# 2018

Annual report and accounts

mothercare

welcome to the club

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# 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, pre-school 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: **38**
UK – out of town: **96**
International partners: **932**

## 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: **3**
UK – inserts: **115**
International partners: **199**

# At a glance and financial highlights

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

Worldwide sales*

£1,163m (4.8)%

Group sales

£654m (1.9)%

Adjusted profit**

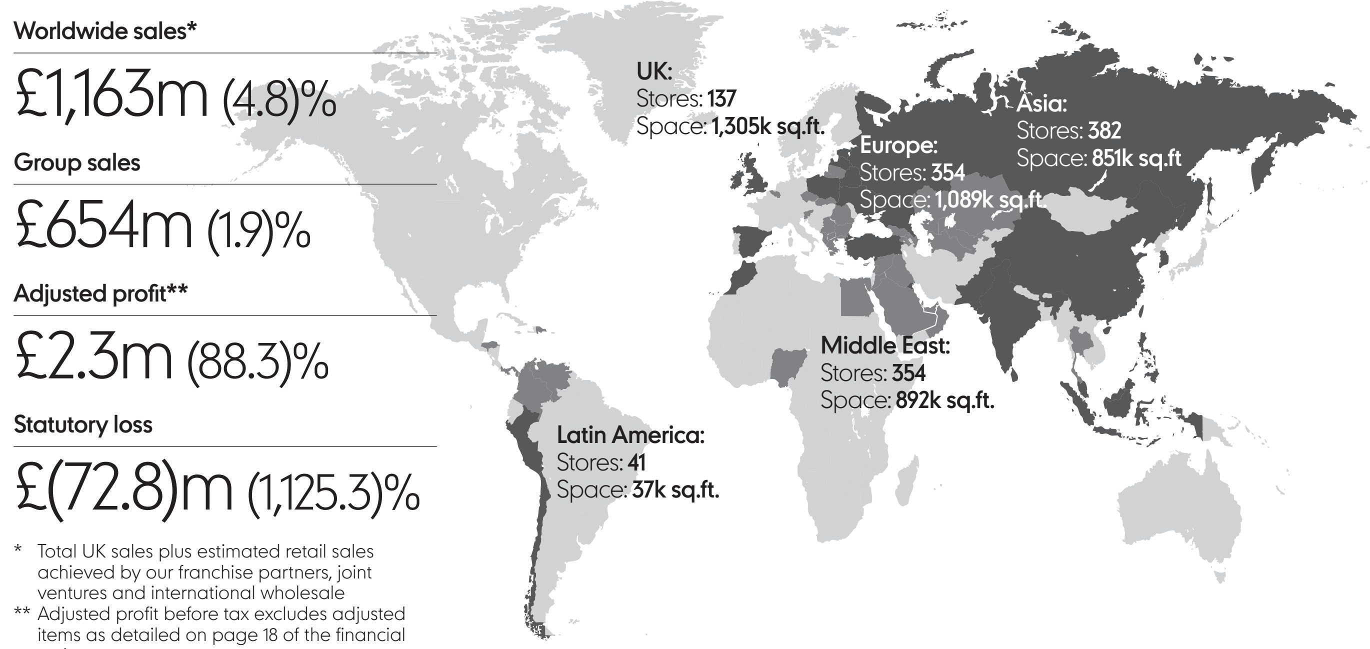
£2.3m (88.3)%

Statutory loss

£(72.8)m (1,125.3)%

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

** Adjusted profit before tax excludes adjusted items as detailed on page 18 of the financial review



# 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.**

First I am delighted to have been invited to become Interim Executive Chairman for mothercare. The business is facing a number of pressures at present, but it has a wonderful heritage and I am committed to ensuring it has an exciting future both in the UK and internationally. On behalf of the Board, I would also like to thank Alan Parker who retired in April after six years as Chairman, for his service to the Company.

This past year has undoubtedly been a challenging one for the Group where, after a positive like-for-like sales performance in the UK during the first six months of the year, we witnessed some very difficult trading conditions over the second half in light of a significant drop-off in consumer confidence which led to lower footfall and spend both in-stores and online, affecting both sales and profits. This was combined with some ongoing challenging conditions in our international markets.

The tough consumer backdrop meant that towards the end of the financial year we had to enter into discussions with our lenders regarding our financing arrangements and we have been working to reach a resolution which can support the ongoing transformation and create a sustainable future for the business. I continue to believe that mothercare is a great brand with a future but it is facing a number of challenges, not least a highly competitive retail environment.

The transformation strategy to date has been focused on improving the performance of the Group in the UK and internationally, ensuring mothercare has an appropriately sized store estate, supported by a strong online offer, as well as sharpening our focus on the areas where mothercare is a true specialist. The Group has also been taking actions to reduce central costs, whilst continuing to work with our partners to grow and develop in each of our international markets, sharing best practice.

As this more focused approach was executed, some difficult decisions regarding the Head Office functions were made, so as to ensure a leaner and more agile business and a structure which can serve our customers effectively and deliver sustainable cash flows for the Group going forward.

