	–	58
	2015	57	–	–	–	–	–	57
Nick Wharton	2016	50	6	–	–	–	–	56
	2015	50	–	–	–	–	–	50

1 The amounts relating to 2015 for Mark Newton-Jones and Richard Smothers are prorated for start date.

2 Matt Smith left the business on 20 January 2015.

3 Reflects recovery of £5,000 overpayment reported in Annual Report for FY2014/15.

4 Reflects payment of £5,000 underpayment reported in Annual Report for FY2014/15.

5 As part of his recruitment terms Mark Newton-Jones was entitled to a relocation allowance of £150,000 gross of which £39,460 was spent in FY2014/15. In error this was reported as £24,764 in last year's Annual Report. Mark Newton-Jones' single total figure of remuneration should therefore have been reported for FY2014/15 as £774,070. Included in the sum of £39,460 was income tax and NI of £14,786 which was paid in FY2015. The balance of £110,540 was spent in FY2015/16. Included in this sum was income tax and NI of £51,953 which was paid in FY2015/16. As part of his recruitment terms Richard Smothers was entitled to a relocation allowance of £50,000 gross and this was spent in FY2015/16. Included in this sum was income tax and NI of £19,740 which was paid in FY2015/16. This column also includes gross travel expenses for non-executive directors.

6 Richard Smothers was granted a conditional share award on joining the Company, in respect of the loss of long-term incentive awards with his former employer. This award vested on 23 March 2016.

Executive director base salary (auditable)

Executive director base pay is normally reviewed in March and no increases were awarded in FY2015/16 due to the recent appointment of both executives.

Non-executive director fees (auditable)

The Chairman and non-executive director fees remained unchanged.

Taxable benefits (auditable)

Benefits for executive directors typically include a company car, medical insurance and other similar benefits. For non-executive directors, certain expenses relating to the performance of a director's duties in carrying out activities such as travel to and from Company meetings, are classified as taxable benefits. In such cases, the Company will ensure that the director is not out of pocket by settling the related tax via the PAYE Settlement Agreements (PSA). In line with current regulations, these taxable benefits have been disclosed and the gross figures are shown in the taxable benefits column in the single total figure remuneration table on page 72.

Total pension entitlements (auditable)

Base salary is the only element of remuneration used to determine pensionable earnings. During the year, Mark Newton-Jones and Richard Smothers received 15% of their respective base salaries as a pension contribution from the Company. Neither Mark Newton-Jones nor Richard Smothers have an entitlement to a defined benefit pension by reason of qualifying service.

Annual bonus plans (auditable)

During FY2015/16 the bonuses of executive directors comprised three measures: 70% payable on achieving underlying Group profit before tax, 20% for achieving the business scorecard which included some financial elements and 10% for personal objectives. The first condition to enable the Remuneration Committee to consider payments under the annual bonus scheme is for the Company to meet a threshold level of profit. Despite achieving 38.7% on the scorecard and 70% on personal objectives, the PBT threshold was not met and therefore no element of the bonus paid out.

The table below sets out the measures along with their performance ranges and the resulting outcomes.

	Measure	Threshold (25%)	Target (50%)	Stretch (100%)	Result	Weighting	% of weighting if bonus vested
Profit after bonus costs	Underlying PBT	£20m	£22.5m	£25m	£19.6m	70%	0%
Scorecard:							
Become digitally lead	On-line sales year-on-year	7.5%	10%	15%	9.3%		
Supported by a modern retail estate	Stores like-for-like	1.0%	1.5%	2.5%	2%		
Offering style, quality and innovation in product	Customer satisfaction	77	78	79	78	20%	38.7%
Stabalise and recapture and grow margin	Grow FAM year-on-year	+100bps	+116bps	+130bps	92		
Lean organisation while investing for the future	Deliver cost reductions	£4.0m	£6.0m	£8.0m	£6.6m		
Expanding further internationally	Grow International sales year-on-year	8.0%	9.5%	12.5%	(1.4)%		
Personal objectives						10%	70%

Directors' remuneration report

continued

Personal objectives

The personal objectives for Mark Newton-Jones included executing and embedding the strategy, developing the brand proposition and a three-year people plan. The Committee judged that the majority had been achieved and awarded a potential bonus of 7%; however, as previously noted, no bonus was paid as the first condition, the requirement to achieve a threshold level of PBT, was not met.

Richard Smothers' personal objectives included establishing a rigorous governance process, delivering improvement in working capital and developing a three-year plan on capital structures and investors. The Committee determined that the majority of these objectives had been achieved and awarded a potential bonus of 7%; however, as previously noted above, no bonus was paid.

Long-term incentive plans (auditable)

The LTIP 2 award made in December 2013, was tested in relation to Group PBT and share price at the end of FY2015/16 and neither target was met. There is one further element, UK PBT, which is measured at the end of FY2016/17 and equates to 12.5% of the award. There are no executive directors in this scheme.

The LTIP award granted in December 2014 (LTIP 3) will be measured at the end of FY2017 (share price) and in FY2017/18 (Group PBT).

Awards during FY2016 (auditable)

An award was made on 3 June 2015 (LTIP 4) following the announcement of the Company's preliminary results and in accordance with the approved remuneration policy, as reported in the FY2014/15 Annual Report. The Committee consulted with major shareholders and representative bodies regarding both the proposed measures and targets, again as reported in the FY2014/15 Annual Report.

Participants in LTIP 4 will earn (i) up to 50% of the award if the TSR of the Company is in the upper quartile when ranked against a comparator group of general retailers (as shown in the table below) at the end of FY2017/18, and (ii) up to 50% of the award if Group PBT achieves £70 million (or better) at the end of FY2018/19. The performance metrics are set out in the table below. For executive directors any award which vests under the TSR performance measure of this award will be subject to a two-year holding period, and any award which vests under the Group PBT performance measure of this award will be subject to a one-year holding period.

Vesting (% of max)	FY2017/18 TSR	FY2018/19 Group PBT
0%	Below median	<£55m
25% (Threshold)	Median	£55m
100%	Upper quartile	£70m

Note – there is straight line vesting between 25% (threshold) and 100% (maximum).

Details of the awards made for the executive directors under LTIP 4 are set out below:

Director	Scheme	Basis of award	Face value	% vesting at threshold performance	Number of shares	Performance period end for TSR and PBT respectively	End of holding period
Mark Newton-Jones	LTIP 4	200%	£1,200,000	25%	522,079	FY2017/18 and FY2018/19	FY2019/20
Richard Smothers	LTIP 4	175%	£595,000	25%	258,864	FY2017/18 and FY2018/19	FY2019/20

The number of shares are calculated using an average share price of £2.2985 per share. This was calculated by reference to the average share price over a period of the 30 business days, ended on 2 June 2015.

Comparator companies for LTIP 4 TSR performance measurement

Just Eat	JD Sports Fashion
Dunelm Group	AO World
Home Retail Group	Game Digital
WH Smith	Darty
Brown (N) Group	Carpetright
Pets at Home Group	Topps Tiles
Debenhams	Findel
Card Factory	Ashley (Laura) Holdings
Poundland Group	Moss Brothers Group

The TSR comparator group was compiled by reference to the constituents of the FTSE All Share General Retailers index. The companies chosen from this index were tailored to Mothercare's circumstances in two ways:

- I constituents limited to those with a market capitalisation of below £3 billion, to exclude the very largest retailers; and
- II from the remaining list of organisations, the Remuneration Committee selected a peer group of sufficient size to provide a robust comparator group, excluding only a small number (for example Pendragon and Saga) where the nature of the business was considered not to provide an appropriate comparator for Mothercare.

When assessing the degree to which the performance measures have been achieved, in line with our approved remuneration policy, the Committee will continue to consider the underlying financial health of the Company and the level of shareholding achieved by executive directors during the performance period. In addition, following consultation with major shareholders and institutional representatives, the Remuneration Committee will also look at investment returns, particularly in the UK business but also performance across the Group.

The Remuneration Committee reviews forecast LTIP performance outcomes at both the half and full year. Despite strong progress in the UK, the economic and currency headwinds facing the International business mean that vesting of both LTIP 3 and LTIP 4 is less likely though relative TSR (LTIP 4) is harder to assess given the measurement period is the last quarter of 2018.

Conditional share award (auditable)

On 23 March 2015 Richard Smothers was granted a conditional share award over 78,125 ordinary shares in respect of the loss of long-term incentive awards with his former employer. The vesting date was one year after commencement of his employment with Mothercare. On 23 March 2016 the share award vested and on 24 March 2016 Richard Smothers sold and retained shares as follows:

Number of shares released	Shares sold to meet employee National Insurance liability (number)	Shares retained
78,125	1,601 ¹	76,524

¹ at 180.00 pence per share.

Richard Smothers settled his income tax liability directly with HMRC.

Payments to past directors (auditable)

There were no payments made to past directors during the year.

Payments for loss of office (auditable)

There were no payments made for loss of office during the year.

Directors' remuneration report

continued

Statement of shareholding and share interests (auditable)

Executive directors are expected to build up a shareholding in the Company. After five years, the Chief Executive and CFO are expected to hold shares in the Company equal to 150% and 100% of their base salaries respectively.

The outstanding awards under the LTIP, deferred annual bonuses and SAYE are set out in the table below.

Director	Plan	Date of award	Number of awards at 26 March 2015	Awards granted	Awards vested	Awards lapsed	Number of awards at 26 March 2016	Exercise price	Date at which award vests	Expiry date of awards
Mark Newton-Jones	SAYE	24.12.14	3,332	–	–	–	3,332	148p	01.03.18	30.08.18
		22.12.15	–	7,732	–	–	7,732	169p	01.03.19	30.08.19
	LTIP 3	12.12.14	989,011	–	–	–	989,011	Nil	50% end FY17* 50% end FY18*	12.12.24
	LTIP 4	03.06.15	–	522,079	–	–	522,079	Nil	50% end FY18* 50% end FY19*	03.06.25
	Annual Bonus	03.06.15	–	31,545	–	–	31,545	Nil	03.06.18	N/A
Richard Smothers	SAYE	22.12.15	–	10,650	–	–	10,650	169p	01.03.19	30.08.19
	LTIP 3	23.03.15	354,167	–	–	–	354,167	Nil	50% end FY17* 50% end FY18*	23.03.25
	LTIP 4	03.06.15	–	258,864	–	–	258,864	Nil	50% end FY18* 50% end FY19*	03.06.25
	Annual Bonus	–	–	–	–	–	–	–	–	–
	MIP	23.03.15	78,125	–	78,125	–	0	Nil	–	–

1 *Vesting is determined by the Committee following publication of the preliminary results for the respective financial year.

2 The table above shows the maximum number of shares that could be released if awards were to vest in full.

3 Details of the Management Incentive Plan (MIP) awarded to Richard Smothers are set out on page 75.

Awards granted under the Annual Bonus represent shares earned under the scheme for FY2014/15 which are due to be released in June 2018 subject to malus and clawback. No shares were awarded under the Annual Bonus for FY2015/16 given that no bonus was awarded for that financial year.

As at 26 March 2016, the shareholding and share interests of the executive directors and the non-executive directors (and their connected persons) who served during the year in the share capital of the Company are set out in the tables below.

Director	Legally owned as at 26 March 2016	Legally owned as at 28 March 2015	Total deferred shares awarded but not vested	Total LTIP awards subject to performance and not vested	Total awards vested but not exercised	Shareholding requirements as % of salary	% of salary held under shareholding policy
Executive Directors							
Mark Newton-Jones	248,829	209,380	31,545	1,511,090	–	150% ³	79.2% ¹
Richard Smothers	76,524 ⁴	–	–	613,031	–	100% ⁵	42.98% ¹

Director	Legally owned as at 26 March 2016	Legally owned as at 28 March 2015
Non-Executive Directors		
Alan Parker	441,852	441,852
Angela Brav	7,641	7,641
Lee Ginsberg	10,830	10,830
Amanda Mackenzie	48,944	48,944
Richard Rivers	70,269	70,269
Imelda Walsh	7,641	7,641
Nick Wharton ²	7,296	7,296

No changes took place in the interests of the directors between 26 March 2016 and 18 May 2016.

- 1 Shareholding percentage was calculated by reference to the average mid-market quote over the 30 days to the balance sheet date.
- 2 Nick Wharton's interest is held by his spouse, a connected person.
- 3 Executive director shareholding must be built up within five years of joining the Company. For Mark Newton-Jones such shareholding must be built up by no later than 17 July 2019 and for Richard Smothers by no later than 23 March 2020.
- 4 Shares retained following vesting of conditional share award which was granted in respect of the loss of long term incentive awards with Richard Smothers' former employer.

Mothercare Employees' Share Trustee Limited

Mothercare Employees' Share Trustee Limited, held 5,986 Mothercare plc shares in trust on 26 March 2016 (28 March 2015: 5,986 shares). A separate trust, the Mothercare Employee Trust, held 49,399 shares on 26 March 2016 (28 March 2015: 127,524 shares).

The executive directors are also deemed to have an interest in shares held by Mothercare Employees' Share Trustee Limited and the Mothercare Employee Trust as potential beneficiaries.

Directors' remuneration report

continued

Performance Graph

The performance graph below shows the Group's TSR against the return achieved by the FTSE 250 and 350 Indices. Mothercare plc entered the FTSE 250 on 30 June 2008 but returned to the FTSE SmallCap Index on 19 December 2011. The performance graph below shows performance against the FTSE 250 Index and the FTSE All Share General Retailers Index. The graph shows the seven financial years to 26 March 2016.



Source: Datastream as at 24 March 2016

1 FTSE 350 – General Retailers consists of: AO World, B&M, N Brown, Card Factory, Debenhams, DFS, Dignity, Dixons Carphone, Dunelm, Halfords, Home Retail Group, Inchcape, JD Sports, Just Eat, Kingfisher, Lookers, M&S, Next, Pendragon, Pets at Home, Saga, Sports Direct and WH Smith.

CEO remuneration table

The table below sets out the details for the director undertaking the role of Chief Executive Officer over the past seven years:

Year	CEO	CEO single figure of total remuneration (£000s)	Annual bonus pay-out against maximum %	Long-term incentive vesting rates against maximum opportunity %
2016	Mark Newton-Jones ¹	814	0	0 ¹
2015	Mark Newton-Jones ²	774	46	0 ¹
2014	Simon Calver	587	0	0
2013	Simon Calver	611	11	0
2012	Ben Gordon	5,038	0	65.5
2011	Ben Gordon	5,231	0	99.5
2010	Ben Gordon	6,505	27.7	100

1 Mark Newton-Jones had no long-term shares to vest in FY2016 or FY2015.

2 Mark Newton-Jones was appointed CEO on 17 July 2014.

Simon Calver was appointed on 30 April 2012, resigned from the Board on 24 February 2014 and was employed by the Group until 28 March 2014. Ben Gordon resigned from the Board with effect from 17 November 2011.

Percentage change in remuneration of director undertaking the role of CEO

The table shows the percentage change in remuneration of the director undertaking the role of Chief Executive Officer of the parent company compared to salaried employees in head office and retail between FY2014/15 and FY2015/16. Hourly paid employees have been excluded as they work variable hours due to the availability of overtime.

	CEO			Average of salaried employees		
	FY2015/16 £	FY2014/15 £	% change	FY2015/16 £	FY2014/15 £	% change
Base salary p.a.	600,000	600,000	0	36,517	34,791	4.7
All taxable benefits	124,366	33,284	73	1,936	1,850	4.4
Annual bonuses	–	345,000	n/a	–	1,386	n/a

1 Average salary excludes hourly paid employees due to the variability in the hours they work.

2 Mark Newton-Jones' taxable benefits are actual spend and include relocation, car allowance and medical. The amount for FY2015/16 includes a one-off gross amount of £110,540 for relocation.

3 Mark Newton-Jones' salary and bonus in FY2014/15 are for a full year. The actual payments were prorated for his start date.

Relative importance of spend on pay

The following table sets out the percentage change in dividends and overall spend on pay in FY2015/16 compared to FY2014/15.

