Annual report and accounts 2017

www.mothercareplc.com

mothercare
welcome to the club

At a glance

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

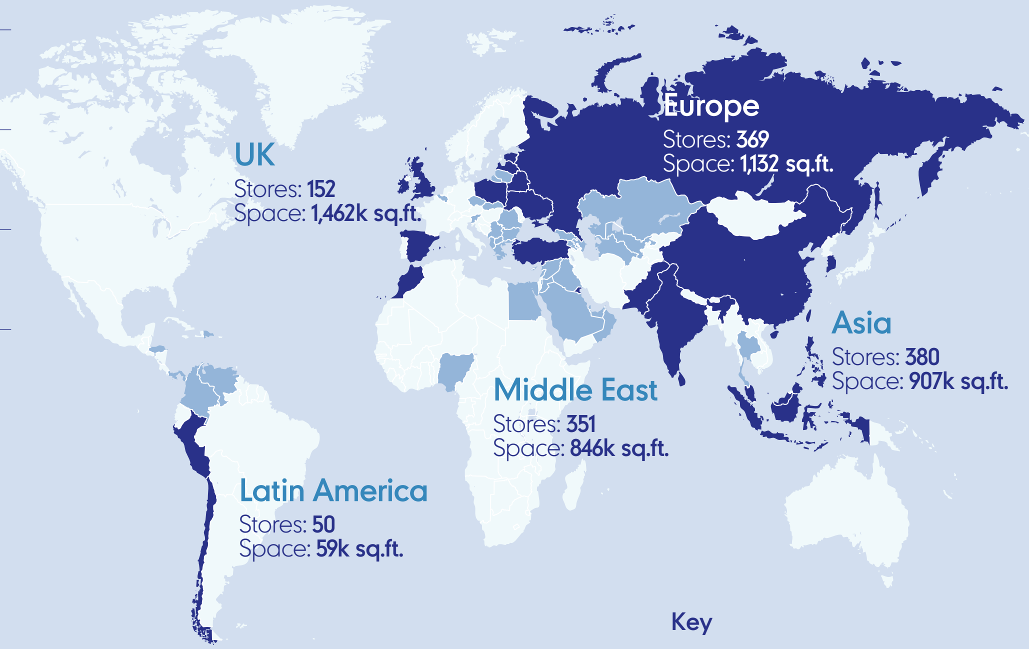
Worldwide sales*
£1,222m +6.3%

Group sales
£667m (2.2)%

Underlying profit
£19.7m +1%

Statutory profit
£7.1m (£9.7m)

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

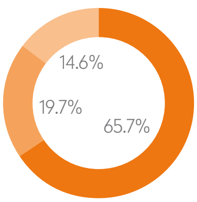


Key
Store only
Stores and web presence

Product

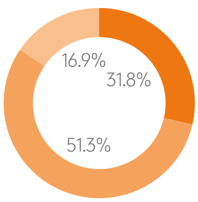
International

Clothing & Footwear
Home & Travel
Toys



UK

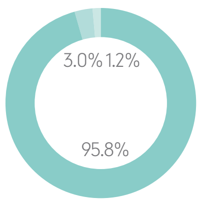
Clothing & Footwear
Home & Travel
Toys



Worldwide sales

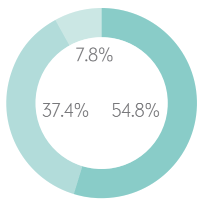
International

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 pre-school age. Our **clothing & footwear** product includes ranges for babies, children and maternity wear and has a growing selection of branded product. **Home & travel** includes pushchairs, car seats, furniture, bedding, feeding and bathing equipment. **Toys** is mainly for babies and complements our ELC ranges.

STORES

UK – in town: **49**
UK – out of town: **98**
International partners: **953**

Early Learning Centre

Our aim is to provide children up to pre-school age 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.

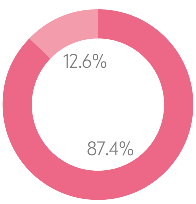
STORES

UK – in town: **5**
UK – inserts: **115**
International partners: **197**

Space

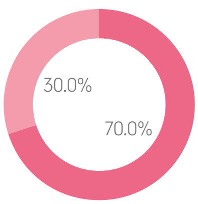
International

Mothercare
ELC



UK

New, modern & refitted format
Still to be refitted



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Chairman's statement

We are building a business that reflects the needs of today's digitally enabled consumer who moves seamlessly between stores and online.

Alan Parker CBE

Chairman

The business has achieved growth despite the challenge of unseasonable weather in the UK in the first half of the year and a mixed performance in our International business.

Investment has been maintained in both UK store refurbishment and IT infrastructure. The latter will allow us to react more dynamically to market trends and will support the Group's management of margin. Strong progress has also been made over the last year understanding our customers and how they shop. We are building a business that reflects the needs of today's digitally enabled consumer who moves seamlessly between stores and online.

Some senior roles have been changed to ensure that we deliver the next stage of our transformation. Executive responsibility for both UK retail stores and e-commerce/marketing has been combined under the new position of Chief Customer Officer. We have also created the role of Global Product Officer for an integrated approach to planning, sourcing and distribution of our merchandise. A new International Managing Director has joined for the further expansion of our business outside of the UK.

During the year we welcomed two new non-executive directors to the Board. Tea Colaianni joined us with extensive human resource experience as Chair of the Remuneration Committee. Gillian Kent joined from a successful career in digitally led businesses and will sit on the Audit and Risk Committee.

I am pleased to express my appreciation to Angela Brav, Imelda Walsh and Amanda Mackenzie who retired from the Board during the year, for their invaluable support and hard work during their years of service.

Our International franchise partners must be recognised for their commitment to make Mothercare the leading global retailer for parents and young children. Their extensive local knowledge makes them a crucial part of our family and vital for our future growth.

Finally, it is all our colleagues around the world, who are so critical to the success of Mothercare. I would like to thank everyone for their hard work, enthusiasm and dedication.

While being aware that these fast changing times, both at home and abroad, are challenging for consumer markets, the Board is positive about our new development plans to support the long term growth of Mothercare.

Alan Parker CBE
Chairman, Mothercare plc

Strategic Report

Business model

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

Our resources

Shareholders' equity
£81m

International partners
38

Net debt
£15.9m

Suppliers
1,809

Employees
5,211

Relationships

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

What differentiates us

Trusted own brand

Exclusive product

Expertise and service

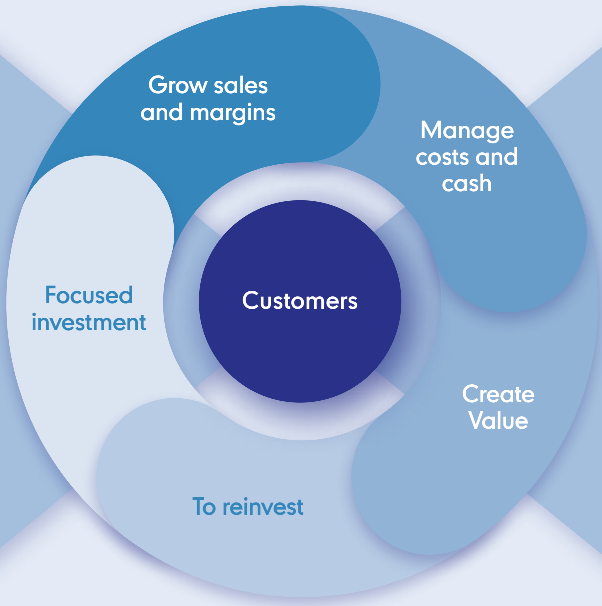
Understanding customers
3m
customers on database

Trusted own brand
Innovation, quality and style

Effective logistics
4 DCs
2 Hubs

Efficient sourcing
17 countries
7 offices

Full service vendors
280 suppliers
27 countries



How we create value

For customers
£1,222m
Worldwide sales

For international partners
£763m
Sales

For employees
£72m
Total pay and benefits

For social
£16m
Total tax contributions (TTC)

For suppliers
£596m

Value capture

The products we offer

Home & Travel
145 brands
5,800 options

Clothing & Footwear
28 brands
4,300 options

Toys
65 brands
2,600 options

How our customers buy from us

UK Stores
54 in town
98 out of town

UK online
41% of UK retail sales

International
21 countries online & 3% of international sales
1,150* stores

* ELC inserts removed

We continue to improve margin through better buying negotiations, as well as a focus on product quality and exclusivity, all of which will drive full price sales.

Mark Newton-Jones

Chief Executive

This year marks the third year of our turnaround and I am very pleased to report that we have continued to make good progress, despite some challenging conditions in this past year. The UK has returned to underlying profit in the second half of the year for the first time in six years.

In the UK, we have closed unprofitable stores, transitioned the store portfolio to two thirds out of town and one third in town, and 70% of our UK store estate is now refurbished in the new club format. We now have an agile store estate with an average lease length of five years.

The trend towards omnichannel shopping continues to rise as we see our digitally enabled customers shopping seamlessly between stores and online. Our database of over three million active customers combined with over four million e-receipts, is giving us great insight into their shopping and browsing behaviours. This intelligence is equipping us to both shape our ranges and personalise the shopping experience for our customers.

We continue to improve margin through better buying negotiation, as well as a focus on product quality and exclusivity, all of which will drive full price sales. At the end of the year, we had returned to full price sales of 60% after a difficult summer season.

The investment programme in the business has continued to strengthen our capabilities in key areas. We have invested in digital, by re-platforming our website. In IT infrastructure, we have upgraded our planning and merchandising systems to enable us to better manage stock and help grow full price sales. We have upgraded our warehouse capability so we can fulfil products for both stores and online from one campus; in the longer term, this will enable us to reduce overall stock levels.

In our International business, we have seen strong sales in Indonesia and Russia supported by currency tailwinds. India continues to be a key opportunity for growth and we consolidated our franchisee partners there during the year. In China, sales recovered towards the end of the year, however the business is yet to return to positive cash profit. The Middle East continues to face economic challenges, but we are still expanding there and are well positioned to benefit when market

70%

UK stores in new club format

60%

Product sold at full price

Strategic pillars

01 + 02 **Become a digitally led business supported by a modern retail estate and great service**
Pg.14

03 **Offering style, quality and innovation in product**
Pg.18

04 **Stabilise and recapture gross margin**
Pg.20

05 **Running a lean organisation while investing for the future**
Pg.22

06 **Expanding further internationally**
Pg.24

conditions improve. We continue to work closely with all our partners, exporting our learnings and good practice from the UK.

More recently we have made some changes to the Executive team to support the next stage of our transformation. Executive responsibility has been combined for both UK retail stores, e-commerce, brand and marketing under the new post of Chief Customer Officer, reflecting our omnichannel customer. We have also created the role of Global Product Officer for an integrated approach to our product planning, sourcing and distribution for all International markets. Matt Stringer will take on this role. Kevin Rusling has been appointed as International Managing Director, on our Executive board and will report to me. Kevin brings a wealth of international retail experience and will drive our franchise and joint venture businesses forward.

Finally we also welcome Kirsty Homer as HR Director, to manage all aspects of the people side of our business in the UK and Asia. Kirsty brings a renewed focus for our people and will drive the adoption of our values, the engagement of our teams and oversee the step change we wish to deliver in service and specialism.

I am extremely proud of the progress we have made in the last three years, none of which would have been achieved without the hard work and commitment of our colleagues, International partners and suppliers around the world. They are all playing their part as we continue to transform Mothercare into a modern, profitable and global brand.

1 **Become a digitally led business**
- Online sales up 7.8% and now account for 41% of UK retail sales (FY2015/16: 37%)
- Mobile c83% of online traffic
- Launched new responsive website improving conversion and with a faster check out
- Upgraded app driving improved conversion with over 1 million downloads
- Deep customer insight being built with over three million on the database and 4.3 million e-receipts.

2 **Supported by a modern retail estate and great service**
- Closed 21 underperforming stores; opened three new stores, including one re-site
- Refurbished 40 stores; 70% of store estate in the new club format
- Agile store estate with average lease length of five years
- 40% of total online sales generated by iPads in store
- Colleagues trained in specialist service.

3 **Offering style, quality and innovation in product**
- 34% of Home and Travel options in 'best' category
- 20% of clothing now in the 'best' category
- Launched 13 new brands in Home and Travel
- 35% Home and Travel products are now exclusive.

4 **Stabilise and recapture gross margin**
- Underlying bought in margin up year on year
- 60% full price sales mix in a tough environment (FY2015/16: 66%, FY2013/14: 57%)
- Margin up 54 bps, the third successive year of margin improvement
- Negative margin impact of planned warehouse change offset by VAT recovery claim.

7.8%

Online sales up

5 **Running a lean organisation while investing for the future**
- Development of new warehouse infrastructure: both online and stores are now combined
- Upgraded planning and merchandising systems to improve stock management and grow full price sales
- Tight control of costs has enabled further investment in marketing and digital.

6 **Expanding further internationally**
- International LfL (4.1)% primarily due to challenging economic conditions in the Middle East
- Online sales up 64% in constant currency
- Trading online in 21 countries and 26 online channels (FY16: 11 countries and 14 online channels)
- Space +0.9% with 1,150 stores* in 55 countries
- Opened 144 stores and closed 116 during the year, as part of our rationalisation plan with our partners.

Group results

We now trade from 1,302* stores in 55 countries across the world. Global retail space was c4.4 million* sq.ft, despite challenging market conditions in the Middle East and continued planned store closures in the UK. In the UK space was down (5.9%) and we ended the year with 152 stores and c1.5 million sq.ft of retail space. International continued to grow space which was up 0.9% and we ended the year with 1,150 stores* and c3 million sq.ft* of retail space.

Worldwide sales were up 6.3% at c£1,222 million with total UK sales down (0.1%) and UK like-for-like up 1.1%. Total International sales up 10.6%. Group sales were down (2.2%) at £667 million due to lower shipments to our partners.

Despite the decline in Group sales, underlying Group profit before tax was up 1% to £19.7 million. The UK reduced losses by 31% to (£4.4 million), making an underlying profit in the second half of £4.4m while International profits were down 13% to £35.2 million. Other Group expenses were down 14% during the year with corporate costs of (£7 million), finance costs of (£3.3 million) and share based payments of (£0.8 million).

	52 weeks to 25 March 2017 £ million	52 weeks to 26 March 2016 £ million	% change vs. last year
Underlying International profit[1]	35.2	40.3	(12.7)%
Underlying UK loss[1]	(4.4)	(6.4)	31.3%
Corporate expenses	(7.0)	(8.1)	13.6%
Underlying profit from operations[1]	**23.8**	**25.8**	**(7.8)%**
Underlying net finance costs	(3.3)	(3.2)	–
Share-based payments	(0.8)	(3.0)	–
Underlying profit before tax[1]	**19.7**	**19.6**	**1%**
Exceptional items	(15.7)	(10.2)	–
Non-cash foreign currency adjustments	4.1	1.2	–
Amortisation of intangibles	(1.0)	(0.9)	–
Reported profit before tax	**7.1**	**9.7**	**–**

1 Underlying profit before tax refers to PBT before exceptional and non-underlying items. Underlying EPS is calculated on the basis of underlying profit.

* ELC inserts within a mothercare store have previously been classified as separate stores, with their own square footage. We have now aligned the classification policy with our UK business i.e. an ELC store located within or adjacent to a mothercare store, sharing a common passage way or entrance, is classified as one store. This reclassification means that 188 stores have been removed from the Q4 reported numbers of 1,338 stores, resulting in 1,150 International stores and c3 million sq.ft of space.

We now have 90 stores refurbished in the new club format, representing 70% of our total store estate.

	52 weeks to 25 March 2017 £ million	52 weeks to 26 March 2016 £ million	% change vs. last year
UK like-for-like sales growth[1]	1.1%	3.6%	–
UK online sales	171.9	159.4	7.8%
UK retail sales (including online)	423.6	426.1	(0.6)%
UK wholesale sales	35.8	33.6	6.5%
Total UK sales	459.4	459.7	(0.1)%
Underlying loss[2]	(4.4)	(6.4)	(31)%

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

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

Non-underlying costs were significantly higher at (£15.7 million) for exceptional items, including property related costs, International stock provisions and provision for China JV receivables as well as other restructuring costs; a credit of £4.1 million for non-cash foreign currency adjustments and a charge of (£1 million) for amortisation of intangible assets. As a result, we ended the year with a reported profit before tax of £7.1 million compared to £9.7 million in the previous year (FY15: loss of (£13.1 million)).

Debt at the end of the year was (£15.9 million), (FY16: £13.5 million cash) in line with our plan as we invested £39.3 million in our store refurbishment and infrastructure programme.

UK

In the UK, we continued to make progress on our six strategic pillars. However, the first half of the year was challenging and sales and margin in the period stalled. There were two factors at play here – firstly the widely reported slowdown in sales across the high street due to unseasonable weather through the spring/summer season, resulting in higher markdown. Secondly, our planned warehouse infrastructure change meant there was a reduced flow of product to our stores for eight weeks in the summer and a one-off increase in operational costs as the new systems bedded in.

We made good progress in the second half of the year with performance in line with expectations which partially compensated for the shortfall in the first half. We also received an outstanding VAT claim which offset the margin impact of our warehouse changes.

We finished the year with total UK sales marginally down (0.1%) at £459 million and underlying UK losses reduced by 31% to (£4.4 million). Underlying UK losses three years ago were (£21.5 million) in FY2013/14, prior to our turnaround.

Six Pillar Strategy

Become a digitally led business

Online sales were up 7.8% at c£172 million, with sales via iPads in our stores now accounting for 40% of the mix. The trend towards mobile continues, with our digitally enabled customers using their mobiles to browse and purchase product, review content and engage with us on our social channels. Mobile now accounts for 83% of online traffic. Click and Collect orders are now 25% of online sales; giving customers this flexibility to collect in store, bringing the additional benefit of driving footfall. The re-platforming of our website has provided customers with an enhanced web experience, providing better navigation, clearer product presentation and a simplified check out process.

Chief Executive's review
continued

+10.6%

International total sales growth

This functionality, combined with the customer insight from our database of over three million, up from 150,000 three years ago, is enabling us to now personalise the shopping experience, with content that is relevant to our customers' life stage and needs.

Supported by a modern retail estate and great service
We now have 90 stores refurbished in the new club format, representing 70% of our total store estate. Customers have reacted very positively to the investment and we are seeing improved performance in most of these stores. We are developing our stores to be more than just outlets to sell product but centres of expertise, advice and support. They play a valuable role in bringing together communities of mums and dads to meet, chat, seek information and knowledge. Over 50,000 customers attended our Expectant Parent Events and we hosted parent meet-ups and many parties and get togethers in our coffee shops and play areas.

We have renegotiated the majority of leases in our portfolio and now have an agile store estate. This now allows us the flexibility to ensure we have the right footprint to support our customers' evolving shopper behaviours. The average lease length is now five years.

Whilst our strategy of closing underperforming stores reduced UK space by (5.9)% we still grew UK like-for-like sales by 1.1% and only dropped overall UK sales by (0.1)%.

Offering style, quality and innovation in product
Our continued focus on quality, exclusivity and value for money has been well received by our customers this year.

In **Clothing and Footwear**, we have delivered our target of 20% of our clothing range in the 'best' category, compared to just 11% three years ago. We continue to innovate with new collections like Heritage, which takes our back catalogue of designs and re-introduces them as a retro collection. Our celebrity collaborations are also firm favourites: 'Smile' by Julian Macdonald; Jools Oliver's 'Little Bird' collection which has now been extended into maternity and nursery, bedding and accessories and the newly relaunched 'My K' by Myleene Klass.

In **Home and Travel** we have continued to work with our suppliers to increase our exclusive product and offers for our customers. We now have 35% of Home and Travel product exclusive to Mothercare, from nothing three years ago. We have introduced 13 new brands this year. Our 'better' and 'best' categories are now 81% of our Home and Travel product offer with 34% 'best'. Design innovation remains a key focus. Our latest in-house designed pushchair range 'Journey', combines the best of cutting edge technology with modern design and became an instant best seller.

In **Toys**, branded and licensed toys have continued to grow in line with our strategy and are now 20% of our mix, compared to less than 10% three years ago, with good growth from both existing brands like Vtech, Fisher Price and smarTrike®. Product newness and innovation are of high importance with 1,440 new lines introduced this year, 20% more than the previous year.

In ELC the ever popular Happyland has seen investment in new designs and tooling to launch ten new play sets. These include our Christmas advent calendar which was sold out. We have also continued to develop and enhance our Learning range of products designed to help teach early literacy and numerical skills.

Stabilise and recapture gross margin
Despite the challenges in the first half of the year, we made good progress in the second half, finishing the year with gross margin up 54 bps and in line with our long-term guidance of 50-100bps. This is our third successive year of gross margin improvement after several years of decline. Our percentage of full price sales was 60% compared to 57% three years ago. We have upgraded our planning and merchandise systems which will enable us to better manage stock and should lead to a reduction in markdown and further growth in full price sales.

Running a lean organisation
We have absorbed the underlying cost inflation of the national living wage, through productivity improvements. Additionally our cost base has also reduced as store numbers have come down.

Our Watford head office has been refurbished to create a flexible, multi-functional space for meetings with our suppliers and colleagues. We have constructed a mock shop at the centre of the office to enable us to lay out our product as it would appear to our customer. This working mock shop will enable us to present our product ranges more professionally to our franchise partners for their selection, and importantly will help with the construction of our global ranges.

International
In 2016 we undertook a review of our International business. An output from this review means that we are strengthening franchise model by focusing our activity on where we believe there are the biggest

opportunities for growth. This will mean investing more time and resource in our largest territories and over time consolidating or exiting some of our small territories. In the last year, we have exited franchise agreements in Poland and Morocco for both the Mothercare and ELC brands and in Venezuela for ELC only. The number of stores closed across these three markets as a result was eight and a total of c18,000 sq.ft.

In the year we opened 144 new stores and closed 116, with 50 stores now in the new club format post refurbishment.

We are helping our partners to position our brand correctly against local competition both through a product mix and recommended pricing architecture, and additionally helping them to better manage their inventory levels through the buy and then the subsequent level of markdown needed to clear the stock.

We see significant global opportunity in digital with our International online sales growing by 64% in constant currency this year. We ended the year trading online in 21 countries with 26 online channels (FY2015/16 trading in 11 countries and 14 online channels). Online penetration is now 3% of International sales and climbing (FY2015/16: 2%). In Russia and China, where we are more established, penetration is over 10%.

We are still encouraged by many more exciting opportunities in both existing and new markets around the world.

Outlook

We have now achieved much of what we set out to do from our original six pillar strategy set in 2014. We have gained a deeper insight into our customers' changing product needs and, importantly, how their shopping behaviour is altering. Our online transactions now represent 41% of our UK turnover and are also growing extensively in our global business.

The UK returned to profit in the second half of the year; this was last achieved six years ago. Whilst we are proud of

	52 weeks to 25 March 2017 £ million	52 weeks to 26 March 2016 £ million	% change vs. last year
International like-for-like sales growth[1]	(4.1)%	(4.5)%	–
International retail sales: constant currency	(2.4)%	(1.4)%	–
International retail sales: actual currency	10.3%	(7.4)%	–
International retail sales	753.2	683.0	10.3%
International wholesale sales	9.3	6.7	38.8%
Total International sales	762.5	689.7	10.6%
Underlying profit[2]	35.2	40.3	(13)%

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

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

what we have achieved to date, we believe we are only half way through the transformation of the Mothercare brand.

With the clear progress and results being seen in the UK we now enter the second phase of our turnaround. Through the work we have put in and the build of an extensive database, we approach this next phase with a far deeper understanding of our customers and the importance of our brand to them.

Our knowledge and insight can now inform us as to how we shape the business and our ranges. As a result, we are becoming even more focused on our core markets of maternity, newborn, baby and toddler up to pre-school. We are a true specialist in these categories and will build our offer and our services upon this basis.

In the UK, our store numbers will reduce to between 80 and 100 as we focus on a regional presence in key conurbations. We are clear that the role of our store network is to support our digitally led approach by providing specialist face-to-face service and advice along with first class product presentation. With the data we continue to build, we are equipped to personalise our customer shopping journey, from the baby's due date all the way through to their pre-school age. We will no longer sell ranges in the UK for older children in either Clothing or Toys.

Over time, this simpler approach will lead to a leaner, more agile business resulting in more stable and sustainable cash flows.

None of us are certain how the UK consumer will respond in the short term to the inflationary pressures that will inevitably flow into their household expenditure. However, we do know that we are moving the Mothercare brand forward and becoming ever more relevant to our modern customer. As such, we are excited by the next phase of the turnaround and remain confident of the Group's future prospects.

Our vision at Mothercare 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.

Our vision

The leading global retailer for parents and young children

Our role

Uniting mums (and dads) to take on parenting together

Strategic pillars

01 + 02 | 03 | 04 | 05 | 06

Four foundations

Our values

Make it better
Make it happen
Do it right

Strategic pillars

01+02 Become a digitally led business supported by a modern retail estate and great service

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.

01+02

Becoming a digitally led business, supported by a modern retail estate and great service.

Become a digitally led business
The trend towards omnichannel shopping continues to rise as we see our digitally connected 25-34 year old customer using a variety of offline and online touch points to connect with us. Our total online sales are now 41% of our total UK sales, 40% of which are now from iPads in our stores. Over 83% of traffic to our site is from a mobile device. Click and Collect now accounts for 41% of online orders and 25% of online sales.

Enhanced web experience
We have re-platformed our website, providing a responsive site with more functionality and a better experience for our customers. Amongst the improvements, there has been a re-design to complement the new Mothercare brand look and feel; better navigation and a simplified check-out process from seven steps to three. We know that the pregnancy journey for our customers begins long before they start purchasing products – they are searching for advice and information. We have therefore updated our advice section, optimising it for mobile, upgrading 247 content pages and creating 25 new videos on subjects ranging from what to pack in your hospital bag through to how to soothe a crying baby.

With our mobile first approach, we have also made improvements to our app, which now has over one million downloads. These include a redesign in line with the website redesign; a new homepage that includes personalised elements such as recently viewed products, offers, wish lists, content streamed from the website hub and a new one touch checkout – reducing the steps to purchase from seven down to one.

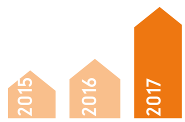
We now have three million active customers on our database and combined with over four million e-receipts, this gives us huge insight into how, when and where they shop. With this understanding, we can provide them with advice, information and products relevant to their specific stage of pregnancy and parenthood. Delivering a personalised customer experience therefore remains a key priority and we will continue to grow our capability here.