The business has made positive progress over the past few years and the Board would like to thank Mark Newton-Jones for executing the strategy since 2014. However, in light of the wider sector challenges, it is essential that we accelerate the transformation plans to meet our ambitions for both customers and our shareholders.

As a result, fresh leadership has been put in place to take mothercare into the next phase of its turnaround and the Board was pleased to welcome David Wood as Chief Executive Officer after the year end. David has a great track record in similar circumstances across international and consumer facing brands and is a highly effective operator of retail operations, having previously worked as Group President of Kmart Holding Corp.

The business was also very pleased to welcome Glyn Hughes to the Board this year in the role of Chief Financial Officer, following the resignation of Richard Smothers who, after a significant contribution to the first phase of the mothercare turnaround, decided to take up another role.

Glyn returned from 10 years in Asia where he held both CEO and CFO responsibilities in the Dairy Farm Group and prior to that he has held senior finance roles with Kingfisher, Tesco and KPMG. Glyn has made an excellent start in delivering the second phase of the transformation, whilst working tirelessly towards the end of the year to find a successful route forward with our financing arrangements.

Following a number of changes made in the previous year, we have a talented Executive team in place who are supporting the Executive Directors to deliver the transformation plan.

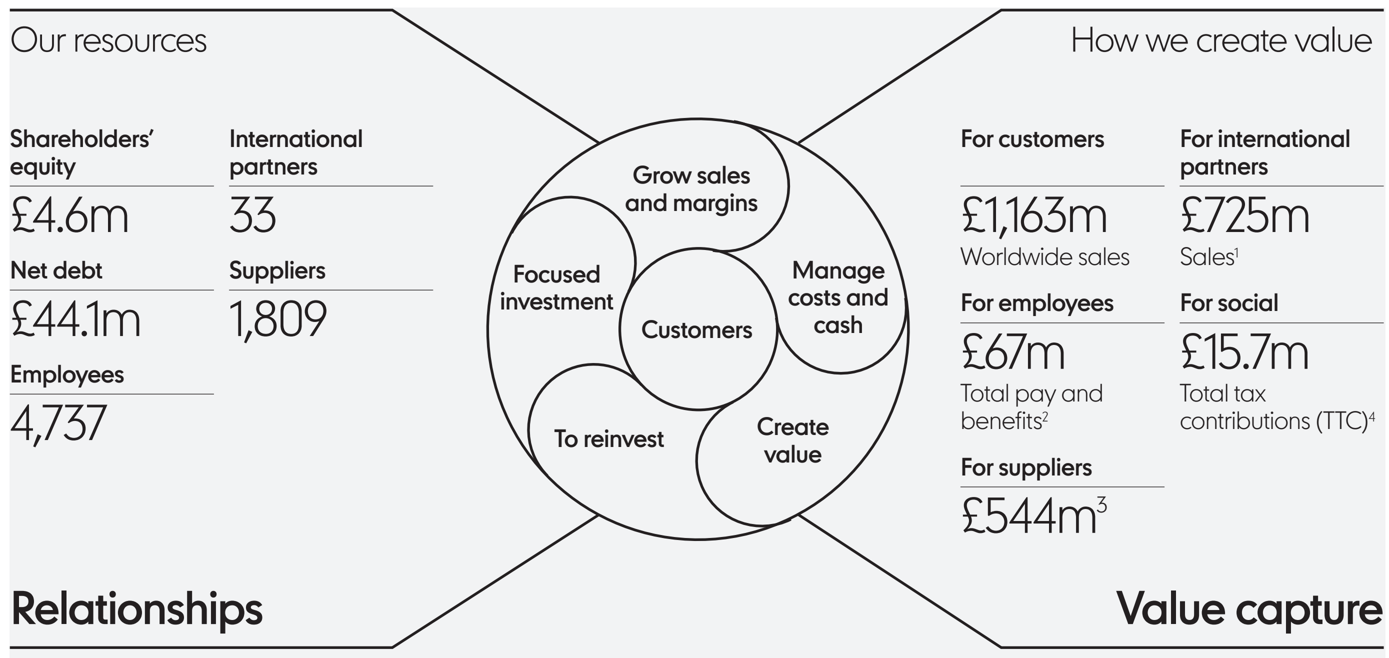
Most importantly, I would like to thank all our mothercare colleagues, both in the UK and abroad, for their huge efforts over the year. Despite a difficult environment, their dedication to service and looking after our customers has been exceptional.

In light of the consumer environment, this year has presented the business with some difficult issues to navigate, and we must continue to react quickly to ensure we have a brand that can continue to act as a leading global specialist. The retail environment continues to evolve at pace, but I am confident we are doing the right things to position mothercare for the future.