	FY2016	FY2015	% Change
Dividend	Nil	Nil	0
Employee Remuneration	£79.4m	£80.5m	(1.3)

Employee remuneration taken from note 7 on page 116.

Advisors to the Committee

The Committee retains external suppliers to provide advice on specific topics during the year, some of which attend Committee meetings at the invitation of the Chair. The Committee has also consulted with the CEO, CFO, Group HR Director and General Counsel and Group Company Secretary. No executive has been present for discussions in relation to their own remuneration.

People or Organisation	Scope	Fees
PricewaterhouseCoopers LLP (PwC)	Advice in relation to executive remuneration and benchmarking, incentive design and attendance at various committee meetings.	£41,350 (excl. VAT)
DLA Piper UK LLP	Legal services in relation to employment contracts.	£2,880 (excl. VAT)

The appointment of external independent remuneration consultants is the responsibility of the Committee. PwC was appointed as the Committee's independent adviser in 2012 following a selection process. PwC provided services to the Committee on a time spent basis at a cost of £41,350 (excluding VAT) during the year. PwC also provides certain other advice and non-audit services to the Group and the Committee is satisfied that this does not compromise the independence of the advice provided. PwC is a member of the Remuneration Consultants Group and adheres to the voluntary Code of Practice in relation to the advice it provides to the Company. DLA Piper UK LLP provides legal advice to the Company on pension issues, as well as employment advice. DLA Piper LLP provides general legal advice to the Group both in the UK and overseas.

Statement of voting at Annual General Meeting

At the Annual General Meeting held on 23 July 2015, the resolution to approve the directors' remuneration report was passed on a show of hands. The FY2015 directors' remuneration report comprised an advisory report subject to an advisory vote. Having passed a binding vote at the Annual General Meeting in 2014 with a favourable vote of 99.68%, the policy is next subject to a binding vote at the Annual General Meeting in 2017.

The following proxy votes were received by the Company in respect of the resolutions:

Resolution	Votes for (including Discretion)	% of Votes for (including discretion)	Votes against	% of votes against	Total votes cast	Votes withheld*	% of votes withheld
To approve the directors' remuneration report	143,373,999	96.77	4,780,753	3.23	148,154,752	90,792	0.06

* A vote withheld is not a vote in law and is not counted in the calculation of votes 'for' and 'against' each resolution

As at 21 July 2015, the Company's issued share capital and total voting rights consisted of 170,770,625 ordinary shares each carrying voting rights. There are no shares in treasury. As a result, proxy votes representing approximately 81.8% of the voting capital were cast.

Directors' remuneration report

continued

Executive director remuneration FY2016/17

Base pay

Executive director salaries are normally reviewed in March each year. The Remuneration Committee reviewed the salaries of the executive directors and took into account the factors set out in the approved policy including individual performance, changes to responsibilities, average pay changes elsewhere in the workforce, affordability and general market conditions. It also noted that both individuals had performed strongly during the year. In respect of Mark Newton-Jones the Committee concluded that an award of 2%, taking Mark's salary to £612,000, was appropriate. In respect of Richard Smothers the Committee noted that during the year Richard's role had been expanded to include accountability for the IT function and the delivery of the transformation programme. This led to the Committee to conclude that an increase of 4%, taking Richard's salary to £355,000, was appropriate.

Job title	Name	FY2017 £	FY2016 £	Increase %
CEO	Mark Newton-Jones	612,000	600,000	2
CFO	Richard Smothers	355,000	340,000	4

The Chairman and non-executive director fees also remain unchanged again this year as detailed below. Expenses incurred are reimbursed in accordance with the normal business expense policy.

Job title	Name	FY2017 £	FY2016 £	Increase %	Notes
Chairman	Alan Parker	200,000	200,000	0	
NED	Richard Rivers	55,000	55,000	0	includes supplementary fee of £5,000 as Senior Independent Director
NED	Amanda Mackenzie	50,000	50,000	0	
NED	Lee Ginsberg	57,500	57,500	0	includes supplementary fee of £7,500 as Chair of Audit and Risk Committee
NED	Angela Brav	50,000	50,000	0	
NED	Imelda Walsh	57,500	57,500	0	includes supplementary fee of £7,500 as Chair of Remuneration Committee
NED	Nick Wharton	50,000	50,000	0	

Annual bonus plan

Annual bonus plans are designed with a clear linkage to the strategic plan, Company performance and individual performance.

The Remuneration Committee reviewed the measures and weightings for the annual bonus plan, during FY2015/16. In line with our approved policy, at least 70% of the bonus must be based on an appropriate mix of financial measures and for the past two years we have only used Group PBT. For FY2016/17, the weighting for Group PBT will be reduced to 60%, given that the business scorecard includes a number of financial measures covering, UK sales, International sales growth, margin and cost. Including Group PBT, the financial elements of the annual bonus plan will represent 80% of the award with the remaining 20% based on personal objectives (10%), customer satisfaction (5%) and product delivery (5%), which are also part of the business scorecard.

For executive directors the annual bonus is split between cash and deferred shares with 70% being paid in cash and 30% being deferred into shares for three years.

The annual bonus targets and measures remain commercially sensitive and therefore will be detailed in the report for the financial year ending in March 2017.

Long term incentive plan

Given the challenges facing our International business, which Mark Newton-Jones described at the Preliminary Results Presentation, the Committee has decided to defer making an LTIP award. Over the summer, we will further review the medium term plan and consider what measures and weightings best reflect those aspirations. Our aim is to do this within our approved remuneration policy (the policy is due to be submitted to shareholders again at the Annual General Meeting in 2017). We will also consult fully with leading shareholders before making an award.

The Remuneration Policy Report

This section of the report sets out the various policies under which the Remuneration Committee operates, specifically covered in this section are:

Operation of the Remuneration Committee:

page 81

Remuneration policy:

page 81

Remuneration scenarios:

page 87

Incentive plan discretions:

page 88

Chairman and NED fees policy:

page 88

Service contracts:

page 89

Remuneration policy for colleagues:

page 90

Recruitment policy:

page 90

The Remuneration Policy Report sets out the remuneration policy for executive directors and has been prepared in accordance with the Regulations. The policy was developed taking into account the principles of the UK Corporate Governance Code 2012, and the latest guidelines from investor groups. The policy was approved by shareholders at the AGM in July 2014. The approved remuneration policy can be found at pages 59 to 71 of the 2014 Annual Report on the Company's website at www.mothercareplc.com. The policy is summarised below for ease of reference only.

Operation of the Remuneration Committee

The Company's Remuneration Committee (the 'Committee') is constituted in accordance with the recommendations of the UK Corporate Governance Code. The Committee is the Committee of the Board that determines the Group's policy on the remuneration of the executive directors, the Chairman and senior management (being the Executive Committee of the Company). It works within defined terms of reference which are available on the Company's corporate website, www.mothercareplc.com.

The principles applied by the Committee when determining the Company's remuneration policy are that it should be competitive, transparent, in the interests of shareholders and aligned to the Company's strategy. Within the framework of these principles the Committee sets the overall remuneration package of each executive director (including base salary, short and long term incentives, benefits and terms of compensation), and the fees paid to the Chairman. In addition, the Committee considers the structure and level of remuneration (and the remuneration package) of members of the Executive Committee of the Company by reference to the package offered to the executive directors.

Remuneration policy

The Committee believes that the remuneration policy has an important contribution to make to the success of the Company both in facilitating the recruitment and retention of high calibre executive directors and senior executives and aligning their interests with those of shareholders. Within this context the remuneration policy needs:

- to be transparent and aligned to the delivery of strategic objectives at a Company and individual level;
- to be flexible enough to take into account changes to the business or remuneration environment;
- to ensure failure at Company or individual level is not rewarded; and
- to ensure that exceptional performance is appropriately rewarded.

The Committee works to ensure that the remuneration policy does not promote unacceptable behaviours or risk taking by considering the appropriate level of stretch in performance conditions, the balance of short and long term incentives, the ability to recover or withhold awards and the mix of awards granted in cash and shares.

The Committee recognises the importance of having a significant share based element of the remuneration package to ensure that executive directors have clear and obvious alignment with the longer term interests of shareholders in the business. Remuneration packages are constructed accordingly.

The Committee reviews the level of individual remuneration packages for executive directors and the Executive Committee annually. Whilst pay benchmarking provides a context for setting pay levels, it is not considered in isolation; any review of the remuneration package will take into account all elements of remuneration to ensure it remains competitive, and does not look at any single element in isolation. Occasionally the Committee may review the package of an individual during the year to reflect, for example, changes to that person's responsibilities in the business.

Directors' remuneration report

continued

The table below summarises each element of the remuneration policy for the executive directors, explaining how each element operates and how each part links to the corporate strategy.

Base salary	
Purpose and link to strategy	The salary provides the basis on which to recruit and retain those key employees of appropriate calibre who are responsible for the delivery of the Company's strategy. The level of salary should reflect the market value of the role and the post holder's experience, competency and performance within the Company.
Operation of the component	<p>Paid four-weekly in cash via payroll.</p> <p>Salaries are normally reviewed annually by the Committee, and fixed for 52 weeks commencing from the beginning of the new financial year. Any salary increase may be influenced by:</p> <ul style="list-style-type: none">• an individual's experience, expertise or performance;• changes to responsibilities during the year;• average change in pay elsewhere in the workforce; and• affordability and general market conditions. <p>Occasionally there may be a review of an individual's salary during the year in the event of material change.</p>
Opportunity	<p>The general policy when setting executive salary is to benchmark against mid-market levels when compared to other companies of similar scale, revenue and complexity (such as the FTSE 250 General Retailers Index). Any annual increases in salary that are approved will typically be in line with any salary increases awarded to the wider workforce. Increases beyond those granted to the workforce may be awarded at the Committee's discretion, such as where there is a change in the individual's responsibility or where the salary set at initial appointment was below the expected level.</p> <p>There may also be circumstances where the Committee agrees to pay above mid-market levels to secure or retain an individual who is considered, in the judgement of the Committee, to possess significant and relevant experience which is required to enable the delivery of the Company's strategy.</p>
Performance metrics	<p>Executive directors participate in the Company's annual performance management process.</p> <p>Both individual and Company performance is taken into account when determining whether any salary increases are appropriate.</p>
Recovery or withholding	No recovery or withholding applies.

Benefits	
Purpose and link to strategy	The Company offers competitive and cost-effective benefits to complement the base salary in line with those commonly offered by other similar companies as part of its policy to recruit and retain high calibre executive directors.
Operation of the component	Benefits offered include private medical insurance family cover, a car or cash allowance, life assurance and permanent health insurance. Cash alternatives are available to suit individual circumstances. Relocation and related benefits may be offered where a director is required to relocate in line with Company policy.
Opportunity	The aim is to provide market competitive benefits and their value may vary from year to year depending on the cost to the Company from third party providers.
Performance metrics	No performance metrics apply.
Recovery or withholding	There is no recovery of general benefits but relocation and related benefits may be subject to repayment either in full or part if an executive resigns within two years of relocating.
Pension	
Purpose and link to strategy	The Company offers market competitive and cost effective retirement benefits to its executive directors in line with those commonly offered by other similar companies.
Operation of the component	The Company makes a payment into a defined contribution registered pension scheme or by way of cash supplement, or a combination of cash and pension contributions.
Opportunity	Executive directors are eligible for a company contribution/cash supplement valued at 15% of base salary.
Performance metrics	No performance metrics apply.
Recovery or withholding	No recovery or withholding applies.
Annual bonus (cash and shares)	
Purpose and link to strategy	The purpose of the annual bonus (or short-term incentive scheme) is to incentivise executive directors to achieve specific, pre-determined goals during a one-year period (typically a financial year) and to reward financial and individual performance that is linked to the Company's strategy. To preserve the alignment with shareholder interests, provide an element of retention, and protect against unacceptable behaviour or risk taking, a proportion of bonus is awarded in shares and deferred for three years.
Operation of the component	The Committee sets challenging targets at the start of the financial year to support the Company's strategy. The level of any bonus payment is determined by the Committee following the end of the relevant financial year by reference to the performance criteria. 70% of the bonus is payable in cash with the remaining 30% deferred into shares for three years. The deferred element is subject to forfeiture in the event of the executive director's voluntary departure prior to vesting; the deferred element may be subject to forfeiture if an executive director departs for other reasons. Dividend equivalents may accrue on vested deferred shares.

Directors' remuneration report

continued

Annual bonus (cash and shares) (continued)

Opportunity	<p>The maximum bonus entitlement for executive directors is 125% of base salary.</p> <p>At threshold levels of performance up to 25% of maximum bonus entitlement will be payable in respect of each performance metric. At target and stretch levels of performance up to 50% and 100% (respectively) of the maximum bonus entitlement will be payable in respect of each performance metric.</p>
Performance metrics	<p>The policy is for at least 70% of the bonus entitlement to be based on an appropriate mix of financial measures such as profit before tax, cash generation or net debt. No more than 30% of the bonus entitlement will be linked to non-financial measures that may include a business scorecard of measures, together with personal objectives relevant to the responsibilities of each executive director. The targets set in relation to non-financial performance will be similarly challenging to the range of financial targets set.</p> <p>The Committee reviews all targets annually to ensure that they support the agreed business strategy and financial measures for the relevant financial year.</p> <p>The Committee will not award any bonus unless at least a gateway level of financial performance has been achieved. The measures and targets which form the gateway will be determined by the Committee and will take account of the ability of the Company to make bonus payments (for example, by reference to Group profit performance). Further, the Committee may exercise its discretion to reduce the level of any bonus award if it considers that the payment of an award is inconsistent with the underlying performance of the Company.</p>
Recovery or withholding	<p>No recovery or withholding applies to the cash element of the bonus once it has been paid. The Committee retains the discretion to reduce or withhold the vesting of the deferred bonus share award in exceptional circumstances (such as a material adverse adjustment to the accounts or fraud or gross misconduct on the part of the individual recipient).</p> <p>The deferred bonus shares are subject to forfeiture in the event of the executive director's voluntary departure prior to vesting; the deferred element may be subject to forfeiture if the executive director departs for other reasons.</p>

Long term incentives: LTIP	
Purpose and link to strategy	The purpose of providing executive directors with a long-term incentive award is to reward performance in line with the Company's strategy, grow the business profitably to achieve superior long-term shareholder returns over the performance period and support recruitment and retention.
Operation of the component	<p>Typically awards are granted annually early in the financial year with vesting dependent on the achievement of stretching performance conditions over a three or four year period.</p> <p>The vesting of any awards will be subject to the executive director's continued employment at the time of vesting although they may vest early on a change of control or the occurrence of certain other corporate events in which case the proportion of awards vesting would be determined by the Committee, taking into account the level of satisfaction of the performance conditions and (at its discretion) pro rating the award by time.</p> <p>Participants may be entitled to dividend equivalents on unvested shares between the date of award and vesting and this is paid in additional shares in respect of awards that vest.</p>
Opportunity	The normal policy maximum is 200% of salary for the Chief Executive and 175% of salary for the CFO. Up to 300% of salary may be awarded in circumstances considered by the Committee to be exceptional. This may include, for example, a first year award for a new Chief Executive Officer.
Performance metrics	<p>The Committee has the discretion to set different performance conditions, including performance measures and weightings, for each year by way of future award. The Committee will review annually the appropriateness of the performance conditions and the targets to be set.</p> <p>The Committee has the discretion under the Rules to reduce the level of any vesting to take into account the underlying financial health of the Company and the level of shareholding achieved by the executive directors during the performance period. The Committee may link the vesting of awards to satisfaction of a shareholding requirement and may require post-vesting holding to apply. Whether, and the extent to which, this applies will be determined at the point of each award and communicated to participants.</p>
Recovery or withholding	<p>The Committee has the right to withhold or reduce the level of LTIP in certain circumstances including:</p> <ul style="list-style-type: none"> • a material misstatement of the accounts; • inaccurate or misleading information resulting in the incorrect assessment of a performance target or incorrect award of plan shares; and/or • fraud or gross misconduct of the participant.