See KPI on page 26
Online sales

Online penetration

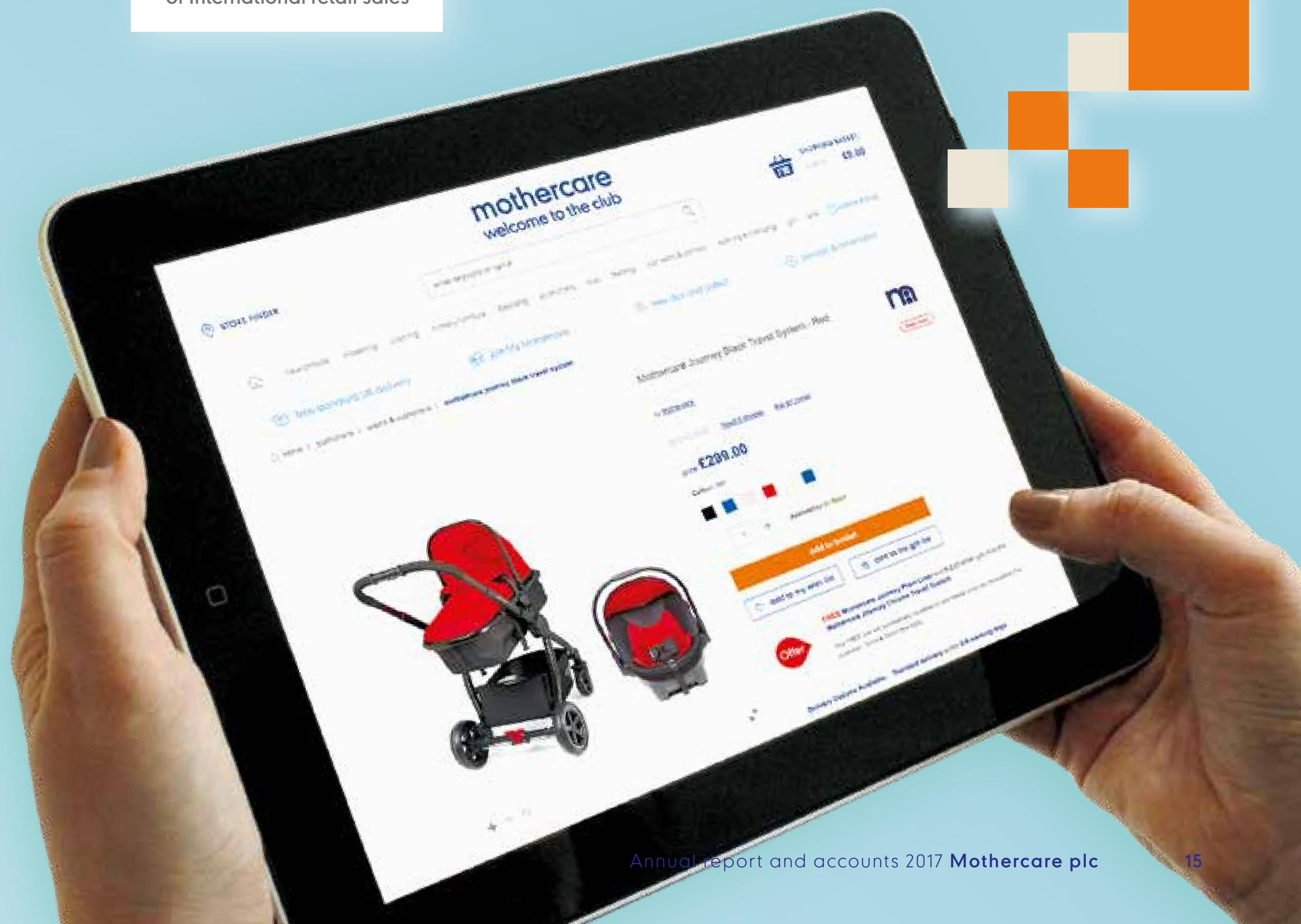
of UK retail sales

3%
£20m



of International retail sales

Our customers are digitally enabled and have responded well to our improved online experience, which is optimised by device.



Our brand

We introduced our new brand proposition, 'welcome to the club' across the business, reflecting our role of uniting mums and dads to support them on their parenting journey, by providing a place where they can meet, chat, get advice and feel supported. From the 2am club on our Facebook page to mummy meet ups in stores, Mothercare is welcoming communities of mums and dads to the club.

Supported by a modern retail estate and great service

Our store refurbishment programme has continued at pace over the last year, with the refurbishment of 40 stores as well as opening three additional stores in Rugby, Havant and Warrington, a re-sited store. We are now nearing the end of our current planned store closure programme and 70% of our store estate is now in the new club format. We are continuing to see the benefits of this investment with an improved shopping experience for our customers also improving performance in these stores.

We will continue to review our store estate to ensure we have a footprint that supports our customers' evolving shopping behaviours. To this end we have renegotiated the majority of the leases in our portfolio and now have an agile store estate, with the majority of leases in the estate being less than five years.

See KPI on page 26
UK store estate invested in

Omninchannel shopping

Our customers are now shopping seamlessly between online and stores. The combination of our chain of 152 stores and iPads in these stores, enables us to present our full range of products to our customers nationwide. We have also improved wi-fi in the majority of our stores and continue to roll this out across the estate, while Click and Collect orders now account for 40% of online orders, giving customers the flexibility to collect their online orders in our stores, bringing the additional benefit of driving footfall.

Our store refurbishment programme has continued at pace over the last year with the refurbishment of 40 stores.

Specialist advice and service

As a specialist retailer, we have continued to develop our service proposition to support mums and dads on their parenting journey. Our community of c4,300 store colleagues have completed service training to support the specific requirements of our customers at different stages of pregnancy and parenthood and our Personal Shopper service appointments have grown by 120%.

We have car seat and bra fitting specialists in all our stores supported by a team of 51 experts who ensure the teams are trained to the highest levels and are up to date on latest developments. Three times a year, we bring together a wide range of external experts at our Expectant Parent Events in our stores, to provide advice and information on a range of topics for new mums and dads as well as product demonstrations, information and guidance. We held 600 Expectant Parent Events over the last year attracting around 50,000 people, helping to drive sales as well as building lasting relationships with our customers.

03

Offering style, quality and innovation in product.

Product highlights

Style, quality and design, combined with insight from our customers, are at the heart of our product development and sourcing, in our core markets of maternity, newborn, baby and toddler up to pre-school. Our strong supplier relationships along with our position as a market leader, have enabled us to secure better bought in margin as well as grow our exclusive product and introduce new brands. We ended the year with full price sales at 60%, compared to 57% in FY2013/14. In FY2016/17, our sales and margin were impacted by unseasonable weather during the first half of the year and our planned warehouse changes which reduced the flow of stock to store for an eight week period.

Our supplier base is audited so we can ensure we always do our utmost to conduct ourselves responsibly for those involved with the manufacture and safety of our products and their communities, and for the environment in which we operate.

See KPI on page 26
Product mix

Clothing and Footwear

We have delivered our target of 20% of our clothing ranges in the 'best' category compared to 11% three years ago, while continuing to innovate with new collections. The Heritage collection has been a very popular addition, inspired by the royal babies, Prince George and Princess Charlotte, and British heritage was again a feature of the highly popular Peter Rabbit range developed to coincide with Beatrix Potter's 150th anniversary. This was the biggest character range that Mothercare had launched in 15 years, extending across Home and Travel and Toys. The product was an instant hit with customers. Our celebrity collaborations, are also firm favourites: 'Smile' by Julian Macdonald; Jools Oliver's 'Little Bird' collection has been extended into maternity and nursery bedding and accessories while newborn and baby has been a top seller in the newly relaunched 'My K' by Myleene Klass.

Toys

Branded and licensed toys have continued to grow in line with our strategy and are now 20% of our mix with good growth from both existing brands like Vtech, Fisher Price & smarTrike®, as well as good growth from newer properties including Paw Patrol and our exclusive Infantino range.

Product newness and innovation remains a core focus, with 55% newness for the full year and a growth of 22% with a total of 1,446 new lines introduced in the year.

In ELC, the ever popular HappyLand has seen investment in new designs and tooling to launch ten new play sets while baby and toddler toys remain a key focus for our customer. We continue to grow our share of this market, and we now have 11% of the baby and toddler market. We have also continued to develop and enhance our Learning range of products designed to help teach early literacy and numerical skills.

We are market leaders in travel and nursery furniture with 26% share in pushchairs; 24% in car seats and 30% in nursery furniture.

Home and travel

35% of H&T product is now exclusive and we continue to grow this category featuring UK exclusives like Nuna Suited range, as well as global exclusives like the Silvercross Popstar. We have introduced 13 new brands this year, with 81% of options now in the 'better' and 'best' category. We are market leaders in travel and nursery furniture with 26% share in pushchairs; 24% in car seats and 30% in nursery furniture.*

Design innovation continues to be a key focus of our own brand product including the innovative features of our compact range with the XSS stroller, folding cot and folding bath for parents with limited space or for visits to friends and family, and our new Journey range combines the best of cutting edge technology with design. We have also extended the popularity of Jools Oliver's 'Little Bird' clothing into a new bedding and nursery range that is proving to be equally as popular.

* Source: GFK

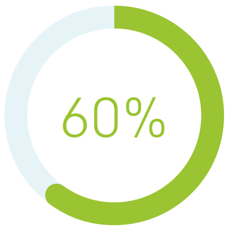
04

Stabilise and recapture gross margin.

+54bps

54 bps, third successive year of margin improvement

We continue to buy better, with improvements to our bought in margin due to better sourcing.



full price sales mix in a tough environment (FY2015/16: 66%, FY2013/14: 57%)

We have made a number of advances in continuing to improve margin over the last year, with the result that at the start of the year, we were selling 70% of our product at full price. Unfortunately, our sales and margin stalled in the first half of the year due to the unseasonable weather that impacted sales across the high street as a whole, resulting in higher markdown and secondly, our planned warehouse infrastructure change reduced the flow of product for eight weeks over the summer. Despite these challenges, we made good progress in the second half, finishing the year with margin up 54bps, with 60% of our product at full price.

We continue to buy better, with improvements to our bought in margin due to better sourcing. We also continue to focus on improvements in pricing architecture, with 20% of our clothing and footwear now in the 'best' category as well as growing product exclusivity for our customers.

See KPI on page 27
UK margin

05

Running a lean organisation while investing for the future.

We continue to prudently manage costs in our business, instilling this thinking amongst all colleagues to create a culture of new and innovative ways to drive savings and efficiencies in our business. Investment has also continued to strengthen our capabilities in key areas such as our warehouse systems, so we can now fulfil stock for both stores and online from one single warehouse, facilitating significant benefits in future years for both our customers and our operations. We have also upgraded our planning and merchandising systems to enable us to better manage stock so we can trade more effectively, reducing markdown and growing full price sales.

We have improved our Watford head office to create a flexible, multi-functional space for meetings with our suppliers and colleagues, investing in a mock shop to enable us to professionally present product to our partners and a customer experience lab to help us to continually enhance our customers' online experience. Whilst recognising the underlying cost inflation of the national living wage, we have delivered productivity improvements that have mitigated this impact. Our cost base has become more agile as we have reduced our store numbers.

Improvements in costs and productivity have enabled further investment in marketing and in digital.

See KPI on page 27
Running a lean organisation

Multipurpose office

Our Watford head office has been refurbished to create a flexible, multi-functional space for meetings with our suppliers and colleagues. We have constructed a mock shop at the centre of the office to enable us to lay out product as it would appear to our customers. This working mock shop will enable us to present our product ranges more professionally to our International Partners for their selection and importantly will help with the construction of our global ranges.

Warehouse reconfiguration

We have upgraded our warehouse capability so we can fulfil products for both stores and online from one campus – in the longer term, this will enable us to reduce overall stock levels.

06

Expanding further internationally.

+10.6%

International total sales growth

21

Trading online in 21 countries with 26 online channels (FY2015/16: 11 countries and 14 online channels)

Our International business remains a very important part of our global business accounting for 62% of global sales.

We have made strong progress with our strategy to apply learnings from the UK to drive International performance and ensure our brand is presented in a consistent way around the world. Our new club format is now in 50 stores in 19 markets and we are also helping our partners to grow their business with new recommended pricing strategies to improve both margin and stock management.

Our 38 partners operate 1,150 stores in 55 markets around the world, across 3 million sq.ft of retail space, which equates to 67% of total space of our global business.

Although small, we have continued to grow our International online sales and see significant opportunity here. We are now trading online in 21 countries with 26 online channels, having started the year with 11 countries and 14 online channels. We also have iPads in stores in Ireland and China and see further opportunities to introduce them in other markets.

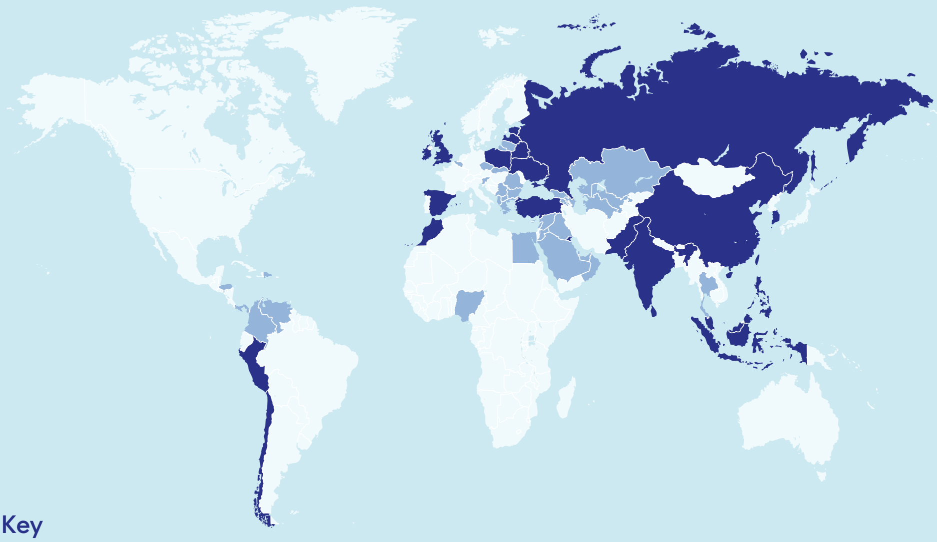
While still a small part of their overall business, we have increased market penetration from 2% to 3% this year, with online sales growth of 64% in constant currency compared to last year. In our established markets, Russia and China, we are seeing penetration in excess of 10% (more than the country averages).

Our International business remains a very important part of our global business accounting for 62% of global sales. While there are still challenges in the Middle East, we now see the recovery of sales in China and strong growth in Russia and Indonesia. India continues to be a key opportunity for growth and we consolidated our franchisee partners there during the year.

We still see many opportunities in existing and new markets around the world.

See KPI on page 27
International growth

Global



Key
- Store only
- Stores and web presence

UK

Stores: **152**
Space: **1,462k sq.ft.**

Europe (36% of sales)

Stores: **369**
Space: **1,132k sq.ft.**

Asia (24% of sales)

Stores: **380**
Space: **907k sq.ft.**

Latin America (2% of sales)

Stores: **50**
Space: **59k sq.ft.**

Middle East (38% of sales)

Stores: **351**
Space: **846k sq.ft.**

KPIs
Measuring our performance

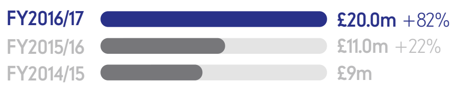
The Mothercare KPIs are aimed at measuring our performance against each of our six strategic pillars.

01 Online sales

UK

£172m
+7.8%

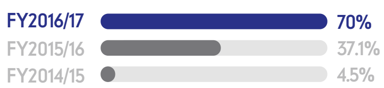
International



£20m
+82%
Actual currency not constant

02 UK store estate invested in

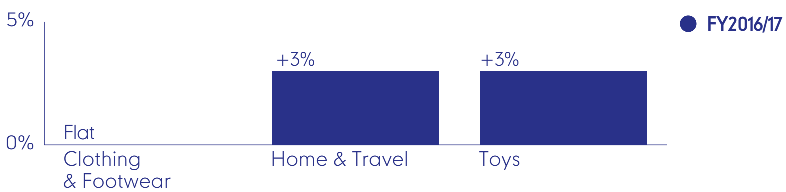
UK

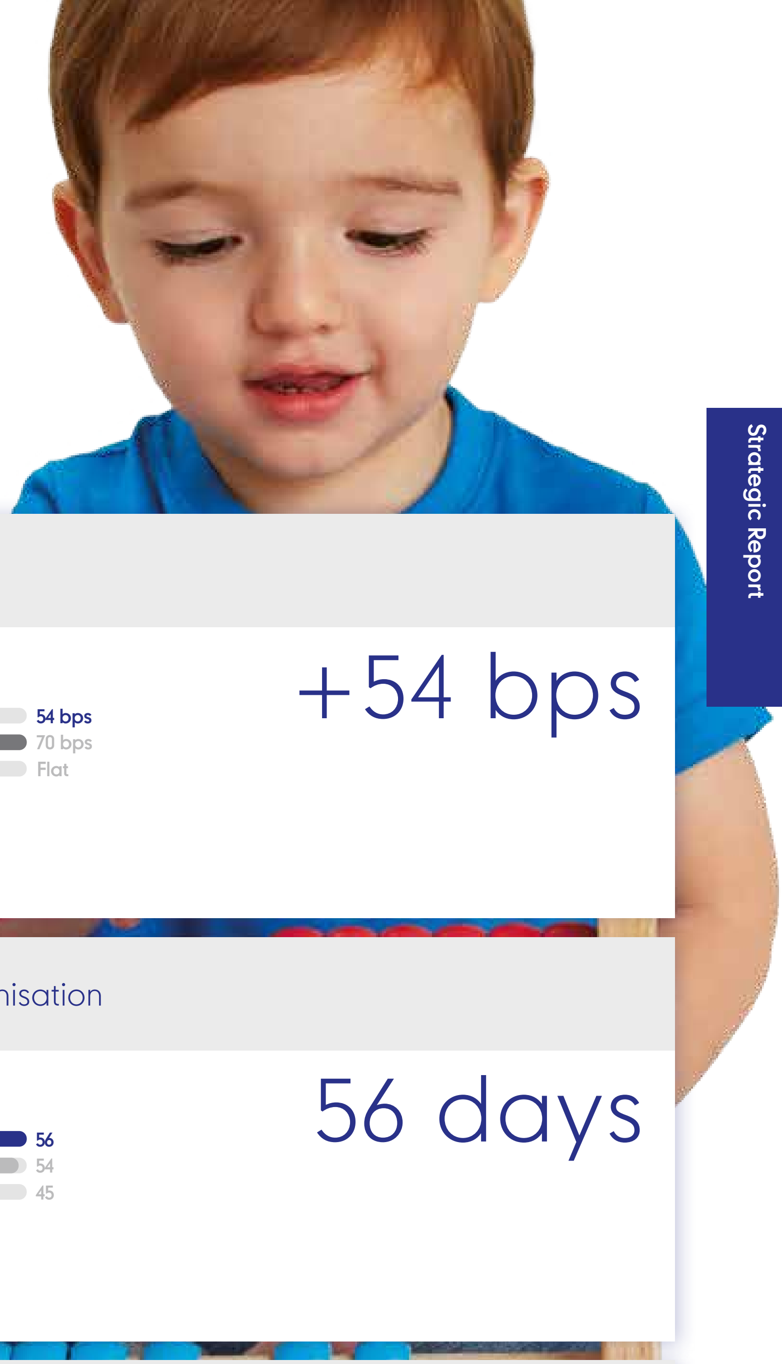


70%

03 Product mix

Growth in branded product mix





04 UK margin

UK

+54 bps

FY2016/17	54 bps
FY2015/16	70 bps
FY2014/15	Flat

05 Running a lean organisation

Inventory days cover

56 days

FY2016/17	56
FY2015/16	54
FY2014/15	45

06 International growth

Constant currency sales growth

-2.4%

FY2016/17	-2.4%
FY2015/16	-1.4%
FY2014/15	+12.4%

Principal risks and uncertainties

Mothercare operates in an environment where the management of risk is of overriding importance to our brand values. Our attitude to risk is all inclusive and is designed to infiltrate 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.

The directors also undertook a robust assessment of the Company's principal risks and the potential impact these risks would have on the Group's business model, future performance, solvency and liquidity.

Our approach to Risk

The Audit and Risk Committee has full responsibility for overseeing the effectiveness of robust 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 and local knowledge from our sourcing offices in the Far East and our network of Franchise partners globally.

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 and great service.
- Offering style, quality and innovation in product.
- Stabilise and recapture gross margin.
- Running a lean organisation while investing for the future.
- 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:

This process ensures a consistent approach to the assessment of risk across the business.

Enterprise Risk & Assurance

The Head of Enterprise Risk & Assurance leads a team of talented people working within the compass of:

- **Profit Protection** – store compliance to policy and procedures including regulatory Health & Safety compliance.
- **Internal Audit** – both internal, for operational reviews, and external resource for more in depth and technical reviews.
- **Enterprise Risk Management** – working closely with the Executive Committee and their teams to identify risk and ensure processes to mitigate risk are imbedded and appropriate.
- **Business Continuity** – perform scenario rehearsals against corporate and departmental plans.

Risk Committee

The Risk Committee meets monthly and includes senior managers from key departments as committee members. In addition, the Committee is empowered to call upon any experts when necessary. Horizon scanning and the introduction of any emerging risks is an agenda item and is given sufficient time to fully explore the 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 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 and the framework in which the Group can operate, the Board challenges the Executive Committee, through the Chief Financial Officer, 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	• Strategic risks • Operational and transformational risks • Key strategic project risks
Medium Tolerance	• Macro-economic risks • Geo-political risks
Low Tolerance	• Health & Safety risks • Manufacturing risks • Bribery & slavery risks • Regulatory and compliance risks • Brand reputational risks

2017 Risk management actions

In July 2016 the Company recruited a professional Head of Enterprise Risk & Assurance. This role has been created to recognise the need to develop our approach to risk and how to make it more central in our business decision making processes. The Head of Enterprise Risk & Assurance brings significant expertise in this area and will work with the Board, Executive Committee and senior leaders in evolving our approach.

A thorough top down/bottom up review was conducted by the Executive Committee in November 2016 to challenge the mitigating factors against each principal risk in the organisation. This resulted in a more focused process and delivered appropriate mitigating actions against each risk.

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 of 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.

Principal risks and uncertainties
continued

Below are the Principal Risks and Uncertainties and the ratings as agreed by the Board for the year ended 25 March 2017.

Risk description	Impact	Mitigation	Change on last year
• The anticipated turnaround of the Group's UK business may not be achievable if it fails to implement effectively key aspects of its new strategic plan.	• The Group 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.	• Rigorous project governance managing the key spend areas of store refurbishment and IT systems with risk and audit oversight. • Development of FY priorities to support the strategic plan. • Strategic plan to refurbish all ongoing stores, varying from light touch re-fits to full refurbishment. Maintaining a lean organisation through tight management of resources and controlling the Group's cost base. • Simplifying customers' online journey and enhance the customer experience by way of improved photo and video presentation and customer reviews. • Improving 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. • A detailed plan is in place to manage the strategic objectives of the Group. In addition, a contingency plan has been created to ensure continued growth of the organisation. • Review of Home & Travel supply chain to reduce lead times. • Back to the Floor programme encourages head office staff to spend time in a store to experience the customer perception. • 'Working online' sessions launched for the whole HO team.	= No change
• The Group may be affected by challenging economic conditions and political developments affecting the international markets in which it operates.	• Economic and political uncertainty enveloping eastern / southern Europe, oil based economies, and those dependents on China could have a material adverse effect on the Group's business.	• Working with franchise partners to manage benefits to be gained with International markets given the continued devaluation of Sterling since the Brexit vote. • 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.	= No change

Risk description	Impact	Mitigation	Change on last year
• The Group's results of operation may be affected by foreign exchange risk as a result of the devaluation of Sterling since the Brexit vote.	• Hedging foreign exchange does not eliminate the Group's exchange or interest rate risks entirely and may not be fully effective given the impact on sterling since June 2016. 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.	• Ongoing review of the pricing position compared to competitors. • Minimum order quantities set to ensure best available cost price. • Collaboration with key suppliers to negotiate better pricing. • Sourcing team exploring new and emerging supply markets. • Any short-term sterling volatility will be sheltered by the Group's hedging policy which has been agreed by the Board. • The largest five Franchisees have their trading currencies hedged.	Increase in risk over the year
• The Group is materially dependent on a small number of Franchise Partners that make up a significant proportion of its International business. • Major contract negotiations are and will be ongoing for 12-18 months with International partners.	• 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.	• Strong personal and business relationships built up over a long time with key Franchise Partners. • Regular senior management visits to key Franchise Partner markets, including the Executive. • Credit insurance in place for the major Franchisees. • Development plan agreed for franchise markets. • Working with key Franchise Partners on strategic market offerings.	No change
• 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.	• Any perceived or actual concerns related to the Group's products or products by key suppliers, 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 and cause considerable reputational damage.	• Focus on fewer products, enabling strengthening of quality measures in place. • Significant Group investment in product quality and management resource. • High standards communicated throughout supply chain with in-house responsible sourcing team working in Bangladesh, India and China. • Responsible Sourcing (RS) Handbook – Compliance Standards for all Mothercare/ELC branded suppliers has been issued. • Focus on pre-despatch quality checks. • Established product recall process managed by crisis management team. • The Company participates in the Bangladesh Safety Accord. • Group trademarks are formally logged in country of operation. • Proactive enforcement of IP rights.	No change

Principal risks and uncertainties
continued

Risk description	Impact	Mitigation	Change on last year
• 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.	• 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.	• Responsible Sourcing team in place who conduct audits across all existing and new suppliers. • Critical path management has been defined and implemented. • Upfront capacity planning is in place to manage delivery of products. • Tone from the top delivered at International supplier meetings.	Increase in risk over the year
• The Group relies on its manufacturers, suppliers and distributors to comply with employment, environmental and other laws.	• If the Group is unable to monitor manufacturers, suppliers and distributors in relation to compliance with relevant laws, it may inadvertently result in non-compliance against Group policies.	• Conflict of Interest self-certification is required. • Company Code of Conduct communicated and applied through an e-learning tool for sign off. • Responsible Sourcing (RS) Handbook – Compliance Standards for all Mothercare/ELC branded suppliers has been issued.	No change
• The Group relies on its ability to improve existing products and successfully develop and launch new innovatory products.	Failure to bring new innovatory product to the market may have a material adverse effect on the Group's business, results of operation or financial condition.	• Critical path management has been developed and embedded. • 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, visual media and merchandising standards.	No change
• 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.	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.	• 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 meetings. • Succession planning has commenced for key roles. Additional actions will be documented and implemented. • New remuneration policy has been developed.	No change

Risk description	Impact	Mitigation	Change on last year
• 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.	• If any third party with whom the Group interacts violate 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.	• A dedicated Cyber Security Manager has been appointed and is strengthening all data related IT security. • 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 attempted cyber related attacks. • Recruiting a Data Protection Officer in response to the new EU guidelines (GDPR). • Regular penetration tests conducted.	= No change
• The Group supplies and sources its products and operates in a number of countries in which bribery and corruption pose significant risks.	• 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 operations.	• 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 are fully trained in how to deal with attempts at bribery. • Responsible Sourcing (RS) Handbook – Compliance Standards for all Mothercare/ELC branded suppliers has been issued. • Anti-Bribery and Corruption e-learning has been rolled out. • Due diligence checks are conducted.	= No change
• The partnership with China is key to the Group's International strategy, since it is financially invested in the partnership and any change to the China operations could have a detrimental impact on the Group. The Group also trades with the JV and is therefore also exposed to debt.	• The Group would be financially impacted should the China partnership break down.	• A strategic review of the JV has been completed and shared with the Executive and JV partner highlighting actions required to improve performance. • The General Manager for the JV has been replaced and a new interim CEO is in place to improve leadership and governance in the JV. • The trading performance of the JV has improved over the last few months supported by improvements in the market and a new lower price strategy on clothing ranges, however has still to return to cash profit. • Regular JV stakeholder and Board meetings.	▲ Increase in risk over the year

Financial review

Richard Smothers
—
Chief Financial Officer

Results summary

Group underlying profit before tax increased by £0.1 million to £19.7 million (2015/16: £19.6 million). Underlying profit excludes exceptional items and other non-underlying items which are analysed below. Exceptional items include costs relating to activity on property, warehousing costs, restructuring costs and provision for the joint venture receivable. After exceptional and non-underlying items, the Group recorded a pre-tax profit of £7.1 million (2015/16: £9.7 million).