**Clive Whiley**
Interim Executive Chairman and
Chief Restructuring Officer

# Business model

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




1 International partner sales reflect franchise partner sales to end customers plus wholesale sales
2 Total pay and benefits include payroll costs for stores and head office, share based payments, bonus, and pension costs
3 Supplier payments reflect total trade payments for goods and payments to suppliers for goods not for resale
4 Worldwide corporate income tax, VAT and other indirect taxes, employment taxes including NI and customs duties

## What differentiates us

**Effective logistics**

3 Distribution centres | 2 Hubs

**Efficient sourcing**

18 countries | 7 offices

**Full service vendors**

279 suppliers | 38 countries

## The products we offer

**Home & Travel**

138 brands | 5,300 options

**Clothing & Footwear**

16 brands | 3,895 options

**Toys**

40 brands | 2,400 options

## How our customers buy from us

**UK stores**

41 in town | 96 out of town

**UK online**

43% of UK retail sales

**International**

23 countries online representing 3.7% of international sales | 1,131 stores

# Chief executive's review



**Having taken up the position of CEO post the year end, I am delighted to be in the role, as we look to transform the mothercare business and ensure that it has a successful and sustainable future.**

Over the past year, and particularly the second half, the retail sector has been hit by a combination of headwinds that have had a profound impact on the sector as a whole, including subdued consumer spending as a result of rising inflation, the squeeze on household incomes and slowing wage growth.

Mothercare has not been immune from these pressures and after some sales momentum in the first half, the business saw a softening in the UK market with lower footfall and website traffic resulting in lower spend in both stores and online from the end of September onwards.

Against this difficult backdrop, the business was able to deliver a small adjusted Group profit (Group loss on a statutory basis) for the year with results in line with the revised guidance announced in January. This was a result of a disciplined approach to cash management with a particular focus on controlling stock levels, together with stringent controls over capital expenditure.

Towards the end of the year, and since, the business has been focused on restructuring our financing arrangements with lenders to ensure a robust capital structure for the Group which can support the mothercare transformation. This has been my absolute priority since coming on board.

It's clear that we need to move faster with the delivery of the transformation plans in order to continue adapting to evolving shopping habits across the world.

The elements of the transformation strategy where progress was made during the year included more focus on the core markets of maternity, newborn, baby and toddler up to pre-school. This involved reducing the cost base to become a leaner and simpler business.

The business has also continued the work towards a more focused UK store estate through the ongoing closure programme, closing 17 stores in the year. Reflecting the business's growing digital capabilities, mothercare currently sees 43% of sales taken online, c.69% of which are via mobile devices.

After an increase in UK gross margin year-on-year in the first half, the business saw full price sales and margin impacted dramatically as a result of the deteriorating consumer environment, with customers buying more heavily into discounted items, particularly over the peak Christmas period.

A significant portion of the investment programme was completed in the year through consolidating warehousing and upgrading the planning and merchandising systems.

International markets remained challenging, primarily as a result of weak trading in the Middle East, however there was an encouraging return to moderate growth towards the end of the year.

The Executive and the entire mothercare team across the globe have worked extremely hard during the year, with a continued focus on customers despite a difficult trading environment, and I am very thankful for their efforts. The support from all stakeholders is important as we look to press on with delivering the next phase of our transformation to ensure a sustainable and successful future as the leading global specialist for parents and young children.

### Outlook

The initial priority for the Group is to restructure and refinance the business to provide it with a solid platform from which to continue our transformation. We have a comprehensive proposal that addresses this need and will be working over the next weeks and months to ensure it is implemented effectively.

A critical component of the refinancing is the conditionality on the approval of the CVA. Notwithstanding our confidence in a successful outcome, and therefore our preparation of the financial statements on a going concern basis, we recognise that this dependency on the CVA represents a material uncertainty which is referred to throughout these results, and as such the auditors have included an emphasis of matter in their audit opinion.

# Chief executive's review
continued

We also need to focus on stabilising the UK business and putting trading on a firmer footing, in what remains a difficult and evolving retail environment. Accelerating the rationalisation of the UK store estate will provide a more profitable structure for the Group. We must also ensure the mothercare proposition is relevant for the consumer, offering great value alongside great service.

At the heart of a successful future for mothercare is the customer. We must work harder than ever to ensure we are fixated on our customers at all times, to be the trusted market-leading specialist for parents, with a sustainable and defensible proposition. The drive towards quality, service and specialism is correct, but we need a greater focus on value for money and to communicate this effectively to our parenting communities.

We will also need to maximise our International aspirations, and particularly the digital opportunity in our overseas territories, which lag behind the UK in many geographies.

To succeed in a consumer environment that is becoming more challenging, mothercare needs to be an attractive, specialist destination, both in stores and online. There is much to do to fulfil the ambitions we have for the mothercare brand, but we have a committed team in place and I look forward to seizing the opportunities ahead.