Directors' remuneration report

continued

All employee share plans

Purpose and link to strategy	All employees including executive directors are eligible to become shareholders through the operation of the HMRC approved Save As You Earn (SAYE) plan (and/or such other HMRC approved all-employee share plans as the Company may adopt in the future).
Operation of the component	The SAYE is the only current all employee scheme and has standard terms under which all UK employees including executive directors may participate. Executive directors may be eligible to participate in any other HMRC approved all employee share plans which the Company may adopt.
Opportunity	All eligible employees can save up to the HMRC limits applying over a three year savings period.
Performance metrics	No performance metrics apply.
Recovery or withholding	No recovery or withholding applies.

Share ownership policy

Purpose and link to strategy	The purpose of requiring Executive Directors to own shares in the Company is to align the long-term interests of management and shareholders in the success of the Company.
Operation of the component	Within five years of appointment to the Board, the CEO is expected to hold shares to the value of 150% of base salary and the CFO 100% of base salary. 75% of vested LTIP awards (after sale of shares to cover associated personal tax liabilities) must be retained until the guideline is met. The Committee will review progress towards the achievement of the guideline on an annual basis.
Opportunity	n/a
Performance metrics	No performance metrics apply.
Recovery or withholding	No recovery or withholding applies.

Notes to the policy table

- The wording relating to legacy LTIP awards, included in the FY2013/14 policy report, has been deleted. The elements of LTIP 2 that were tested against performance targets in March 2016 (Group PBT and share price) failed to achieve threshold and therefore lapsed. The remaining element (UK PBT) is due to be tested in March 2017. There are no directors participating in this as they have left the business and therefore their awards were forfeited. The detail of other LTIPs is in the body of the report.
- The share price element of the award granted in FY2014/15 (LTIP 3) was subject to a one year holding period.
- The TSR element of the award granted in FY2015/16 (LTIP 4) was subject to a two year holding period and the PBT element was subject to a one year holding period.
- Choice of performance measures: The performance measures that are used for the annual bonus are a subset of the Company's key performance indicators. The targets are derived from the annual business plan, which in turn is linked to the corporate strategy.
- Annual bonus for financial year FY2017 – including Group PBT, the financial elements of the annual bonus plan will represent 80% of the award. The remaining 20% of the bonus entitlement is based on non-financial measures including personal performance, customer satisfaction and product delivery. No bonus will be payable unless at least a gateway level of financial performance has been achieved. The measures and targets which form the gateway will be determined by the Committee from year to year and may include measures such as profit before tax, and the ability of the Company to make a payment. Details of targets set for the previous financial year are set out in the Annual Report on Remuneration on page 73. The wording relating to recovery or withholding has been aligned with the wording for LTIP. There is no change to the Committee's remit under the policy.
- All employee share plans – executive directors were not eligible to participate in the Company Share Option Plan (CSOP) in October 2014.
- The Remuneration Committee has implemented a revised approach to the operation of malus and clawback as set out on pages 61 and 62 of the FY2014/15 Annual Report on Remuneration and repeated in this report on page 71.

Remuneration scenarios for FY2016/17

The Company's remuneration policy results in a significant proportion of the remuneration received by executive directors being dependent on Company performance. The charts below show how total pay for the CEO and CFO vary under three different performance scenarios during FY2016:


Minimum	Target	Maximum
Comprises the fixed elements of pay, being base salary, benefits and pension. The value of base salary and pension is calculated as at 1 April 2016. The value of the benefits received is taken as the actual value for the year ended 26 March 2016.	Comprises fixed pay (salary, benefits and pension) and 50% of the maximum annual bonus and 25% of the full LTIP award.	Comprises fixed pay (salary, benefits and pension) and the maximum value of the bonus. 125% of base pay for CEO and CFO. Normal policy awards under the LTIP with full vesting. 200% of base pay for CEO and 175% of base pay for CFO.

No account has been taken of share price growth, or of dividend equivalent shares awarded in respect of the deferred element of bonus and LTIP awards over the deferral/performance periods.

	Fixed (£000)			Short-Term Plan (£000)		Long-Term Plan (£000)		
	Base Salary	Benefits	Pension	Total Fixed	Target	Maximum	On Target	Maximum
CEO	612	14	90	716	383	765	306	1,224
CFO	355	12	51	418	222	444	155	621

CEO (£000s)

Minimum  Total £716

On Target  Total £1,404

Maximum  Total £2,705

 Fixed pay  Annual Bonus  LTI

CFO (£000s)

Minimum  Total £418

On Target  Total £795

Maximum  Total £1,483

 Fixed pay  Annual Bonus  LTI

Relocation expenses have been excluded as they are one-off in nature.

Directors' remuneration report

continued

Incentive plan discretions

The Committee will operate the annual bonus plan and Long Term Incentive Plan (existing and future plans) according to their respective rules, the approved policy set out above and in accordance with the Listing Rules and HMRC rules where relevant. Copies of the annual bonus plan and LTIP rules are available on request from the General Counsel and Group Company Secretary. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following:

- who participates in the plans;
- the timing of grant of award and/or payment;
- the timing of any bonus payment;
- the choice of (and adjustment of) performance measures, weighting and targets for each incentive plan in accordance with the policy set out above and the rules of each plan;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;

- ability to amend the performance conditions and/or measures in respect of any award or pay out if one or more events have occurred which would lead the Committee to consider that it would be appropriate to do so, provided that such an amendment would not be materially less difficult to meet;
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment under the plan rules;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends);
- discretion in relation to all employee share plans would be exercised within the parameters of HMRC and UKLA Listing Rules; and
- discretion to withhold payments including but not limited to malus and clawback.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Legacy arrangements

For the avoidance of doubt, in approving the directors' remuneration policy, authority is given to the Company to honour any commitments that may have been entered into with current or former directors that have been disclosed previously to shareholders.

Policy on fees for Chairman and non-executive directors

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Chairman	To attract and retain a Chairman of appropriate calibre and experience.	The Chairman's fee is reviewed annually by the Committee (without the Chairman present).	The Chairman receives a single fee to cover all his Board duties. Details of current fee levels are set out in the Annual Report on Remuneration.	No performance metrics apply.	No recovery or withholding applies.
Non-executive directors	To attract and retain non-executive directors of appropriate calibre and experience.	The remuneration policy for the non-executive directors is determined by a sub-committee of the Board comprising the Chairman and the executive directors, based on independent surveys of fees paid to non-executive directors of companies of similar scale, revenue and complexity to Mothercare. Remuneration is set taking account of the commitment and responsibilities of the relevant role.	Non-executive directors receive a fee for carrying out their duties together with additional fees for those non-executive directors who chair the primary Board committees and the Senior Independent Director. Details of current fee levels are set out in the Annual Report on Remuneration.	No performance metrics apply.	No recovery or withholding applies.

Service Contracts

All the Directors will offer themselves for re-election at the forthcoming Annual General Meeting.

The table below sets out the details of all service contracts with executive and non-executive directors.

Copies of the executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the Company's registered office: Mothercare plc, Cherry Tree Road, Watford, Hertfordshire, WD24 6SH and will be available from 12.30pm on the day of the Annual General Meeting until the conclusion of the Annual General Meeting.

Director	Date of appointment	Notice period
Executive directors		
Mark Newton-Jones	17 July 2014	12 months
Richard Smothers	23 March 2015	12 months
Non-executive directors		
Alan Parker	15 August 2011	6 months
Angela Brav	1 January 2013	1 month
Lee Ginsberg	2 July 2012	1 month
Amanda Mackenzie	1 January 2011	1 month
Richard Rivers	17 July 2008	1 month
Imelda Walsh	1 June 2013	1 month
Nick Wharton	14 November 2013	1 month

Service contract policy

The Committee has agreed certain terms and policies that are to be included in its service contracts with executive directors:

- The period of notice for directors will not exceed 12 months and, accordingly, the employment contracts of the directors are terminable on 12 months' notice by either party.
- In the event of a director's departure from the Company, and subject to the 'good leaver' provisions set out below, the Company's policy on termination payments is as follows:
 - No cash bonus will be awarded or paid (nor will any deferred shares be awarded) following notice of termination (either by the employee or Company);
 - Any unvested annual bonus deferred shares will lapse on cessation of employment;
 - Any unvested LTIP awards shall lapse on cessation of employment; LTIP awards that have vested may be retained and may be subject to clawback; and

- The Company may pay basic salary and the fair value of other benefits in lieu of notice for the duration of the notice period. The instalments may cease or be reduced proportionally if the Director accepts alternative employment that starts before the end of the notice period.

- The Committee has a concept of a 'good leaver' in the event of termination of employment by reason of ill-health, permanent disability, statutory redundancy, agreed retirement, sale of employing company or business out of the Group or at the discretion of the Committee. If the Executive Director in question is a good leaver then the Committee may exercise its discretion such that:
 - a performance-related bonus will be paid at the normal time and this will be time pro-rated based on the proportion of the bonus year for which the individual was employed; the bonus may be paid wholly in cash, or part cash and part shares;
 - unvested deferred shares will vest, normally with immediate effect and in full; and
 - the individual will receive a pro-rated proportion of outstanding LTIP awards (which will be subject to clawback for awards made from FY2016 onwards) which can be exercised up to six months (or such longer period as the Committee permits and up to 12 months in the case of death) after the performance period ends and provided that the relevant performance criteria are met for vesting. Exceptionally, the Committee may decide to release the LTIP shares, following cessation of employment but subject to the Committee's assessment of performance, which can be exercised in the six months after the leaving date (or such longer period as the Committee permits and up to 12 months in the case of death) and/or to allow a greater number of shares to vest than if the level of vesting was calculated on a pro-rata basis. The Committee, in determining the extent to which these shares should vest, will consider all of the facts of the executive's departure, including their performance and the extent to which their departure is at the instigation of the Company.

The contracts of the directors do not provide for any enhanced payments in the event of a change of control of the Company or for liquidated damages. However, in the event of a change of control or other corporate events, it is the Company's normal policy that any unvested annual bonus deferred share awards will vest in full; in the case of LTIP awards vesting will be determined by the Board having regard to the achievement of any relevant performance conditions and taking into account the time period.

The Company may also consider the payment of legal fees and other professional services.

Directors' remuneration report

continued

Remuneration policy for colleagues

The remuneration policy for the executive directors is designed with regard to the policy for employees across the Group as a whole. Mothercare operates in a number of different territories and has employees who carry out diverse roles across a number of countries. All employees, including senior managers, are paid by reference to the local market rate and base salary levels are reviewed regularly. When considering salary increases for directors, the Company will be sensitive to pay and employment conditions across the wider workforce. The Committee is kept updated through the year on general employment conditions, budgets for any basic salary increase, the level of bonus pools and pay-outs, and participation in share plans. Therefore the Committee is aware of how total remuneration of the executive directors compares to the total remuneration of the general population of employees and the Committee will continue to monitor the progress of retail pay versus that of senior management. The Committee does not formally consult with employees on the executive remuneration policy. A greater proportion of executive directors' remuneration is variable when compared to other employees given their increased line of sight to the performance of the business. Common approaches to remuneration policy which apply across the Group include:

- consistent approach to 'pay for performance' is applied throughout the Group, with annual bonus schemes being offered to all employees;
- offering pension and life assurance benefits for all employees;
- ensuring that salary increases for each category of employee are considered taking into account the overall rate of increase across the Group, as well as Company and individual performance; and
- encouraging broad-based share ownership through the use of all-employee share plans.

Recruitment policy

The Committee's overriding objective is to appoint executive directors with the necessary background, skills and experience to ensure the continuing success of the Company. The Committee recognises that the increasing pace of change and multi-channel development in our industry, as well as the international nature of the Group, will mean that the right individuals may often be highly sought after.

The remuneration package for a new director will therefore be set in accordance with the Company's approved remuneration policy as set out on pages 81 to 86 of the directors' remuneration report, subject to such modifications as are described below. The maximum level of variable remuneration (excluding any buyout arrangements) that may be offered on an annual basis to a new director will be in accordance with the limits as set out in the Policy Table, normally being 125% of salary in the annual bonus plan and up to 200% of salary in the long-term incentive plan, but with regard to the long-term incentive up to 300% may be awarded in exceptional circumstances.

In the majority of cases, where an external appointment is made, the individual will forfeit incentive awards connected with their resignation from their previous employment. The Committee may decide to offer further cash or share-based payments to 'buy-out' these existing entitlements by making awards of a broadly equivalent value, in the Committee's view, under either the Company's existing incentive plans or under other arrangements. In determining the appropriate form and amount of any such award, the Committee will consider various factors, including the type and quantum of award, the length of the performance period and the performance and vesting conditions attached to each forfeited incentive award.

Where an individual is appointed to the Board, different performance measures may be set for the year of joining the Board for the annual bonus, taking into account the individual's role and responsibilities and the point in the year the executive director joined.

For any internal appointment to the Board, any variable pay element granted in respect of the prior role may be allowed to pay out according to its terms, adjusted as appropriate to take into account the terms of the director's appointment.

The salary level for a new director will be determined with care by the Committee, taking into account the individual's background, skills, experience, the business criticality and nature of the role being offered, the Company's circumstances, and relevant external and internal benchmarks.

In certain circumstances, the Committee will have set a starting salary, which is positioned below the relevant market rate and may therefore wish to adjust the director's salary at a level above the average increase in the Company as the individual gains experience and establishes a strong performance track record in the role. Conversely, there may also be circumstances where paying above a mid-market salary is required to attract or retain an individual considered to possess significant and relevant experience.

The Committee will of course need to exercise a degree of judgement in determining the most appropriate salary for the new appointment.

Benefits and pension contribution will be provided in accordance with the approved Company policy. Relocation expenses or allowances, legal fees and other costs relating to the recruitment may be paid as appropriate in line with the approved policy.

The Committee recognises that its shareholders need to fully understand the remuneration package for a new executive director and is committed to communicating full details and its reasons for agreeing the remuneration at the time of appointment. The Company will identify any remuneration elements, which are specific to the initial appointment.

Consideration of shareholder views

The Committee engages regularly and proactively with shareholders on executive remuneration. In the event of any changes to the remuneration policy or other significant changes to the remuneration of executive directors, the Committee Chair will consult with shareholders in advance of any changes. As there have been no significant changes to remuneration during FY2015/16, no shareholder consultation has taken place. However, before making any further grants under the current LTIP the Committee will consult with major shareholders and representative bodies in the autumn of 2016, the detail of which will be reported in the Annual Report for FY2016/17.

Approval

This report was approved by the Board of directors on 18 May 2016 and signed on its behalf by Imelda Walsh, Chair of the Remuneration Committee.

Imelda Walsh

Chair, Remuneration Committee

Financial statements

Contents

Financial statements

- 93 Directors' responsibilities statement
- 94 Independent auditor's report
- 99 Consolidated income statement
- 100 Consolidated statement of comprehensive income/(expense)
- 101 Consolidated balance sheet
- 102 Consolidated statement of changes in equity
- 103 Consolidated cash flow statement
- 104 Notes to the consolidated financial statements

Company financial statements

- 143 Company balance sheet
- 144 Statement of changes in equity
- 145 Notes to the Company financial statements
- 148 Five year record
- 149 Shareholder information

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the accounts 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 the parent company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the group's performance, business model and strategy.

By order of the Board on 18 May 2016 and signed on its behalf by:



Mark Newton-Jones
Chief Executive Officer



Richard Smothers
Chief Financial Officer

Independent auditor's report to the members of Mothercare plc

Opinion on financial statements of Mothercare plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 26 March 2016 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income/expense, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 31. The financial statements also comprise the parent company balance sheet and related notes 1 to 7. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting on page 38 and the Directors' statement of the longer-term viability of the Group on page 38.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 26 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 26-31 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 38 about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the Directors' explanation on page 38 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agree with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. The risks identified below are consistent with those we identified last year.

The Audit and Risk Committee has requested that, while not required under International Standards on Auditing (UK and Ireland), we include in our report any significant findings in respect of these assessed risks of material misstatement.