Income statement

£ million	52 weeks ended 25 March 2017	52 weeks ended 26 March 2016
Revenue	667.4	682.3
Underlying profit from operations before interest and share based payments	**23.8**	**25.8**
Share based payments	(0.8)	(3.0)
Net finance costs	(3.3)	(3.2)
Underlying profit before tax	**19.7**	**19.6**
Exceptional items	(15.7)	(10.2)
Non-cash foreign currency adjustments	4.1	1.2
Amortisation of intangible assets	(1.0)	(0.9)
Profit before tax	**7.1**	**9.7**
Underlying EPS – basic (pence)	9.7	9.6
EPS – basic (pence)	4.8	3.8

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 25 March 2017	52 weeks ended 26 March 2016
UK	459.4	459.7
International	208.0	222.6
Total	**667.4**	**682.3**

£ million – Underlying Profit	52 weeks to 25 March 2017	52 weeks to 26 March 2016
UK	(4.4)	(6.4)
International	35.2	40.3
Corporate	(7.0)	(8.1)
Profit from operations before share based payments	**23.8**	**25.8**
Share based payments	(0.8)	(3.0)
Net finance costs	(3.3)	(3.2)
Underlying profit before tax	**19.7**	**19.6**

UK LFL sales have increased by 1.1% with support from online sales which were up 7.8% year on year. Total UK sales were stable year on year, with underlying trading offsetting the impact of 21 planned store closures and three new store openings. 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 2.4% on a constant currency basis and up 10.3% in actual currency, reflecting the ongoing currency tailwinds. However, the decrease in International volumes along with lower royalties from China resulted in profits being 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 £0.8 million (2015/16: £3.0 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.

The decrease in the charge year on year is due to a change in the estimated number of shares that will vest. 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 predict reliably 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 Direct in Home and Direct in Store.

International retail sales are the estimated retail sales of overseas franchisees and joint ventures to their customers (rather than Mothercare sales to franchisees as included in the statutory or reported sales numbers). Total International sales are International retail sales plus International wholesale sales. Group 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 25 March 2017	52 weeks ended 26 March 2016	52 weeks ended 25 March 2017	52 weeks ended 26 March 2016
UK retail sales	423.6	426.1	423.6	426.1
UK wholesale sales	35.8	33.6	35.8	33.6
Total UK sales	459.4	459.7	459.4	459.7
International retail sales	198.7	215.9	753.2	683.0
International wholesale sales	9.3	6.7	9.3	6.7
Total International sales	208.0	222.6	762.5	689.7
Group sales/Group worldwide sales	**667.4**	**682.3**	**1,221.9**	**1,149.4**

* Estimated

Analysis of worldwide sales movement

£ million – Worldwide sales	
Sales for 52 weeks ended 26 March 2016	1,149.4
Currency impact	88.8
Proforma sales for 52 weeks ended 26 March 2016	1,238.2
Decrease in International LFL	(30.1)
Increase in International space	11.6
Increase in UK LFL	4.6
Decrease in UK space	(6.0)
Increase in wholesale	3.6
Sales for 52 weeks ended 25 March 2017	**1,221.9**

Sales in the year ended 25 March 2017 were higher by £72.5 million primarily as a result of favourable currency impact of £88.8 million due to the devaluation of sterling.

Including the currency impact, International sales have increased by £72.8 million driven by an increase in space offset by reduced LFL sales.

UK sales have remained stable with an increase in LFL sales and wholesale sales offset by a decrease in space.

Financial review
continued

Analysis of profit movement

£ million – underlying profit before tax	
Underlying profit for 52 weeks ended 26 March 2016	19.6
Currency impact	1.3
Proforma underlying profit for 52 weeks ended 26 March 2016	20.9
Decrease in International volumes	(4.2)
UK closures of loss making stores	0.7
UK sales and margin improvement	6.4
Lower China royalties	(1.5)
Increase in costs	(2.6)
Underlying profit before tax for 52 weeks ended 25 March 2017	**19.7**

On a proforma basis (i.e. excluding the currency impact) underlying profit has fallen from £20.9 million to £19.7 million. This is driven by a decrease in International volumes and an increase in costs. This is partly offset by an improvement in UK sales and margin.

Margin was supported by ongoing work to recover VAT and includes benefits relating to the current and prior years. This is offset by the significant margin impact during the summer from the planned upgrade of our distribution centre, which reduced availability and led to an increased level of markdown.

Foreign exchange

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

	52 weeks ended 25 March 2017	52 weeks ended 26 March 2016
Average:		
Euro	**1.19**	1.37
Chinese renminbi	**8.78**	9.57
Kuwaiti dinar	**0.40**	0.46
Saudi riyal	**4.95**	5.68
Emirati Dirham	**4.81**	5.54
Russian rouble	**82.40**	95.40
Closing:		
Euro	**1.15**	1.29
Chinese renminbi	**8.56**	9.37
Kuwaiti dinar	**0.38**	0.44
Saudi riyal	**4.65**	5.43
Emirati Dirham	**4.55**	5.32
Russian rouble	**70.90**	98.09

The principal currencies that impact our results are Euro, Chinese renminbi, Kuwaiti dinar, Saudi riyal, Emirati Dirham and Russian rouble. The net effect of currency translation caused worldwide sales and underlying operating profit from ongoing operations to increase by £88.8 million and £1.3 million respectively compared with 2016 as shown below:

	Worldwide Sales £ million	Underlying Operating profit £ million
Euro	11.5	0.2
Chinese renminbi	17.9	0.1
Saudi riyal	14.2	0.1
Emirati Dirham	11.2	0.1
Russian rouble	17.9	–
Kuwaiti dinar	5.4	0.1
Other currencies	10.7	0.7
	88.8	**1.3**

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 in the current year.

Net finance cost

Financing represents interest receivable on bank deposits, less amounts capitalised for borrowing costs associated with the build of qualifying assets, 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 in line with last year.

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Net interest on liabilities/return on assets on pension	**2.6**	2.7
Other net interest	**0.7**	0.5
Net finance costs	**3.3**	3.2

Taxation

The underlying tax charge is comprised of current overseas taxes and a prior year adjustment for overseas taxes and is offset by UK deferred tax. The effective tax rate is 16.3% (2015/16: 16.4%). The effective tax rate is lower than the standard tax rate of 20% mainly due to the recognition of the deferred tax asset on the brought forward tax losses and further losses becoming available due to adoption of FRS101 for statutory reporting. An underlying tax charge of £3.2 million (2015/16: £3.2 million) has been included for the period within a total tax credit of £1.1 million (2015/16: charge of £3.3 million). The cash tax payments were £1.1 million.

Financial review
continued

Non-underlying items

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

Exceptional items (see Note 6):

- Costs relating to previously announced activity on property and retail restructuring programmes;
- Costs relating to the planned development of warehouses in the UK;
- Cost associated with head office redundancies and IT restructuring;
- Store impairment and onerous lease charges;
- Costs relating to the International stock obsolescence charge; and
- Costs relating to the China joint venture trade receivable provision.

Exceptional items in 2015/16 included 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 the store property provision in relation to the UK business of £0.8 million, International bad debt costs of £1.9 million and impairment of joint venture by £3.3 million.

Other non-underlying items:

- The revaluation of monetary assets and liabilities held in foreign currencies and the revaluation of outstanding forward contracts which have not yet been matched to the purchase of stock. These revaluation adjustments are reported as non-underlying items as the Group reports its underlying performance consistently with its cash flows, reflecting the hedging which is in place; and
- Amortisation of intangible assets (excluding software).

Earnings per share and dividend

Basic earnings per share were 4.8 pence compared to 3.8 pence in 2015/16. Basic underlying earnings per share were 9.7 pence compared to 9.6 pence last year.

	52 weeks ended 25 March 2017 Million	52 weeks ended 26 March 2016 Million
Weighted average number of shares in issue	**170.5**	170.6
Dilution – option schemes	**7.9**	6.0
Diluted weighted average number of shares in issue	**178.4**	176.6

Number of shares at period end	**170.9**	170.9

	£ Million	£ Million
Profit for basic and diluted earnings per share	**8.2**	6.4
Exceptional items and other non-underlying items (Note 6)	**12.6**	9.9
Tax effect of above items	**(4.3)**	0.1
Underlying earnings	**16.5**	16.4

	Pence	Pence
Basic earnings per share	**4.8**	3.8
Basic underlying earnings per share	**9.7**	9.6
Diluted earnings per share	**4.6**	3.6
Diluted underlying earnings per share	**9.3**	9.3

The Board has concluded that given the cash investment required to deliver the strategy the Company will not pay a final dividend for 2016/17. The total dividend for the year is nil pence per share (2015/16: 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 24 March 2018*	52 weeks ending 25 March 2017	52 weeks ending 26 March 2016
Income statement			
Running costs	(3.2)	(3.0)	(2.7)
Net interest on liabilities/return on assets	(2.9)	(2.6)	(2.7)
Net charge	(6.1)	(5.6)	(5.4)
Cash funding			
Regular contributions	(2.6)	(2.4)	(2.2)
Deficit contributions	(9.1)	(7.2)	(8.9)
Total cash funding	(11.7)	(9.6)	(11.1)
Balance sheet			
Fair value of schemes' assets	n/a	329.6	287.5
Present value of defined benefit obligations	n/a	(409.7)	(361.9)
Net liability	n/a	(80.1)	(74.4)

* 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:

	2016/17	2015/16	2016/17 Sensitivity	2016/17 Sensitivity £ million
Discount rate	2.7%	3.6%	+/- 0.1%	-7.8/+7.8
Inflation – RPI	3.2%	3.1%	+/- 0.1%	+7.5/-7.5
Inflation – CPI	2.1%	2.0%	+/- 0.1%	+2.7/-2.7

Financial review
continued

Cash flow

Underlying free cash flow was an outflow of £14.4 million with cash generated from operations of £27.0 million being used for capital expenditure and taxation.

Capital expenditure of £39.3 million reflected the investment in the year in store refurbishment and IT infrastructure.

Working capital was an outflow of £3.7 million, reflecting the timing profile of payments for stock, and the mid-season sale moving into the new financial year.

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Underlying profit from operations before interest and share based payments	**23.8**	25.8
Depreciation and amortisation	**18.2**	17.5
Retirement benefit schemes	**(6.6)**	(8.4)
Change in working capital	**(3.7)**	–
Other movements	**(4.7)**	(4.4)
Cash generated from operations	**27.0**	30.5
Capital expenditure	**(39.3)**	(33.9)
Interest and tax paid	**(2.1)**	(2.2)
Underlying Free cash flow	**(14.4)**	(5.6)
Exceptional	**(12.5)**	(12.9)
Free cash flow	**(26.9)**	(18.5)
Issue of ordinary share capital	**–**	0.4
Drawdown on facility	**15.0**	–
Purchase of own shares	**(1.2)**	–
Exchange differences	**(1.3)**	0.1
Cash and cash equivalents at beginning of period	**13.5**	31.5
(Overdraft)/cash and cash equivalents at end of period	**(0.9)**	13.5
Borrowings	**(15.0)**	–
Statutory net (debt)/cash at end of period	**(15.9)**	13.5

Balance sheet

The balance sheet includes identifiable intangible assets arising on the acquisition of the Early Learning Centre of £4.9 million and goodwill of £26.8 million. These assets are allocated to the International business.

	25 March 2017 £ million	26 March 2016 £ million
Goodwill and other intangibles	**63.4**	53.9
Property, plant and equipment	**80.4**	69.4
Retirement benefit obligations (net of tax)	**(66.4)**	(58.1)
Net (borrowings)/cash	**(15.9)**	13.5
Derivative financial instruments	**8.0**	11.2
Other net assets/(liabilities)	**11.9**	(0.8)
Net assets	**81.4**	89.1
Share capital and premium	**146.4**	146.4
Reserves	**(65.0)**	(57.3)
Total equity	**81.4**	89.1

Shareholders' funds amount to £81.4 million, a decrease of £7.7 million in the year driven mainly by a fall in the defined benefit obligation (net of tax) of £8.3 million. This represents £0.48 per share compared to £0.52 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 was in a net debt position of £15.9 million and had headroom on both cash and covenants on its existing facility.

On 5 May 2017 the Group refinanced with the support of its two existing banks, HSBC and Barclays, amending its committed facilities of £50 million to a £62.5 million revolving credit facility and a £5 million uncommitted overdraft (at an interest rate range of 2.0% to 3.0% above LIBOR). The amended revolving facility is made up of two tranches, a £50.0 million maturing in May 2020 (with an option to extend for an additional one year on two occasions subject to lenders' approval) and an additional £12.5 million – maturing November 2018 (with an option to extend for an additional six months on two occasions subject to lenders' approval). In addition, an accordion facility with a variable limit that allows the Group to draw down up to £75 million has been made available, subject to lenders' approval.

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.
- 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 FY19. 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 macro-economic 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 LFL growth in International, and negative LFL 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 and liquidity of the business would be significantly impacted. 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 31% of Group sales. Total International worldwide sales in the 52 week period represent approximately 62% 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 principal interest rate risk of the Group arises in respect of the drawdown of the revolving credit facility. This facility is at a fixed rate plus LIBOR, it exposes the Group to cash flow interest rate risk. The interest exposure is monitored by management but due to low interest rate levels during the period the risk is believed to be minimal and no interest rate hedging has been undertaken.

Credit risk

The Group's exposure to credit risk is inherent in its trade receivables. The Group has no significant concentration of credit risk, except with the China joint venture. 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.

Events after the balance sheet date

On 5 May 2017 the Group refinanced with the support of its two existing banks, HSBC and Barclays, amending its committed facilities of £50 million to a £62.5 million revolving credit facility and a £5 million uncommitted overdraft (at an interest rate range of 2.0% to 3.0% above LIBOR). The amended revolving facility is made up of two tranches, a £50.0 million – maturing in May 2020 (with an option to extend for an additional one year on two occasions subject to lenders' approval) and an additional £12.5 million – maturing November 2018 (with an option to extend for an additional six months on two occasions subject to lenders' approval). In addition, an accordion facility with a variable limit that allows the Group to draw down up to £75 million has been made available, subject to lenders' approval.

Corporate responsibility

Our Corporate Responsibility programme has three areas of focus:

Products

Addressing the social and environmental impacts of making and using our products.

Environment

Making our operations greener.

Communities

Strengthening our ties with the communities in which we work and investing in our people.

Performance Update

Highlights

In FY2016/17, the Mothercare Group:

- Built internal capacity and capability through strengthening the CR governance approach, launching the CR 2020 programme with the Senior Leadership Team and training the buying teams on Responsible Sourcing;
- Continued to drive its commitment to Responsible Sourcing by creating a consolidated Responsible Sourcing handbook and conducting dedicated supplier conferences in all of our major sourcing regions;
- Continued to reduce total CO_2e emissions through buildings and transport by 6%; and
- Had 52% of senior management positions (below Board level) filled by women.

Our approach to Corporate Responsibility

As a responsible retailer, our social and environmental commitments sit alongside our vision to be the leading global retailer for parents and young children. We are committed to our Corporate Responsibility (CR) programme and our customers and other stakeholders trust us to act with integrity to do the right thing, in the right way.

This report provides a summary of our new CR strategy, an overview of our governance and an update on our performance over the last 12 months against the targets we set ourselves. As we transition to the new CR 2020 strategy we have reported our FY2016/17 activity against our updated areas of focus and have summarised our priorities for FY2017/18.

Our new CR 2020 strategy

We previously confirmed that we were developing a new CR strategy. This is to ensure that our work remains in line with our vision and values. In FY2016/17 we concluded this strategic review with input from key stakeholders. As a result, we have created a new strategy called 'CR 2020' which was launched in January 2017 to our Senior Leadership Team.

Mothercare's vision is to be the leading global retailer for parents and young children. Our role is to 'unite mums (and dads) to take on parenting together'. Our CR 2020 ambition to 'unite with mums and dads to create a better world for the future of our children' has been developed to be consistent with and supportive of our vision.

As a global retailer the impacts of our business are diverse. Products are produced, transported, sold and then used and disposed of by our customers. To focus our activity on the material impacts, we have structured our CR 2020 programme into three areas of focus:

1. **Products:** addressing the social and environmental impacts of making and using our products;
2. **Environment:** making our operations greener; and
3. **Communities:** strengthening our ties with the communities in which we work and investing in our people.

Each of the areas of focus has defined priorities, along with a high level activity plan with supporting commitments and targets where relevant.

CR 2020 Governance structure

Our CR 2020 strategy builds on our existing governance framework. The strategic direction of our CR programme is developed by the Global Head of CR and agreed with the Board and Executive Committee.

Plc board

Through the Audit and Risk Committee, the Board was updated on the Corporate Responsibility strategy and progress in FY17. This update takes place at least once a year.

CR 2020 Steering Committee

A steering committee has been established to measure progress against this strategy. It meets bi-annually and is made up of key members of the Senior Leadership Team. In his capacity as chair of the CR 2020 Steering Committee, Dan Talisman, General Counsel & Group Company Secretary represents the agenda with the Executive Committee.

CR 2020 Operational Committees

Each of the three areas of focus within the CR 2020 strategy is governed by an operational committee whose purpose is to meet quarterly to track and report on progress on the relevant priorities within each area.

CR team

The team is led by the Global Head of CR who develops the strategy and co-ordinates the implementation, measurement and reporting of the CR programme. She has specific accountability for responsible sourcing and has a dedicated team of responsible sourcing professionals, based in China, India and Bangladesh. This team leads our approach of continuous improvement and collaboration with partners such as suppliers, other retailers, NGOs and other advisers.

1. Products

The biggest impact that Mothercare makes is through the products that we sell, from production right through to the way that products are used and disposed of. Every year we sell thousands of different items to our customers and our supply chain, like other retailers, is diverse and long. We acknowledge the material risks and opportunities in our supply chain and aim to address these proactively. In FY17 we have continued to prioritise responsible sourcing work in relation to labour standards. Going forward we will be continuing this important work while also identifying how we can further improve the sustainability of the materials used to manufacture our products and the environmental impacts of production.

Responsible sourcing

For Mothercare Group, Responsible Sourcing 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

We source from approximately 540 factories and the top five countries; China, India, Turkey, Bangladesh and the UK, account for 89% of our production sites.

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.

Third party audits

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 of Practice. Our internal Responsible Sourcing teams, based in our sourcing offices, review and grade these audits. This year we reviewed over 630 independent audits of factories, including new factories and annual updates. With this approach, we have been pleased to see that over 35% 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.

Corporate responsibility
continued

In-house factory assessments

Our Responsible Sourcing (RS) team covers Bangladesh, Cambodia, China, India, Sri Lanka and Vietnam where they carry out announced and unannounced assessments of factories and support them to implement improvements. This year our internal RS team has carried out over 280 factory assessments across all divisions in China, India, Bangladesh, Sri Lanka and Myanmar. This is a planned and welcomed reduction on the 340 assessments carried out in FY16 as we move beyond audits to develop a more strategic approach with our suppliers.

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.

Modern Slavery Act 2015

Much of our work in Responsible Sourcing 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 have reported our actions under the Modern Slavery Act on our website at www.mothercareplc.com.

Supplier Development

A single Responsible Sourcing Handbook has been developed and was sent to all Mothercare Suppliers in February 2017. This handbook is part of our supplier terms and conditions. It explains in detail our requirements and policies for Responsible Resourcing and includes all relevant policies, for example:

- Supplier Code of Practice;
- Child Labour Policy;
- Sub Contracting and Sub Supplier policy;
- Home worker policy;
- Migrant worker policy;
- Timber sourcing policy; and
- Animal Welfare Policy.

To support the launch of the handbook, Responsible Sourcing Supplier conferences were held in March 2017 in six locations: Watford, Bangladesh, Tirupur, Bangalore, Guangzhou and Shanghai. Over 250 people from 180 of our biggest suppliers attended the events. The conferences focused on the key Responsible Sourcing agendas of providing decent, safe and fair working conditions, treating workers with respect and dignity, reducing the environmental impact of production and conducting business ethically. The events were very well received by suppliers who appreciated the practical information and the level of transparency.

Collaboration with Stakeholders

In addition to our own work, we believe that dialogue and collaboration with stakeholders such as other brands and retailers, investors, non-governmental organisations (NGOs) and 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 Ethical Trading Initiative and are involved in working groups such as the China Caucus group and the Southern India working group (see below). We have continued to work with a wide group of stakeholders and a summary of the key initiatives are detailed below:

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, called TNMS (Tamil Nadu Multi-Stakeholders), since 2012, 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.

In addition to supporting the ETI work, we continued to make progress on our project which began in FY2014/15 to include bringing spinning mills owned by our suppliers within 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, strengthening grievance handling mechanisms and providing access to bank accounts for remote units.

Additionally, in FY2016/17 a number of supplier owned spinning mills took part in the ETI 'Nalam Programme'. Over 1500 workers in these mills have been trained on topics related to health and well-being and are currently undergoing training on the second phase of the Nalam programme on rights and responsibilities. All remaining supplier-owned mills have now signed up to this programme and will undergo training during FY2017/18.

B. ETI China Caucus

We are active members of the ETI's China Caucus group and during FY2016/17 have been heavily involved in a collaborative project with the ILO (International Labour Organization) called SCORE (Sustaining Competitive and Responsible Enterprise). The SCORE project supports practical training and in-factory counselling that improves productivity and working conditions in small and medium enterprises, while promoting respect for workers' rights. Mothercare is working with the ETI to be a leading member of the SCORE project, with five factories confirmed to participate in the project.

C. ETI Turkey platform

As part of our Responsible Sourcing programme in Turkey, we work with the ETI Turkey platform, our suppliers and other stakeholders to ensure that our suppliers' factories meet our Code of Practice. We have been concerned about the reports of exploitation of Syrian refugees in garment factories in the country. Mothercare has developed extensive policy and remediation guidelines on Syrian refugees working in Turkey, which have been produced in English, Arabic and Turkish and shared with all factories. Mothercare do not have a directly employed Responsible Sourcing team in Turkey given the relatively small supplier base compared to China, India and Bangladesh. However, an experienced consultant is currently engaged to support the risk assessment of the country and to conduct unannounced audits, in addition to the standard requirement for annual third-party audits.

During FY2016/17 a full risk assessment was conducted of Mothercare's suppliers and first tier factories in Turkey. As a consequence of this, unannounced factory audits have been conducted in the higher risk areas and remediation plans put in place where necessary. There is an ongoing programme of audits and follow up on corrective action plans.

D. 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 FY2016/17 we have developed the Mothercare Environmental Scorecard in partnership with Carnstone, an experienced CR consultant. It is a tool for engaging factories on their environmental impact. It includes environmental management systems, energy use, solid waste and material efficiency, water use and treatment and hazardous chemicals. The scorecard helps factories to understand the financial savings possible when they change their environmental practices. This scorecard is currently being piloted with five factories. Our intention is to roll it out to more factories during FY2017/18.

E. 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 continued to support an Indian NGO called SAMVADA with a donation of £19,500, 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 offers child care support for infants, pre-schoolers and children who need after-school care. This crèche was opened in October 2016 in Laggere and cares for 45 children aged 0 to 9 years.
II. To equip disadvantaged women with valuable job skills through a three-month course in Early Childhood Care and Education. This helps them to meet their own livelihood needs.

Corporate responsibility
continued

F. Rights and Responsibilities Training

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

There has been significant progress in FY2016/17 with the programme reaching thousands of workers. Our key suppliers include it in their induction training for new starters and a refresher module has also been included.

G. Bangladesh Accord

Although we were not involved in the Rana Plaza tragedy in April 2013, we continue 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 Bangaldesh 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.

H. 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 FY2016/17, one more factory has also graduated. This factory made very encouraging progress, with worker absenteeism reducing by 48% and worker turnover reducing by 52%. The yarn to ship ratio was increased by 2% during the programme.

Product – Looking ahead

During FY2017/18 and in line with our CR 2020 strategy we will:

- continue to enhance our labour standards programmes through investing in training, supplier partnerships and vulnerable workers;
- review how we can improve the sustainability of the raw materials used in our products, prioritising cotton and timber; and
- encourage suppliers to reduce the environmental impacts of production.

2. Environment

FY2016/17 was a year of considerable infrastructural change at Mothercare, with the reconfiguration of the distribution system and on-going store refit programme. This change required increased working hours at various sites and had transport implications which have resulted in an increase in energy use in both buildings and the fleet.