**David Wood**
Chief Executive Officer

## Group results

The Group trades from 1,268 stores in 48 countries across the world. 137 stores are in the UK and 1,131 are operated by our international partners. This provides global retail space of c.4.2 million sq. ft. which was down 5.3% from c.4.4 million sq.ft. last year. This reflects the planned store closure programme in the UK, where space was down 10.7% to c.1.3 million sq. ft. and a reduction in International space of 2.6% to c.2.9 million sq. ft.

| | **52 weeks to 24 March 2018 £million** | 52 weeks to 25 March 2017 £million | *% change vs. last year* |
|---|---|---|---|
| Adjusted UK operating loss[1] | **(19.8)** | (4.4) | *(353.1)%* |
| Adjusted International operating profit[1] | **33.6** | 35.2 | *(4.5)%* |
| Adjusted corporate expenses | **(7.6)** | (7.0) | *(8.6)%* |
| **Adjusted profit from operations** | **6.2** | 23.8 | *(73.9)%* |
| Net finance costs | **(4.0)** | (3.3) | *(21.2)%* |
| Share based payments credit/(charge) | **0.1** | (0.8) | – |
| **Adjusted profit before tax[1]** | **2.3** | 19.7 | *(88.3)%* |
| Adjusted costs | **(67.1)** | (15.7) | *(327.4)%* |
| Foreign currency adjustments | **(7.1)** | 4.1 | – |
| Amortisation of intangibles | **(0.9)** | (1.0) | *(10.0)%* |
| **Reported (loss)/profit before tax** | **(72.8)** | 7.1 | – |

1 – Adjusted UK operating loss, adjusted International operating profit and Group adjusted profit before tax refer to the equivalent measures of profit before adjusted items. Adjusted costs relates to property and retail restructuring programmes, head office redundancies, store closure costs, store impairment and onerous lease charges, advisory costs relating to refinancing, impairment of intangible assets, and costs relating to the disposal of the China JV. Other adjusted items include amortisation of intangible assets, and revaluation of assets, liabilities and outstanding forward contracts held in foreign currencies.

Worldwide sales were down 4.8% at £1,162.9 million with total UK sales down 4.8% at £437.6 million and total International partner sales down 4.9% at £725.3 million reflecting the difficult trading environment both in the UK and overseas. Group sales, which reflect our UK sales and reported revenues or receipts from our International partners, were down 1.9% at £654.5 million.

Adjusted Group profit before tax was £2.3 million, down 88.3% on last year, and in line with the guidance provided to the market in January following a difficult Christmas trading period in the UK. Adjusted operating losses in the UK increased to £19.8 million with International adjusted profits down 4.5% to £33.6 million.

Adjusted costs were significantly higher at £67.1 million, including property related costs of £55.6 million, of which £49.8 million relates to store impairment and onerous lease charges and £5.8 million relates to store closures. Adjusted costs also include the head office restructure and refinancing activities (£7.6 million), the final cost of warehouse redevelopment (£0.9 million), the impairment of the Blooming Marvellous tradename (£1.1 million), and the disposal of the China joint venture and entering into a new franchise agreement (£1.9 million). Other adjusted costs include a £7.1 million loss for foreign currency adjustments and £0.9 million for amortisation of intangible assets. As a result, we ended the year with a reported loss before tax of £72.8 million compared to a profit of £7.1 million in the previous year. Net debt at the end of the year was £44.1 million (FY17: £15.9 million), as we invested £21.7 million in our store refurbishment and infrastructure programme.

# Chief executive's review
continued

## UK

The trading environment in the UK deteriorated over the course of the year, and particularly from the end of September onwards, due to a significant slowing of consumer footfall to stores in light of wider pressures on customer spending and increasing competition. In this difficult environment the business responded appropriately, although promotional activity was necessary to stimulate customer demand.

The Group finished the year with total UK sales down 4.8%, partly reflecting our store closure programme, and like-for-like sales down 1.3%, although online sales remained in positive territory, up 1.2%. Adjusted UK losses increased by 353.1% to £19.8 million (2017: £4.4 million).

| | **52 weeks to 24 March 2018 £million** | 52 weeks to 25 March 2017 £million | *% change vs. last year* |
|---|---|---|---|
| UK like-for-like sales growth[1] | **(1.3)%** | 1.1% | – |
| UK online sales | **174.0** | 171.9 | *1.2%* |
| UK retail sales (including online) | **400.8** | 423.6 | *(5.4)%* |
| UK wholesale sales | **36.8** | 35.8 | *2.8%* |
| Total UK sales | **437.6** | 459.4 | *(4.8)%* |
| Adjusted UK operating loss[2] | **(19.8)** | (4.4) | *(353.1)%* |
| UK loss before tax after adjusted items | **(79.4)** | (9.7) | *(717.1)%* |

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. Reconciliation to the statutory sales measure is included within the Financial Review on pages 18 to 26.

2 – Adjusted UK operating loss refers to the equivalent measure of profit before adjusted items. Adjusted costs relates to property and retail restructuring programmes, head office redundancies, store closure costs, store impairment and onerous lease charges, and the impairment of intangible assets.

### Business review

During the year under review the business made progress against its six pillar strategy as follows:

### Becoming a digitally led business

Digital continued to be a key priority for the business. Online sales were up 1.2% over the year and now account for 43% of total UK retail sales (FY17: c.41%), with sales via iPads in stores contributing 39.3% of the mix (down 0.9%), despite the impact of lower store footfall over the second half.