Risk description	How the scope of our audit responded to the risk	Key observations
Classification and presentation of exceptional items		
<p>The presentation and consistency of costs and income within exceptional items is a key determinant in the assessment of the quality of the Group's underlying earnings. Management judgement is required in determining whether an item of cost is exceptional. For the 52 weeks ended 26 March 2016, the Group incurred exceptional costs of £10.2 million. Refer to notes 2, 3 and 6 for further information and details of the exceptional items in the period.</p>	<p>We reviewed the nature of exceptional items, challenged management's judgements in this area and agreed the quantification to supporting documentation.</p> <p>We assessed whether the items are in line with both the Group's accounting policy and the guidance issued by the Financial Reporting Council.</p> <p>We considered whether management's application of the policy is consistent with previous accounting periods, including whether the reversal of any items originally recognised as exceptional has been appropriately recorded within exceptional items.</p> <p>We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items.</p>	<p>We are satisfied that the amounts classified as exceptional items are reasonable in all material respects and the related disclosure of these items in the financial statements is appropriate.</p>
Recoverability of joint venture investments and receivables from these parties		
<p>Management judgement is required in determining the appropriate level of provision to be held in respect of potentially non-recoverable receivables from joint ventures and in assessing what assumptions should be used to determine the carrying value of investments. At the year end, the Group held gross trade receivables from joint ventures of £5.7 million (net of a £0.9 million provision) and investments with nil carrying value, following the £3.3 million impairment of the China joint venture. Refer to notes 6, 13 and 30 for details of these balances.</p>	<p>We challenged the forecasts and growth assumptions used in management's impairment models for the joint venture investments, including an assessment of the projected cash flows, discount rates and perpetuity growth rates.</p> <p>We checked the recoverability of amounts receivable by agreement to subsequent cash receipts or other supporting evidence of recoverability, including assessment of the joint venture projected cash flows and its ability to pay.</p>	<p>We are satisfied that the assumptions used in the impairment models for the joint venture investments and the calculation of the joint venture bad debt provision are acceptable and that the methodology applied is appropriate in all material respects.</p>
Valuation of the Group's property provisions		
<p>The Group maintains property provisions in respect of store closures and onerous leases (£29.6 million). Management judgement, for example over future lease premiums and net present value of future store contributions, is involved in calculating the provisions, which are management's best estimates based on the expected future costs to exit those stores. Further information is included in notes 3 and 23.</p>	<p>We have challenged management's assumptions in arriving at the property provisions. We have verified the inputs used to calculate the provisions and agreed them to supporting documentation. We have reviewed the correspondence with the Group's independent property advisors to assess whether these experts' views have been reflected within the provision calculations.</p> <p>We have also assessed the historical accuracy of the provision.</p>	<p>We are satisfied that the assumptions used by management in calculating the Group's property provisions are acceptable and the methodology applied is appropriate in all material respects.</p>

Independent auditor's report to the members of Mothercare plc

continued

Risk description	How the scope of our audit responded to the risk	Key observations
Accuracy of the inventory obsolescence provision		
<p>Management's calculation of the inventory obsolescence provision of £3.7 million (£4.4 million including the shrinkage provision) against a gross inventory balance of £106.2 million requires judgement in estimating the level of future demand and therefore net realisable value for the individual products. Further information is included in notes 3 and 17.</p>	<p>We have confirmed that the book value of inventories does not exceed its net realisable value by comparing the actual sales value to the book value for a sample of lines.</p> <p>We have challenged the assumptions used in arriving at management's inventory provision. Specifically we have checked the discontinued dates of those relevant inventory lines to assess whether they have been aged correctly. We have also reviewed the actual and forecast sales of those provisioned inventory lines to check that the provision percentage applied is still appropriate.</p> <p>We have also assessed the historical accuracy of the provision.</p>	<p>We are satisfied that the provision calculation for the obsolescence of inventory is within the acceptable range and the methodology applied is appropriate in all material respects.</p>
Recognition of supplier funding income		
<p>There is management judgement involved in the timing, recognition and calculation of supplier funding income, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.</p> <p>The Group's supplier funding income mainly relates to early settlement discounts on certain product lines, promotional funding and volume based rebates. Further information is included in note 2.</p>	<p>We circularised a sample of suppliers to test whether the arrangements recorded are accurate and complete and also interviewed buyers to supplement our understanding of the contractual arrangements. Where responses were not received, we completed alternative procedures such as agreement to underlying contractual agreements.</p> <p>We tested the completeness and accuracy of the inputs for recording supplier funding by agreement to supporting evidence, including volume data and promotion dates.</p>	<p>We are satisfied that the accuracy, completeness and timing of recognition of supplier funding income is appropriate in all material respects, being recorded in a manner consistent with the Group's policy and the substance of the supplier contracts held. We consider the disclosure given around supplier funding to be appropriate and to provide an accurate understanding of the types of rebate income received and the impact on the balance sheet as at 26 March 2016.</p>

The description of risks above should be read in conjunction with the significant issues considered by the Audit and Risk Committee discussed on page 57.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £1.8 million (2015: £1.8 million), applying professional judgement and taking into account the profitability of the International segment and the loss making position of the UK segment, before exceptional items. These are excluded due to their volatility, which is consistent with the Group's internal and external reporting, to facilitate a better understanding of the underlying trading performance.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £90,000 (2015: £90,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our group audit scope on the UK trading companies (including both the UK and International operating segments) and the Group's sourcing operations in Hong Kong and India, all of which were subject to a full scope audit for the 52 weeks ended 26 March 2016. These locations represent the principal business units of the Group and account for 100% (2015: 100%) of the Group's revenue and 98% (2015: 98%) of the Group's profit before tax. The locations were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Our audit work at these locations was executed at levels of materiality applicable to each individual location which were lower than Group materiality and ranged from 3% to 80% of Group materiality (2015: 3% to 80%).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team is directly involved in the audit of the UK trading companies. The component audit teams in Hong Kong and India participated in the Group audit planning process. We discussed their risk assessment and issued the component audit teams with audit referral instructions. We have held discussions with the component audit teams and reviewed documentation of the findings from their work.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Independent auditor's report to the members of Mothercare plc

continued

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).

We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

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 Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially 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.

Ian Waller

Ian Waller (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

18 May 2016

Consolidated income statement

For the 52 weeks ended 26 March 2016

	Note	52 weeks ended 26 March 2016			52 weeks ended 28 March 2015		
		Underlying ¹ £ million	Non- underlying ² £ million	Total £ million	Underlying ¹ £ million	Non- underlying ² £ million	Total £ million
Revenue	4, 5	682.3	–	682.3	713.9	–	713.9
Cost of sales		(622.1)	–	(622.1)	(658.8)	2.5	(656.3)
Gross profit		60.2	–	60.2	55.1	2.5	57.6
Administrative expenses		(36.3)	(6.5)	(42.8)	(36.9)	(0.9)	(37.8)
Profit/(loss) from retail operations	7	23.9	(6.5)	17.4	18.2	1.6	19.8
Other exceptional items	6	–	(3.4)	(3.4)	–	(26.2)	(26.2)
Share of results of joint ventures	13	(1.1)	–	(1.1)	(0.2)	–	(0.2)
Profit/(loss) from operations		22.8	(9.9)	12.9	18.0	(24.6)	(6.6)
Net finance costs	8	(3.2)	–	(3.2)	(5.0)	(1.5)	(6.5)
Profit/(loss) before taxation		19.6	(9.9)	9.7	13.0	(26.1)	(13.1)
Taxation	9	(3.2)	(0.1)	(3.3)	(2.5)	0.2	(2.3)
Profit/(loss) for the period attributable to equity holders of the parent		16.4	(10.0)	6.4	10.5	(25.9)	(15.4)
Earnings/(loss) per share							
Basic	11	9.6p		3.8p	8.6p		(12.6p)
Diluted	11	9.3p		3.6p	8.3p		(12.6p)

1 Before items described in footnote 2 below.

2 Includes exceptional items (restructuring costs, impairment charges and property related costs) 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 6 to the consolidated financial statements.

All results relate to continuing operations.

Consolidated statement of comprehensive income/(expense)

For the 52 weeks ended 26 March 2016

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Profit/(loss) for the period	6.4	(15.4)
Items that will not be reclassified subsequently to the income statement:		
Remeasurement of net defined benefit liability – actuarial gain/(loss) on defined benefit pension schemes	1.1	(34.4)
Deferred tax relating to items not reclassified	(1.5)	7.0
	(0.4)	(27.4)
Items that may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	(0.4)	1.6
Cash flow hedges: gains arising in the period	3.2	13.3
Deferred tax relating to items reclassified	(0.3)	(1.7)
	3.5	13.2
Other comprehensive income/(expense) for the period	3.1	(14.2)
Total comprehensive income/(expense) for the period wholly attributable to equity holders of the parent	9.5	(29.6)

Consolidated balance sheet

As at 26 March 2016

	Note	26 March 2016 £ million	28 March 2015 £ million
Non-current assets			
Goodwill	14	26.8	26.8
Intangible assets	14	27.1	19.1
Property, plant and equipment	15	69.4	56.4
Investments in joint ventures	13	–	7.3
Deferred tax asset	16	20.3	23.6
Derivative financial instruments	21	0.2	–
		143.8	133.2
Current assets			
Inventories	17	101.8	87.7
Trade and other receivables	18	75.9	69.4
Current tax asset		0.3	–
Derivative financial instruments	21	12.1	9.3
Cash and cash equivalents	19	13.5	31.5
		203.6	197.9
Total assets		347.4	331.1
Current liabilities			
Trade and other payables	22	(130.1)	(107.0)
Borrowings	20	–	–
Current tax liabilities		–	(0.3)
Derivative financial instruments	21	(1.1)	–
Short-term provisions	23	(14.6)	(26.5)
		(145.8)	(133.8)
Non-current liabilities			
Trade and other payables	22	(22.1)	(20.4)
Borrowings	20	–	–
Retirement benefit obligations	29	(74.4)	(81.2)
Long-term provisions	23	(16.0)	(18.0)
		(112.5)	(119.6)
Total liabilities		(258.3)	(253.4)
Net assets		89.1	77.7
Equity attributable to equity holders of the parent			
Share capital	24	85.4	85.2
Share premium account	24	61.0	60.8
Own shares		(0.3)	(0.4)
Translation reserve	25	0.5	0.9
Hedging reserve	25	9.7	6.8
Retained deficit		(67.2)	(75.6)
Total equity		89.1	77.7

Approved by the Board and authorised for issue on 18 May 2016 and signed on its behalf by:



Richard Smothers
Chief Financial Officer

Consolidated statement of changes in equity

For the 52 weeks ended 26 March 2016

	Equity attributable to equity holders of the parent						
	Share capital £ million	Share premium account £ million	Own shares £ million	Translation reserve £ million	Hedging reserve £ million	Retained earnings £ million	Total equity £ million
Balance at 28 March 2015	85.2	60.8	(0.4)	0.9	6.8	(75.6)	77.7
Other comprehensive expense for the period	–	–	–	(0.4)	3.9	(0.4)	3.1
Profit for the period	–	–	–	–	–	6.4	6.4
Total comprehensive income/ (expense) for the period	–	–	–	(0.4)	3.9	6.0	9.5
Removal from equity to inventories during the period	–	–	–	–	(1.0)	–	(1.0)
Issue of equity shares	0.2	0.2	0.1	–	–	–	0.5
Credit to equity for equity-settled share-based payments	–	–	–	–	–	2.4	2.4
Balance at 26 March 2016	85.4	61.0	(0.3)	0.5	9.7	(67.2)	89.1

For the 52 weeks ended 28 March 2015

	Equity attributable to equity holders of the parent						
	Share capital £ million	Share premium account £ million	Own shares £ million	Translation reserve £ million	Hedging reserve £ million	Retained earnings £ million	Total equity £ million
Balance at 29 March 2014	44.4	6.3	(0.4)	(0.7)	(0.4)	(34.0)	15.2
Other comprehensive income for the period	–	–	–	1.6	11.6	(27.4)	(14.2)
Loss for the period	–	–	–	–	–	(15.4)	(15.4)
Total comprehensive income/ (expense) for the period	–	–	–	1.6	11.6	(42.8)	(29.6)
Removal from equity to inventories during the period	–	–	–	–	(4.4)	–	4.4
Issue of equity shares	40.8	54.5	–	–	–	–	95.3
Credit to equity for equity-settled share-based payments	–	–	–	–	–	1.2	1.2
Balance at 28 March 2015	85.2	60.8	(0.4)	0.9	6.8	(75.6)	77.7

Consolidated cash flow statement

For the 52 weeks ended 26 March 2016

	Note	26 March 2016 £ million	28 March 2015 £ million
Net cash flow from operating activities	26	21.9	(1.1)
Cash flows from investing activities			
Interest received		0.2	–
Purchase of property, plant and equipment		(27.8)	(6.5)
Purchase of intangibles – software		(11.4)	(6.2)
Net cash used in investing activities		(39.0)	(12.7)
Cash flows from financing activities			
Interest paid		(1.4)	(2.7)
Facility fees paid		–	(1.1)
Bank loans paid		–	(65.0)
Issue of ordinary share capital		0.4	95.3
Net cash (used)/raised in financing activities		(1.0)	26.5
Net (decrease)/increase in cash and cash equivalents		(18.0)	12.7
Cash and cash equivalents at beginning of period		31.5	17.3
Effect of foreign exchange rate changes		0.1	1.5
Net cash and cash equivalents at end of period	26	13.5	31.5

Notes to the consolidated financial statements

1. General information

Mothercare plc is a company incorporated in Great Britain under the Companies Act 2006. The address of the registered office is given in the shareholder information on page 149. The nature of the Group's operations and its principal activities are set out in note 5 and in the business review on pages 6 to 11.

These financial statements are presented in UK pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

2. Significant accounting policies

Basis of presentation

The Group's accounting period covers the 52 weeks ended 26 March 2016. The comparative period covered the 52 weeks ended 28 March 2015.

Basis of accounting

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted for use in the European Union, International Financial Reporting Interpretations Committee ('IFRIC') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They therefore comply with Article 4 of the EU IAS Regulation.

New Standards not affecting the reported results nor the financial position

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements.

IFRIC 21 'Levies', addresses the issue as to when to recognise a liability to pay a levy imposed by the government. The interpretation defines a levy, specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation.

New Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU).

- IFRS 9 'Financial Instruments'
- IFRS 14 'Regulatory Deferral Accounts'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'

The Directors anticipate that, with the exception of IFRS 15 'Revenue from Contracts with Customers', and IFRS 16 'Leases', adoption of these standards and interpretations in future periods will have no material impact on the Group's financial statements when the relevant standards come into effect.

IFRS 16 will result in the recognition of additional assets and liabilities on the Group's consolidated balance sheet. Until management's detailed review has been completed it is not possible to quantify these additional assets and liabilities, nor is it possible to provide details of the impact that the adoption of IFRS 16 will have on the Group's consolidated income statement. The full impact of IFRS 15 and IFRS 16 on the Group's financial statements is being reviewed.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and on the going concern basis, as described in the going concern statement in the corporate governance report on page 48. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 26 March 2016. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the financial year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange. Acquisition related costs are recognised in profit and loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) 'Business combinations' are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell and deferred tax assets or liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 'Income taxes' and IAS 19 'Employee Benefits' respectively.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

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

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

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

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. It also includes the volatility arising from accounting for derivative financial instruments prior to adopting IAS 39, hedge accounting for new contracts from 5 January 2014.

Supplier funding income

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

Included in the balance sheet are amounts receivable of £3.2 million in respect of supplier funding income, comprising £2.7 million of settlement discounts invoiced but not yet settled and £1.6 million of promotional contributions earned but not yet invoiced, netted against £1.1 million of deferred rebate income on stock not yet sold.

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Underlying earnings

The Group 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 IFRS measures of profit.

As the Group has chosen to present an alternative earnings per share measure, a reconciliation of this alternative measure to the statutory measure required by IFRS is given in note 11.

To meet the needs of shareholders and other external users of the financial statements the presentation of the income statement has been formatted to show more clearly, through the use of columns, our underlying business performance which provides more useful information on underlying trends.