However, our overall CO_2e emissions reduced, in absolute terms, by 6% versus FY2015/16 which was predominantly due to the impact of the DEFRA emissions conversion factor changes. Due to a corresponding reduction in floor space, our emissions per '000 square foot remained broadly flat year on year.

Key performance indicators	FY2015/16 Performance	FY2016/17 Performance	FY2016/17 vs FY2015/16 (+/-)%
Building energy use (m kWh)	37.95	39.56	4%
Transport fuel used (m litres)	0.88	0.89	1%
Transport mileage (m miles)	2.22	2.31	4%
CO_2e emissions (tonnes)*	18,049	16,934	-6%
Of which:			
Buildings	15,769	14,613	-7%
Transport	2,279	2,321	2%
CO_2e emissions (per '000 sq. ft)	11.62	11.58	-0.3%
Packaging used (tonnes, UK only)	5,758	5,672	-1%
Packaging per £100 (kg, UK only)	12.53	12.35	-1%
Total waste (tonnes, UK only)	4,539	5,180	14%
Recycled waste (%)	91%	93%	2%

* 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). Packaging tonnages are based on data returns submitted to the Environment Agency each calendar year, i.e. FY2016/17 is calender year 2016.

Building emissions – target to reduce emission by 5% against FY2015/16 – achieved

Buildings emissions relate to electricity and gas consumption at our UK stores, UK and overseas offices and at our National Distribution Centres. During FY2016/17, automated electricity meter readers were rolled out across a significant part of our store estate. Buildings energy consumption increased by 4% due to increased working hours in distribution centres and increased activity at 40 stores through the store refit programme. However this was offset by a significant decrease in the electricity emissions conversion factors set by Defra, leading to an overall reduction of buildings emissions of 7%.

Transport emissions – target to reduce emission by 5% against FY2015/16 – not achieved

Transport emissions relate to diesel consumption for deliveries between our distribution centres and from the distribution centres to stores. During FY2016/17 we reconfigured our distribution networks, which led to an increase in transport mileage of 4% as stock was moved between sites. However, we also continued our programme of upgrading the trailer fleet with more efficient stock. As a result of the fleet upgrade, our fuel used increased at a lower rate of 1%. However, the increase in the diesel conversion factors set by Defra led to an overall increase in transport emissions of 2%. During FY2017/18 the network reconfiguration will continue, so distance travelled and fuel used are anticipated to continue to increase.

Corporate responsibility
continued

Packaging – target to reduce kg per £100 of sales by 1% against FY2015/16 – achieved
Product packaging volumes decreased by 11% in line with expectations. Across the year we continued to identify opportunities to reduce product packaging for key stock volumes; most notable was the introduction of a thinner gauge of film for our transit polybags across our clothing range. We now have a hanger recycling scheme available in all stores in the UK, with collected hangers being re-used within our supply chain.

Waste
Across the year, waste increased by 14% against FY2015/16. However, we achieved a reduction in waste sent to landfill by improving the recycling rate to 93%; 3% points above our 90% target.

Environment – Looking ahead
In line with our CR 2020 strategy, during FY2017/18 we will:

- Aim to continue to reduce our combined buildings and transport carbon emissions;
- Identify opportunities to reduce packaging and produce it from more sustainable materials; and
- Put our operational waste to good use and reduce the amount of waste going to landfill.

3. Communities

Mothercare Community
Our people are our biggest asset. We employ directly 5,044 people in the UK and 200 in Asia, not including those colleagues who work for our global network of franchisees.

Diversity
We have a diverse workforce with a quarter of our Board positions and 54% of our senior management roles (not including executive management) being held by females. Throughout the rest of the business 92% of our UK retail colleagues and 72% of our UK office colleagues are female.

Communication
Considerable value is attached to clear and engaging communication. We communicate with all colleagues in a variety of ways and have regularly been sharing video updates about Mothercare's progress, from Mark Newton-Jones and other leaders, with colleagues across the globe. The Senior Leadership Team meets on a monthly basis to discuss performance and progress against the strategy. During FY2016/17 the Mothercare 'Club Hub' was launched. It is an in-house social media platform to share stories and communicate across the business in an agile way. All colleagues had the opportunity to participate in the workplace engagement survey called 'Club Voice' which took place during February 2017, with an 82% completion rate. The results are currently being interpreted and action plans developed.

Training and development
We have a clear set of values and behaviours for our employees and we have been investing in their futures through training and development programmes. For example, in buying and merchandising, a large proportion of our teams have been through training on range planning skills. During FY2016/17 we launched 'Service First' training, where a minimum of two attendees from every store are trained on service and selling skills and then cascade this training back to their own stores. Product knowledge is particularly important to provide the best customer service, so we work closely with product suppliers and experts to create in-store and online training materials. For example, in FY2016/17, 36 newly recruited travel specialists gained their IOSH (Institute of Occupational Safety and Health) qualification after attending a two-day training event in car seat safety.

The Mothercare learning management system called 'Inspire' launched in FY2015/16 and is now in regular use enabling employees across the business to remotely access materials to develop a number of core skills, from compliance and product knowledge to personal development. New content is being developed and uploaded continually and there are now over 1,000 learning resources. During FY2016/17 compliance training has been added to Inspire, including launching an Anti-Bribery and Corruption e-learning course to all colleagues. We will continue to embed this into the business to ensure the facility reaches its full potential.

Finally, FY2016/17 saw the launch of our talent management system. The system enables three performance tasks to be completed: objectives setting, mid-year reviews and end of year reviews. All head office, sourcing and retail management colleagues are now using this system, with plans to extend this to the customer service advisor population in FY18. Looking ahead, the capacity of the system will be broadened to include new starter processes and competency framework.

Charitable Giving
The Mothercare Group Foundation (MGF) aims to help parents meet the needs and aspirations for their children and to give children the very best chance of good health, education, well-being and a secure start in life.

The MGF donations are 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. Other parenting initiatives (or charities) that support families on the parenting journey – uniting mums (and dads) to take on parenting together.

The revenue from the MGF was used to support the charity of the year and colleague fundraising matching scheme in FY2016/17:

Charity of the Year

Our official FY2016/17 Charity of the Year was Tommy's. The charity funds research into pregnancy problems and provides pregnancy health information to parents. In FY2016/17 we donated £40,000 to Tommy's. Following a consultative process with colleagues, Bliss has been selected as our charity of the year for FY2017/18. Bliss is a UK charity working to provide the best possible care and support for all premature and sick babies and their families. To find out more about Bliss, please visit www.bliss.org.uk.

Employee sponsorship matching fund

Mothercare runs a matching fund, meaning that the MGF will match employees' own fundraising activities up to a cap of £250 per activity. During FY2016/17, £6,993 was donated to top up colleague fundraising.

In addition to the MGF donations, Mothercare Group has donated 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. During FY2016/17 £122,000 was donated to Trees for Cities. To find out more about the charity, please visit www.treesforcities.org.

#giftabundle, partnering with parents to put pre-loved clothing to good use

In the run up to Mother's Day 2017, the #giftabundle initiative was launched in 13 stores in partnership with Hubbub. The initiative was well received by customers who gifted bundles of good quality clothing for children up to three years, which were then distributed to other local families. An amazing 2,000 bundles were gifted by customers, amounting to approximately 200,000 items of clothing. These bundles have been distributed to 28 local groups, charities and organisations who are passing them on to local families who can benefit from them. There was also an online campaign which shared broader tips on extending the life of clothes, removing common baby stains and what to do with clothing too worn to wear which reached 1.7 million people.

Hubbub (www.hubbub.org.uk) is a charity which explores innovative ways to interest mainstream consumers in important sustainability issues, through different 'hubs' of activity: Food; Fashion; Homes; Neighbourhoods; Sport and Leisure.

Store Communities

We believe that parenting and raising children is an essential foundation for the society we live in. We are committed to helping mums (and dads) take on parenting together. Through our store events, we provide support and information to parents in the local community.

Mothercare Expectant Parent Events run in around 150 of our stores across the UK, three times a year (usually in February, June and October). Colleagues give advice on in-car safety, sleep safety and nursery, pushchair choices and the best toys for baby's first year. Midwives, Health Visitors, First Aid trainers and other experts frequently attend the events to offer advice to parents-to-be.

We also offer advice to our customers about relevant campaigns and national events such as: National Breastfeeding Week, World Prematurity Day and Child Safety Week being just a small selection of the kinds of activities we highlight to help support parents and families.

We have cafés and soft play areas in Mothercare stores in Bristol, Manchester, Gateshead, Aintree, Havant, Cardiff, Reading, Solihull, Romford, Edmonton, Leeds and Dudley, which offer a perfect meeting space for parents to relax whilst out shopping with young children.

Community – Looking ahead

In line with our CR 2020 strategy, during FY2017/18 we will:

- Continue to support our colleagues to reach their full potential;
- Further develop our community strategy to identify opportunities for colleagues and customers to give back to the communities in which we operate; and
- Provide information and support to mums and dads on parenting through our in-store events.

This strategic report was approved by the Board on 17 May 2017 and signed on its behalf by:

Richard Smothers

Board of Directors and Executive Committee

Alan Parker CBE
R N F D

Chairman

Appointed: August 2011.

Skills, competencies, experience
A former Chief Executive of a FTSE100 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 VisitBritain, Jumeirah Group LLC and Restaurant Brands International (Burger King & Tim Horton's). From 2012–2016 he was the non-executive Chairman of Darty plc and Chairman of Parkdean Resorts from 2014–March 2017.

Other Directorships
President of the British Hospitality Association, Director Winnow Holdings Limited.

Mark Newton-Jones
F D

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. Formerly a non-executive director at Boohoo plc.

Other Directorships
Chairman of Graduate Fashion Week. Board member of INGKA Holding B.V. Supervisory Board, the parent company of IKEA Group. Non-executive director at Pockit Limited.

Richard Smothers
F D

Chief Financial Officer

Appointed: March 2015.

Skills, competencies, experience
Extensive financial experience of working within listed companies; Richard's work overseas provides relevant experience for 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 & Risk Chair, Trustee at NCT since March 2016.

Tea Colaianni
R N F

Non-executive director and Remuneration Committee Chair

Appointed: October 2016.

Skills, competencies, experience
Tea has substantial experience of retail and other consumer facing industries, in both an executive and non-executive capacity in listed companies and took up the role of Chair of the Remuneration Committee in October 2016. Her most recent executive role was Group HR Director at FTSE100 Merlin Entertainments until early 2016. Previously non-executive director at Poundland Group Plc where she also chaired the Remuneration Committee and formerly Vice President Human Resources at Hilton. Tea is a qualified lawyer.

Other Directorships
Tea holds non-executive director role at SD Worx Group (global payroll and HR solutions provider), Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust; Women 1st; Trust 'Women Supporting Women' initiative Chair of the Women in Hospitality 2020 Review.

Lee Ginsberg
A R N F D

Non-executive director and Audit and Risk Committee Chair

Appointed: July 2012.

Skills, competencies, experience
Lee has substantial financial experience working in listed companies, and indepth 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 PricewaterhouseCoopers.

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.

Gillian Kent
A N F

Non-executive director

Appointed: March 2017.

Skills, competencies, experience
Gillian has had a broad executive career including being Chief Executive of real estate portal Propertyfinder until its acquisition by Zoopla, and 15 years with Microsoft including three years as Managing Director of MSN UK.

Other Directorships
Gillian holds non-executive director roles at Pendragon plc, National Accident Helpline Group plc, Ascential plc, and at two private companies, Coull Limited and No Agent Technologies Limited.

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. Formerly a member of the Board of Channel 4 Television Corporation.

Other Directorships
A director of Lumene Oy and a member of the Advisory Board of WPP 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 both in the UK and Internationally. Substantial plc experience having operated as both CEO and CFO supports the financial and strategic direction of the Company. Currently CFO of SuperGroup plc and formerly Chief Executive Officer of Dunelm Group plc, 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

See opposite page for biography.

Richard Smothers

Chief Financial Officer

See opposite page for biography.

Matt Stringer

Global Product Officer

Appointed: February 2013.

Formerly Managing Director of Carphone Warehouse; various roles at M&S including International Operations Director and Head of GM Stock Management and New Buying.

Gary Kibble

Chief Customer Officer

Appointed: March 2015.

Formerly Director of Business Transformation and prior to that, Group Brand Director at Shop Direct. Gary also spent 10 years with WH Smith becoming accountable for the Books business unit.

Kevin Rusling

International Managing Director

Appointed: April 2017.

Formerly International Director of Monsoon Accessorize; prior to that Kevin ran the international division of Walmart's George at Asda business for five years and was previously International Manager at Marks and Spencer for 12 years.

Daniel Talisman

General Counsel and Group Company Secretary

Appointed: January 2016.

Formerly General Counsel and Group Company Secretary for GVC Holdings plc and prior to that, occupying the same role with Sportingbet plc for 12 years, Solicitor, Finers Stephens Innocent LLP.

Committee Memberships key:

- A Audit and Risk Committee
- R Remuneration Committee
- N Nomination Committee
- F Full Board member
- D Disclosure Committee

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 Group's strategy and to safeguard the interests of its shareholders, customers, staff, Franchise 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 25 March 2017 with the relevant provisions set out in the 2014 UK Corporate Governance Code except in relation to provision B.6 as outlined below.

The Board

As reported last year, the Board undertook an externally facilitated Board evaluation in FY2015/16. Implementation of the recommendations from the output of that evaluation began in FY2015/16 and continued through into FY2016/17. Due to those changes since the evaluation, and the relatively recent implementation of recommendations, the Board felt that an internal evaluation so soon after the last one would not be as beneficial as carrying it out after the Board, in its current composition, had had a period of time to stabilise and establish its rhythm. The Committee has committed to undertake an internal Board evaluation in the second half of FY2017/18. Whilst technically not compliant with UK Coporate Code provision B6, the Board believes that it will be more constructive to carry out the next evaluation during FY2017/18. Further, an externally facilitated Board evaluation has been scheduled for FY2018/19 which will maintain the three-year cycle of externally facilitated Board evaluations.

The leadership of the Mothercare plc business is provided by the Mothercare plc Board. The Board operates on a unitary basis and currently comprises the non-executive Chairman, five 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 25 March 2017):
Chairman/Non-Executive
Alan Parker CBE (Chairman)
Tea Colaianni
Lee Ginsberg
Gillian Kent
Richard Rivers (Senior Independent Director)
Nick Wharton
Executive
Mark Newton-Jones
Richard Smothers

Board Changes

As mentioned above there were several changes to the Board during the year. Angela Brav, Imelda Walsh and Amanda Mackenzie resigned from the Board in July 2016, October 2016 and February 2017 respectively and we were delighted to welcome Tea Colaianni and Gillian Kent who joined the Board in October 2016 and March 2017 respectively.

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 formally approved 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.

Richard Rivers was appointed as an independent non-executive director on 17 July 2008 and has served as the senior independent non-executive director since 23 November 2012. He will be entering his 10th year of service in July 2017 and therefore from that point may no longer be considered independent under the UK Corporate Governance Code. The Board has considered Richard's role and it has concluded that Richard demonstrates clear independence and continues to give effective counsel. He continues, as the senior non-executive director, to provide support to the Chairman and serves as an effective intermediary when required. It is the Board's view that, despite his tenure, Richard Rivers is not considered to have any associations with the Company or its subsidiaries that might question his independence. Since 2013 Richard has stood for re-election each year and will be standing again at the 2017 AGM.

The business commitments of each member of the Board are set out in the biographical details on page 52.

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.

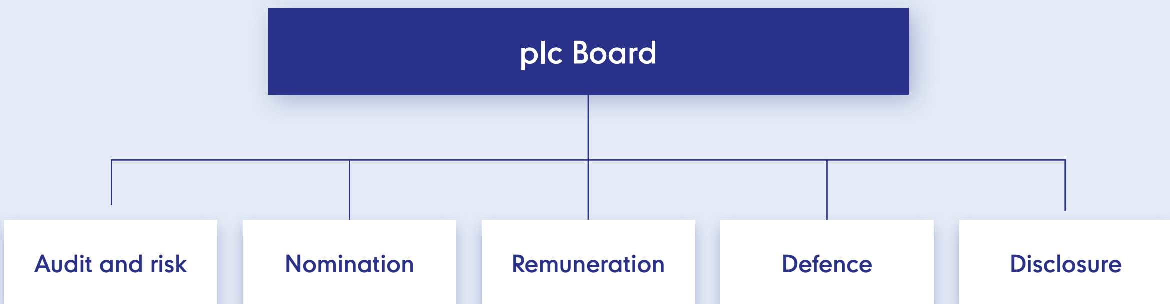
The Chairman is of the opinion that following formal performance evaluation as part of Wickland Westcott's Board review, the Company's directors have continued to give effective counsel and commitment to the Company and accordingly should be reappointed by shareholders at the Annual General Meeting and the new directors elected.

Key activities of the Board

Regular agenda items:	Key agenda items also considered in the year included:
Group strategy	UK and International strategy days
Financing, going concern, viability and liquidity	Market Abuse Regulation
Reports from Board committees	Brexit
Business performance and financial results	Corporate Responsibility five-year strategy (CR 2020)
Annual budget and financial statements	Renewal of the Revolving Credit Facilities
Consideration of acquisitions and disposals	
Risk management and review	
Operational oversight	

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.



The Board is assisted by committees. There are four committees of the Board that meet and report on a regular basis: Audit and Risk, Nomination, Remuneration and Defence. At the year end the members of the committees were as set out below. A record of the meetings held during the year of the Board and its principal committees and the attendance by individual directors is set out on page 60.

A
Audit and Risk Committee

Committee members:
Lee Ginsberg (Chair), Gillian Kent, 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), Tea Colaianni, Lee Ginsberg, Gillian Kent, Richard Rivers, 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 and review succession planning of Board members.

R
Remuneration Committee

Committee members:
Tea Colaianni (Chair), Lee Ginsberg, Alan Parker, Richard Rivers

Key roles and responsibilities:
Establish the remuneration policy, preparation and approval of the Directors' remuneration report, approval of specific arrangements for the Chairman and executive directors, review, comment and recommend 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:
Advise the Board in a bid situation, appoint professional advisers to support the Committee and the Board, maintain and review the defence process of the Company.

Further, the Board has a Disclosure Committee that is responsible for the 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 Market Abuse Regulation (MAR)) and for compliance with the Group's share dealing code under MAR. It reports to the Board through the Chief Executive Officer (or through the Chairman in the absence of a CEO). The Disclosure Committee comprises the Chairman, Chief Executive Officer, Senior Independent Director, Chief Financial Officer 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 CEO.

Executive Committee

The executive management of the Company (principally through the Executive Committee) operates 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 25 March 2017 the Executive Committee consisted of the CEO, CFO, Global Product Officer, Chief Customer Officer and the General Counsel and Group Company Secretary. The International Managing Director joined the business on 3 April 2017 and this role sits on the Executive Committee. Further, the Director of Human Resources attends all the Executive Committee meetings and will join the Executive Committee from 1 June 2017.

Board effectiveness and balance

In Autumn 2015, 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 with 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 subsequently approved these with their implementation in FY2015/16 continuing through into FY2016/17. Further details are set out in the Nomination Committee report on page 67. Wickland Westcott has no other connection with the Company.

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

The Board believes that is has an appropriate range of breadth and expertise to manage the Group's activities. As at 25 March 2017, two of the six non-executive directors on the Board are women. Details of the experience and background of each director is set out on page 52.

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 Chairman and executive directors) comprises two women and six men, and the Executive Committee (excluding the executive directors) has four men including the newly appointed International Managing Director. The Company has a Senior Leadership Team that reflects gender diversity, with 52% of the senior management positions (the two grades below Executive Committee) being held by women as at 25 March 2017 (2016: 52%). 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 42.

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 viability statement is set out on page 42 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 is led by the Head of Risk and Assurance and 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 as at 25 March 2017

	Male	%	Female	%	Total
Directors of the Company (including the Chairman and executive directors)	6	75%	2	25%	8
Executive Committee (excluding executive directors)	3	100%	0*	0%	3
Senior management positions	31	50%	31	50%	62
Total senior managers other than directors of the Company	**29**	**48%**	**31**	**52%**	**609**
Other retail support centre employees	**161**	**25%**	**472**	**75%**	**633**
Total retail support centre employees	**192**	**28%**	**503**	**72%**	**695**
Total retail employees of the Group	**368**	**8%**	**3,981**	**92%**	**4,349**
Grand total employees of the Group (retail support centre and retail)	**560**	**11%**	**4,484**	**89%**	**5,044**

* The Director of Human Resources Kirsty Homer, will join the Executive Committee from 1 June 2017.

The principal risks and uncertainties facing the Company are set out on pages 28 to 33.

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 credit 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 44 to 51.

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. Further, tailored anti-bribery and corruption training was undertaken at all levels across the Group (including the Board) during the year and compulsory e-learning modules are now undertaken on induction and annually. 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 many 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 Quarter 1 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 CEO at Board meetings on a periodic basis. In addition, leading investors in the Company have access to the Director of Corporate Communications and the Chief Financial Officer.

The Company seeks to reach a wider audience by the use of its website (www.mothercareplc.com), and, with a view to encouraging full participation of those unable to attend the AGM, provides an opportunity for shareholders to ask questions of their Board through its website or by email 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 is 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 25 March 2017:

		Committee			
	Board	Audit and Risk	Nomination	Remuneration	Defence
Maximum number of meetings	**8**	**4**	**4**	**5**	**2**
Director:			**4**		
Alan Parker	8		4	5	2
Angela Brav*	2/2			1/1	
Tea Colaianni*	5/5		2/2	3/3	
Lee Ginsberg	8	4	4		2
Gillian Kent*	1/1	1/1			
Amanda Mackenzie*	7/7	3/3	2/3		
Richard Rivers	8			5	2
Imelda Walsh*	3/3			2/2	
Nick Wharton	8	4			
Mark Newton-Jones	8				2
Richard Smothers	8				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 Chair.

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.
- *denotes that the director was appointed or resigned during the year and thus was not eligible to attend all meetings.

Audit and Risk Committee

Lee Ginsberg

Chair, Audit and Risk Committee

Dear Shareholder

This report details the key activities and focus of the 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 recruitment of a Head of Enterprise Risk and Assurance, reporting to the CFO to continue to develop the business's commitment to risk management and internal control.

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 Chair, and Gillian Kent 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 members of the Committee are set out on page 52 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 60 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 as Chair of the Committee.

The Audit and Risk Committee regularly invites the Group's Chief Executive Officer, Chief Financial Officer, Head of Group 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 specialist internal audit consultancy and support. The audit partner for Deloitte LLP holds meetings with the Committee (and separately with the Chair of the Committee) at which representatives of the Company are not present.

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 the financial and contractual arrangements with its Franchise Partners around the world. 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. The significant risk that is posed by foreign exchange rate volatility on International earnings is given additional consideration by the Committee, including the Group treasury and hedging policies. The Committee also reviewed the potential impact of Brexit on the Group. A risk mapping exercise had been undertaken across several areas of the business. A range of scenarios resulting from the Brexit process and how such scenarios could affect various areas of the Group were presented. This is reviewed on a quarterly basis or whenever the Brexit process changes, whichever is sooner.

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.

Heading	Scope	Action
Audit	The review of the Company's accounts and financial statements, and of any accounting policies and judgements	• 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'; and • 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 its International partners	• 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 franchise markets; • Monitoring of geopolitical risk; • Review of standard International agreement terms; • Considered International debt management and the Group's joint venture arrangements in China; • Reviewed supplier funding and revenue recognition; and • Formed a Brexit sub-committee and considered the resulting risk register.
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	• 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; and • 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	• 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; and • Recruited a Head of Enterprise Risk and Assurance.

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:

Recoverability of joint venture receivables

The Committee reviewed the performance and the recoverability of the joint venture receivables. Consequently all 2017 royalties were provided for in the financial year. Cash flows were also reviewed to determine the recoverability of shipments. These matters were discussed with both the Chief Financial Officer and the external auditors. The Committee also reviewed reports prepared by the Company and external auditor in considering the recoverability of any receivable.

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.

Foreign currency

During FY2016/17 there were significant movements in the value of GBP sterling against other currencies around the world and this impacted the Group's profitability. During FY2016/17 the Group continued to operate a currency hedging policy against purchases denominated in US dollars and Euro as it had for many years as part of its sourcing operation. In addition, it continued with its policy to hedge against royalty receipts from Franchise Partners in certain territories. The Company's foreign exchange policy means that it hedges in part against the currencies of its core franchise 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 period.

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.
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 during FY2016/17. 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. 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 five-year plan to assess this and the appropriateness of any assumptions beyond this three-year time frame. The Committee also reviewed the reports from the external auditor which considered the appropriateness of the retained provision.

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 then audit partner's five-year term was due to end in FY2016/17. The Committee considered a shortlist to succeed Ian Waller as lead audit partner and is pleased to recommended a new audit partner. Sukie Kooner has been appointed for a five-year term commencing in FY2017/18 and has already attended a number of Audit and Risk Committee meetings during FY2016/17 in order to effect an orderly transition. The UK Competition and Markets Authority's Statutory Audit Services Order (CMA Order) states, amongst other matters, that FTSE350 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 next 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 at a time of change – both recently, in respect of the composition of the executive management team and currently, as a consequence of the transformation arising from the Group implementing its strategic plan. The Committee currently intends to put the external audit work out to tender in 2024. 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 main aims of this policy are to ensure the independence of the auditor in performing the statutory audit. During the year, the Audit and Risk Committee reviewed and updated the policy for non-audit services to bring it into line with the amended FRC ethical standards and UK Corporate Governance Code (applicable from 26 March 2017). The regulation substantially curtails the non-audit services which can be provided by the auditor. Key changes include:
  - the introduction of a 70% cap of the value of the audit fee for all non-audit services calculated on a rolling three-year basis;
  - the inclusion of tax calculation services as one of the categories of services prohibited;
  - the inclusion of actuarial valuation services as one of the categories of services prohibited; 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). Non-audit fees incurred in the year were incurred in respect of interim assurance work totalling £41,000 and tax services of £35,000.
- Internal audit – PwC works closely with the internal audit function of the Company providing specialist services.
- 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 & 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 a crisis management rehearsal 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, which is led by the Head of Enterprise Risk and Assurance, and reports to the Committee.

Audit and Risk Committee
continued

Effectiveness

The Committee considered the 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 were incurred in respect of interim assurance work totalling £41,000 and tax services of £35,000).

Having considered these factors, the Committee unanimously recommended to the Board that a resolution for the re-appointment of Deloitte LLP as the Company's external auditor be proposed to shareholders at the 2017 AGM.