Mobile also continued to contribute to online and accounts for 86% of traffic (FY17: 83%), reflecting the ways in which customers are browsing and shopping for products.

Click and Collect orders now account for c.24% of online sales (FY17: 25%) giving customers the flexibility to collect in store, with the additional benefit of driving footfall.

Improvements to the website, particularly on simplifying and optimising the experience to ensure it is as navigable and intuitive as possible, led to online conversion improving to 1.86% (FY17: 1.79%).

The business also focused on providing relevant information to support first-time parents, for whom this advice and guidance is most helpful, particularly where the business has life stage data and knows the exact age of the child.

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

### Supported by a modern retail estate

The business continued to focus on right-sizing the UK store estate, continuing with the planned closure programme and finished the year with 1.3 million sq. ft. in 137 stores (134 mothercare and 3 ELC) down from 1.5 million sq. ft. in 152 stores last year.

17 underperforming stores were closed in the year, with 1 relocation and 1 new opening. 78% of the store estate is in the modern 'club' format (98 stores), with 12 refurbished during the year (2017: 40 stores). The average lease length is now 4.5 years (2017: 5.0 years).

Mothercare's Expectant Parent Events (which had over 61,000 attendees during the year), the National Childbirth Trust (NCT) partnership, new-parent meet-ups and other networking events utilising the store cafes, have also brought the parenting community together in an environment where they can meet other parents whilst hearing from an expert on a relevant topic.

Over the year, 30,000 customers across the UK utilised the offer of in-store baby scanning.

### Offering style, quality and innovation in product

The business continued to work with suppliers to introduce new brands and unique ranges, whilst adapting to the more difficult trading conditions during the year as necessary.

In line with its plans in the previous year, the Group began to sharpen its focus on the core markets of maternity, newborn, baby and toddler up to pre-school and rationalising its ranges. There was also a focus on reducing stock holding to improve working capital.

The more difficult consumer environment impacted price architecture, as the business discounted more heavily over the second half of the year. However, it was able to reach a much cleaner stock position as a result of the successful sell through of older stock.

In **Home and Travel** the business remains market leaders in travel and nursery furniture with a 44% share in pushchairs (FY17: 43%); 30% in car seats (FY17: 30%) and 32% in nursery furniture (FY17: 31%).

345 new exclusive products were launched in the year (FY17: 265), introducing new brands including Nuk, Safety First and Diono.

In **Clothing and Footwear**, ranges such as My K by Myleene Klass, Little Bird by Jools Oliver, and Peter Rabbit, continued to resonate well with customers.

Little Bird reached the age of five this year, and the business ranged the brand's favourite products since its origination, as voted by consumers.

In **Toys**, the focus continued on running established ranges of well-loved brands, such as Happyland, and sports & activity.

### Stabilise and recapture margin

After an increase in gross margin year-on-year in the first half of +34bps, the business saw sales of full price products fall over the second half as a result of the deteriorating consumer environment. In a competitive climate, promotional activity was necessary to stimulate demand and customers bought more heavily into discounted items, particularly over the peak Christmas period.

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

The business finished the year with gross margin reduction of 216bps and the percentage of full price product sales was 58% (FY17: 60%).

### Running a lean organisation while investing for the future

Over the year, the business took decisive action to reduce the central cost base to become a leaner business. There remains a tight control over costs and further cost reduction initiatives have been identified in order to accelerate business simplification and to drive further central overhead savings and efficiencies.

The business also continued to invest in key areas such as warehousing, where the consolidation is now complete, and it can now fulfil products for both stores and online from one single site. This single warehouse has led to a reduction in transportation costs.

The business has also upgraded planning and merchandising systems to enable better management of stock and markdown.

### International

International markets remained challenging this year, but the Group saw an improved performance in the second half and a moderate return to growth in the Middle East, which was encouraging. International sales were down 5.8% overall in constant currency, and 5.0% in actual currency, reflecting difficult trading environments and lower market footfall in Russia.

In the year, 122 stores were opened and 141 closed as part of our rationalisation plan in certain territories. The 33 partners operate 1,131 stores in 48 countries, across 2.9 million sq. ft. of retail space, which equates to 69% of the total space of the global business.

During the year the business also transitioned from a joint venture in China to a franchise operation in order to maximise retailing opportunities in that particular market. The Group also entered the Vietnam market through a franchised store and a further two are in development.