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 profits/losses on the disposal/termination of property interests, provision for onerous leases, receivables, 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 result 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 6.

Amortisation of intangible assets

The balance sheet includes identifiable intangible assets which arose on the acquisition of Early Learning Centre and the Blooming Marvellous brand and are amortised on a straight-line basis over their expected economic lives. The average estimated useful life of the assets is as follows:

Trade name	– 20 years
Customer relationships	– 10 years

The amortisation of these intangible assets does not reflect the underlying performance of the business.

Unwinding of discount on exceptional provisions

Where property provisions are charged to exceptional items, the associated unwinding of the discount on these provisions is classified as non-underlying.

Joint ventures

Joint ventures are accounted for using the equity method whereby the interest in the joint venture is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets less any impairment in the value of individual investments. The profit or loss of the Group includes the Group's share of the profit or loss of the joint ventures.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

Where a group entity transacts with a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate or joint venture.

If the Group's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

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

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified within other comprehensive income, accumulated in equity in the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Hedge accounting

The Group designates its interest rate swaps and its forward currency contracts as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Changes in the fair value of financial instruments designated as effective are recognised in the comprehensive income statement and any ineffective portion is recognised immediately in the income statement. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item. Movements in the hedging reserve in equity are detailed in note 25.

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Retirement benefit costs

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

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

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

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

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and assets in the course of construction, over their estimated useful lives, using the straight-line method, on the following bases:

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Intangible assets – software

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost formula. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

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

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective rate interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Notes to the consolidated financial statements

continued

2. Significant accounting policies continued

Equity instruments

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

Derivative financial instruments

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

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

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

The interest rate swaps and forward contracts in place are considered an effective cash flow hedge and are accounted for by recognising the gain/loss on the hedge through reserves rather than the income statement, removing volatility within the income statement.

Embedded derivatives

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

Market risk

The group is exposed to market risk, primarily related to foreign exchange and interest rates. The Group's objective is to reduce, where it deems appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and of the currency exposure of certain net investments in foreign subsidiaries. It is the Group's policy and practice to use derivative financial instruments to manage exposures of fluctuations on exchange rates. The Group only sells existing assets or enters into transactions and future transactions (in the case of anticipatory hedges) that it confidently expects it will have in the future, based on past experience. The Group expects that any loss in value for these instruments generally would be offset by increases in the value of the underlying transactions.

Foreign exchange rate risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Group uses UK pounds sterling as its reporting currency. As a result, the Group is exposed to foreign exchange rate risk on financial assets and liabilities that are denominated in a currency other than UK sterling, primarily in US dollars and Hong Kong dollars.

Consequently, it enters into various contracts that reflect the changes in the value of foreign exchange rates to preserve the value of assets, commitments and anticipated transactions. The Group also uses forward contracts and options, primarily in US dollars and Russian roubles.

Interest rate risk

The Group remained cash positive during the year ended 26 March 2016 and is not currently exposed to any material interest rate risk.

The Group has a revolving credit facility, which as at 26 March 2016 has not had any amounts drawn down on it. However, should the Group draw down on this facility in the future, the Group would incur interest rate risk again.

Provisions

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

Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based Payments'.

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

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

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date, with any changes in fair value recognised in the profit or loss for the year.

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

Onerous leases

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Retirement benefits

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

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

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

Pension and other post-retirement benefits are inherently long-term and future experience may differ from the actuarial assumptions used to determine the net charge for 'pension and other post-retirement charges'. Note 29 to the consolidated financial statements describes the principal discount rate, inflation and pension retirement benefit obligation assumptions that have been used to determine the pension and post-retirement charges in accordance with IAS 19. The calculation of any charge relating to retirement benefits is clearly dependent on the assumptions used, which reflects the exercise of judgement. The assumptions adopted are based on prior experience, market conditions and the advice of plan actuaries.

At 26 March 2016, the Group's pension liability was £74.4 million (2015: £81.2 million). Further details of the accounting policy on retirement benefits are provided in note 2.

Impairment of stores' property, plant and equipment

Stores' property, plant and equipment (see note 15) are reviewed for impairment on a periodic basis, and whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Such circumstances or events could include: a pattern of losses involving the fixed asset; a decline in the market value for a particular store asset; and an adverse change in the business or market in which the store asset is involved. Determining whether an impairment has occurred typically requires various estimates and assumptions, including determining what cash flow is directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount and the asset's residual value, if any. Estimates of future cash flows and the selection of appropriate discount rates relating to particular assets or groups of assets involve the exercise of a significant amount of judgement. Further details of the accounting policy on the impairment of stores' property, plant and equipment are provided in note 2.

Notes to the consolidated financial statements

continued

3. Critical accounting judgements and key sources of estimation uncertainty *continued*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate future cash flows expected to arise from the cash-generating unit, a suitable long term growth rate and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £26.8 million (2015: £26.8 million).

Property provisions

Descriptions of the provisions held at the balance sheet date are given in note 23. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any differences between expectations and the actual future liability are accounted for in the period when such determination is made.

Onerous leases

Provision has been made in respect of leasehold properties for vacant, partly let and loss making trading stores and costs relating to Early Learning Centre's supply chain warehouse, for the shorter of the remaining period of the lease and the period until, in the Directors' opinion, they will be able to exit the lease commitment. The amount provided is based on the future rental obligations together with other fixed outgoings, net of any sub-lease income and in the case of trading stores the expected future shortfall in contribution to cover the fixed outgoings. In determining

the provision, the cash flows have been discounted on a pre-tax basis using a risk free rate of return. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change.

Allowances against the carrying value of inventory

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with current inventory levels. Factors that could impact estimated demand and selling prices are timing and success of product ranges (see note 17).

Allowances against the carrying value of trade receivables

Using information available at the balance sheet date, the Group reviews its trade receivable balances and makes judgements based on an assessment of past experience, debt ageing and known customer circumstance in order to determine the appropriate level of allowance required to account for potential irrecoverable trade receivables (see note 18).

Allowances against the carrying value of investments in joint ventures

The Group reviews the recoverable amount of its investments on a periodic basis. If the recoverable amount is lower than the carrying value the asset is impaired (see note 13).

4. Revenue

An analysis of the Group's revenue, all of which relates to continuing operations, is as follows:

	52 weeks 26 March 2016 £ million	52 weeks 28 March 2015 £ million
Total revenue	682.3	713.9

5. Segmental information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reported to the Group's Board in order to allocate resources to the segments and assess their performance. The Group's reporting segments under IFRS 8 are UK and International.

UK comprises the Group's UK store and wholesale operations, catalogue and web sales. The International business comprises the Group's franchise and wholesale revenues outside the UK. The unallocated corporate expenses represent Board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property.

	52 weeks ended 26 March 2016			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	459.7	222.6	–	682.3
Result				
Segment result (underlying)	(6.4)	40.3	(8.1)	25.8
Share-based payments				(3.0)
Non-cash foreign currency adjustments (non-underlying)				1.2
Amortisation of intangible assets (non-underlying)				(0.9)
Exceptional items (note 6)				(10.2)
Profit from operations				12.9
Net finance costs (underlying)				(3.2)
Profit before taxation				9.7
Taxation				(3.3)
Profit for the period				6.4

	52 weeks ended 28 March 2015			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	485.1	255.8	–	713.9
Result				
Segment result (underlying)	(18.0)	45.9	(8.6)	19.3
Share-based payments				(1.3)
Non-cash foreign currency adjustments (non-underlying)				6.9
Amortisation of intangible assets (non-underlying)				(1.0)
Exceptional items (note 6)				(30.5)
Loss from operations				(6.6)
Net finance costs (including £1.5 million non-underlying)				(6.5)
Loss before taxation				(13.1)
Taxation				(2.3)
Loss for the period				(15.4)

Revenues are attributed to countries on the basis of the customer's location. The largest International customer represents approximately 16.3% (2015: 18.5%) of Group sales.

Notes to the consolidated financial statements

continued

5. Segmental information continued

	52 weeks ended 26 March 2016		
	UK £ million	International £ million	Consolidated £ million
Other information			
Capital additions	33.9	11.2	45.1
Depreciation and amortisation	14.3	4.0	18.3
Balance sheet			
Assets			
Segment assets	190.7	110.4	301.1
Unallocated corporate assets			46.3
Consolidated total assets			347.4
Liabilities			
Segment liabilities	179.3	3.5	182.8
Unallocated corporate liabilities			75.5
Consolidated total liabilities			258.3

In addition to the depreciation and amortisation reported above, impairment losses of £1.5 million (2015: impairment losses of £1.0 million) were recognised in respect of property, plant and equipment. These impairment losses were attributable to the UK segment. A £1.8 million credit for the reduction in store impairment within plant and equipment is included within non-underlying administrative expenses and a £3.4 million charge is included within exceptional property costs.

	52 weeks ended 28 March 2015		
	UK £ million	International £ million	Consolidated £ million
Other information			
Capital additions	12.1	5.1	17.2
Depreciation and amortisation	13.4	4.3	17.7
Balance sheet			
Assets			
Segment assets	161.5	105.2	266.7
Unallocated corporate assets			64.4
Consolidated total assets			331.1
Liabilities			
Segment liabilities	167.6	4.3	171.9
Unallocated corporate liabilities			81.5
Consolidated total liabilities			253.4

Corporate assets not allocated to UK or International represent current tax assets/liabilities, deferred tax assets/liabilities, cash at bank and in hand, currency derivative assets/liabilities, borrowings and retirement benefit obligations.

6. Exceptional and other non-underlying items

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

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Exceptional items:		
Restructuring costs in cost of sales	(0.3)	(3.4)
Restructuring costs and property impairment included in administrative expenses	(6.5)	(0.9)
Property related costs in other exceptional items	(0.1)	(25.9)
Impairment of investment in joint venture in other exceptional items	(3.3)	(0.3)
Restructuring costs included in finance costs	–	(1.5)
Total exceptional items:	(10.2)	(32.0)
Other non-underlying items:		
Non-cash foreign currency adjustments under IAS 39 and IAS 21 ¹	1.2	6.9
Amortisation of intangibles ¹	(0.9)	(1.0)
Exceptional and other non-underlying items	(9.9)	(26.1)

¹ Included in non-underlying cost of sales is a credit of £0.3 million (2015: credit of £5.9 million).

Restructuring costs in cost of sales

During the 52 weeks ended 26 March 2016 a charge of £0.3 million (2015: £3.4 million) was recognised relating to store restructuring. In FY2014/15, this related to store restructuring and disruption costs relating to a major supplier of distribution going into administration.

Restructuring and property related costs included in administrative expenses

During the 52 weeks ended 26 March 2016 a charge of £6.5 million (2015: £0.9 million) was recognised. Total restructuring costs resulted in a charge of £8.3 million (2015: £5.7 million). £5.6 million related to fixed assets written off with respect to the store restructuring and refurbishment programme and £1.9 million related to the write off of amounts owed by a franchisee. In FY2014/15 this related to head office restructuring, implementation costs, indirect professional fees associated with the rights issue, recruitment and relocation costs. Partially offsetting this is a property impairment credit of £1.8 million (2015: a credit £4.8million). This arose due to the carrying value of property, plant and equipment being higher than the fair value and value in use. This is mainly driven by better trading performance of stores after refurbishment programme and more planned store closure.

Property related costs

Provisions of £0.1 million (2015: £25.9 million) have been made for onerous leases and losses on disposal/termination of property interests.

Impairment of joint venture investment

During the year, the group fully impaired its investment in Mothercare-Goodbaby China Retail Limited ('China JV') due to uncertainties in respect of the future cash flows. The impairment was recorded at the start of January 2016. The charge in the period amounts to £3.3 million. In FY2014/15, the amount related to the loss on disposal of our India JV.

Restructuring costs included in net finance costs

In FY2014/15, following a renegotiation of new banking facilities, a charge of £1.5 million for the write off of the previous unamortised facility charge was recognised. No costs have been incurred in the current year.

Notes to the consolidated financial statements

continued

7. Profit/(loss) from retail operations

Profit/(loss) from retail operations has been arrived at after (crediting)/charging:

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Net total foreign exchange gains	(7.6)	(12.1)
Cost of inventories recognised as an expense	420.1	449.4
Write down of inventories to net realisable value	(0.4)	(1.4)
Depreciation of property, plant and equipment	13.3	13.1
Amortisation of intangible assets – software	4.1	3.6
Amortisation of intangible assets – other included in non-underlying cost of sales	1.0	1.0
Impairment of property, plant and equipment	(1.8)	(4.8)
Loss on disposal of property, plant and equipment	4.2	0.2
Net rent of properties (see note 27)	44.6	48.2
Amortisation of lease incentives	(4.1)	(4.8)
Hire of plant and equipment	0.9	0.7
Staff costs (including directors):		
Wages and salaries (including cash bonuses, excluding share-based payment charges)	66.7	70.9
Social security costs	4.7	4.5
Pension costs (see note 29)	5.0	3.8
Share-based payment charges (see note 28)	3.0	1.3
Exceptional costs included in cost of sales (see note 6)	0.3	3.4
Exceptional costs included in administrative expenses (see note 6)	6.5	0.9

An analysis of the average monthly number of full and part-time employees throughout the Group, including Executive Directors, is as follows:

	52 weeks ended 26 March 2016 Number	52 weeks ended 28 March 2015 Number
Number of employees comprising:		
UK stores	4,488	4,637
Head Office	682	624
Overseas	176	172
	5,346	5,433
Full time equivalents	3,153	3,304

Details of Directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 72 to 78.

For the 52 weeks ended 26 March 2016, profit from retail operations is stated after a non-underlying net credit of £12 million (2015: £6.9 million credit) to cost of sales as a result of non-cash foreign currency adjustments under IAS 39 and IAS 21.

7. Profit/loss from retail operations continued

The analysis of auditor's remuneration is as follows:

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.1	0.1
Fees payable to the Company's auditor for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	0.2	0.2
Total audit fees	0.3	0.3
Corporate finance fees	–	0.5
Total non-audit fees	–	0.5

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

The corporate finance fees for 52 weeks ended 28 March 2015 are fees relating to the rights issue.

The policy for the approval of non-audit fees, together with an explanation of the services provided, is set out on page 60, in the corporate governance report.

8. Net finance costs

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Interest and bank fees on bank loans and overdrafts	0.5	4.4
Net interest on liabilities/return on assets on pension	2.7	2.1
Net finance costs	3.2	6.5

Notes to the consolidated financial statements

continued

9. Taxation

The charge for taxation on profit/(loss) for the period comprises:

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Current tax:		
Current year	1.8	2.0
Adjustment in respect of prior periods	–	0.2
	1.8	2.2
Deferred tax: (see note 16)		
Current year	0.6	–
Change in tax rate in respect of prior periods	0.2	–
Adjustment in respect of prior periods	0.7	0.1
	1.5	0.1
Charge for taxation on profit/(loss) for the period	3.3	2.3

UK corporation tax is calculated at 20% (2015: 21%) of the estimated assessable profit/(loss) for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the period can be reconciled to the profit/(loss) for the period before taxation per the consolidated income statement as follows:

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Profit/(loss) for the period before taxation	9.7	(13.1)
Profit/(loss) for the period before taxation multiplied by the standard rate of corporation tax in the UK of 20 % (2015: 21 %)	1.9	(2.8)
Effects of:	1.6	5.7
Expenses not deductible for tax purposes		
Change in tax rate	0.2	–
Impact of overseas tax rates	1.5	1.2
Relief for losses brought forward	(1.9)	(0.7)
Impact of double tax relief	(0.7)	(1.1)
Adjustment in respect of prior periods	–	0.2
Relief for exercise of share options	–	(0.3)
Impact of write-off of prior year deferred tax asset	0.7	0.1
Charge for taxation on profit/(loss) for the period	3.3	2.3

In addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations, share-based payments and cash flow hedges amounting to £1.8 million (2015: £5.3 million) has been credited directly to other comprehensive income.

10. Dividends

The Directors are not recommending the payment of a final dividend for the year (2015: £nil) and no interim dividend was paid during the year (2015: £nil).