Conclusion

As a result of its work during the year, the Committee 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

During FY2016/17 there were a number of changes to the Board overseen by this Committee. Angela Brav, Imelda Walsh and Amanda Mackenzie resigned and Tea Colaianni and Gillian Kent were appointed and offer themselves for election at the forthcoming AGM.

The Committee conducted the searches that resulted in the appointments of Tea and Gillian respectively. Tea has excellent and relevant experience of retail and other consumer-facing industries, in both an executive and non-executive capacity and took up the role of Chair of the Remuneration Committee in October 2016. Similarly, Gillian has broad executive and non-executive experience particularly with a digital and consumer emphasis. Gillian joined the Board in March 2017 and she is a member of the Audit and Risk Committee. We are delighted to welcome both to the Board.

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 52-53 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

As reported last year, the Board conducted an externally facilitated Board evaluation during FY2015/16 facilitated by Wickland Westcott. Recommendations from the output of that evaluation were implemented during the year under review. Due to several changes to the composition of the Board since the evaluation, and the relatively recent implementation of recommendations, the Board felt that an internal evaluation so soon after the last one would not be as beneficial as carrying it out after the Board, in its current composition, had had a period of time to stabilise and establish its rhythm. The Committee has committed to undertake an internal board evaluation in the second half of FY2017/18. Whilst technically not compliant with UK Corporate Governance Code provision B6 the Board believes that it would be more constructive to carry out the next evaluation during FY2017/18. Further, an externally facilitated board evaluation has been scheduled for FY2018/19 which will maintain the three-year cycle of externally facilitated board evaluations. 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. Biographical details of the members of the Committee are set out on pages 52-53 of this report.

Activities of the Committee

During the year, the Committee considered the appointment of two non-executive directors and worked with The Inzito Partnership, an executive search firm in relation to both searches. The Inzito Partnership has no other connections to the Company. The Committee made recommendations to the Board in respect of the respective appointments of Tea Colaianni and Gillian Kent. In addition, it considered whether or not to hold an internal Board evaluation in FY2016/17 and, within the context of the external Wickland Westcott evaluation, concluded to undertake an internal Board evaluation during FY2017/18.

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 Company 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 answer 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 25 March 2017. The corporate governance statement set out on pages 54 to 60 forms part of this report. The Chairman's statement at page 54 gives further information on the work of the Board during the period.

The principal activity of the Group is to operate as a specialist multi-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 54 countries and four continents through its extensive franchise 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 Early Learning Centre 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 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 13. The principal risks and uncertainties facing the business are detailed in the Strategic report at page 28 and the section on risks at pages 28 to 33. These disclosures form part of this report.

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 page 42. The Group's going concern position is also set out in the Financial review.

Viability statement

The viability statement is set out in the Financial review on page 42.

Dividend

The directors are not recommending the payment of a final dividend for the year and no interim dividend was paid during the year (FY2015/16: nil).

Shares

As at 17 May 2017, the Company's issued share capital was 170,867,497 ordinary shares of 50p each all carrying voting rights. The details of the Company's issued share capital as at 25 March 2017 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 Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 and the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority, as at 25 March 2017, 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
M&G Investment Management Ltd	21,689,811	12.69
UBS Asset Management	18,164,313	10.63
D C Thomson & Company Limited	17,695,691	10.36
Jupiter Asset Management Limited	15,650,000	9.16
Aberdeen Asset Management Group	13,179,334	7.71
Aberforth Partners	9,657,661	5.65
Legal & General Investment Management Ltd	8,910,025	5.21
Investec Asset Management	8,104,362	4.74
Griffiths R I	7,372,712	4.31
GLG Partners LP	5,260,190	3.08

During the period from 26 March 2017 to 17 May 2017 the following notifications were received:

Holder	Number of shares	Percentage of issued share capital
Spreadex Limited	5,336,806	3.12%
Richard Griffiths and controlled undertakings	13,694,932	8.01%

Acquisition of own shares

The Company was given a general approval at the AGM in July 2016 to purchase up to 10% of its shares in the market. This authority expires after the AGM on 31 July 2017. 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.

On 5 May 2017, the Group refinanced with the support of its two existing banks, HSBC and Barclays, amending its committed facilities of £50 million to a £62.5 million revolving credit facility and a £5 million uncommitted overdraft (at an interest rate range of 2.0% to 3.0% above LIBOR). The amended revolving credit facility is made up of two tranches, a £50.0 million maturing in May 2020 (with an option to extend for an additional one year on two occasions subject to lenders' approval) and an additional £12.5 million maturing in November 2018 (with an option to extend for an additional six months on two occasions subject to lenders' approval). In addition, an accordion facility with a variable limit that allows the Group to draw down up to £75 million has been made available, subject to lenders' approval.

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

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 25 March 2017:

Name	Appointment
Alan Parker	Chairman and non-executive director; Chairman of the Nomination Committee
Mark Newton-Jones	Executive Director
Richard Smothers[1]	Executive Director
Angela Brav	Independent non-executive director (to 22 July 2016)
Tea Colaianni	Independent non-executive director and Chair of the Remuneration Committee (from 14 October 2016)
Lee Ginsberg	Independent non-executive director and Chairman of the Audit and Risk Committee
Gillian Kent	Independent non-executive director (from 16 March 2017)
Amanda Mackenzie	Independent non-executive director (to 24 February 2017)
Richard Rivers	Independent non-executive director and Senior Independent Director
Imelda Walsh	Independent non-executive director and Chair of the Remuneration Committee (to 10 October 2016)
Nick Wharton	Independent non-executive director

1 As announced on 11 May 2017, Richard Smothers has given notice of his resignation as Chief Financial Officer and Executive Director. Under the terms of his service agreement, Richard has a notice period of 12 months and will remain with the Company until a successor has been identified and an appropriate transition plan put in place, which is expected to be towards the end of the calender year.

In accordance with the requirement of the UK Corporate Governance Code, at the Annual General Meeting of the Company in July 2017 all the directors currently appointed shall retire and offer themselves for re-election. The directors appointed since the last AGM offer themselves for election.

Details of directors' service arrangements are set out in the remuneration report on page 93.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 83 and 78 respectively. A statement of directors' interests in contracts and indemnity arrangements is set out on page 59.

Employees

The Company involves all of its employees in the delivery of its strategy. It regularly discusses with all its employees its corporate objectives, trading results and performance, as well as the economic environments in which the Company trades through its business sectors. This is achieved through the newly launched Company employee intranet which replaced both the previous version and paper staff magazine during the year, 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 and mid-year 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 Company is also committed to developing the skills and leadership potential within its workforce. To this end, a Senior Leadership Team (SLT) comprising senior managers across the Group meets regularly. 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 representing their respective areas of work and in particular, have played a key role in formulating and then delivering the rollout of the Brand House across the Group – an initiative aimed at resetting the Company's core behaviours and ambitions. The rollout occurred during FY2015/16 and is now embedded into teams' activities.

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 the opportunity to participate in an Inland Revenue approved SAYE plan.

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.

Pension

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 since 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 44 to 51. The Group maintained its Global Code of Conduct and sent this to all its office employees in the UK and overseas, and obtained certificates of compliance from its employees. Consistent with the Group's first strategic pillar, 'become a digitally led business', this annual compliance regime moved to an online solution during the year. The Global Code of Conduct is in addition to the Group's anti-bribery and corruption programme as detailed further on page 59.

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 49.

Auditor

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 auditor is 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 auditor is aware of that information.

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

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

Charitable and political donations

The Company made a single donation of £5,000 during the year to the Mothercare Group Foundation to support the employee sponsoring matching fund. This fund matches employees' fund raising efforts up to a cap of £250 per application. The Foundation also received the proceeds from sales of products in the Company's staff shop. Tommy's, the chosen charity of the year for FY2016/17, was agreed by the trustees following a selection process from nominations received from the Group's UK employees. Donations from the Mothercare Group Foundation totalled £40,000 during the year. Following consultation with its employees the Mothercare Group Foundation has agreed to support BLISS as its charity of the year for FY2017/18. Total cash charitable donations made by the Mothercare Group Foundation for the year ended 25 March 2017 were £46,993 (2016: £20,000).

Money raised by Mothercare and Early Learning Centre from the 5p single-use carrier bag levy was donated to environmental charity Trees For Cities. Donations totalled £122,000 during the year. More information on the Group's charitable activities can be found in the Corporate Responsibility report on page 51.

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 2017 Annual General Meeting will be held on Monday, 31 July 2017 at 11.00am followed by a General Meeting at 11.30am (or as soon thereafter as the AGM shall have finished) 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 Annual General Meeting 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 Annual General Meeting. This will be made available to shareholders on request to the General Counsel and Group Company Secretary at the Company's head office.

The notices of Annual General Meeting and general meeting include explanatory notes on the business to be proposed at the meetings.

By order of the Board

Dan Talisman
General Counsel and Group Company Secretary
17 May 2017

Directors' remuneration report

Statement from the Chair

Tea Colaianni

Chair, Remuneration Committee

I am pleased to present the Directors' remuneration report for the financial year ended on 25 March 2017, my first since my appointment as non-executive director and the Remuneration Committee Chair of Mothercare, having succeeded Imelda Walsh in October 2016.

New policy

The Committee has conducted an extensive review of our remuneration policy to ensure that it firmly supports our business strategy over the next three to five years. In order to allow sufficient time for us to consult with our shareholders and their representative bodies on our proposals for short and long-term plans, we will bring our proposed new remuneration policy to shareholders for approval at a General Meeting immediately following the Annual General Meeting. The shareholder circular for the General Meeting will contain our proposed new remuneration policy and all the disclosures for that policy which would have been included in this report had that policy been set out in this report, including an explanation of the structure of the new policy, the key changes to the policy and the rationale for such changes.

The Remuneration Policy in this report is the policy approved at the Annual General Meeting on 17 July 2014. This Policy has been included in this report to comply with Section 421(2A) of the Companies Act 2006 and will be replaced by any new remuneration policy approved by shareholders at the General Meeting.

FY2016/17 performance and key reward decisions

Despite some challenging conditions the Company has continued to make good progress with the UK returning to profit in the second half of the year for the first time in six years. Group sales were down 2.2% at £667m and underlying profit before tax up 1% to £19.7m.

The PBT threshold was met and 30.9% on the scorecard and all personal objectives were achieved. However, no element of the bonus paid out given that such payment would have brought PBT below its threshold target.

There was no LTIP vesting in respect of the performance period ending in FY2016/17. The next LTIPs due to vest will be based on performance ending in FY2017/18.

As mentioned in last year's annual report, the Committee decided to defer making awards and, after consulting with a number of shareholders, decided to make 'LTIP 5' awards in August 2016 to the Executive Directors. This award was based 50% on underlying EPS and 50% on relative TSR under the existing approved policy. A target range of 25%–35% p.a. was set for EPS, reflecting the Company's growth projections at that time. Further details on this award can be found on page 80.

The Committee reviewed the salaries of the Executive Directors in March 2017 for FY2017/18. Taking into account the factors set out in the approved policy, in particular individual performance, average pay changes for the general workforce in the UK, affordability and general market conditions, the Committee decided to award increases of 1% for both Executive Directors. This increase takes Mark Newton-Jones' salary to £618,120 and Richard Smothers' salary to £358,550. An annual salary increase of 2% has been agreed to apply to all colleagues from August 2017.

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 FY2017/18. We value the constructive feedback and the open and transparent dialogue we have established thus far. We very much hope this will remain a key feature of our relationship with our shareholders and look forward to continued support at the forthcoming Annual General Meeting and General Meeting.

2017 Annual General Meeting

This report has been prepared taking into account the UK Corporate Governance Code 2014. The Directors' remuneration report, excluding the Directors' Remuneration Policy, is subject to an advisory vote at the 2017 Annual General Meeting. At last year's Annual General Meeting 79% of the issued share capital was voted in favour of the FY2015/16 Directors' remuneration report. I very much hope you will support the FY2016/17 Directors' remuneration report at our forthcoming Annual General Meeting and the Remuneration Policy at the General Meeting in July by voting in favour of all resolutions concerning remuneration.

Tea Colaianni
Chair, Remuneration Committee
17 May 2017

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.

Directors' remuneration report
continued

At a glance

Key financial highlights for FY2016/17

UK LFL sales	1.1% growth for the year
UK Margins	+54 bps
UK loss	£(4.4)m
International profit	£35.2m
Group PBT	£19.7m

What we did

Annual Bonus	Approved the targets and weightings.
Long term incentives	Grant of LTIP in August 2016 ('LTIP 5') following shareholder consultation as detailed later in this report.
Salary Increases	An average annual salary increase of 3.03% on base pay (inclusive of National Living Wage) was applied to all colleagues. The CEO's salary was increased by 2% and the CFO's salary was increased by 4% to reflect additional responsibilities including accountability for the IT function.
Remuneration Policy	Subject to consultation with shareholders, details of the new proposed Remuneration Policy will be published in the shareholder circular for the General Meeting to be held immediately following the Annual General Meeting.
National Living Wage and Apprenticeship Levy	Considered changes to the National Living Wage and the introduction of the Apprenticeship Levy.

Total Remuneration for Executive Directors

	Salary £'000	Benefits £'000	Pension £'000	Bonus £'000	LTIP £'000	Total 2017 £'000	Total 2016 £'000
Mark Newton-Jones	612	14	92	0	0	718	814
Richard Smothers	355	12	53	0	0	420	593

Annual bonus plan – targets and outcomes

		Achievement (% of maximum)			
	Maximum (% of salary)	PBT	Scorecard	Personal objectives	Pay-out (£'000)
Mark Newton-Jones	125%	3.1%	30.9%	50%	£0
Richard Smothers	125%	3.1%	30.9%	50%	£0

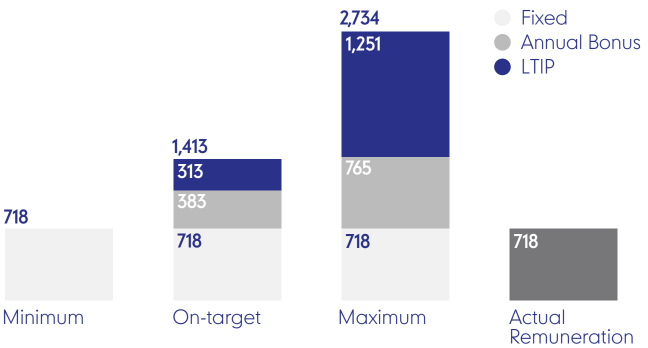
LTIP 3 vesting in the year – targets and outcomes

		Achievement (% of maximum)		
	Maximum (% of salary)	Share price	FY2017/18 PBT	Pay-out (£'000)
Mark Newton-Jones	200%	0%	To be assessed at the start of the next financial year	£0
Richard Smothers	175%	0%		£0

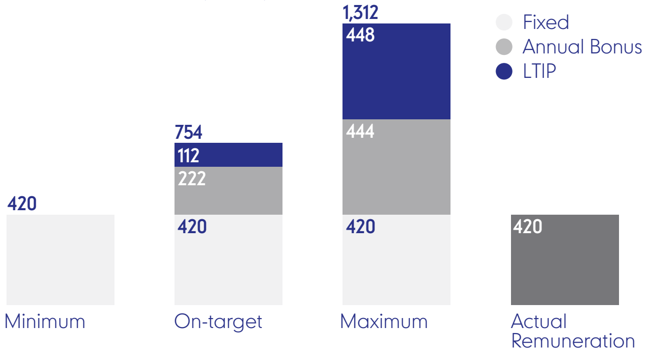
Actual Remuneration for the Executive Directors compared to FY2016/17 Policy

The following chart shows the actual remuneration paid to the Executive Directors against the Policy scenarios for the financial year:

Mark Newton-Jones (£'000)



Richard Smothers (£'000)



Under the Policy, the remuneration payable to each of the Executive Directors is based on salaries at the start of FY2016/17, under three different performance scenarios: (i) Minimum; (ii) On-Target; and (iii) Maximum. The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual Bonus (including Deferred Bonus); and (iii) LTIP. The target scenarios assume 50% pay-out of the maximum opportunity under the Annual Bonus and 25% (being threshold vesting) of the LTIP. In addition, for the purposes of comparison we have included the actual single figure remuneration paid for the year ended 25 March 2017.

A comparison of the actual remuneration earned compared to the Policy scenarios demonstrates the strong link between pay and performance, and the Committee's robust approach to target setting for incentives.

Directors' remuneration report
continued

Annual report on remuneration

This section reports on the activities of the Remuneration Committee for the financial year ended 25 March 2017. 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 31 July 2017.

Remuneration in FY2016/17:
page 76

Auditable section:
page 79

Remuneration in FY2017/18:
page 92

Remuneration in FY2016/17

Composition, remit and activity of the Remuneration Committee

The Remuneration Committee currently comprises Tea Colaianni (chair from 14 October 2016, following the resignation of Imelda Walsh), Richard Rivers (as independent non-executive director), Lee Ginsberg (as independent non-executive director) and the Chairman of the Company (who, in the view of the directors was deemed to be independent on appointment). The General Counsel & Group Company Secretary acts as secretary to the Committee.

The Committee's principal duty is 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 60 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 Company's 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	• Consideration of any grounds or reasons for an increase in salary, particularly if greater than the pay award generally offered to Company employees
	Colleague Reward	• 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	• Approval of the annual bonus plan offered to relevant employees for FY2016/17 • Setting and reviewing annual targets • Consideration of potential changes for the coming year
Long Term Incentive Plan	Review of the Long Term Incentive Plan against the purpose and link to strategy outlined in the Remuneration Policy Report	• Grant of an LTIP award in August 2016 under terms of LTIP set out in the 2014 DRR • Assessment of vesting of the share price element of LTIP 3 • Consideration of alternative plan structures and performance measures for consultation with key shareholders for the coming year onwards
SAYE	Consideration of the all-employee SAYE scheme	• Approval of the grant and scheme conditions
Governance	Directors' Remuneration Policy	• Taking relevant advice from remuneration consultants (PwC) • Consideration of new investor guidance and increasing government and shareholder focus in this area • Reviewing the extent to which the current Policy is aligned to the Company's strategy • Putting forward a revised Policy based on this review which will be announced following consultation with key shareholders

Directors' remuneration report
continued

Recruitment

There was no recruitment of Executive Directors during FY2016/17. There were changes to the Company's non-executive directors with the addition of Tea Colaianni and Gillian Kent, and the departures of Imelda Walsh, Amanda Mackenzie and Angela Brav.

Single total figure remuneration table (auditable)

The table below shows the single total figure remuneration for qualifying services in FY2016/17 with comparative figures for FY2015/16.

	Salary and fees[1]		Benefits[2]		Pension		Annual bonus		LTIP		Other		Total	
Director	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Executive														
Mark Newton-Jones	612	600	14	124	92	90	0	–	0	–	0	–	718	814
Richard Smothers	355	340	12	62	53	51	0	–	0	–	0	140[3]	420	593
Non Executive														
Alan Parker	200	200	1	1		–		–		–		–	201	201
Lee Ginsberg	58	58	1	2		–		–		–		–	59	60
Richard Rivers	55	55	3	2		–		–		–		–	58	57
Nick Wharton	50	50	3	6		–		–		–		–	53	56
Tea Colaianni	26	–	2	–		–		–		–		–	28	–
Gillian Kent	1	–	0	–		–		–		–		–	1	–
Amanda Mackenzie	50	50	0	0		–		–		–		–	50	50
Angela Brav	17	50	0	0		–		–		–		–	17	50
Imelda Walsh	36	58	0	0		–		–		–		–	36	58

1 FY2016/17 fees for Amanda Mackenzie, Angela Brav and Imelda Walsh are prorated to reflect the service prior to their departures. FY2016/17 fees for Tea Colaianni and Gillian Kent are prorated for start date.
2 £110,540 of the FY2015/16 benefits for Mark Newton-Jones pertains to relocation benefits offered as part of his recruitment which 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 travel expenses grossed up for tax for non-executive directors in relation to visits to the Company's head office.
3 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)
For FY2016/17 Mark Newton-Jones received a salary increase of 2% from £600,000 to £612,000. Richard Smothers received an increase of 4% from £340,000 to £355,000 reflecting that during the year Richard's role had been expanded to include accountability for the IT function and the delivery of the transformation programme.

Non-executive director fees (auditable)
The Chairman and non-executive director fees remained unchanged in the year.

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 78.

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 base salary 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 Plan (auditable)
During FY2016/17 the bonuses of Executive Directors comprised of three measures: 60% payable on achieving underlying Group profit before tax, 30% 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. The PBT threshold was met and 30.9% on the scorecard and all personal objectives were achieved. However, no element of the bonus paid out given that such payment would have brought PBT below its threshold target.

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

	Measure	Threshold (0%)	Target (50%)	Stretch (100%)	Result	Weighting	% of weighting if bonus vested
Target profit after bonus costs	Underlying PBT	£19.6m	£21.0m	£23.0m	£19.7m	60%	1.9%
Scorecard:							
Become a Digitally Led Business & Supported by a Modern Retail Estate	Total UK sales growth	0.0%	2.0%	4.0%	-0.1%		
Offering Style, Quality and Innovation in Product	Customer Satisfaction	78%	79%	80%	80%		
Stabilise and Recapture Gross Margin	Grow FAM YoY	+100bps	+140bp	+180bps	-55bps	30%	9.3%
Lean organisation whilst investing in the future	Deliver cost reduction	£3.0m	£5.0m	£7.0m	£5.6m		
Expanding Further Internationally	Sales at constant currency	0.0%	2.0%	4.0%	-2.4%		
Expanding Further Internationally	All International and UK products delivered on time	85%	90%	95%	87%		
Personal Objectives						10%	5%

Personal Objectives

The personal objectives for Mark Newton-Jones included developing the plan for the next stage of Mothercare's transformation, measures to support International growth and progressing Mothercare's Merchandise Transformation Programme.

Richard Smothers' personal objectives included renegotiating Mothercare's banking facilities, implementing the Merchandise Transformation Programme and supporting the CEO in the delivery of his personal objectives.

The Committee judged that the personal objectives for Mark and Richard had been achieved. However, as previously noted, no bonus was paid because to do so would have brought PBT below its threshold target.

Long term incentive plans (auditable)

The LTIP 3 award made in December 2014, was tested in relation to share price at the end of FY2016/17 and the target was not met, hence there will be nil vesting under this element as reflected in the single figure table. The Committee has not exercised any discretion in this regard. The Group PBT element will be measured once results for FY2017/18 are announced and this will be reflected in the single figure for the Executive Directors next year.

The LTIP award granted in June 2015 (LTIP 4) will be measured at the end of FY2017/18 (TSR) and in FY2018/19 (Group PBT).

LTIP awards during FY2016/17 (auditable)

As reported in the FY2015/16 annual report, although the Company usually aims to make LTIP awards shortly following the announcement of preliminary results, the Committee decided to delay these awards in 2016 until the full impact of the challenges facing our International business were known. In August, once the Committee was in a better position having further reviewed the medium- and long-term strategy of the Company and after a consultation process with key shareholders, awards were made under LTIP 5 in line with the approved Policy.

One of the key changes in the LTIP 5 awards as compared to previous awards was the introduction of an underlying EPS growth target to replace the existing PBT measure which accounts for 50% of the total award. The Committee believes that EPS is a more robust measure of profits which is more closely representative of the profits attributable to shareholders. In addition, EPS allows the Committee to test the effective management of the Company's tax obligations by the executives.

The Company has calibrated the targets based on internal projections and is satisfied that the selected EPS range of 25%-35% p.a. is appropriately stretching and is no easier to achieve than PBT targets set under previous awards. EPS will be measured over three years reflecting both external market practice and the Company's business plan.

Relative TSR was maintained as the performance measure for 50% of LTIP 5 awards, with the peer group derived based on the same parameters used for the previous LTIP award:

I. Constituents of the FTSE All Share General Retailers Index limited to those with a market capitalisation of below £3bn, 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 where the nature of the business was considered not to provide an appropriate comparator for Mothercare or those who were subject to take over bids at/around the time the group was decided.

The updated group is as follows:

Comparator companies for LTIP 5 TSR measurement

Just Eat	JD Sports Fashion
B&M European Value Retail	WH Smith
Sports Direct International	Dunelm Group
Card Factory	Pets at Home Group
Debenhams	AO World
Brown (N) Group	DFS Furniture
Findel	Topps Tiles
Carpetright	Ashley (Laura) Holdings
Moss Brothers Group	Game Digital

Performance will be measured from the date of grant for a period of three years, using an averaging period for the grant date performance conditions commencing on 19th May 2016, being the date that the FY2015/16 results were announced, and ending one day before the date of grant.

Half of any awards vesting under LTIP 5 will be released after the end of the three-year performance period with the remaining half subject to a further holding period of one year. The Committee believes that this phased vesting provides a balance between long-term alignment with shareholders and the motivation of the executives.

The vesting schedule for LTIP 5 is outlined in the table below.

Vesting (% of max)	3-year TSR	3-year underlying EPS growth (CAGR)
0%	Below median	<25% p.a.
25% (Threshold)	Median	25% p.a.
100%	Upper quartile	35% p.a.

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

Details of the awards made for the Executive Directors under LTIP 5 are set out below:

Director	Scheme	Basis of award	Face Value	% vesting at Threshold performance	Number of shares	Performance period end	End of holding period
Mark Newton-Jones	LTIP 5 (awarded as nil-cost options)	200%	£1,224,000	25%	906,666	FY2019	FY2020 (applies to 50% of awards)
Richard Smothers	LTIP 5 (awarded as nil-cost options)	175%	£621,250	25%	460,185	FY2019	FY2020 (applies to 50% of awards)

The number of shares are calculated using an average share price of £1.35 per share. This was calculated by reference to the average share price over the period from 19 May 2016 to 5 August 2016.

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 the 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.

Awards are subject to malus and clawback as detailed in the next section.

Malus and Clawback

From FY2015/16 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 onwards. The overall intention is that, save 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 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.	

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.

Other directorships
The Executive Directors both have external appointments where they serve as non-executive directors. Mark Newton-Jones is Chairman of Graduate Fashion Week, a Board member of INGKA Holding B.V. Supervisory Board (the parent company of IKEA Group) and is a non-executive director of Pockit Limited. Richard Smothers is a member of the Finance Committee, University College London and Treasurer and Audit & Risk Chair Trustee at NCT. Mark Newton-Jones receives €70,000 in respect of his appointment at INGKA Holding B.V. There are no other fees received in relation to their external appointments.