Through our franchise business, mothercare is now trading online in 23 countries with 32 online channels (FY17: 21 countries and 26 online channels). While still at low penetration levels, online is growing steadily and market penetration has increased from 3% to 4% this year, with online year-on-year sales growth of 27.2% in constant currency. In more established markets, such as Russia and China, online penetration is in excess of 10%. The business has also introduced tablet devices for in-store ordering in Ireland and China.

| | **52 weeks to 24 March 2018 £ million** | 52 weeks to 25 March 2017 £million | *% change vs. last year* |
|---|---|---|---|
| International like-for-like sales growth[1] | **(5.9)%** | (4.1)% | – |
| International retail sales growth: constant currency[2] | **(5.8)%** | (2.4)% | – |
| International retail sales growth: actual currency | **(5.0)%** | +10.3% | – |
| International retail sales[1] | **715.5** | 753.2 | *(5.0)%* |
| International wholesale sales | **9.8** | 9.3 | *5.4%* |
| Total International sales[3] | **725.3** | 762.5 | *(4.9)%* |
| Total reported International sales[4] | **216.9** | 208.0 | *4.3%* |
| Adjusted International operating profit[5] | **33.6** | 35.2 | *(4.5)%* |
| International profit before tax after adjusted items | **28.4** | 25.6 | *11.1%* |

1 – 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. Reconciliation to the statutory sales measure is included within the Financial review on page 19.

2 – International retail sales in constant currency exclude the impact of movements in foreign exchange on translation.

3 – Total International sales are International retail franchise partner sales to end customers plus International wholesale sales.

4 – Reported International sales reflect international royalty and shipment income.

5 – Adjusted International operating profit refers to the equivalent measure of profit before adjusted items. Adjusted costs relates to head office redundancies, the impairment of intangible assets, and costs relating to the disposal of the China JV.

# KPIs
# Measuring our performance



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

*Inventory days cover calculation represents the year end net stock at cost value over the annual cost of sales, multiplied by 365. Prior year metrics have been restated to align to this methodology. Net stock at cost value is stock net of obsolescence provision.

# Introduction
# Our approach to enterprise risk management

Mothercare plc is a global business which operates in a currently challenging retail environment, due to a retail downturn along with faltering consumer confidence across the industry. As such, Enterprise Risk Management (ERM) is a key discipline that is being embedded throughout the Company. Our attitude to risk is all inclusive designed to infiltrate throughout our Company.

The Board is required to monitor and review the effectiveness of the system of internal control within the Company and has overall responsibility for ERM. They set our risk appetite, as required by the UK Corporate Governance Code, and articulate the amount of acceptable risk within which our Company operates. The Board challenges our Executive Committee to continually evolve ERM and governance in the Company and the appointment of a Head of Risk and Assurance in 2016 demonstrated the commitment the Company has given to fully embedding ERM and assurance activities into the global business. Additionally, the Board annually evaluates the Company's risk management strategy to ensure it is adequately tailored for our ongoing needs, which is especially key during our transformation phase.

The Board's appetite for risk tolerance is summarised at a high level below:

| Risk Appetite | Type of Risk |
| --- | --- |
| **High Tolerance** | • Strategic risks<br>• Operational and transformational risks<br>• Key strategic project risks |
| **Medium Tolerance** | • Macro-economic risks<br>• Geo-political risks |
| **Low Tolerance** | • Health & safety risks<br>• Manufacturing risks<br>• Bribery & slavery risks<br>• Regulatory and compliance risks<br>• Brand reputational risks |

The Board is assisted by several committees as set out on page 40 of this report, one of which is the Audit and Risk Committee. Our Audit and Risk Committee has full responsibility for overseeing the effectiveness of robust enterprise 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. Our governance structure ensures that our Executive Committee is supported by the Risk Committee, which acts as a forum to identify, monitor and manage emerging risks across the global Company business operations. As of 2018 our Executives are core members of the Risk Committee which gives visibility and seniority to the group to discuss key risks and emerging issues.

Additionally, the Company has set out clear objectives aligned to our vision and six strategic pillars which support our overall strategy. Risks are considered against each of our six pillars:

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

The Audit and Risk Committee is fully supported by the Executive Committee.

**Executive Committee**

The Executive Committee places risk on the agenda every quarter to debate Principal Risks and identifies any movement in risk score, considering management action. 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.

**Risk Committee**

The Risk Committee meets bi-monthly and is attended by our Executives and some Senior Leadership Team (SLT) members to discuss and monitor emerging risks. The Risk Committee is empowered to call upon any experts when necessary. Emerging risks and Brexit are rolling agenda items and areas 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.

**2017-18 ERM Actions**

A new Principal Risk review was conducted in late 2017, a workshop attended by Executives was held to identify risks and opportunities that may affect our ability achieve our strategic goals. Each of these risks have been aligned to one or more of our six pillars and are provided on pages 15 to 17 in more detail.

Two key working groups were established in FY2018: a GDPR Working Group and Brexit Working Group. Both were created to enable monitoring of key actions to meet GDPR and Brexit deadlines. We continue to monitor Brexit risks throughout our supply chain.

A cyber security business continuity scenario event was held in February with Executives and a similar event is planned for early FY2019 with our SLT members. Mothercare has an experienced Incident Management Team supported by an Incident Management Team business continuity plan to enable them to react, adapt and respond quickly to an incident.