11. Earnings per share

	52 weeks ended 26 March 2016 million	52 weeks ended 28 March 2015 million
Weighted average number of shares in issue	170.6	122.2
Dilution – option schemes	6.0	3.6
Diluted weighted average number of shares in issue	176.6	125.8
Number of shares at period end	170.9	170.5
	£ million	£ million
Profit/(loss) for basic and diluted earnings per share	6.4	(15.4)
Exceptional and other non-underlying items (note 6)	9.9	26.1
Tax effect of above items	0.1	(0.2)
Underlying earnings	16.4	10.5
	pence	pence
Basic earnings/(loss) per share	3.8	(12.6)
Basic underlying earnings per share	9.6	8.6
Diluted earnings/(loss) per share	3.6	(12.6)
Diluted underlying earnings per share	9.3	8.3

The increase in underlying earnings per share is lower than the increase in underlying profit. This is driven by a higher number of weighted average shares in issue during FY2015/16 due to the rights issue in October 2014.

Notes to the consolidated financial statements

continued

12. Subsidiaries

Details of all the Group's investments in subsidiaries, all of which are wholly owned and included in the consolidation, at the end of the reporting period is as follows:

	Country	% owned	Nature of Business	Direct/ indirect
Chelsea Stores Holdings Limited	UK	100%	Holding Company	Direct
Chelsea Stores (EBT Trustees) Limited	UK	100%	Dormant	Indirect
Early Learning Holdings Limited	UK	100%	Holding Company	Indirect
Early Learning Centre Limited	UK	100%	Trading	Indirect
Early Learning Limited	UK	100%	Property Company	Indirect
Mothercare Group Sourcing Limited	Hong Kong	100%	Trading	Indirect
ELC Limited	UK	100%	Dormant	Indirect
Galleria Limited	UK	100%	Dormant	Direct
Mothercare Shops Group	UK	100%	Dormant	Indirect
TCR Properties Limited	UK	100%	Dormant	Direct
Mothercare (Jersey) Limited	Jersey	100%	Trading	Direct
Mothercare Finance Limited	UK	100%	Holding Company	Direct
Mothercare Sourcing Division (Bangladesh) Private Limited	Bangladesh	100%	Trading	Indirect
Mothercare Finance Overseas Limited	Cayman Islands	100%	Dormant	Direct
Mothercare Group Limited (The)	UK	100%	Investment Holding Company	Direct
Mini Club UK Limited	UK	100%	Trading	Indirect
Mothercare (Holdings) Limited	UK	100%	Dormant	Indirect
Mothercare UK Limited	UK	100%	Trading	Indirect
Childrens World Limited	UK	100%	Dormant	Indirect
Gurgle Limited	UK	100%	Trading	Indirect
Mothercare International (Hong Kong) Limited	Hong Kong	100%	Investment Holding Company	Indirect
Mothercare Sourcing India Private Limited	India	100%	Trading	Indirect
Mothercare Inc	US	100%	Non Trading	Indirect
Princess Products Limited	UK	100%	Dormant	Direct
Mothercare Operations Limited	UK	100%	Non Trading	Direct
Mothercare Procurement Limited	Hong Kong	100%	Trading	Direct
Mothercare Sourcing Limited	UK	100%	Dormant	Direct
Mothercare Trademarks AG	Switzerland	100%	Trading	Direct
Clothing Retailers Limited	UK	100%	Non Trading	Indirect
Retail Clothing Limited	UK	100%	Dormant	Indirect
Strobe (2) Investments Limited	Jersey	100%	Non Trading	Direct
Strobe Investments Limited	Jersey	100%	Trading	Direct

13. Investments in joint ventures

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Investments at start of period	7.3	7.7
Disposals	(2.9)	–
Share of loss	(1.1)	(0.2)
Impairment	(3.3)	(0.2)
Investments at end of period	–	7.3
Summary aggregate financial results and position of joint ventures:		
Current assets	16.3	27.1
Non-current assets	8.5	12.2
Total assets	24.8	39.3
Current liabilities	(15.7)	(17.2)
Non-current liabilities	–	(0.1)
Total liabilities	(15.7)	(17.3)
Total joint venture revenue	28.6	42.8
Total loss for the period	(5.7)	(0.7)

Details of the joint ventures are as follows:

	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
Mothercare-Goodbaby China Retail Limited	Hong Kong	30	50
Wadicare Limited	Cyprus	30	30

During the year, the group fully impaired its investment in Mothercare-Goodbaby China Retail Limited ('China JV') due to uncertainties in respect of the future cash flows. The impairment was recorded at the start of January 2016, which corresponded with a sharp downturn in retail sales during the second half of the year, which in turn followed a more modest but persistent decline in retail sales in the preceding periods.

The Group is not obliged to make future funding payments and accordingly has not consolidated its share of the China JV's losses in the period from January to March 2016. These losses amounted to £0.6 million. The Group continues to trade with the China JV.

During the prior year the Group made a provision of £0.2 million against its holdings in Rhea Retail Private Limited and Juno Retail Private Limited to reflect the sale proceeds received in May 2015.

Notes to the consolidated financial statements

continued

14. Goodwill and intangible assets

	Intangible assets					
	Goodwill £ million	Trade name £ million	Customer relationships £ million	Software £ million	Software under development £ million	Total £ million
Cost						
As at 29 March 2014	68.6	28.8	5.7	26.6	0.3	61.4
Additions	–	–	–	4.0	2.3	6.3
Disposals	–	–	–	–	–	–
Transfers	–	–	–	0.3	(0.3)	–
As at 28 March 2015	68.6	28.8	5.7	30.9	2.3	67.7
Additions	–	–	–	11.4	1.6	13.0
Disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
As at 26 March 2016	68.6	28.8	5.7	42.3	3.9	80.7
Amortisation and impairment losses						
As at 29 March 2014	41.8	20.1	5.3	18.6	–	44.0
Amortisation	–	0.8	0.2	3.6	–	4.6
Disposals	–	–	–	–	–	–
As at 28 March 2015	41.8	20.9	5.5	22.2	–	48.6
Amortisation	–	0.8	0.1	4.1	–	5.0
Disposals	–	–	–	–	–	–
As at 26 March 2016	41.8	21.7	5.6	26.3	–	53.6
Net book value						
As at 29 March 2014	26.8	8.7	0.4	8.0	0.3	17.4
As at 28 March 2015	26.8	7.9	0.2	8.7	2.3	19.1
As at 26 March 2016	26.8	7.1	0.1	16.0	3.9	27.1

Goodwill, trade name and customer relationships relate to the acquisition of Early Learning Centre on 19 June 2007, Gurgle Limited on 8 September 2009 and the Blooming Marvellous brand on 7 July 2010. Trade name and customer relationships are amortised over a useful life of 10-20 and 5-10 years respectively.

Impairment of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired through the business combination has been allocated to the two groups of cash-generating units ('CGUs') that are expected to benefit from that business combination, being UK (£nil, 2015: £nil) and International (£26.8 million, 2015: £26.8 million). These segments represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The recoverable amounts of the CGUs are determined from value in use calculations with a discounted cash flow model being used to calculate this amount. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected changes to selling prices. Management has used a pre-tax discount rate of 10.7% (2015: 11.7%) which reflects the time value of money and risks related to the CGUs. The cash flow projections are based on financial budgets and forecasts approved by the Board covering a three year period. Cash flows beyond the three year period assume a 2% growth rate (2015: 2%), which does not exceed the long-term growth rate for the market in which the Group operates. The growth rates are based on the Group's latest five year plan. The value in use calculations use this growth rate to perpetuity.

The Group has conducted sensitivity analysis on the impairment test of the International CGU. With reasonable possible changes in key assumptions, there is no indication that the carrying amount of goodwill and intangible assets would be reduced to a lower amount.

Software

Software additions include £2.8 million (2015: £1.5 million) of internally generated intangible assets.

At 26 March 2016, the Group had entered into contractual commitments for the acquisition of software amounting to £3.2 million (2015: £0.8 million).

15. Property, plant and equipment

	Properties including fixed equipment		Fixtures, fittings, equipment £ million	Assets in course of construction £ million	Total £ million
	Freehold £ million	Leasehold £ million			
Cost					
As at 29 March 2014	7.9	100.7	147.1	1.4	257.1
Transfers	–	–	1.4	(1.4)	–
Additions	–	3.3	5.3	2.4	11.0
Disposals	–	(4.2)	(5.6)	–	(9.8)
Exchange differences	–	–	0.1	–	0.1
As at 28 March 2015	7.9	99.8	148.3	2.4	258.4
Transfers	–	–	2.4	(2.4)	–
Additions	–	11.0	14.1	7.0	32.1
Disposals	(1.6)	(9.2)	(16.0)	–	(26.8)
As at 26 March 2016	6.3	101.6	148.8	7.0	263.7
Accumulated depreciation and impairment					
As at 29 March 2014	2.6	77.3	117.6	–	197.5
Charge for period	–	4.3	8.8	–	13.1
Impairment	–	0.8	0.2	–	1.0
Disposals	–	(4.1)	(5.5)	–	(9.6)
Exchange differences	–	–	–	–	–
As at 28 March 2015	2.6	78.3	121.1	–	202.0
Charge for period	–	4.6	8.7	–	13.3
Impairment	–	(0.7)	2.2	–	1.5
Disposals	–	(7.7)	(14.8)	–	(22.5)
As at 26 March 2016	2.6	74.5	117.2	–	194.3
Net book value					
As at 29 March 2014	5.3	23.4	29.5	1.4	59.6
As at 28 March 2015	5.3	21.5	27.2	2.4	56.4
As at 26 March 2016	3.7	27.1	31.6	7.0	69.4

The net book value of leasehold properties includes £270 million (2015: £214 million) in respect of short leasehold properties. A £19 million credit against the impairment on property, plant and equipment has been included within non-underlying administrative expenses and a £3.4 million charge is included within exceptional property costs.

At 26 March 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.8 million (2015: £4.7 million).

Freehold land and buildings with a carrying amount of £5.3 million (2015: £5.3 million) have been pledged to secure the Group's borrowing facility (see note 20). The Group is not allowed to pledge these assets as security for other borrowings.

Notes to the consolidated financial statements

continued

16. Deferred tax assets and liabilities

The following are the major deferred tax assets and liabilities recognised by the group and movements thereon in the current and prior reporting period:

	Accelerated tax depreciation £ million	Short-term timing differences £ million	Retirement benefit obligations £ million	Share-based payments £ million	Intangible assets £ million	Losses £ million	Total £ million
At 29 March 2014	2.4	7.4	9.9	0.2	(1.4)	–	18.5
Credit/(charge) to income	1.3	(1.2)	(0.6)	0.2	0.1	–	(0.2)
Credit/(charge) to other comprehensive income	–	(1.7)	7.0	–	–	–	5.3
At 28 March 2015	3.7	4.5	16.3	0.4	(1.3)	–	23.6
Credit/(charge) to income	1.9	(2.2)	(1.3)	(0.2)	0.3	–	(1.5)
Credit/(charge) to other comprehensive income	–	(0.4)	(1.5)	0.1	–	–	(1.8)
At 26 March 2016	5.6	1.9	13.5	0.3	(1.0)	–	20.3

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

	26 March 2016 £ million	28 March 2015 £ million
Deferred tax assets	30.4	32.3
Deferred tax liabilities	(10.1)	(8.7)
	20.3	23.6

At the balance sheet date the Group has unused tax losses of £195 million (2015: £32.0 million) available for offset against future profits. No deferred tax asset has been recognised for such losses.

At the reporting date, deferred tax liabilities of £0.1 million (2015: £0.1 million) relating to withholding taxes have not been provided in respect of the aggregate amount of unremitted earnings of £199 million (2015: £22.7 million) in respect of subsidiaries and joint ventures. No liability has been recognised because the Group, being in a position to control the timing of the distribution of intra group dividends, has no intention to distribute intra group dividends in the foreseeable future that would trigger withholding tax. There are no unremitted earnings in connection with interests in joint ventures.

At 26 March 2016, the Group has unused capital losses of £644.6 million (2015: £645.2 million) available for offset against future capital gains. No asset has been recognised in respect of the capital losses as it is not considered probable that there will be future taxable capital gains. The capital losses may be carried forward indefinitely.

17. Inventories

	26 March 2016 £ million	28 March 2015 £ million
Gross value	106.2	92.5
Allowance against carrying value of inventories	(4.4)	(4.8)
Finished goods and goods for resale	101.8	87.7

The amount of write down of inventories to net realisable value recognised within net income in the period is a credit of £0.4 million (2015: £1.4 million credit).

18. Trade and other receivables

	26 March 2016 £ million	28 March 2015 £ million
Trade receivables gross	58.8	54.6
Allowance for doubtful debts	(1.6)	(1.6)
Trade receivables net	57.2	53.0
Prepayments and accrued income	15.6	13.6
Prepaid facility fees	0.3	0.4
Other receivables	2.8	2.4
Trade and other receivables due within one year	75.9	69.4

The following summarises the movement in the allowance for doubtful debts:

	26 March 2016 £ million	28 March 2015 £ million
Balance at beginning of period	(1.6)	(1.6)
Released in the period	-	-
Balance at end of period	(1.6)	(1.6)

The Group's exposure to credit risk inherent in its trade receivables is discussed in note 21. The Group has no significant concentration of credit risk. The Group operates effective credit control procedures in order to minimise exposure to overdue debts and where possible also carries insurance against the cost of bad debts. The insurance counterparties involved in transactions are limited to high quality financial institutions. Before accepting any new credit customer, the Group obtains a credit check from an external agency to assess the credit quality of the potential customer and then sets credit limits on a customer-by-customer basis.

The historical level of customer default is minimal and as a result the 'credit quality' of year end trade receivables is considered to be high.

Notes to the consolidated financial statements

continued

18. Trade and other receivables continued

The ageing of the Group's current trade receivables is as follows:

	26 March 2016 £ million	28 March 2015 £ million
Trade receivables gross	58.8	54.6
Allowance for doubtful debts	(1.6)	(1.6)
Trade receivables net	57.2	53.0
Of which trade receivables gross comprise:		
Amounts not past due on the reporting date	50.4	46.4
Amounts past due:		
Less than one month	2.8	3.3
Between one and three months	2.8	2.8
Between three and six months	1.3	0.7
Greater than six months	1.5	1.4
Allowance for doubtful debts:		
Amounts not past due on the reporting date	–	(0.1)
Less than one month	–	–
Between one and three months	–	–
Between three and six months	(0.7)	(0.5)
Greater than six months	(0.9)	(1.0)
Trade accounts receivable net carrying amount	57.2	53.0

Provisions for doubtful trade accounts receivable are established based upon the difference between the receivable value and the estimated net collectible amount. The Group establishes its provision for doubtful trade accounts receivable based on its historical loss experiences and an analysis of the counterparty's current financial position.

The average credit period taken on sales of goods is disclosed in note 21. No interest is charged on trade receivables, however, the right to charge interest on outstanding balances is retained.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

19. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

20. Borrowing facilities

The Group had outstanding borrowings at 28 March 2016 of £nil million (2015: £nil million).

Committed borrowing facilities

Following the rights issue during the prior year, the Group repaid the term loan and Revolving Credit Facility, previously in place, in full. New banking facilities with the Group's existing banks were signed on 22 October 2014 for £50 million, a Revolving Credit Facility expiring in May 2018. At the year end the Group had not drawn down on this facility.

	26 March 2016 £ million	28 March 2015 £ million
Borrowings:		
Secured borrowings at amortised cost:		
Committed facility	–	–
Revolving credit facility	–	–
Facility fee	–	–
Amount due for settlement within one year	–	–
Amount due for settlement after one year	–	–
Total borrowings	–	–
Weighted average interest rate paid (for when borrowings in place)	0.0%	3.97%

21. Risks arising from financial instruments

A. Terms, conditions and risk management policies

The Board approves treasury policies and senior management directly controls day-to-day operations within these policies. The major financial risks to which the Group is exposed relate to movements in foreign exchange rates and interest rates. Where appropriate, cost effective and practicable the Group uses financial instruments and derivatives to manage these risks. No speculative use of derivatives, currency or other instruments is permitted. The Group's financial risk management policy is described in note 2.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the returns to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity.