Statement of shareholding and share interests (auditable)
Executive Directors are expected to build up a shareholding in the Company. After five years, the CEO 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 26.03.16	Awards granted	Awards vested	Awards lapsed	Number of awards at 25.03.17	Exercise price	Date at which award vests	Expiry date of awards
Mark Newton-Jones	SAYE[1]	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
		22.12.16	–	20,000	–		20,000	90p	01.03.20	30.08.20
	LTIP 3	12.12.14	989,011	–	–	–	989,011	Nil		12.12.24
									50% end FY18*	
	LTIP 4	03.06.15	522,079	–	–	–	522,079	Nil	50% end FY18*	03.06.25
									50% end FY19*	
	LTIP 5	08.08.16	–	906,666	–	–	906,666	Nil	50% end FY19*	08.08.26
									50% end FY20	
	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*	23.03.25
									50% end FY18*	
	LTIP 4	03.06.15	258,864	–	–	–	258,864	Nil	50% end FY18*	03.06.25
									50% end FY19*	
	LTIP 5	08.08.16	–	460,185	–	–	460,185	Nil	50% end FY19*	08.08.26
									50% end FY20	
	Annual Bonus	–	–	–	–	–	–	–	–	–

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

* Vesting is determined by the Committee following publication of the preliminary results for the respective financial year.
1 Mark Newton-Jones cancelled participation in the 2014 and 2015 SAYE schemes. This is shown as lapsed in the table above.

Awards granted under 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 nor FY2016/17 given that no bonuses were awarded for either financial year.

The Executive Directors are committed to building up their shareholding in the Company. Mark Newton-Jones' shareholding is comprised entirely of shares he has purchased rather than through the Company's incentive schemes. In addition, the average price at which he purchased his shares is £1.94, which implies a spend of 85% of his gross salary.

As at 25 March 2017, 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 table below.

			Shares held directly Other		Shares		Options			
Director	**Shareholding requirement (% salary)[1]**	**Current shareholding (% salary)[2]**	**Legally owned as at 25 March 2017**	**Legally owned as at 26 March 2016**	**Subject to performance conditions**	**Not subject to performance conditions**	**Vested but unexercised**	**Unvested LTIP interests (nil-cost options subject to performance conditions)**	**Unvested SAYE options**	**Shareholding requirement met?**
Executive Directors										
Mark Newton-Jones	150%	51%	268,972	248,829	–	31,545	–	2,417,756	20,000	No
Richard Smothers	100%	31%	96,524	76,524	–	–	–	1,073,216	10,650	No
Non-Executive Directors										
Alan Parker	n/a	n/a	462,428	441,852	n/a	n/a	n/a	n/a	n/a	n/a
Lee Ginsberg	n/a	n/a	10,830	10,830	n/a	n/a	n/a	n/a	n/a	n/a
Richard Rivers	n/a	n/a	78,869	70,269	n/a	n/a	n/a	n/a	n/a	n/a
Nick Wharton[3]	n/a	n/a	7,296	7,296	n/a	n/a	n/a	n/a	n/a	n/a
Tea Colaianni	n/a	n/a	–	–	n/a	n/a	n/a	n/a	n/a	n/a
Gillian Kent	n/a	n/a	–	–	n/a	n/a	n/a	n/a	n/a	n/a
Imelda Walsh[4]	n/a	n/a	7,641	7,641	n/a	n/a	n/a	n/a	n/a	n/a
Amanda Mackenzie[4]	n/a	n/a	48,944	48,944	n/a	n/a	n/a	n/a	n/a	n/a
Angela Brav[4]	n/a	n/a	7,641	7,641	n/a	n/a	n/a	n/a	n/a	n/a

No changes took place in the interests of the directors between 25 March 2017 and 17 May 2017.

1 Executive Director shareholding must be built up within five years of joining the Company. For Mark Newton-Jones by no later than 17 July 2019 and for Richard Smothers by no later than 23 March 2020.
2 Shareholding percentage was calculated by reference to the average mid-market quote over the 30 days to the balance sheet date.
3 Nick Wharton's interest is held by his spouse, a connected person.
4 Shares owned on date of resignation.

There were no options exercised by any directors during the year.

Mothercare Employees' Share Trustee Limited

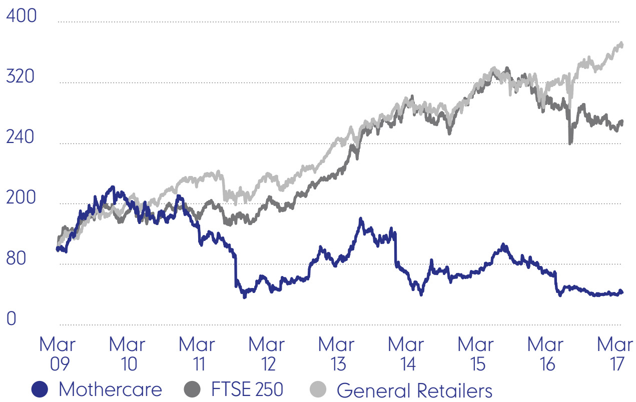
Mothercare Employees' Share Trustee Limited, which held 5,986 Mothercare plc shares in trust on 25 March 2017 (26 March 2016: 5,986 shares). A separate trust, the Mothercare Employee Trust, held 1,068,687 shares on 25 March 2017 (26 March 2016: 49,399 shares).

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 FTSE250 index. Mothercare plc entered the FTSE250 on 30 June 2008 but returned to the FTSE SmallCap Index on 19 December 2011. The Committee believes FTSE250 index continues to be the most appropriate index for comparison purposes given the Company's ambition to return to the FTSE 250 in the future. The graph also shows performance against the FTSE All Share General Retailers Index, given the Company is a constituent of this index. The graph shows the eight financial years to 25 March 2017.



CEO remuneration table

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

Year	CEO	CEO single figure of total remuneration (£'000)	Annual bonus pay-out against maximum (%)	Long term incentive vesting rates against maximum opportunity (%)
2017	Mark Newton-Jones	718	0	0[1]
2016	Mark Newton-Jones	814	0	0[2]
2015	Mark Newton-Jones[3]	774	46	0[2]
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 There was no vesting of the share price element of LTIP 3 awards which was measured at the end of FY2016/17 and accounts for 50% of the total award.
2 Mark Newton-Jones had no long term shares eligible to vest in FY2015/16 or FY2014/15.
3 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 FY2015/16 and FY2016/17. Hourly paid employees have been excluded as they work variable hours due to the availability of overtime.

	CEO			Average of salaried employees[1]		
	FY2016/17 £	FY2015/16 £	% Change	FY2016/17 £	FY2015/16 £	% Change
Base Salary p.a.	612,000	600,000	2	37,624	36,517	3.03
All taxable benefits[2]	14,048	124,366	-88.7	3,051	1,936	57.59
Annual Bonuses	–	–	n/a		–	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 includes car allowance and medical. The amount for FY2015/16 includes a one-off gross amount of £110,540 for relocation.

Relative importance of spend on pay

The following table sets out the percentage change in dividends and overall spend on pay in FY2016/17 compared to FY2015/16.

	FY2016/17	FY2015/16	% Change
Dividend	Nil	Nil	0
Employee Remuneration	£78.2m	£79.4m	(1.5)%

Employee remuneration taken from note 7 on page 122.

Advisers 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, Head of Reward and General Counsel & 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.	£63,050 (excl. VAT) (2016: £41,350)

The appointment of external independent remuneration consultants is the responsibility of the Committee. PwC were appointed as the Committee's independent advisers in 2012 following a selection process. PwC provided services to the Committee on a time spent basis at a cost of £63,050 (excluding VAT) during the year. PwC also provides certain other advice and non-audit services to the Group (including VAT advice) 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.

Statement of voting at Annual General Meeting

At the Annual General Meeting held on 14 July 2016, the resolutions to approve the Directors' remuneration report were passed on a show of hands. The FY2015/16 Directors' remuneration report comprised an Advisory report subject to an advisory vote. Having passed a binding vote at the Annual General Meeting on 17 July 2014 with a favourable vote of 99.68%, the Policy is next subject to a binding vote at the General Meeting this year on 31 July 2017.

The following proxy votes were received by the Company in respect of the resolutions for the 2016 Directors' remuneration report and the 2014 Directors' Remuneration Policy at the Annual General Meeting held on 14 July 2016:

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 (2016)	135,051,650	97.72	3,151,380	2.28	148,154,752	14,345,642	9.4
To approve the Directors' remuneration policy (2014)	71,707,297	99.68	233,137	0.32	71,940,434	592,793	0.82

* 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 12 July 2016, the Company's issued share capital and total voting rights consisted of 170,867,497 ordinary shares each carrying voting rights. There are no shares in treasury. As a result, proxy votes representing approximately 89.28% of the voting capital were cast.

Directors' remuneration report
continued

For the Directors' Remuneration Policy vote on 17 July 2014, the Company's issued share capital and total voting rights consisted of 88,821,250 ordinary shares each carrying voting rights. There were no shares in Treasury. As a result, proxy votes representing approximately 81.6% of the voting capital were cast.

Statement of implementation in FY2017/18

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 across workforces in the UK, affordability and general market conditions. It also noted that both individuals had performed strongly during the year. In respect of both Executive Directors the Committee concluded that an award of 1% was appropriate. This takes Mark Newton-Jones' salary to £618,120 and Richard Smothers' salary to £358,550.

Job Title	Name	FY2017/18	FY2016/17	Increase
CEO	Mark Newton-Jones	618,120	£612,000	1%
CFO	Richard Smothers	358,550	£355,000	1%

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

Job Title	Name	FY2017/18	FY2016/17	Increase	Notes
Chairman	Alan Parker	£200,000	£200,000	0	
NED	Richard Rivers	£55,000	£55,000	0	Includes supplementary of £5,000 as Senior Independent Director
NED	Lee Ginsberg	£57,500	£57,500	0	Includes supplementary of £7,500 as Chair of the Audit & Risk Committee
NED	Nick Wharton	£50,000	£50,000	0	
NED	Tea Colaianni	£57,500	£57,500[1]	0	Includes supplementary of £7,500 as Chair of the Remuneration Committee
NED	Gillian Kent	£50,000	£50,000[1]	0	

1 Fees shown are annual fees which were prorated in relation to the date of joining (14 October 2016 for Tea Colaianni and 16 March 2017 for Gillian Kent).

Pensions and benefits

There are no changes proposed for pensions and benefits, and these will be provided in line with the approved Policy.

Incentive arrangements in FY2017/18

As set out in the statement from the Remuneration Committee's Chair, the Committee is currently engaged in consultation with shareholders regarding new incentive arrangements, including potential changes to the Annual Bonus and long-term incentives. As a result, the shareholder circular for the General Meeting to be held immediately following the Annual General Meeting will contain our proposed new remuneration policy and all the disclosures for that policy which would have been included in this report had that policy been set out in this report, including an explanation of the structure of the new policy, the key changes to the policy and the rationale for such changes.

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:

The Remuneration policy report sets out the remuneration policy for Executive Directors and has been prepared in accordance with the Regulations. The current Policy approved at the Annual General Meeting on 17 July 2014 will expire at the end of this financial year and a new policy will be laid out for consideration to shareholders at the General Meeting on 31 July 2017. This new policy is still being considered by the Remuneration Committee and will be presented at the General Meeting. Details of this policy will be available to view on the Company's website (www.mothercareplc.com) once finalised.

For ease of reference, we summarise the current Policy below, the full version of this can be found at pages 59 to 71 of the FY2013/14 Annual Report. This is also available on the Company's website (www.mothercare.com).

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.
- 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.

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	Paid four-weekly in cash via payroll. 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: • an individual's experience, expertise or performance; • changes to responsibilities during the year; • average change in pay elsewhere in the workforce; • affordability and general market conditions. Occasionally there may be a review of an individual's salary during the year in the event of material change.
Opportunity	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. 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.
Performance metrics	Executive Directors participate in the Company's annual performance management process. Both individual and Company performance is taken into account when determining whether any salary increases are appropriate.
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.
Opportunity	The maximum bonus entitlement for Executive Directors is 125% of base salary. 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.

Annual bonus (cash and shares) (continued)	
Performance metrics	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. The Committee reviews all targets annually to ensure that they support the agreed business strategy and financial measures for the relevant financial year. 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.
Recovery or withholding	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). 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.

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	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. 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) prorating the award by time. 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.
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.
Performance metrics	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. 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.
Recovery or withholding	The Committee has the right to withhold or reduce the level of LTIP in certain circumstances including: • 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 for • fraud or gross misconduct of the participant.

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 apply	No performance metrics apply.
Recovery or withholding	No recovery or withholding applies.

Notes to the policy table

1 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 Executive 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.

2 The share price element of the award granted in FY2014/15 (LTIP 3) was subject to a one-year holding period.

3 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.

4 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.

5 All-employee share plans – Executive Directors were not eligible to participate in the Company Share Option Plan in October 2014.

6 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 and repeated in this report on page 81.

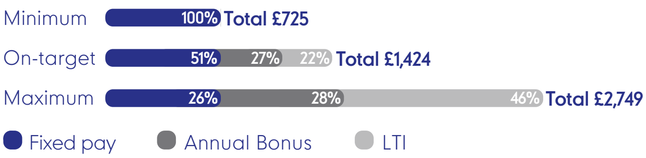
Remuneration scenarios for FY2017/18

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:

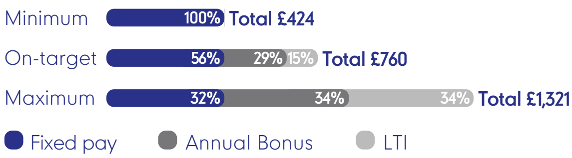
Minimum	Target	Maximum
Comprises the fixed elements of pay, being base salary, benefits and pension.	Comprises fixed pay (salary, benefits and pension) and 50% of the maximum annual bonus and 25% of the full LTIP award.	Comprises fixed pay (salary, benefits and pension) and the maximum value of the bonus. 125% of base pay for CEO and CFO.
The value of base salary and pension is calculated as at 1 April 2017.		Normal policy awards under the LTIP with full vesting. 200% of base pay for CEO and 175% of base pay for CFO.
The value of the benefits received is taken as the actual value for the year ended 25 March 2017.		

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.

CEO (£'000)



CFO (£'000)



Incentive plan discretions

The Committee will operate the annual bonus plan and Long Term Incentive Plans (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 & 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 election or 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 10.30am 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
Lee Ginsberg	2 July 2012	1 month
Richard Rivers	17 July 2008	1 month
Nick Wharton	14 November 2013	1 month
Tea Colaianni	14 October 2016	1 month
Gillian Kent	16 March 2017	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 Executive Directors will not exceed 12 months and, accordingly, the employment contracts of the Executive Directors are terminable on 12 months' notice by either party.
- In the event of a Executive 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 Executive 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-rata proportion of outstanding LTIP awards (which will be subject to clawback for awards made from FY2015/16 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 Executive 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.

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 Executive 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:

- a 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 Executive Director will therefore be set in accordance with the Company's approved remuneration policy as set out on pages 88 to 90 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 Executive Director's appointment.

The salary level for a new Executive 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 Executive 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 understand fully 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 the issue of 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 FY2016/17, no shareholder consultation has taken place.

However, given the requirement for us to submit a new Remuneration Policy to shareholders by the end of FY2017/18, the Committee has decided to take the opportunity to review the annual bonus and LTIP arrangements and will be consulting with key shareholders on these and the new Policy following the Preliminary Results Presentation in May and early June. Following consultation the new Policy will be presented for shareholder approval at a General Meeting immediately following the Annual General Meeting on 31 July 2017.

Approval

This report was approved by the Board of Directors on 17 May 2017 and signed on its behalf by Tea Colaianni, Chair of the Remuneration Committee.

Financial statements

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Financial statements

Company financial statements

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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 17 May 2017 and is signed on its behalf by:

Mark Newton-Jones
Chief Executive Officer

Richard Smothers
Chief Financial Officer

Financials

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 25 March 2017 and of the group's and the parent company'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 that we have audited 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;
- the parent company statement of changes in equity; and
- the 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".

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • classification and presentation of exceptional items; • recoverability of joint venture receivables; • accuracy of the inventory obsolescence provision; and • recognition of supplier funding income.
Materiality	The materiality used in the current year was £2.1m, which was determined by 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.
Scoping	The UK trading companies and the group's sourcing operations in Hong Kong and India have been subject to full scope audit, providing 100% coverage of the group's revenue and 98% of the group's profit before tax.
Significant changes in our approach	There has been no significant change in our approach. There has been reduced activity with regards to changes to the group's property portfolio and less judgement involved in assessing the property provision; as such we have not included a risk in the current period relating to this provision.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group We confirm that we have nothing material to add or draw attention to in respect of these matters. We agreed 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.	As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting on page 42 and the directors' statement of the longer-term viability of the group on page 42. We are required to state whether we have anything material to add or draw attention to in relation to: • the directors' confirmation on page 28 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 28 to 33 that describe those risks and explain how they are being managed or mitigated; • the directors' statement on page 42 about whether they considered 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 twelve months from the date of approval of the financial statements; and • the directors' explanation on page 42 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.
Independence 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.	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.
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. Last year our report included one other risk which is not included in our report this year: valuation of the group's property provisions. The valuation of the group's property provisions is no longer considered to be a key risk to the group financial statements as there has been reduced activity with regards to changes to the group's property portfolio and less judgement involved in assessing the property provision.

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
Classification and presentation of exceptional items 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 25 March 2017, the group incurred exceptional costs of £15.7 million (2016: £10.2 million). Refer to notes 2, 3 and 6 for further information and details of the exceptional items in the period. This is also discussed in the Audit and Risk Committee Report on page 61.	We reviewed the nature of exceptional items, challenged management's judgements in this area and agreed the quantification to supporting documentation. We assessed whether the items are in line with both the group's accounting policy and the guidance issued by the Financial Reporting Council. 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. We also assessed whether the disclosures within the financial statements provide sufficient detail for the reader to understand the nature of these items.	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.
Recoverability of joint venture receivables Management judgement is required in determining the appropriate level of provision to be held in respect of potentially non-recoverable receivables from joint ventures. At the year end, the group held gross trade receivables from joint ventures of £12.6 million (2016: £5.7 million) net of a £6.3 million provision (2016: £0.9 million provision). The movement in the provision during the year is driven by a £5.5 million provision booked in respect of the receivable from the China joint venture, over which there is uncertainty. Refer to notes 6, 13 and 30 for details of these balances. This is also discussed in the Audit and Risk Committee Report on page 61.	We checked the recoverability of amounts receivable by agreement to subsequent cash receipts or in those instances where no cash had been received to other supporting evidence of recoverability, including assessment of the joint venture projected cash flows and its ability to pay.	We are satisfied that the provision for joint venture receivables is appropriate in all material respects.

Risk description	How the scope of our audit responded to the risk	Key observations
Accuracy of the inventory obsolescence provision Management's calculation of the inventory obsolescence provision of £5.2 million (2016: £3.7 million) (£6.4 million (2016: £4.4 million) including the shrinkage provision) against a gross inventory balance of £108.4 million (2016: £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, and also in the Audit and Risk Committee report on page 61.	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. 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.	We are satisfied that the provision calculation for the obsolescence of inventory is appropriate in all material respects.
Recognition of supplier funding income 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. 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, and also in the Audit and Risk Committee report on page 61.	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. We tested the completeness and accuracy of the inputs for recording supplier funding by agreement to supporting evidence, including volume data and promotion dates. 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.	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.

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

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.
Group materiality Basis for determining materiality and rationale for benchmark applied	Based on our professional judgement, we determined materiality for the financial statements as a whole as follows: £2.1 million (2016: £1.8 million). We determined materiality applying professional judgement and derived from 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 £105,000 (2016: £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 25 March 2017. These locations represent the principal business units of the group and account for 100% (2016: 100%) of the group's revenue and 98% (2016: 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 (2016: 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, based on the work undertaken in the course of the audit: • the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; • 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; and • the Strategic Report and the Directors' Report have been prepared in accordance with the applicable legal requirements. In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.
Matters on which we are required to report by exception Adequacy of explanations received and accounting records We have nothing to report in respect of these matters.	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.
Directors' remuneration We have nothing to report arising from these matters.	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.
Corporate Governance Statement We have nothing to report arising from our review.	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.
Our duty to read other information in the Annual Report We confirm that we have not identified any such inconsistencies or misleading statements	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.

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

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 (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

London, UK
17 May 2017

Consolidated income statement
For the 52 weeks ended 25 March 2017

		52 weeks ended 25 March 2017			52 weeks ended 26 March 2016		
	Note	Underlying[1] £ million	Non-underlying[2] £ million	Total £ million	Underlying[1] £ million	Non-underlying[2] £ million	Total £ million
Revenue	4, 5	**667.4**	**–**	**667.4**	682.3	–	682.3
Cost of sales		**(606.2)**	**(2.4)**	**(608.6)**	(622.1)	–	(622.1)
Gross profit		**61.2**	**(2.4)**	**58.8**	60.2	–	60.2
Administrative expenses		**(38.2)**	**(9.7)**	**(47.9)**	(36.3)	(6.5)	(42.8)
Profit/(loss) from retail operations		**23.0**	**(12.1)**	**10.9**	23.9	(6.5)	17.4
Other exceptional items	6	**–**	**(0.5)**	**(0.5)**	–	(3.4)	(3.4)
Share of results of joint ventures	13	**–**	**–**	**–**	(1.1)	–	(1.1)
Profit/(loss) from operations	7	**23.0**	**(12.6)**	**10.4**	22.8	(9.9)	12.9
Net finance costs	8	**(3.3)**	**–**	**(3.3)**	(3.2)	–	(3.2)
Profit/(loss) before taxation		**19.7**	**(12.6)**	**7.1**	19.6	(9.9)	9.7
Taxation	9	**(3.2)**	**4.3**	**1.1**	(3.2)	(0.1)	(3.3)
Profit/(loss) for the period attributable to equity holders of the parent		**16.5**	**(8.3)**	**8.2**	16.4	(10.0)	6.4
Earnings per share							
Basic	11	**9.7p**		**4.8p**	9.6p		3.8p
Diluted	11	**9.3p**		**4.6p**	9.3p		3.6p

1 Before items described in footnote 2 below.
2 Includes exceptional items (restructuring costs, impairment charges, provision for receivables 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
For the 52 weeks ended 25 March 2017

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Profit for the period	**8.2**	6.4
Items that will not be reclassified subsequently to the income statement:		
Remeasurement of net defined benefit liability – actuarial (loss)/gain on defined benefit pension schemes	**(9.7)**	1.1
Deferred tax relating to items not reclassified	**0.5**	(1.5)
	(9.2)	(0.4)
Items that may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**(1.8)**	(0.4)
Cash flow hedges: gains arising in the period	**20.2**	4.2
Deferred tax relating to items reclassified	**1.1**	(0.3)
	19.5	3.5
Other comprehensive income for the period	**10.3**	3.1
Total comprehensive income for the period wholly attributable to equity holders of the parent	**18.5**	9.5

Consolidated balance sheet
For the 52 weeks ended 25 March 2017

	Note	25 March 2017 £ million	26 March 2016 £ million
Non-current assets			
Goodwill	14	**26.8**	26.8
Intangible assets	14	**36.6**	27.1
Property, plant and equipment	15	**80.4**	69.4
Investments in joint ventures	13	**–**	–
Long-term receivable	18	**0.8**	–
Deferred tax asset	16	**24.8**	20.3
Derivative financial instruments	21	**0.2**	0.2
		169.6	143.8
Current assets			
Inventories	17	**102.0**	101.8
Trade and other receivables	18	**67.6**	75.9
Current tax asset		**–**	0.3
Derivative financial instruments	21	**8.6**	12.1
Cash and cash equivalents	19	**–**	13.5
		178.2	203.6
Total assets		**347.8**	347.4
Current liabilities			
Trade and other payables	22	**(125.5)**	(130.1)
Bank overdraft	20	**(0.9)**	–
Current tax liabilities		**(0.2)**	–
Derivative financial instruments	21	**(0.8)**	(1.1)
Short-term provisions	23	**(8.8)**	(14.6)
		(136.2)	(145.8)
Non-current liabilities			
Trade and other payables	22	**(21.5)**	(22.1)
Borrowings	20	**(15.0)**	–
Retirement benefit obligations	29	**(80.1)**	(74.4)
Long-term provisions	23	**(13.6)**	(16.0)
		(130.2)	(112.5)
Total liabilities		**(266.4)**	(258.3)
Net assets		**81.4**	89.1
Equity attributable to equity holders of the parent			
Share capital	24	**85.4**	85.4
Share premium account		**61.0**	61.0
Own shares	24	**(1.5)**	(0.3)
Translation reserve	25	**(1.3)**	0.5
Hedging reserve	25	**5.2**	9.7
Retained deficit		**(67.4)**	(67.2)
Total equity		**81.4**	89.1

Approved by the Board and authorised for issue on 17 May 2017 and signed on its behalf by:

Richard Smothers
Chief Financial Officer

Financials

Consolidated statement of changes in equity
For the 52 weeks ended 25 March 2017

	Share capital £ million	Share premium account £ million	Own shares £ million	Translation reserve £ million	Hedging reserve £ million	Retained earnings £ million	Total equity £ million
Balance at 26 March 2016	85.4	61.0	(0.3)	0.5	9.7	(67.2)	89.1
Other comprehensive (expense)/income for the period	–	–	–	(1.8)	21.3	(9.2)	10.3
Profit for the period	–	–	–	–	–	8.2	8.2
Total comprehensive (expense)/income for the period	–	–	–	(1.8)	21.3	(1.0)	18.5
Removal from equity to inventories during the period	–	–	–	–	(25.8)	–	(25.8)
Purchase of own shares	–	–	(1.2)	–	–	–	(1.2)
Credit to equity for equity-settled share-based payments	–	–	–	–	–	0.8	0.8
Balance at 25 March 2017	**85.4**	**61.0**	**(1.5)**	**(1.3)**	**5.2**	**(67.4)**	**81.4**

For the 52 weeks ended 26 March 2016

	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)/income for the period	–	–	–	(0.4)	3.9	(0.4)	3.1
Profit for the period	–	–	–	–	–	6.4	6.4
Total comprehensive (expense)/income 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**

Consolidated cash flow statement
For the 52 weeks ended 25 March 2017

	Note	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Net cash flow from operating activities	26	**15.3**	21.9
Cash flows from investing activities			
Interest received		**0.1**	0.2
Purchase of property, plant and equipment		**(28.2)**	(27.8)
Purchase of intangibles – software		**(14.4)**	(11.4)
Proceeds from sale of property, plant and equipment		**1.3**	–
Net cash used in investing activities		**(41.2)**	(39.0)
Cash flows from financing activities			
Interest paid		**(1.0)**	(1.4)
Drawdown on facility		**15.0**	–
Purchase of own shares		**(1.2)**	–
Issue of ordinary share capital		**–**	0.4
Net cash from/(used in) financing activities		**12.8**	(1.0)
Net decrease in cash and cash equivalents		**(13.1)**	(18.1)
Cash and cash equivalents at beginning of period		**13.5**	31.5
Effect of foreign exchange rate changes		**(1.3)**	0.1
(Overdraft)/cash and cash equivalents at end of period	26	**(0.9)**	13.5

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 156. 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 25 March 2017. The comparative period covered the 52 weeks ended 26 March 2016.