**Additional actions**

In conjunction with the internal risk identification process and subsequent management action to mitigate risks, mothercare utilises the services of external professional services on an ad hoc basis to supplement the in-house internal team. A risk universe has been created and is utilised as an input to the internal audit plan. The risk universe is an internal and externally focused document. Management are confident that, as far as is reasonably practical, risk management is primarily proactive rather than reactive within the organisation.

**Principal risks and uncertainties**

A complete risk refresh was conducted in November 2017 with the Executive Committee. A new Principal Risk Register was the output and therefore each risk is considered to be 'new'. Some factors influencing the risks noted below include: a falling footfall in stores; faltering consumer confidence; an unprecedented challenging retail environment; exchange rate fluctuations and an uncertain political environment with the UK leaving the EU in March 2019.

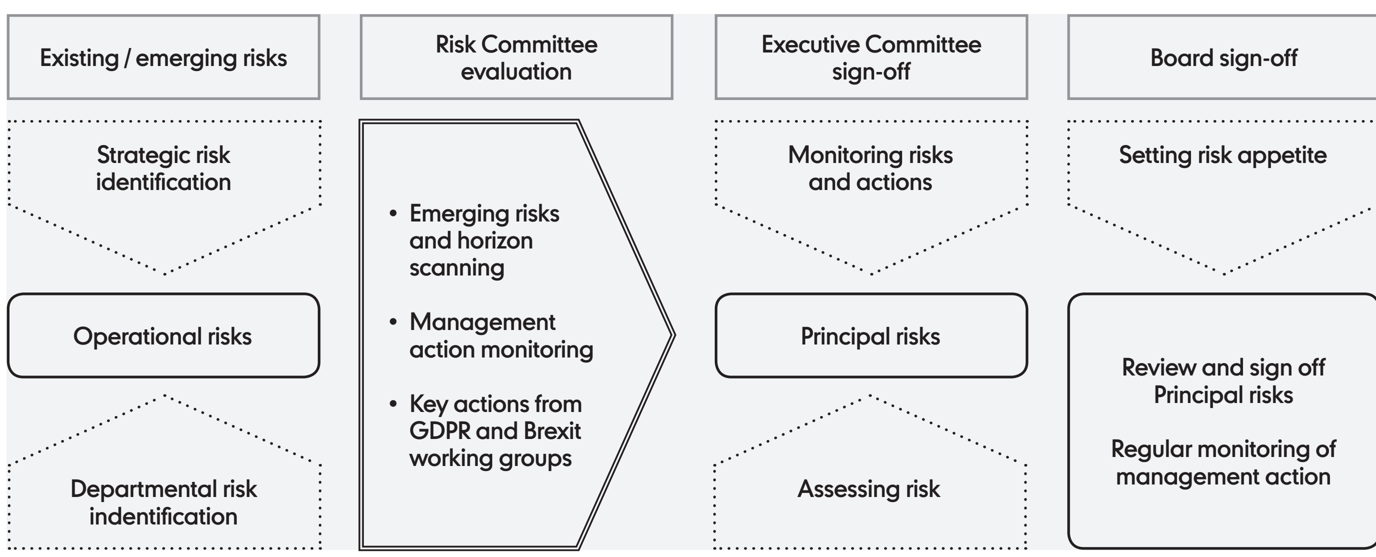
Mothercare operates in an environment where the management of risk is of overriding importance to our brand values. Our attitude to risk is all inclusive and is designed to infiltrate throughout the organisation.

The Board takes overall responsibility for risk management with special 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.

**ERM Process**

Mothercare evaluates risks by determining the severity, the velocity and the probability of all identified risk events. Risks are evaluated, senior management owners assigned, and appropriate mitigations put in place. The diagram below explains our key steps:




This process ensures a consistent approach to the assessment of risk across the business and is supported by the Enterprise Risk and Assurance function.

# Introduction
# Our approach to enterprise risk management continued

**Enterprise risk & assurance**

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

- **Business protection** – includes leading on key investigations; disrupting global counterfeit goods sales via online marketplaces and conducting store audits to check compliance to Company policy including regulatory Health & Safety requirements.
- **Internal audit** – sitting at the third line of defence, our internal audit function provides independent objective assurance across the Company checking effectiveness of controls in place.
- **Enterprise risk management** – working to fully embed risk management across our Company, performing risk workshops across all departments to identify key risks and mitigations which may affect our ability to achieve our objectives.
- **Business continuity and planning** – helping departments prepare suitable plans to effectively respond to any unexpected event and performing scenario rehearsals to test robustness of those plans.