B. Foreign currency risk management

The Group incurs foreign currency risk on purchases whenever they are denominated in a currency other than the functional currency. This risk is managed through holding derivative financial instruments and through the natural offset of sales and purchases denominated in foreign currency.

The Group uses forward foreign currency contracts to reduce its cash flow exposure to exchange rate movements, primarily on the US dollar. For forward contracts taken out prior to 5 January 2014 the Group did not hedge account for its forward foreign currency contracts under the requirements of IAS 39. These derivative financial instruments were recognised as assets and liabilities measured at their fair values at the balance sheet date and changes in their fair values have been recognised in the income statement. For contracts taken out after 5 January 2014 the Group has applied hedge accounting and the contracts are considered effective cash flow hedges and are accounted for by recognising the gain/loss on the hedge through reserves rather than the income statement.

These arrangements are designed to address significant foreign exchange exposures on forecast future purchases of goods for the following year and are renewed on a revolving basis as required.

In addition the Group also incurs foreign currency risk on royalty income as local sales are translated into Sterling amounts on which royalties are calculated. To help mitigate against further currency impacts, we hedge our major marked currency exposure. Hedge accounting has been applied for the contracts and the gain/loss on the hedge has been recognised through reserves.

Notes to the consolidated financial statements

continued

21. Risks arising from financial instruments continued

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

International sales represent 33% (2015: 36%) of Group sales. Of these sales, 32% (2015: 31%) were invoiced in foreign currency. The Group purchases product in foreign currencies, representing approximately 50% (2015: 53%) of purchases.

The following table provides an overview of the notional value of derivative financial instruments outstanding at year end by maturity profile:

	26 March 2016 £ million	28 March 2015 £ million
Foreign currency forward exchange contracts:		
Less than one year	163.0	174.7
After one year but not more than five years	13.9	–
	176.9	174.7

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	26 March 2016 £ million	28 March 2015 £ million	26 March 2016 £ million	28 March 2015 £ million
US dollar	(1.0)	(1.4)	21.4	17.7
Euro	–	(0.5)	4.6	–
Hong Kong dollar	(1.5)	(2.3)	0.8	1.0
Indian rupee	(3.8)	(0.8)	3.9	4.0
Chinese renminbi	(0.5)	(0.4)	0.3	0.2
Bangladeshi taka	(0.1)	–	0.2	0.2
	(6.9)	(5.4)	31.2	23.1

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

	26 March 2016 £ million	28 March 2015 £ million
At notional value	176.9	174.7
At fair value – less than one year	11.0	9.3
At fair value – more than one year	0.2	–
Total fair value	11.2	9.3

Of the outstanding forward foreign currency contracts fair valued at £11.0 million (2015: £9.3 million), £1.1 million (2015: £nil) are liabilities and £12.1 million (2015: £9.3 million) are current assets.

At 26 March 2016, the average hedged rate for outstanding forward foreign currency contracts is 1.52 for US dollars, 1.39 for Euros and 106.67 for Russian roubles. These contracts mature between April 2016 and May 2017.

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.

The fair value of embedded derivatives is £0.1 million below notional value (2015: £0.2 million).

21. Risks arising from financial instruments continued

Currency sensitivity analysis

The Group's foreign currency financial assets and liabilities are denominated mainly in US dollars. The following table details the impact of a 10% increase in the value of pounds sterling against the US dollar. A negative number indicates a net decrease in the carrying value of assets and liabilities and a corresponding loss in non-underlying profit or in other comprehensive income where pounds sterling strengthens against the US dollar.

	Reflected in profit and loss		Reflected in equity	
	26 March 2016 £ million	28 March 2015 £ million	26 March 2016 £ million	28 March 2015 £ million
US dollar impact	(2.7)	(4.0)	(17.8)	(18.7)

C. Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the Group in relation to lending, hedging, settlement and other financial activities. The Group's credit risk is primarily attributable to its trade receivables. The Group has a credit policy in place and the exposure to counterparty credit risk is monitored. The Group mitigates its exposure to counterparty credit risk through minimum counterparty credit guidelines, diversification of counterparties, working within agreed counterparty limits and trade insurance and bank guarantees where appropriate.

The carrying amount of the financial assets represents the maximum credit exposure of the Group. The carrying amount is presented net of impairment losses recognised. The maximum exposure to credit risk comprises trade receivables as shown in note 18, and cash and cash equivalents of £13.5 million and derivative financial assets.

The average credit period on trade receivables was 30 days (2015: 27 days) based on total Group revenue. The average credit period on International trade receivables based on international revenue was 91 days (2015: 74 days).

D. Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities and monitoring covenant compliance and headroom. Included in note 20 is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

E. Interest rate risk

Prior to the repayment of the term loan and revolving credit facility these instruments gave rise to interest rate risk. Subsequent to the rights issue and the repayment of these balances, no such risk exists.

The Group has negotiated a new revolving credit facility, which as at 26 March 2016 has not had any amounts drawn down on it. However, should the Group draw down on this facility in the future, the Group would incur interest rate risk again.

Notes to the consolidated financial statements

continued

22. Trade and other payables

	26 March 2016 £ million	28 March 2015 £ million
Current liabilities		
Trade payables	75.8	54.2
Payroll and other taxes including social security	3.7	1.9
Accruals and deferred income	44.4	47.1
Lease incentives	4.5	3.8
VAT payable	1.7	–
	130.1	107.0
Non-current liabilities		
Lease incentives	22.1	20.4

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 68 days (2015: 50 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

The directors consider that the carrying amount of trade payables approximates to their fair value.

23. Provisions

	26 March 2016 £ million	28 March 2015 £ million
Current liabilities		
Property provisions	14.1	25.6
Other provisions	0.5	0.9
Short-term provisions	14.6	26.5
Non-current liabilities		
Property provisions	15.5	17.2
Other provisions	0.5	0.8
Long-term provisions	16.0	18.0
Property provisions	29.6	42.8
Other provisions	1.0	1.7
Total provisions	30.6	44.5

23. Provisions continued

The movement on total provisions is as follows:

	Property provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 28 March 2015	42.8	1.7	44.5
Utilised in period	(12.9)	(0.5)	(13.4)
Charged in period	7.9	0.2	8.1
Released in period	(8.2)	(0.4)	(8.6)
Balance at 26 March 2016	29.6	1.0	30.6

Property provisions principally represent the costs of store disposals or closures relating to the optimisation of the UK portfolio which involves the closure of 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 (£1.0 million), hence the timing of the utilisation of these provisions is uncertain.

24. Share capital

	52 weeks ended 26 March 2016 Number of shares	52 weeks ended 28 March 2015 Number of shares	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Issued and fully paid				
Ordinary shares of 50 pence each:				
Balance at beginning of period	170,469,020	88,813,598	85.2	44.4
Issued under the Mothercare Sharesave Scheme	393,843	1,713,128	0.2	0.8
Rights issue	–	79,942,294	–	40.0
Balance at end of period	170,862,863	170,469,020	85.4	85.2

Further details of employee and executive share schemes are given in note 28.

The own shares reserve of £0.3 million (2015: £0.4 million) represents the cost of shares in Mothercare plc purchased in the market and held by the Mothercare Employee Trusts to satisfy options under the Group's share option schemes (see note 28). The total shareholding is 55,386 (2015: 133,511) with a market value at 26 March 2016 of £0.1 million (2015: £0.3 million).

In October 2014, the Group completed a rights issue which was 94.6% subscribed and gave rise to net proceeds of £93.7 million. These proceeds are being used to progress the Group's store closure and refurbishment plan as well as to repay the Group's external borrowings and to upgrade its IT infrastructure.

Notes to the consolidated financial statements

continued

25. Translation and hedging reserves

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Translation reserve		
Balance at beginning of period	0.9	(0.7)
Exchange differences on translation of foreign operations	(0.4)	1.6
Balance at end of period	0.5	0.9
Hedging reserve		
Balance at beginning of period	6.8	(0.4)
Cash flow hedges: gains arising in the period	4.2	13.3
Removal from equity to inventories during the period	(1.0)	(4.4)
Deferred tax on cash flow hedges	(0.3)	(1.7)
Balance at end of period	9.7	6.8

26. Reconciliation of cash flow from operating activities

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Profit from retail operations	17.4	19.8
Adjustments for:		
Depreciation of property, plant and equipment	13.3	13.1
Amortisation of intangible assets	5.1	4.6
Impairment of property, plant and equipment and intangible assets	1.5	(4.8)
Losses on disposal of property, plant and equipment and intangible assets	4.2	0.2
Profit on non-underlying non-cash foreign currency adjustments	(1.2)	(6.9)
Equity-settled share-based payments	3.0	1.3
Movement in provisions	(13.9)	(10.6)
Cash payments for other exceptional items	2.8	0.1
Amortisation of lease incentives	(4.1)	(4.8)
Lease incentives received	5.3	1.6
Payments to retirement benefit schemes	(11.1)	(6.4)
Charge to profit from operations in respect of retirement benefit schemes	2.7	1.4
Operating cash flow before movement in working capital	25.0	8.6
(Increase)/decrease in inventories	(12.9)	7.7
Increase in receivables	(1.1)	(9.6)
Increase/(decrease) in payables	13.3	(5.4)
Cash generated from operations	24.3	1.3
Income taxes received/(paid)	(2.4)	(2.4)
Net cash flow from operating activities	21.9	(1.1)

26. Reconciliation of cash flow from operating activities continued
Analysis of net cash

	28 March 2015 £ million	Cash flow £ million	Foreign exchange £ million	Other non-cash movements £ million	26 March 2016 £ million
Cash and cash equivalents	31.5	(18.0)	–	–	13.5
Borrowings	–	–	–	–	–
Facility Fee	–	–	–	–	–
Net cash	31.5	(18.0)	–	–	13.5

27. Operating lease arrangements

The Group as lessee:

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Amounts recognised in cost of sales for the period:		
Minimum lease payments paid	44.5	47.8
Contingent rents	0.3	0.6
Minimum sublease payments received	(0.2)	(0.2)
Net rent expense for the period	44.6	48.2

Contingent rent relates to store properties where an element of the rent payable is determined with reference to store turnover.

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

	26 March 2016 £ million	28 March 2015 £ million
Not later than one year	45.1	47.3
After one year but not more than five years	132.6	147.5
After five years	84.5	93.0
Total future minimum lease payments	262.2	287.8

At the balance sheet date, the Group had contracted with sub-tenants for the following future minimum lease payments:

	26 March 2016 £ million	28 March 2015 £ million
Not later than one year	0.5	0.7
After one year but not more than five years	2.0	1.9
After five years	0.3	0.6
Total future minimum lease payments	2.8	3.2

Notes to the consolidated financial statements

continued

28. Share-based payments

An expense is recognised for share-based payments based on the fair value of the awards (at the date of grant for those awards due to be equity settled and at year end for those due to be cash settled), the estimated number of shares that will vest and the vesting period of each award.

The underlying charge for share-based payments is £3.0 million (2015: £1.3 million), including national insurance, of which £2.4 million (2015: £1.2 million) was equity-settled. At 26 March 2016 the liability in the balance sheet is £0.6 million related to the expected national insurance charge when share-based payment schemes vest (2015: £0.1 million).

These charges relate to the following schemes:

- A. Save As You Earn Schemes
- B. Company Share Option Plan
- C. Long Term Incentive Plans

Details of the share schemes that the Group operates are provided in the Directors' remuneration report on page 85.

For each scheme, expected volatility was determined with reference to the 90-day volatility of the Group's share price over the previous three years. The expected life used in each model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The dates of exercise are not disclosed, as it is not deemed practicable to do so.

A. Save As You Earn Schemes

The employee Save As You Earn schemes are open to all employees and provide for a purchase price equal to the daily average market price on the days prior to the offer date, less 20%.

The share options can be applied for during a two-week period in the year of invitation and savings are placed in an employee Save As You Earn bank account on trust for a three-year period.

	Weighted average exercise price	52 weeks ended 26 March 2016 Number of shares	52 weeks ended 28 March 2015 Number of shares
Balance at beginning of period	149p	1,733,876	2,237,016
Granted during period	169p	1,216,606	998,535
Rights issue options during the period	91p	588	536,914
Forfeited during period	166p	(110,714)	(145,958)
Exercised during period	106p	(393,843)	(1,713,128)
Cancelled in the period	169p	(106,830)	(161,069)
Expired during period	142p	(92,581)	(18,434)
Balance at end of period	166p	2,247,102	1,733,876

The shares outstanding at 26 March 2016 had a weighted average remaining contractual life of 2.9 years and ranged in price from 148 pence to 244 pence.

28. Share-based payments continued

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

Grant date	December 2015	December 2014	December 2013	December 2012
Number of options granted	1,216,606	998,525	199,071	299,407
Share price at grant date	224p	178p	410p	340p
Exercise price	169p	148p	310p	242p
Expected volatility	42.0%	42.0%	43.0%	50.0%
Risk free rate	0.54%	0.60%	0.86%	0.46%
Expected dividend yield	Nil	Nil	Nil	Nil
Time to expiry	3.25 years	3.25 years	3.25 years	3.25 years
Fair value of option	90.83p	165.8p	169.2p	158.5p

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

B. Company Share Option Plan

The Company Share Option Plan is open for all employees excluding directors and senior employees who are awarded shares under the long term incentive plan. Shares granted in FY2014/15 will be awarded to employees still in employment at the end of May 2018 subject to group profit before tax for financial year ending March 2018.

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

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

Notes to the consolidated financial statements

continued

28. Share-based payments continued

C. Long Term Incentive Plans

In December 2013 the Group granted further awards under the Mothercare plc 2012 Long Term Incentive Plan. The Performance conditions relate to Group profit before tax, UK profit before tax and share price performance, these conditions will be tested in relation to financial year March 2017 to determine what percentage of the shares vests. Specifically the performance period for the Group profit before tax and share price performance measures is 31 March 2013 to 26 March 2016, and the performance period for the UK profit before tax performance measure is 31 March 2013 to 25 March 2017. No consideration is payable for the grant of these awards.

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

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

Grant date	December 2014	December 2014	March 2015	March 2015
	PBT awards	Share price awards	PBT awards	Share price awards
Number of shares awarded	1,466,718	1,466,718	412,000	412,000
Share price at date of grant	184p	184p	192p	192p
Exercise price	Nil	Nil	Nil	Nil
Expected volatility	56.3%	47.7%	56.3%	47.7%
Risk-free rate	0.92%	0.60%	0.92%	0.60%
Expected dividend yield	Nil	Nil	Nil	Nil
Fair value of shares granted	184p	71p	184p	71p
Average time to expiry	3.3 years	2.3 years	3.3 years	2.3 years

28. Share-based payments continued

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

Grant date	June 2015	June 2015	December 2015	December 2015	February 2016	February 2016
	PBT awards	TSR awards	PBT awards	TSR awards	PBT awards	TSR awards
Number of shares awarded	1,303,870	1,303,870	71,096	71,096	79,802	79,802
Share price at date of grant	229p	229p	229p	229p	216p	216p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Expected volatility	54.14%	44.76%	54.14%	44.76%	54.14%	44.76%
Risk-free rate	1.21%	0.87%	1.21%	0.87%	1.21%	0.87%
Expected dividend yield	Nil	Nil	Nil	Nil	Nil	Nil
Fair value of shares granted	2.58p	1.83p	2.58p	1.83p	2.58p	1.83p
Average time to expiry	4.0 years	3.0 years	3.5 years	2.5 years	3.3 years	2.3 years

29. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees of Early Learning Centre Limited and Mothercare UK Limited.

The total cost charged to the income statement of £2.0 million (2015: £2.2 million) represents contributions due and paid to these schemes by the Group at rates specified in the rules of the plan.

Defined benefit schemes

The Group previously operated two defined benefit pension schemes for employees of Mothercare UK Limited; these were both closed to future accrual with effect from 30 March 2013.

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

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

The most recent full actuarial valuations as at March 2014 were updated as at 26 March 2016 for the purpose of these disclosures with the advice of professionally qualified actuaries. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit method.