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.

- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation'

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).

- Amendments to IAS 7, 'Statement of Cash Flows'
- IFRS 9, 'Financial Instruments'
- IFRS 15, 'Revenue from Contracts with Customers'
- IFRS 16, 'Leases'
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
- Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transaction'
- Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses'

The directors anticipate that, with the exception of 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 have a material impact on the reported assets, liabilities and income statement. Furthermore, extensive disclosures will be required by IFRS 16. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

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 58. 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 25 March 2017. 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.

2. Significant accounting policies continued

'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.

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 £2.3 million in respect of supplier funding income, comprising £1.2 million of settlement discounts invoiced but not yet settled and £3.2 million of promotional and retrospective rebate contributions earned but not yet invoiced, netted against £2.1 million of deferred rebate income on stock not yet sold.

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 the Early Learning Centre and Blooming Marvellous 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.

2. Significant accounting policies continued

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 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.

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.

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

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

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

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

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.

2. Significant accounting policies continued

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.

Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use.

Trade payables

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

Equity instruments

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

Notes to the consolidated financial statements
continued

2. Significant accounting policies continued

Derivative financial instruments

The Group uses forward foreign currency contracts to mitigate the transactional impact of foreign currencies on the Group's performance. 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.

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

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.

2. Significant accounting policies continued

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

Alternative performance measures (APMs)

In the reporting of financial information, the directors have adopted various APMs of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the directors and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with prior year.

The key APMs that the Group has focused on this year are as follows:

- Group worldwide sales: This is the headline measure of revenue for the Group. Worldwide sales are total International sales plus total UK sales. Total International sales are International retail sales plus International Wholesale sales. Total Group sales is a statutory number and is made up of total UK sales and receipts from our International partners, which includes royalty payments and the cost of goods dispatched to our franchise partners.
- Like-for-like sales: This is a widely used indicator of a retailer's current trading performance. This is defined as sales from stores that have been trading continuously from the same selling space for at least a year and include online sales. International retail sales are the estimated retail sales of overseas franchisees and joint ventures and associates to their customers. International like-for-like sales are the estimated franchisee retail sales from stores that have been trading continuously from the same selling space for at least a year.
- Underlying profit: This is the headline measure of the Group's performance, and is based on Underlying profit before exceptional items, amortisation of intangibles and impact of non-cash foreign currency adjustments under IAS39 and IAS21. Certain items due to their significance or one-off nature 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, inventory, 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.
- Underlying free cash flow: This is the headline measure of cash flow for the Group. This is based on the underlying performance excluding the impact of non-underlying gains/losses. The presentation of underlying free cash flow differs from the statutory cash flow statement this is based on statutory performance for the Group.

Notes to the consolidated financial statements
continued

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 25 March 2017, the Group's pension liability was £80.1 million (2016: £74.4 million). Further details of the accounting policy on retirement benefits are provided in note 2.

Sensitivities on assumptions are included in note 29.

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 joint venture receivables.

The Group reviews the recoverable amount of its receivables on a periodic basis. Provisions for receivables are established based upon the difference between the receivable value and the estimated net collectible amount (see note 18).

4. Revenue

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

	52 weeks 25 March 2017 £ million	52 weeks 26 March 2016 £ million
Total revenue	**667.4**	682.3

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 25 March 2017			
	UK £ million	International £ million	Unallocated corporate expenses £ million	£ million
Revenue				
External sales	**459.4**	**208.0**	**–**	**667.4**
Result				
Segment result (underlying)	**(4.4)**	**35.2**	**(7.0)**	**23.8**
Share-based payments				**(0.8)**
Non-cash foreign currency adjustments (non-underlying)				**4.1**
Amortisation of intangible assets (non-underlying)				**(1.0)**
Exceptional items (note 6)				**(15.7)**
Profit from operations				**10.4**
Net finance costs (underlying)				**(3.3)**
Profit before taxation				**7.1**
Taxation				**1.1**
Profit for the period				**8.2**

	52 weeks ended 26 March 2016			
	UK £ million	International £ million	Unallocated corporate expenses £ million	£ 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

Revenues are attributed to countries on the basis of the customer's location. The largest International customer represents approximately 15.9% (2016: 16.3%) of Group sales.

Notes to the consolidated financial statements continued

5. Segmental information continued

	52 weeks ended 25 March 2017		
	UK £ million	International £ million	Consolidated £ million
Other information			
Capital additions	**37.7**	**7.6**	**45.3**
Depreciation and amortisation	**17.3**	**2.6**	**19.9**
Balance sheet			
Assets			
Segment assets	**216.1**	**98.1**	**314.2**
Unallocated corporate assets			**33.6**
Consolidated total assets			**347.8**
Liabilities			
Segment liabilities	**167.4**	**2.0**	**169.4**
Unallocated corporate liabilities			**97.0**
Consolidated total liabilities			**266.4**

In addition to the depreciation and amortisation reported above, impairment losses of £3.3 million (2016: impairment losses of £1.5 million) were recognised in respect of property, plant and equipment. These impairment losses were attributable to the UK segment. A £1.9 million charge for store impairment of plant and equipment is included within non-underlying administrative expenses and a £1.4 million charge is included within exceptional property costs.

	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

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 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Exceptional items:		
Restructuring costs in cost of sales	**(5.5)**	(0.3)
Restructuring costs and property impairment included in administrative expenses	**(5.7)**	(6.5)
Joint venture trade receivable provision included in administrative expenses	**(4.0)**	–
Property related costs in other exceptional items	**(0.5)**	(0.1)
Impairment of investment in joint venture in other exceptional items	**–**	(3.3)
Total exceptional items:	**(15.7)**	(10.2)
Other non-underlying items:		
Non-cash foreign currency adjustments under IAS 39 and IAS 21[1]	**4.1**	1.2
Amortisation of intangibles[1]	**(1.0)**	(0.9)
Exceptional and other non-underlying items	**(12.6)**	(9.9)

1 Included in non-underlying cost of sales is a credit of £3.1 million (2016: credit of £0.3 million).

Restructuring costs in cost of sales

During the 52 weeks ended 25 March 2017 a charge of £5.5 million was recognised. £3.4 million was related to the international restructure, £1.1 million to warehouse development costs and £1.0 million warehouse closure costs.

£3.4 million was related to costs associated to the international restructure. Towards the end of 2016, the Group recognised that significant challenges exist within the current International business model requiring a wide range restructure. £3.2 million of the restructure costs relate to a one-off increase in the stock provision to reflect the alignment of our international trading strategy with the UK, i.e. more full price sales, less discounting and tighter management of stocks.

£1.1 million was related to the planned development of warehouses in the UK and consists of incremental labour and warehouse storage costs.

£1.0 million was related to the planned closure of the online warehouse. The costs consist of unavoidable costs associated to the closure. The online warehouse operation in the following year will operate from our main distribution centre.

During the 52 weeks ended 26 March 2016 a charge of £0.3 million was recognised in relation to the store restructuring programme.

Restructuring and property related costs included in administrative expenses

During the 52 weeks ended 25 March 2017 a charge of £5.7 million was recognised. £3.6 million related to head office restructure costs, £0.2 million related to the write off of amounts owed by a franchisee and £1.9 million store impairment.

The Group recognised £3.6 million associated to head office restructure. £2.1 million related to head office redundancies and £1.5 million related the Group strategy review. The strategy review continues to evolve the strategic six pillars, drive profitability and deliver effective and significant changes. Such costs will continue into 2018.

£1.9 million charge was recognised where the carrying value of property, plant and equipment is higher than net realisable value (2016: £1.8 million credit). This is mainly driven by an overall decline in store net present value.

During the 52 weeks ended 26 March 2016 a charge of £6.5 million was recognised mainly related to fixed assets written off in relation to the store restructuring and refurbishment programme.

Notes to the consolidated financial statements
continued

6. Exceptional and other non-underlying items continued

Joint venture trade receivable provision in administration expenses

Due to the challenging economic conditions and performance over the past 12 months in China, the Group took a prudent approach and provided for all outstanding debt at 26 March 2016, £4.0 million (charged to exceptional items) plus a provision of £1.5 million for overdue debt in the current year (charged to underlying profit).

Included in gross trade receivables is £10.4 million (2016: £4.0 million) for amounts owed from the joint venture in China, in addition the Group has made a loan of £0.8 million during the year. A provision of £5.5 million (2016: £nil) exists for debt where there is uncertainty over the recoverability.

Property related costs

Provisions of £0.5 million (2016: £0.1 million) have been made for onerous leases and losses on disposal/termination of property interests.

Impairment of joint venture investment

During the 52 weeks ended 26 March 2016, 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.

7. Profit/(loss) from operations

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

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Net total foreign exchange gains	**(8.1)**	(7.6)
Cost of inventories recognised as an expense	**407.2**	420.1
Write down of inventories to net realisable value	**3.4**	(0.4)
Depreciation of property, plant and equipment	**14.9**	13.3
Amortisation of intangible assets – software	**4.0**	4.1
Amortisation of intangible assets – other included in non-underlying cost of sales	**1.0**	0.9
Impairment of property, plant and equipment	**3.3**	1.5
Loss on disposal of property, plant and equipment	**0.6**	4.2
Net rent of properties (see note 27)	**42.8**	44.6
Amortisation of lease incentives	**(4.1)**	(4.1)
Hire of plant and equipment	**0.6**	0.9
Staff costs (including directors):		
Wages and salaries (including cash bonuses, excluding share-based payment charges)	**67.0**	66.7
Social security costs	**4.9**	4.7
Pension costs (see note 29)	**5.5**	5.0
Share-based payment charges (see note 28)	**0.8**	3.0

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 25 March 2017 Number	52 weeks ended 26 March 2016 Number
Number of employees comprising:		
UK stores	**4,321**	4,488
Head Office	**703**	682
Overseas	**187**	176
	5,211	5,346
Full time equivalents	**3,099**	3,153

7. Profit/(loss) from operations continued

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 72 to 95.

For the 52 weeks ended 25 March 2017, profit from retail operations is stated after a non-underlying net credit of £4.1 million (2016: £1.2 million credit) to cost of sales as a result of non-cash foreign currency adjustments under IAS 39 and IAS 21.

The analysis of auditor's remuneration is as follows:

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ 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
Total non-audit fees	**0.1**	–

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 policy for the approval of non-audit fees is set out on page 66, in the Corporate governance report.

8. Net finance costs

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Interest and bank fees on bank loans and overdrafts	**0.7**	0.5
Net interest on liabilities/return on assets on pension	**2.6**	2.7
Net finance costs	**3.3**	3.2

9. Taxation

The (credit)/charge for taxation on profit for the period comprises:

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Current tax:		
Current year	**1.6**	1.8
Adjustment in respect of prior periods	**0.2**	–
	1.8	1.8
Deferred tax: (see note 16)		
Current year	**0.5**	0.6
Change in tax rate in respect of prior periods	**0.3**	0.2
Adjustment in respect of prior periods	**(3.7)**	0.7
	(2.9)	1.5
(Credit)/charge for taxation on profit for the period	**(1.1)**	3.3

UK corporation tax is calculated at 20% (2016: 20%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Due to adoption of FRS101 for statutory accounting purposes, further tax losses have become available within the Group and a deferred tax asset of £1.1 million has been recognised in the financial statements in this respect. The corresponding credit to the income statement has been recognised as a non-underlying credit given the one-off nature of this transaction.

The (credit)/charge for the period can be reconciled to the profit for the period before taxation per the consolidated income statement as follows:

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Profit for the period before taxation	**7.1**	9.7
Profit for the period before taxation multiplied by the standard rate of corporation tax in the UK of 20% (2016: 20%)	**1.4**	1.9
Effects of:		
(Income)/expenses not deductible for tax purposes	**(0.3)**	1.6
Rate change on deferred tax	**0.3**	0.2
Impact of difference in current and deferred tax rates	**(0.1)**	–
Impact of overseas tax rates	**1.1**	1.5
Relief for losses brought forward	**–**	(1.9)
Impact of double tax relief	**–**	(0.7)
Adjustment in respect of prior periods – current tax	**0.2**	–
Adjustment in respect of prior periods – deferred tax	**(3.7)**	0.7
(Credit)/charge for taxation on profit for the period	**(1.1)**	3.3

In addition to the amount credited to the income statement, deferred tax relating to retirement benefit obligations, share-based payments and cash flow hedges amounting to £1.6 million (2016: charge of £1.8 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 (2016: £nil) and no interim dividend was paid during the year (2016: £nil).

11. Earnings per share

	52 weeks ended 25 March 2017 million	52 weeks ended 26 March 2016 million
Weighted average number of shares in issue	**170.5**	170.6
Dilution – option schemes	**7.9**	6.0
Diluted weighted average number of shares in issue	**178.4**	176.6
Number of shares at period end	**170.9**	170.9
	£ million	£ million
Profit for basic and diluted earnings per share	**8.2**	6.4
Exceptional and other non-underlying items (note 6)	**12.6**	9.9
Tax effect of above items	**(4.3)**	0.1
Underlying earnings	**16.5**	16.4
	Pence	pence
Basic earnings per share	**4.8**	3.8
Basic underlying earnings per share	**9.7**	9.6
Diluted earnings per share	**4.6**	3.6
Diluted underlying earnings per share	**9.3**	9.3

Notes to the consolidated financial statements
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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[1]	100%	Holding Company	Direct
Chelsea Stores (EBT Trustees) Limited	UK[1]	100%	Dormant	Indirect
Early Learning Holdings Limited	UK[1]	100%	Holding Company	Indirect
Early Learning Centre Limited	UK[1]	100%	Trading	Indirect
Early Learning Limited	UK[1]	100%	Property Company	Indirect
Mothercare Group Sourcing Limited	Hong Kong[2]	100%	Trading	Indirect
ELC Limited	UK[1]	100%	Dormant	Indirect
Galleria Limited (in liquidation)	UK[3]	100%	In liquidation	Direct
Mothercare Shops Group (in liquidation)	UK[3]	100%	In liquidation	Indirect
TCR Properties Limited	UK[1]	100%	Dormant	Direct
Mothercare (Jersey) Limited	Jersey[4]	100%	Trading	Direct
Mothercare Finance Limited	UK[1]	100%	Holding Company	Direct
Mothercare Sourcing Division (Bangladesh) Private Limited	Bangladesh[5]	100%	Trading	Indirect
Mothercare Finance Overseas Limited	Cayman Islands[6]	100%	Dormant	Direct
Mothercare Group Limited (The)	UK[1]	100%	Investment Holding Company	Direct
Mini Club UK Limited	UK[1]	100%	Trading	Indirect
Mothercare (Holdings) Limited	UK[1]	100%	Dormant	Indirect
Mothercare UK Limited	UK[1]	100%	Trading	Indirect
Childrens World Limited	UK[1]	100%	Dormant	Indirect
Gurgle Limited	UK[1]	100%	Trading	Indirect
Mothercare International (Hong Kong) Limited	Hong Kong[2]	100%	Investment Holding Company	Indirect
Mothercare Sourcing India Private Limited	India[7]	100%	Trading	Indirect
Mothercare Inc	USA[8]	100%	Non Trading	Indirect
Princess Products Limited	UK[1]	100%	Dormant	Direct
Mothercare Operations Limited	UK[1]	100%	Non Trading	Direct
Mothercare Procurement Limited	Hong Kong[2]	100%	Trading	Direct
Mothercare Sourcing Limited	UK[1]	100%	Dormant	Direct
Mothercare Trademarks AG	Switzerland[9]	100%	Trading	Direct
Clothing Retailers Limited	UK[1]	100%	Non Trading	Indirect
Retail Clothing Limited	UK[1]	100%	Dormant	Indirect
Strobe (2) Investments Limited	Jersey[4]	100%	Non Trading	Direct
Strobe Investments Limited	Jersey[4]	100%	Trading	Direct
Mothercare Commercial (Shanghai) Co Limited	China[10]	100%	Trading	Indirect

Registered office address;
1 Cherry Tree Road, Watford, WD24 6SH, UK.
2 18 Floor Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong.
3 Resolve Partners Limited, 48 Warwick Street, London, W1B 5NL, UK.
4 Sanne Secretaries Limited, 13 Castle Street, St Helier, JE4 5UT, Jersey.
5 62/1 Purana Paltan, Level 4, Motijheel C/A, Dhaka 1000, Bangladesh.
6 Maples & Calder, PO Box 309, Grand Cayman, Cayman Islands.
7 Number 100, N.A Elixir, 2nd Floor, 4th B Cross, 5th Block Industrial Layout, Koramangala, Bangalore, 560095, India.
8 1209 Orange Street, Wilmington, Delaware, 1980, USA.
9 Haldenstrasse 5, 6340 Baar, Switzerland.
10 Unit 7 and 8, 18 Floor, No 3 Building, No 1193 ChangNing Road, ChangNing District, Shanghai, China.

13. Investments in joint ventures

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Investments at start of period	–	7.3
Disposals	–	(2.9)
Share of loss	–	(1.1)
Impairment	–	(3.3)
Investments at end of period	–	–
Summary aggregate financial results and position of joint ventures:		
Current assets	**17.6**	16.3
Non-current assets	**7.9**	8.5
Total assets	**25.5**	24.8
Current liabilities	**(21.6)**	(15.7)
Non-current liabilities	**(3.3)**	–
Total liabilities	**(24.9)**	(15.7)
Total joint venture revenue	**31.8**	28.6
Total loss for the period	**(9.0)**	(5.7)

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 prior 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 Group is not obliged to make future funding payments and accordingly has not consolidated its share of the China JV's losses since January 2016. Losses not recognised in the financial statements for the 52 weeks ended 25 March 2017 amounted to £2.7 million (2016: £0.6 million). The cumulative losses not recognised in the financial statements is £3.3 million (2016: £0.6 million). The Group continues to trade with the China JV and is therefore exposed to debt. Included in gross trade receivables is £10.4 million (2016: £4.0 million) for amounts owed from the joint venture in China, in addition the Group has made a loan of £0.8 million during the year. A provision of £5.5 million (2016: £nil) exists for debt where there is uncertainty over the recoverability.

Notes to the consolidated financial statements
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14. Goodwill and intangible assets

	Goodwill £ million	Trade name £ million	Customer relationships £ million	Software £ million	Software under development £ million	Total £ million
		Intangible assets				
Cost						
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
Additions	–	–	–	9.7	4.6	14.3
Transfers	–		–	3.8	(3.8)	–
Exchange differences	–	0.4	–	–	–	0.4
As at 25 March 2017	**68.6**	**29.2**	**5.7**	**55.8**	**4.7**	**95.4**
Amortisation and impairment losses						
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
Amortisation	–	0.9	0.1	4.0	–	5.0
Disposals	–	–	–	–	–	–
Exchange differences	–	0.2	–	–	–	0.2
As at 25 March 2017	**41.8**	**22.8**	**5.7**	**30.3**	**–**	**58.8**
Net book value						
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
As at 25 March 2017	**26.8**	**6.4**	**–**	**25.5**	**4.7**	**36.6**

Goodwill, trade name and customer relationships relate to the acquisition of the Early Learning Centre on 19 June 2007, Gurgle Limited on 8 September 2009 and Blooming Marvellous 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, 2016: £nil) and International (£26.8 million, 2016: £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 and growth rates. Management has used a pre-tax discount rate of 11.5% (2016: 10.7%) 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 five-year period. Cash flows beyond the five year period assume a 2% growth rate (2016: 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 reasonably 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.

14. Goodwill and intangible assets continued

Software

Software additions include £3.6 million (2016: £2.8 million) of internally generated intangible assets.

At 25 March 2017, the Group had entered into contractual commitments for the acquisition of software amounting to £5.4 million (2016: £3.2 million).

15. Property, plant and equipment

	Properties including fixed equipment				
	Freehold £ million	Leasehold £ million	Fixtures, fittings, equipment £ million	Assets in course of construction £ million	Total £ million
Cost					
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
Transfers	–	–	7.1	(7.1)	–
Additions	1.3	11.0	13.7	5.0	31.0
Disposals	(0.7)	(15.8)	(21.3)	–	(37.8)
Exchange differences	–	–	0.2	–	0.2
As at 25 March 2017	**6.9**	**96.8**	**148.5**	**4.9**	**257.1**
Accumulated depreciation and impairment					
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
Charge for period	0.1	4.7	10.1	–	14.9
Impairment	–	2.2	1.1	–	3.3
Disposals	–	(14.8)	(21.1)	–	(35.9)
Exchange differences	–	–	0.1	–	0.1
As at 25 March 2017	**2.7**	**66.6**	**107.4**	**–**	**176.7**
Net book value					
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
As at 25 March 2017	**4.2**	**30.2**	**41.1**	**4.9**	**80.4**

The net book value of leasehold properties includes £28.7 million (2016: £27.0 million) in respect of short leasehold properties. A £1.9 million charge against the impairment on property, plant and equipment has been included within non-underlying administrative expenses and a £1.4 million charge is included within property related costs in other exceptional items.

At 25 March 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.7 million (2016: £4.8 million).

Freehold land and buildings with a carrying amount of £4.2 million (2016: £3.7 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.

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 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
Credit/(charge) to income	2.2	(0.7)	(0.3)	(0.1)	0.2	1.6	2.9
Credit/(charge) to other comprehensive income	–	1.1	0.5	–	–	–	1.6
At 25 March 2017	**7.8**	**2.3**	**13.7**	**0.2**	**(0.8)**	**1.6**	**24.8**

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:

	25 March 2017 £ million	26 March 2016 £ million
Deferred tax assets	**33.8**	30.4
Deferred tax liabilities	**(9.0)**	(10.1)
	24.8	20.3

At the balance sheet date the Group has unused tax losses of £12.3 million (2016: £19.5 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 (2016: £0.1 million) relating to withholding taxes have not been provided in respect of the aggregate amount of unremitted earnings of £12.9 million (2016: £19.9 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 25 March 2017, the Group has unused capital losses of £646.7 million (2016: £644.6 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

	25 March 2017 £ million	26 March 2016 £ million
Gross value	**108.4**	106.2
Allowance against carrying value of inventories	**(6.4)**	(4.4)
Finished goods and goods for resale	**102.0**	101.8

The amount of write down of inventories to net realisable value recognised within net income in the period is a charge of £3.4 million (2016: £0.4 million credit).

18. Trade and other receivables

	25 March 2017 £ million	26 March 2016 £ million
Trade receivables gross	**54.0**	58.8
Allowance for doubtful debts	**(7.0)**	(1.6)
Trade receivables net	**47.0**	57.2
Prepayments and accrued income	**17.0**	15.6
Prepaid facility fees	**0.2**	0.3
Other receivables	**3.4**	2.8
Trade and other receivables due within one year	**67.6**	75.9

Non-current assets		
Loan to joint venture	**0.8**	–

The following summarises the movement in the allowance for doubtful debts:

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Balance at beginning of period	**(1.6)**	(1.6)
Charged in the period	**(5.4)**	–
Balance at end of period	**(7.0)**	(1.6)

Due to the challenging economic conditions and performance during the period in China the Group has made a provision for all outstanding debt dating back to the end of the prior year of £4.0 million (charged to exceptional items) plus a provision of £1.5 million for overdue debt in the current year (charged to underlying profit).

Included in gross trade receivables is £10.4 million (2016: £4.0 million) for amounts owed from the joint venture in China, in addition the Group has made a loan of £0.8 million during the year. A provision of £5.5 million (2016: £nil) exists for debt where there is uncertainty over the recoverability.

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, except as disclosed above. 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:

	25 March 2017 £ million	26 March 2016 £ million
Trade receivables gross	**54.0**	58.8
Allowance for doubtful debts	**(7.0)**	(1.6)
Trade receivables net	**47.0**	57.2
Of which trade receivables gross comprise:		
Amounts not past due on the reporting date	**34.9**	50.4
Amounts past due:		
Less than one month	**5.2**	2.8
Between one and three months	**3.8**	2.8
Between three and six months	**2.4**	1.3
Greater than six months	**7.7**	1.5
Allowance for doubtful debts:		
Amounts not past due on the reporting date	**(0.3)**	–
Less than one month	**–**	–
Between one and three months	**(0.4)**	–
Between three and six months	**(0.6)**	(0.7)
Greater than six months	**(5.7)**	(0.9)
Trade accounts receivable net carrying amount	**47.0**	57.2

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 25 March 2017 of £15.9 million (2016: £nil).

Committed borrowing facilities

	25 March 2017 £ million	26 March 2016 £ million
Borrowings:		
Secured borrowings at amortised cost:		
Bank overdraft	**0.9**	–
Revolving credit facility	**15.0**	–
Total Borrowings	**15.9**	–
Amount due for settlement within one year	**0.9**	–
Amount due for settlement after one year	**15.0**	–
Weighted average interest rate paid (for when borrowings in place)	**2.85%**	–

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. 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.

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 31% (2016: 33%) of Group sales. Of these sales, 33% (2016: 32%) were invoiced in foreign currency. The Group purchases product in foreign currencies, representing approximately 56% (2016: 50%) of purchases.

The following table provides an overview of the notional value of derivative financial instruments outstanding at year end by maturity profile:

	25 March 2017 £ million	26 March 2016 £ million
Foreign currency forward exchange contracts:		
Less than one year	**197.6**	163.0
After one year but not more than five years	**39.3**	13.9
	236.9	176.9

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	25 March 2017 £ million	26 March 2016 £ million	25 March 2017 £ million	26 March 2016 £ million
US dollar	**–**	(1.0)	**15.2**	21.4
Euro	**–**	–	**1.4**	4.6
Hong Kong dollar	**(1.0)**	(1.5)	**0.3**	0.8
Indian rupee	**(4.3)**	(3.8)	**5.0**	3.9
Chinese renminbi	**(0.7)**	(0.5)	**0.6**	0.3
Bangladeshi taka	**(0.2)**	(0.1)	**0.2**	0.2
	(6.2)	(6.9)	**22.7**	31.2

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

	25 March 2017 £ million	26 March 2016 £ million
At notional value	**236.9**	176.9
At fair value – less than one year	**7.8**	11.0
At fair value – more than one year	**0.2**	0.2
Total fair value	**8.0**	11.2

Of the outstanding forward foreign currency contracts due in less than one year fair valued at £7.8 million (2016: £11.0 million), £0.8 million (2016: £1.1 million) are liabilities and £8.6 million (2016: £12.1 million) are current assets.