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

The IAS 19 valuation conducted for the period ended 26 March 2016 disclosed a net deficit for the defined benefit schemes of £74.4 million (2015: £81.2 million).

Notes to the consolidated financial statements

continued

29 Retirement benefit schemes continued

The major assumptions used in the updated actuarial valuations were:

	26 March 2016	28 March 2015
Discount rate	3.6%	3.5%
Inflation rate – RPI	3.1%	3.1%
Inflation rate – CPI	2.0%	2.0%
Future pension increases	3.0%	3.0%
Male life expectancy at age 65	23.9 years	23.8 years
Male life expectancy at age 65 (currently aged 45)	25.7 years	25.6 years

1 Following the closure of the Scheme to future benefit accrual, a salary increase assumption is not required.

The mortality assumptions used are the SAPS tables published by the CMI allowing for future improvements in line with the CMI 2013 projections with a long-term annual rate of improvement of 1.25%.

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

Assumption	Change in assumption	Impact on scheme liabilities £ million
Discount rate	+/- 0.1%	- 6.4/+ 6.4
Rate of price inflation	+/- 0.1%	+ 6.3/- 6.3
Life expectancy	+ 1 year	+ 9.0

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

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

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Running costs	2.7	1.4
Net interest on liabilities/return on assets	2.7	2.1
	5.4	3.5

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

The amount recognised in other comprehensive income for the period ended 26 March 2016 is a gain of £11 million (2015: a loss of £34.4 million).

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

	26 March 2016 £ million	28 March 2015 £ million
Present value of defined benefit obligations	361.9	364.6
Fair value of schemes' assets	(287.5)	(283.4)
Liability recognised in balance sheet	74.4	81.2

29 Retirement benefit schemes continued

Movements in the present value of defined benefit obligations were as follows:

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
At beginning of period	364.6	303.0
Interest expense	12.4	13.4
Actuarial losses arising from changes in demographic assumptions	3.6	5.4
Actuarial (gains)/losses arising from changes in financial assumptions	(9.8)	47.5
Experience losses on liabilities	–	3.6
Benefits paid	(8.9)	(8.3)
At end of period	361.9	364.6

Movements in the fair value of schemes' assets were as follows:

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
At beginning of period	283.4	253.3
Interest income	9.7	11.3
Scheme administration expenses	(2.7)	(1.4)
Return on scheme assets excluding interest income	(5.1)	22.1
Company contributions	11.1	6.4
Benefits paid	(8.9)	(8.3)
At end of period	287.5	283.4

The major categories of scheme assets are as follows:

	26 March 2016 £ million	26 March 2016 £ million	28 March 2015 £ million	28 March 2015 £ million
	Quoted market price in active market	No quoted market price in active market	Quoted market price in active market	No quoted market price in active market
UK equities	41.2	–	38.2	–
Overseas equities	70.7	–	55.0	–
Corporate bonds	58.5	–	116.9	–
Property	–	–	–	–
Index-linked government bonds	49.9	–	–	–
Hedge funds	65.2	–	70.1	–
Cash and cash equivalents	2.0	–	3.2	–
	287.5	–	283.4	–

Notes to the consolidated financial statements

continued

29. Retirement benefit schemes continued

The scheme assets do not include any of the Groups own financial instruments nor any property occupied by or other assets used by the Group.

The estimated amount of cash contributions expected to be paid to the schemes during the 52 weeks ending 25 March 2017 is £9.9 million.

The scheme is funded by the Company. Funding of the scheme is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions above. Funding requirements are formally set out in the Statement of Funding Principles, Schedule of Contributions and Recovery Plan agreed between the trustees and the Company.

The weighted average duration of the defined benefit obligation at 26 March 2016 is approximately 23.5 years (2015: 23.5 years).

The defined benefit obligation at 26 March 2016 can be approximately attributed to the scheme members as follows:

- Active members: 0% (2015: 0%)
- Deferred members: 67% (2015: 67%)
- Pensioner members: 33% (2015: 33%)

All benefits are vested at 26 March 2016 (unchanged from 28 March 2015).

30. 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 are disclosed below.

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sales of goods £ million	Purchase of goods £ million	Amounts owed by related parties £ million	Amounts owed to related parties £ million
52 weeks ended 26 March 2016				
Joint ventures	8.9	–	4.8	–
52 weeks ended 28 March 2015				
Joint ventures	14.7	–	3.9	–

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

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received at the year end. A provision of £0.9 million (2015: £1.0 million) has been made for doubtful debts in respect of the amounts owed by related parties. No amounts (2015: £nil) have been written off in respect of amounts owed by related parties.

30. Related party transactions continued

Remuneration of key management personnel

The remuneration of the Board (including executive and non-executive directors), who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual directors is provided in the audited part of the remuneration report on pages 72 to 80.

	52 weeks ended 26 March 2016 £ million	52 weeks ended 28 March 2015 £ million
Short-term employee benefits	4.0	4.4
Post-employment benefits	0.4	0.2
Compensation for loss of office	0.3	0.3
	4.7	4.9

Mothercare Pension schemes

Details of other transactions and balances held with the two pension schemes are set out in note 29.

Other transactions with key management personnel

There were no other transactions with key management personnel.

31. Events after the balance sheet date

There have been no post balance sheet events.

Company financial statements

Contents

- 143 Company balance sheet
- 144 Statement of changes in equity
- 145 Notes to the Company
financial statements
- 148 Five year record
- 149 Shareholder information

Company balance sheet

As at 26 March 2016

	Note	26 March 2016 £ million	28 March 2015 £ million
Fixed assets			
Investments in subsidiary undertakings	3	164.6	162.2
		164.6	162.2
Current assets			
Debtors – amounts falling due within one year	4	145.3	158.8
Cash at bank and in hand and time deposits		6.2	50.2
		151.5	209.0
Creditors – amounts falling due within one year	5	(124.3)	(182.2)
Net current assets/(liabilities)		27.2	26.8
Total assets less current liabilities		191.8	189.0
Net assets		191.8	189.0
Capital and reserves attributable to equity interests			
Called up share capital	6	85.4	85.2
Share premium	7	61.0	60.8
Own shares	7	(0.3)	(0.4)
Profit and loss account	7	45.7	43.4
Equity shareholders' funds		191.8	189.0

Approved by the Board on 18 May 2016 and signed on its behalf by:



Richard Smothers
Chief Financial Officer

Statement of changes in equity

	Share capital £ million	Share premium account £ million	Own share reserve £ million	Profit and loss account £ million	Total equity £ million
Balance at 28 March 2015	85.2	60.8	(0.4)	43.4	189.0
Profit for the period	–	–	–	–	–
Other comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	–
Issue of share capital	0.2	0.2	–	–	0.4
Capital contribution for equity-settled share based payments	–	–	–	2.4	2.4
Shares transferred to employees on vesting	–	–	0.1	(0.1)	–
Balance at 26 March 2016	85.4	61.0	(0.3)	45.7	191.8
Balance at 29 March 2014	44.4	6.3	(0.4)	47.2	97.5
Loss for the period	–	–	–	(5.1)	(5.1)
Other comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period	–	–	–	(5.1)	(5.1)
Issue of share capital	40.8	54.5	–	–	95.3
Capital contribution for equity-settled share based payments	–	–	–	1.3	1.3
Balance at 28 March 2015	85.2	60.8	(0.4)	43.4	189.0

Notes to the Company financial statements

1. Significant accounting policies

Basis of presentation

The Company's accounting period covers the 52 weeks ended 26 March 2016. The comparative period covered the 52 weeks ended 28 March 2015.

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. Accordingly, in the 52 week period ended 26 March 2016 the Company has changed its accounting framework from pre-2015 UK GAAP to FRS 101 as issued by the Financial Reporting Council and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. The prior period financial statements did not require restatement for material adjustments on adoption of FRS 101 in the current year.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemption available under the standard in relation to presentation of cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidation financial statements.

The financial statements have been prepared on the historical cost basis except for the remeasurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments in subsidiaries, joint ventures and associates are stated at cost less, where appropriate, provisions for impairment.

Explanation of transition to FRS 101

This is the first time that the Company has presented its financial statements under FRS 101 (Financial Reporting Standard 101) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (pre-2015 UK GAAP) were for the 52 week period ended 28 March 2015 and the date of transition to FRS 101 was therefore 29 March 2015.

There have been no adjustments on transition to FRS 101.

2. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. The Company's result for the 52 weeks ended 26 March 2016 was £nil (2015: loss of £5.1 million). The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

Notes to the Company financial statements

continued

3. Investments in subsidiary undertakings

Investments in the Company's balance sheet consist of its investments in subsidiary undertakings. The Company's subsidiaries, all of which are wholly owned, are included in note 12 of the Group financial statements.

The Company's investment in its subsidiary undertakings is as follows:

	26 March 2016 £ million	28 March 2015 £ million
Cost of investments (less amounts written off £153.0 million (2015: £153.0 million))	153.9	151.5
Loans to subsidiary undertakings	65.5	65.5
	219.4	217.0
		£ million
Cost		
At 28 March 2015		217.0
Share-based payments to employees of subsidiaries		2.4
At 26 March 2016		219.4
Impairment		
At 28 March 2015		(54.8)
Charged during the period		–
At 26 March 2016		(54.8)
Net book value		164.6

4. Debtors

	26 March 2016 £ million	28 March 2015 £ million
Amounts due from subsidiary undertakings	145.2	158.4
Other debtors	0.1	0.4
	145.3	158.8

5. Creditors

Creditors: amounts due within one year

	26 March 2016 £ million	28 March 2015 £ million
Amounts due to subsidiary undertakings	123.6	181.4
Accruals and other creditors	0.7	0.8
	124.3	182.2

6. Called up share capital

	Number of shares	£ million
Issued and fully paid		
Ordinary shares of 50p each:		
Balance at 28 March 2015	170,469,020	85.2
Issued under the Mothercare Sharesave Scheme	393,843	0.2
Balance at 26 March 2016	170,862,863	85.4

Further details of employee and executive share schemes are provided in note 28 to the consolidated financial statements.

7. Reserves

	Share premium £ million	Own shares £ million	Profit and loss account £ million
Balance at 28 March 2015	60.8	(0.4)	43.4
Net premium on shares issued	0.2	–	–
Fair value of share-based payments	–	–	2.4
Shares transferred to employees on vesting	–	0.1	(0.1)
Loss for the financial year	–	–	–
Balance at 26 March 2016	61.0	(0.3)	45.7

The own shares reserve of £0.3 million (2015: £0.4 million) represents the cost of shares in Mothercare plc purchased in the market and held by the Mothercare Employee Trusts to satisfy options under the Group's share option schemes (see note 28 to the consolidated financial statements). The total shareholding is 55,386 (2015: 133,511) with a market value at 26 March 2016 of £0.1 million (2015: £0.3 million).

Five year record

(unaudited)

	2016 £ million	2015 £ million	2014 £ million	2013 ⁴ Restated £ million	2012 £ million
Summary of consolidated income statements					
Revenue	682.3	713.9	724.9	749.4	812.7
Underlying ¹ profit from operations before interest	22.8	18.0	15.9	11.8	2.0
Non-underlying ² items	(9.9)	(24.6)	(35.0)	(29.4)	(104.4)
Interest (net)	(3.2)	(6.5)	(7.2)	(6.3)	(0.5)
Profit/(loss) before taxation	9.7	(13.1)	(26.3)	(23.9)	(102.9)
Taxation	(3.3)	(2.3)	(1.2)	0.1	11.1
Profit/(loss) for the financial year	6.4	(15.4)	(27.5)	(23.8)	(91.8)
Basic earnings/(loss) per share	3.8p	(12.6p)	(31.0p)	(26.9p)	(105.2p)
Basic underlying earnings per share	9.6p	8.6p	7.7p	4.2p	1.8p
Summary of consolidated balance sheets					
Deferred tax asset	20.3	23.6	18.5	21.7	17.6
Other non-current assets	123.5	109.6	111.5	124.1	145.2
Net current assets	57.8	64.1	12.2	45.6	24.0
Retirement benefit obligations	(74.4)	(81.2)	(49.7)	(61.6)	(52.7)
Other non-current liabilities	(38.1)	(38.4)	(77.3)	(91.0)	(61.4)
Total net assets	89.1	77.7	15.2	38.8	72.7
Other key statistics					
Share price at year end	180.0	206.5p	189.0p	315.0p	166.0p
Net (debt)cash/equity	15.0%	40.5%	(238.5%)	(83.5%)	(27.6%)
Number of issued shares	170,862,863	170,469,020	88,813,598	88,653,417	88,636,762
Capital expenditure	32.1	12.7	10.9	16.2	24.9
Depreciation and amortisation	13.4	17.7	20.3	21.4	22.8
Rents	44.6	48.2	48.7	54.2	65.4
Number of UK stores	170	189	220	255	311
Number of International stores ³	1,310	1,273	1,221	1,069	1,028
UK selling space (000's sq.ft.)	1,552	1,658	1,737	1,805	1,946
International selling space (000's sq.ft.) ³	3,027	2,895	2,656	2,347	2,283
Average number of employees	5,346	5,433	5,613	6,226	6,943
Average number of full time equivalents	3,153	3,304	3,486	3,959	4,350

1 Before items described in note 2 below.

2 Includes exceptional items (property costs, restructuring costs, 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 6 to the consolidated financial statements.

3 International stores are owned by franchise partners, joint ventures and associates.

4 Restated for amendments to IAS 19.

Shareholder information

Shareholder analysis

A summary of holdings as at 26 March 2016 is as follows:

	Mothercare ordinary shares	
	Number of shares	Number of shareholders
Banks, insurance companies and pension funds	12,612	3
Nominee companies	148,300,963	468
Other corporate holders	18,524,502	80
Individuals	4,024,786	19,447
	170,862,863	19,998

As can be seen from the above analysis, many shares are registered in the name of a nominee company as the legal owner. The underlying holder of shares through a nominee account is the beneficial owner of these shares, being entitled to the capital value and the income arising from them. An analysis of these nominee holdings shows that the largest underlying holders are pension funds, with unit trusts and insurance companies the other major types of shareholder.

Share price data

	2016	2015
Share price at 26 March 2016 (28 March 2015)	180.0p	206.50p
Market capitalisation	£307.6m	£352.0m
Share price movement during the year:		
High	295.00p	237.28p
Low	142.09p	108.79p

All share prices are quoted at the mid-market closing price. For capital gains tax purposes:

- the market value on 31 March 1982 of one ordinary share in British Home Stores PLC is 155 pence and of one ordinary share in Habitat Mothercare PLC is 133 pence; and
- the market value of each Mothercare plc 50 pence ordinary share immediately following the reduction of capital and consolidation on 17 August 2000 for the purpose of allocating base cost between such shares and the shares disposed of as a result of the reduction is 135 pence.

Rights issue and TERP

On 23 September 2014 the Company announced a proposed rights issue of 9 for 10 ordinary shares at 125 pence per new ordinary share. The theoretical ex-rights price ('TERP') between 24 September and 9 October 2014 (being the last day the ordinary shares were traded cum rights) was 178 pence.

Immediately before the rights issue, the issued share capital was 88,824,771. 79,942,294 new ordinary shares were issued on 27 October 2014. The total issued share capital immediately following the rights issue was 168,767,065.

Registrars and transfer office

Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Financial calendar

	2016
Annual General Meeting	14 July
Announcement of interim results	24 November
	2017
Preliminary announcement of results for the 52 weeks ending 25 March 2017	end May
Issue of report and accounts	mid-June
Annual General Meeting	mid-July

Registered office and head office

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

General Counsel and Group Company Secretary

Daniel Talisman

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 0371 384 2013, Overseas +44(0)121 415 7042
www.equiniti.com

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 0371 384 2030. Online and telephone services are also available through the Company's registrars – www.shareview.co.uk and 03456 037 037. Lines are open 8.30am to 5.30pm, Monday to Friday.

Stockbrokers

The Company's stockbrokers are:

J.P. Morgan Cazenove & Co, 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.



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