At 25 March 2017, the average hedged rate for outstanding forward foreign currency contracts is 1.31 for US dollars, 1.17 for Euros and 84.83 for Russian roubles. These contracts mature between March 2017 and July 2018.

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 (2016: £0.1 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	
	25 March 2017 £ million	26 March 2016 £ million	25 March 2017 £ million	26 March 2016 £ million
US dollar impact	**(2.7)**	(2.7)	**(19.3)**	(17.8)

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 derivative financial assets.

The average credit period on gross trade receivables was 30 days (2016: 31 days) based on total Group revenue. The average credit period on International gross trade receivables based on international revenue was 87 days (2016: 91 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

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

22. Trade and other payables

	25 March 2017 £ million	26 March 2016 £ million
Current liabilities		
Trade payables	**72.8**	75.8
Payroll and other taxes including social security	**0.8**	3.7
Accruals and deferred income	**46.1**	44.4
Lease incentives	**4.2**	4.5
VAT payable	**1.6**	1.7
	125.5	130.1
Non-current liabilities		
Lease incentives	**21.5**	22.1

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 64 days (2016: 68 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

	25 March 2017 £ million	26 March 2016 £ million
Current liabilities		
Property provisions	**8.4**	14.1
Other provisions	**0.4**	0.5
Short-term provisions	**8.8**	14.6
Non-current liabilities		
Property provisions	**13.2**	15.5
Other provisions	**0.4**	0.5
Long-term provisions	**13.6**	16.0
Property provisions	**21.6**	29.6
Other provisions	**0.8**	1.0
Total provisions	**22.4**	30.6

The movement on total provisions is as follows:

	Property provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 26 March 2016	29.6	1.0	30.6
Utilised in period	(8.2)	(0.4)	(8.6)
Charged in period	3.9	0.2	4.1
Released in period	(3.7)	–	(3.7)
Balance at 25 March 2017	**21.6**	**0.8**	**22.4**

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 (£0.8 million), hence the timing of the utilisation of these provisions is uncertain.

24. Share capital

	52 weeks ended 25 March 2017 Number of shares	52 weeks ended 26 March 2016 Number of shares	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Issued and fully paid				
Ordinary shares of 50 pence each:				
Balance at beginning of period	**170,862,863**	170,469,020	**85.4**	85.2
Issued under the Mothercare Sharesave Scheme	**4,634**	393,843	**–**	0.2
Balance at end of period	**170,867,497**	170,862,863	**85.4**	85.4

Further details of employee and executive share schemes are given in note 28.

The own shares reserve of £1.5 million (2016: £0.3 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 1,074,673 (2016: 55,386) with a market value at 25 March 2017 of £1.3 million (2016: £0.1 million).

25. Translation and hedging reserves

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Translation reserve		
Balance at beginning of period	**0.5**	0.9
Exchange differences on translation of foreign operations	**(1.8)**	(0.4)
Balance at end of period	**(1.3)**	0.5
Hedging reserve		
Balance at beginning of period	**9.7**	6.8
Cash flow hedges: gains arising in the period	**20.2**	4.2
Removal from equity to inventories during the period	**(25.8)**	(1.0)
Deferred tax on cash flow hedges	**1.1**	(0.3)
Balance at end of period	**5.2**	9.7

Notes to the consolidated financial statements
continued

26. Reconciliation of cash flow from operating activities

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Profit from retail operations	**10.9**	17.4
Adjustments for:		
Depreciation of property, plant and equipment	**14.2**	13.3
Amortisation of intangible assets	**5.0**	5.1
Impairment of property, plant and equipment and intangible assets	**1.9**	1.5
Losses on disposal of property, plant and equipment and intangible assets	**–**	4.2
Profit on non-underlying non-cash foreign currency adjustments	**(4.1)**	(1.2)
Equity-settled share-based payments	**0.8**	3.0
Movement in provisions	**(7.5)**	(13.9)
Cash payments for other exceptional items	**(0.2)**	2.8
Amortisation of lease incentives	**(5.0)**	(4.1)
Lease incentives received	**2.0**	5.3
Payments to retirement benefit schemes	**(9.6)**	(11.1)
Charge to profit from operations in respect of retirement benefit schemes	**3.0**	2.7
Operating cash flow before movement in working capital	**11.4**	25.0
(Increase)/decrease in inventories	**(0.5)**	(12.9)
Decrease/(increase) in receivables	**7.5**	(1.1)
(Decrease)/increase in payables	**(2.0)**	13.3
Cash generated from operations	**16.4**	24.3
Income taxes paid	**(1.1)**	(2.4)
Net cash flow from operating activities	**15.3**	21.9

Analysis of net cash

	26 March 2016 £ million	Cash flow £ million	Foreign exchange £ million	Other non-cash movements £ million	25 March 2017 £ million
Cash and cash equivalents	13.5	(13.5)		–	**–**
Borrowings	–	(15.0)	–	–	**(15.0)**
Bank overdrafts	–	0.4	(1.3)	–	**(0.9)**
Net (debt)/cash	13.5	(28.1)	(1.3)	–	**(15.9)**

27. Operating lease arrangements

The Group as lessee:

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Amounts recognised in cost of sales for the period:		
Minimum lease payments paid	**42.7**	44.5
Contingent rents	**0.2**	0.3
Minimum sublease payments received	**(0.1)**	(0.2)
Net rent expense for the period	**42.8**	44.6

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:

	25 March 2017 £ million	26 March 2016 £ million
Not later than one year	**42.3**	45.1
After one year but not more than five years	**120.4**	132.6
After five years	**72.6**	84.5
Total future minimum lease payments	**235.3**	262.2

At the balance sheet date, the Group had contracted with sub-tenants for the following future minimum lease payments:

	25 March 2017 £ million	26 March 2016 £ million
Not later than one year	**0.4**	0.5
After one year but not more than five years	**1.5**	2.0
After five years	**–**	0.3
Total future minimum lease payments	**1.9**	2.8

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 decrease in the charge year on year is due to a change in the estimated number of shares that will vest.

The underlying charge for share-based payments is £0.8 million (2016: £3.0 million), including national insurance, of which £0.8 million (2016: £2.4 million) was equity-settled. At 25 March 2017 the liability in the balance sheet is £0.6 million related to the expected national insurance charge when share-based payment schemes vest (2016: £0.6 million).

These charges relate to the following schemes:

A. Save As You Earn Schemes
B. Company Share Option Plan
C. Long Term Incentive Plans
D. Retention Share Plan

Details of the share schemes that the Group operates are provided in the Directors' remuneration report on pages 72 to 95.

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 eligible employees and provide for a purchase price equal to the average daily mid-market price on the three 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.

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

	Weighted average exercise price	52 weeks ended 25 March 2017 Number of shares	52 weeks ended 26 March 2016 Number of shares
Balance at beginning of period	**166p**	**2,247,102**	1,733,876
Granted during period	**90p**	**2,430,840**	1,216,606
Rights issue options during the period	**–**	**–**	588
Forfeited during period	**164p**	**(119,924)**	(110,714)
Exercised during period	**176p**	**(4,634)**	(393,843)
Cancelled in the period	**159p**	**(877,863)**	(106,830)
Expired during period	**185p**	**(170,033)**	(92,581)
Balance at end of period	**114p**	**3,505,488**	2,247,102

The shares outstanding at 25 March 2017 had a weighted average remaining contractual life of 2.5 years and ranged in price from 90p to 244p.

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 2016	December 2015	December 2014	December 2013
Number of options granted	2,430,840	1,216,606	998,525	199,071
Share price at grant date	112p	224p	178p	410p
Exercise price	90p	169p	148p	310p
Expected volatility	52.0%	42.0%	42.0%	43.0%
Risk free rate	0.23%	0.54%	0.60%	0.86%
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	48.8p	90.8p	165.8p	169.2p

The resulting fair value is expensed over the service period of three years on the assumption that 10% 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 December 2014 will be awarded to the participants 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 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 PBT awards	December 2013 PBT awards	December 2013 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 PBT awards	December 2014 Share price awards	March 2015 PBT awards	March 2015 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 year ending March 2019 and financial year ending March 2018 respectively to determine what percentage of the shares vest. No consideration is payable for the grant of these awards.

	June 2015	June 2015	December 2015	December 2015	February 2016	February 2016
Grant date	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	258p	258p	240p	240p	198p	198p
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	258p	183p	258p	183p	258p	183p
Average time to expiry	4.0 years	3.0 years	3.5 years	2.5 years	3.3 years	2.3 years

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

	August 2016	August 2016
Grant date	EPS awards	TSR awards
Number of shares awarded	2,269,692	2,269,692
Share price at date of grant	131p	131p
Exercise price	Nil	Nil
Expected volatility	46.5%	46.5%
Risk-free rate	0.09%	0.09%
Expected dividend yield	Nil	Nil
Fair value of shares granted	131p	87p
Average time to expiry	3.5	3.5

E. Retention share plan

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

	August 2016	August 2016
Grant date	PBT awards	TSR awards
Number of shares awarded	131,072	131,072
Share price at date of grant	135p	135p
Exercise price	Nil	Nil
Expected volatility	56.3%	49.0%
Risk-free rate	0.92%	0.18%
Expected dividend yield	Nil	Nil
Fair value of shares granted	184p	131p
Average time to expiry	1.8	1.8

Notes to the consolidated financial statements
continued

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 (2016: £2.0 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 schemes' assets are held in a separate trustee administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interest of the fund's beneficiaries.

For the protection of members' interests, the 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 25 March 2017 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.

Below is an outline of the risks, what they are and how to mitigate those risks.

Risk	Description	Mitigation
Volatile asset returns	The Defined Benefit Obligation (DBO) is calculated using a discount rate set with reference to AA corporate bond yields; asset returns that differ from the discount rate will create an element of volatility in the solvency ratio. The UK Pension Fund holds a significant proportion in growth assets. The largest allocation within the growth asset portfolio is held in equities (approximately 38%). Although these growth assets are expected to outperform corporate bonds in the long term, they can lead to volatility and mismatching risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the UK Pension Fund's long-term objectives.	The Company and Trustee have put in place hedging which covers inflation and interest rates (Staff 15% & 9% respectively and Exec 40% & 26% respectively) for the UK Pension Fund to reduce the volatility of equity investment returns. The investment strategy will continue to evolve to further improve the expected risk/return profile over 2017. The Company and Trustee have agreed to increase the hedges on inflation and interest rates in 2017/18.
Changes in bond yields	A decrease in corporate bond yields will increase the present value placed on the DBO for accounting purposes, although this will be partially offset by an increase in the value of the UK Pension Fund's bond holdings.	The UK Pension Fund holds a proportion of its assets (around 38%) in bonds, which provide a hedge against falling bond yields (falling yields which increase the DBO will also increase the value of the bond assets). Note that there are some differences in the credit quality of bonds held by the UK Pension Fund and the bonds analysed to decide the DBO discount rate, such that there remains some risk should yields on different quality bond/ swap assets diverge.
Inflation risk	A significant proportion of the DBO is indexed in line with price inflation (specifically inflation in the UK Retail Price Index) and higher inflation will lead to higher liabilities (although, in most cases, this is capped at an annual increase of 5%).	The UK Pension Fund holds some inflation-linked assets which provide a hedge against higher-than-expected inflation increases on the DBO.
Life expectancy	The majority of the UK Pension Fund's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.	

29. Retirement benefit schemes continued

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

The IAS 19 valuation conducted for the period ending 25 March 2017 disclosed a net defined pension deficit of £80.1 million (2016: £74.4 million).

The major assumptions used in the updated actuarial valuations were:

	25 March 2017	26 March 2016
Discount rate	**2.7%**	3.6%
Inflation rate – RPI	**3.2%**	3.1%
Inflation rate – CPI	**2.1%**	2.0%
Future pension increases	**3.0%**	3.0%
Male life expectancy at age 65	**21.9 years**	22.5 years
Male life expectancy at age 65 (currently aged 45)	**23.3 years**	24.3 years
Female life expectancy at age 65	**23.3 years**	24.2 years
Female life expectancy at age 65 (currently aged 45)	**24.8 years**	26.1 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 2016 projections with a long-term annual rate of improvement of 1.25 per cent. Weighted averages across both schemes are shown above.

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%	-7.8 /+7.8
Rate of RPI inflation	+/- 0.1%	+7.5 /-7.5
Rate of CPI inflation	+/- 0.1%	+2.7 /-2.7
Life expectancy (age 65)	+ 1 year	+ 15.1
Discount rate	+/- 0.5%	-39.0 /+39.0
Rate of price inflation	+/- 0.5%	+33.6 /- 30.6

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.

Notes to the consolidated financial statements continued

29. Retirement benefit schemes continued

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

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Running costs	**3.0**	2.7
Net interest on liabilities/return on assets	**2.6**	2.7
Net charge	**5.6**	5.4

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

The amount recognised in other comprehensive income for the period ending 25 March 2017 is a loss of £9.7 million (2016: a gain of £1.1 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:

	25 March 2017 £ million	26 March 2016 £ million
Present value of defined benefit obligations	**409.7**	361.9
Fair value of schemes' assets	**(329.6)**	(287.5)
Liability recognised in balance sheet	**80.1**	74.4

Movements in the present value of defined benefit obligations were as follows:

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
At beginning of period	**361.9**	364.6
Interest expense	**12.9**	12.4
Actuarial (gains)/losses arising from changes in demographic assumptions	**(18.0)**	3.6
Actuarial losses/(gains) arising from changes in financial assumptions	**79.4**	(9.8)
Experience losses on liabilities	**(17.5)**	–
Benefits paid	**(9.0)**	(8.9)
At end of period	**409.7**	361.9

29. Retirement benefit schemes continued

Movements in the fair value of schemes' assets were as follows:

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
At beginning of period	**287.5**	283.4
Interest income	**10.3**	9.7
Scheme administration expenses	**(3.0)**	(2.7)
Return on scheme assets excluding interest income	**34.2**	(5.1)
Company contributions	**9.6**	11.1
Benefits paid	**(9.0)**	(8.9)
At end of period	**329.6**	287.5

The major categories of scheme assets are as follows:

	25 March 2017 £ million	25 March 2017 £ million	26 March 2016 £ million	26 March 2016 £ 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	**39.1**	**–**	41.2	–
Overseas equities	**85.8**	**–**	70.7	–
Corporate bonds	**63.1**	**–**	58.5	–
Index-linked government bonds	**62.3**	**–**	49.9	–
Diversified growth funds	**76.9**	**–**	65.2	–
Cash and cash equivalents	**2.4**	**–**	2.0	–
	329.6	**–**	287.5	–

The percentage split of the scheme assets between sterling & non-sterling are as follows as at 25 March 2017:

	Sterling	Non-sterling
UK equities	**100%**	**–**
Overseas equities	**4%**	**96%**
Corporate bonds	**26%**	**74%**
Index-linked government bonds	**100%**	**–**
Diversified growth funds	**83%**	**17%**
Cash and cash equivalents	**100%**	**–**

The schemes' assets do not include any of the Group's 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 24 March 2018 is £9.1 million.

Notes to the consolidated financial statements
continued

29. Retirement benefit schemes continued

The Company is committed to paying into each scheme for future years, these amounts are outlined on the below Schedule of Contributions:

Exec Scheme year ending March	Amount	Staff Scheme year ending March	Amount
2018	£2.06 million	2018	£6.41 million
2019	£2.06 million	2019	£6.41 million
2020	£2.26 million	2020	£7.06 million
2021	£2.26 million	2021	£7.06 million
2022	£2.49 million	2022	£7.76 million

The schemes are funded by the Company. Funding of the schemes 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 25 March 2017 is approximately 23.5 years (2016: 23.5 years).

The defined benefit obligation at 25 March 2017 can be approximately attributed to the scheme members as follows:

- Active members: 0% (2016: 0%)
- Deferred members: 67% (2016: 67%)
- Pensioner members: 33% (2016: 33%)

All benefits are vested at 25 March 2017 (unchanged from 26 March 2016).

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:

52 weeks ended 25 March 2017	Sales of goods £ million	Purchase of goods £ million	Amounts owed by related parties £ million	Amounts owed to related parties £ million
Joint ventures	**9.8**	**–**	**6.3**	**–**

52 weeks ended 26 March 2016	Sales of goods £ million	Purchase of goods £ million	Amounts owed by related parties £ million	Amounts owed to related parties £ million
Joint ventures	8.9	–	4.8	–

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 £6.3 million (2016: £0.9 million) has been made for doubtful debts in respect of the amounts owed by related parties. No amounts (2016: £nil) have been written off in respect of amounts owed by related parties.

Included in amounts owed by related parties is balances for the joint venture in China of: gross trade receivable of £10.4 million (2016: £4.0 million), a loan of £0.8 million (2016: £nil) and a provision of £5.5 million (2016: £nil) for debt where there is uncertainty over the recoverability.

30. Related party transactions continued

Remuneration of key management personnel

The remuneration of the operating 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 95.

	52 weeks ended 25 March 2017 £ million	52 weeks ended 26 March 2016 £ million
Short-term employee benefits	**5.4**	4.0
Post-employment benefits	**0.5**	0.4
Compensation for loss of office	**0.3**	0.3
	6.2	4.7

Mothercare Pension scheme

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

On 5 May 2017 the Group refinanced with the support of its two existing banks, HSBC and Barclays, amending its committed facilities of £50 million to a £62.5 million revolving credit facility and a £5 million uncommitted overdraft (at an interest rate range of 2.0% to 3.0% above LIBOR). The amended revolving credit facility is made up of two tranches, a £50.0 million maturing in May 2020 (with an option to extend for an additional one year on two occasions subject to lenders' approval) and an additional £12.5 million maturing in November 2018 (with an option to extend for an additional six months on two occasions subject to lenders' approval). In addition, an accordion facility with a variable limit that allows the Group to draw down up to £75 million has been made available, subject to lenders' approval.

Company financial statements

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Company balance sheet
As at 25 March 2017

	Note	25 March 2017 £ million	26 March 2016 £ million
Fixed assets			
Investments in subsidiary undertakings	3	**165.4**	164.6
		165.4	164.6
Current assets			
Debtors – amounts falling due within one year	4	**212.6**	145.3
Cash at bank and in hand and time deposits		**–**	6.2
		212.6	151.5
Creditors – amounts falling due within one year	5	**(152.6)**	(124.3)
Net current assets		**60.0**	27.2
Total assets less current liabilities		**225.4**	191.8
Creditors – amounts falling due after more than one year		**(15.0)**	–
Net assets		**210.4**	191.8
Capital and reserves attributable to equity interests			
Called up share capital	6	**85.4**	85.4
Share premium	7	**61.0**	61.0
Own shares	7	**(1.5)**	(0.3)
Profit and loss account	7	**65.5**	45.7
Equity shareholders' funds		**210.4**	191.8

Approved by the Board on 17 May 2017 and signed on its behalf by:

Richard Smothers
Chief Financial Officer

Company Registration Number: 1950509

Company statement of changes in equity

	Share capital £ million	Share premium account £ million	Own share reserve £ million	Profit and loss account £ million	**Total £ million**
Balance at 26 March 2016	85.4	61.0	(0.3)	45.7	191.8
Profit for the period	–	–	–	19.0	19.0
Other comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period			–	19.0	19.0
Purchase of shares	–	–	(1.2)	–	(1.2)
Capital contribution for equity-settled share-based payments	–	–	–	0.8	0.8
Balance at 25 March 2017	**85.4**	**61.0**	**(1.5)**	**65.5**	**210.4**
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**

Notes to the Company financial statements

1. Significant accounting policies
The Company's accounting period covers the 52 weeks ended 25 March 2017. The comparative period covered the 52 weeks ended 26 March 2016.

These financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemption available under the standard in relation to the presentation of a 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 re measurement 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 and associates are stated at cost less, where appropriate, provisions for impairment.

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 profit for the 52 weeks ended 25 March 2017 was £19.0 million (2016: £nil million). The auditor's remuneration for audit and other services is disclosed in note 7 to the Consolidated financial statements.

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:

	25 March 2017 £ million	26 March 2016 £ million
Cost of investments (less amounts written off £153.0 million (2016: £153.0 million))	**154.7**	153.9
Loans to subsidiary undertakings	**65.5**	65.5
	220.2	219.4

	£ million
Cost	
At 26 March 2016	219.4
Share-based payments to employees of subsidiaries	0.8
At 25 March 2017	220.2
Impairment	
At 26 March 2016	(54.8)
Charged during the period	–
At 25 March 2017	(54.8)
Net book value	**165.4**

4. Debtors

	25 March 2017 £ million	26 March 2016 £ million
Amounts due from subsidiary undertakings	**212.1**	145.2
Other debtors	**0.5**	0.1
	212.6	145.3

Financials

Notes to the Company financial statements
continued

5. Creditors

Creditors: amounts due within one year	25 March 2017 £ million	26 March 2016 £ million
Amounts due to subsidiary undertakings	**143.8**	123.6
Overdrafts	**8.0**	–
Accruals and other creditors	**0.8**	0.7
	152.6	124.3

6. Called up share capital

	Number of shares	£ million
Issued and fully paid		
Ordinary shares of 50p each:		
Balance at 26 March 2016	170,862,863	85.4
Issued under the Mothercare Sharesave Scheme	4,634	–
Balance at 25 March 2017	**170,867,497**	**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 26 March 2016	61.0	(0.3)	45.7
Purchase of own shares	–	(1.2)	–
Fair value of share-based payments	–	–	0.8
Profit for the financial year	–	–	19.0
Balance at 25 March 2017	**61.0**	**(1.5)**	**65.5**

The own shares reserve of £1.5 million (2016: £0.3 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 1,074,673 (2016: 55,386) with a market value at 25 March 2017 of £1.3 million (2016: £0.1 million).

Five year record
(unaudited)

	2017 £ million	2016 £ million	2015 £ million	2014 £ million	2013[4] Restated £ million
Summary of consolidated income statements					
Revenue	**667.4**	682.3	713.9	724.9	749.4
Underlying[1] profit from operations before interest	**23.0**	22.8	18.0	15.9	11.8
Non-underlying[2] items	**(12.6)**	(9.9)	(24.6)	(35.0)	(29.4)
Interest (net)	**(3.3)**	(3.2)	(6.5)	(7.2)	(6.3)
Profit/(loss) before taxation	**7.1**	9.7	(13.1)	(26.3)	(23.9)
Taxation	**1.1**	(3.3)	(2.3)	(1.2)	0.1
Profit/(loss) for the financial year	**8.2**	6.4	(15.4)	(27.5)	(23.8)
Basic earnings/(loss) per share	**4.8p**	3.8p	(12.6p)	(31.0p)	(26.9p)
Basic underlying earnings per share	**9.7p**	9.6p	8.6p	7.7p	4.2p
Summary of consolidated balance sheets					
Deferred tax asset	**24.8**	20.3	23.6	18.5	21.7
Other non-current assets	**144.8**	123.5	109.6	111.5	124.1
Net current assets	**42.0**	57.8	64.1	12.2	45.6
Retirement benefit obligations	**(80.1)**	(74.4)	(81.2)	(49.7)	(61.6)
Other non-current liabilities	**(50.1)**	(38.1)	(38.4)	(77.3)	(91.0)
Total net assets	**81.4**	89.1	77.7	15.2	38.8
Other key statistics					
Share price at year end	**118.5p**	180.0	206.5p	189.0p	315.0p
Net (debt)cash/equity	**(19.5%)**	15.0%	40.5%	(238.5%)	(83.5%)
Number of issued shares	**170,867,497**	170,863,741	170,469,020	88,813,598	88,653,417
Capital expenditure	**42.6**	39.2	12.7	10.9	16.2
Depreciation and amortisation	**19.9**	18.3	17.7	20.3	21.4
Rents	**42.8**	44.6	48.2	48.7	54.2
Number of UK stores	**152**	170	189	220	255
Number of International stores[3]	**1,150**	1,142	1,121	1,080	948
UK selling space (000's sq.ft.)	**1,462**	1,552	1,658	1,737	1,805
International selling space (000's sq.ft.)[3]	**2,946**	2,921	2,776	2,522	2,195
Average number of employees	**5,211**	5,346	5,433	5,613	6,226
Average number of full time equivalents	**3,099**	3,153	3,304	3,486	3,959

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. ELC inserts within a Mothercare store have previously been classified as a separate store, with their own square footage. We have now aligned the classification policy to our UK business I. e. an ELC store located either within or adjacent to a Mothercare store, sharing a common passage way or entrance, is classified as one store. This reclassification means that 188 stores and 106,951 sq.ft of retail space have been removed from the Q4 reported numbers of 1,338 stores, resulting in 1,150 International stores and c3,000,000 sq.ft of space. The equivalent adjustment has been applied to prior years.
4 Restated for Amendments to IAS 19.

Shareholder information

Shareholder analysis

A summary of holdings as at 25 March 2017 is as follows:

	Mothercare ordinary shares	
	Number of shares	Number of shareholders
Banks, insurance companies and pension funds	3,813,411	4
Nominee companies	144,532,137	379
Other corporate holders	18,563,079	80
Individuals	3,958,870	19,231
	170,867,497	**19,694**

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

	2017	2016
Share price at 25 March 2017 (26 March 2016)	**118.5p**	180.0p
Market capitalisation	**£202.5m**	£307.6m
Share price movement during the year:		
High	**194.00p**	295.00p
Low	**106.25p**	142.09p

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 155p and of one ordinary share in Habitat Mothercare PLC is 133p; and
- the market value of each Mothercare plc 50p 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 135p.

Rights issue and TERP

On 23 September 2014 the Company announced a proposed rights issue of 9 for 10 ordinary shares at 125p 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 178p.

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

	2017
Annual General Meeting	31 July
Announcement of interim results	23 November
	2018
Preliminary announcement of results for the 52 weeks ending 24 March 2018	May
Issue of report and accounts	June
Annual General Meeting	July

Registered office and head office

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

Group general counsel and company secretary

Dan 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 0871 384 2013,
Overseas +44(0)121 415 7042 www.equiniti.com.

Postal share dealing service

A postal share dealing service is available through the Company's registrars for the purchase and sale of Mothercare plc shares.

Further details can be obtained from Equiniti on 0871 384 2248 (calls to this number are charged at 8p per minute plus network extras. Lines are open 8.30 am 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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