# Principal risks and uncertainties



Our Principal Risks, linked to our six pillars strategy, are listed below. We actively monitor these risks to protect, stabilise and grow our Company.

| Risk # | Risk description | Context | Examples of controls in place | Link to our six pillars |
|---|---|---|---|---|
| 1 | **Liquidity and cash management**<br>Current trading challenges do not deliver cash. Failure to control cash management may result in breaches to banking covenants and forced administration. A lack of cash impacts our ability to invest in our six pillars and meet our strategic intentions. | Current retail trading challenges may impact full price sales resulting in margin squeeze and therefore impacting our ability to generate cash. | • Focus on liquidity management.<br>• A hedging policy is in place which can minimise any short-term volatility.<br>• Key focus on cost control.<br>• Cash Committee in place and meeting regularly to review the cash position of the Company.<br>• Working with franchise partners to manage revenue.<br>• Ongoing work with shareholders and franchise partners.<br>• 3rd party professional advice has been sought in relation to cash management options. | 4. Stabilise and recapture gross margin.<br>5. Running a lean organisation while investing for the future. |
| 2 | **Brand and reputation**<br>An inability to manage our brand could hinder our ability to increase customer and market confidence in our Company thus affect our ability to achieve our transformation goals. | Whilst a standalone risk, 'reputation' is also the potential consequence of each of the risks identified and is therefore one of our top principal risks.<br>Our brand could be impacted by:<br>• product failures and/or ineffective management of product incidents.<br>• public scandals relating to our supply chain.<br>• inappropriate behaviours.<br>• data breaches.<br>• Health and Safety incidents. | • Our Global Code of Conduct training is required to be completed annually.<br>• Targeted reduction of products, enabling additional strengthening of quality measures in place.<br>• Our required high standards communicated throughout supply chain with an in-house responsible sourcing (RS) team working in Bangladesh, India and China.<br>• All mothercare and ELC branded suppliers are required to comply with our Responsible Sourcing Handbook - Compliance Standards.<br>• Independent RS audits are completed annually.<br>• The Company participates in the Bangladesh Safety Accord.<br>• Significant group investment in product quality management resource.<br>• Focus on pre-despatch quality checks.<br>• Established product recall process managed by the crisis management team.<br>• Group trademarks are formally logged in country of operation.<br>• Proactive enforcement of IP rights. | All |
| 3 | **International markets and franchisee model**<br>Inability to influence international growth, impacted by external factors and a historical franchisee model that may not fit with the Group's strategic objectives. | A lack of ability to influence international growth may result in:<br>• economic downturn and poor international sales.<br>• reduced profit and increased international debt.<br>• pricing challenges.<br>• long term profitability.<br>• 'five to drive' fails resulting in a need to revisit international strategy.<br>• key international partners pull out of mothercare (i.e. Alshaya).<br>• franchisee partner relationships deteriorate due to push back against increasing mothercare control and cost model.<br>• declining birth rates in key markets.<br>• political unrest/regional conflict and uncertainty in international markets and potential disruption to supply.<br>• fixing long term historical / legacy issues could prove costly.<br>Potential impact on Brand and reputation (see Risk 1). | • Strategic focus on our 'five to drive' markets to grow strategic markets (opportunity).<br>• Identification of different entry points to market.<br>• Improved commercial agreement and disciplines are in place.<br>• Relationship management improvements are in place.<br>• Continued audit checks are conducted with consequences in place for any compliance issues. | 6. Expand further internationally. |

# Principal risks and uncertainties
continued

| Risk # | Risk description | Context | Examples of controls in place | Link to our six pillars |
|---|---|---|---|---|
| 4 | **Transformation strategy and impact**<br>The Group's transformation and restructure does not result in expected benefits relating to our operational objectives. The loss of key talent pre, during and post restructure could result in reduced effort and morale negatively impacting on our ability to achieve our strategic objectives. | The potential for the business to be consumed with the restructure and transformation that business as usual activities and the ability to meet our strategic objectives are impacted.<br>There is a potential for a lack of effort in the organisation post-reorganisation and that work will continue to go on as is. This means inefficiencies may not be cleared from business as usual activities.<br>A potential lack of focus could lead to transformation scope creep. | • Executive oversight of our transformation plan.<br>• Transformation programme governance in place monitoring key milestones and risks on a regular basis.<br>• Tactical projects in place to support the transformation including: people plans to improve talent and succession and cost reduction. | 4. Stabilise and recapture GM.<br>5. Running a lean organisation while investing for the future. |
| 5 | **IT Systems**<br>A failure of our IT infrastructure or dependent legacy IT systems could result in the loss of our ability to trade. Any potential attack or failure of our systems could result in EPOS, merchandising and warehousing downtime resulting affecting our trading capabilities.<br>Additionally, a failure of our digital platform or poor speed/navigation in the order process could result in lost trade and impact our market share and reputation. | A failure of our IT infrastructure or dependent legacy IT systems could result in the loss of our ability to trade. Any potential attack or failure of our systems could result in EPOS, merchandising and warehousing downtime resulting affecting our trading capabilities.<br>Additionally, a failure of our digital platform or poor speed/navigation in the order process could result in lost trade and impact our market share and reputation.<br>To grow our business, we need to embrace developments in technology, however our current systems hamper our ability to do so. Additionally, our reliance on legacy systems results in a need to maintain knowledge of those systems. | • Continual monitoring of our IT landscape against risk indicators.<br>• Additional screening of email traffic and firewalls.<br>• Security projects in place include vulnerability scanning upgrades and systems analysis upgrades to allow Big Data analytics.<br>• All systems are RAG rated, monitored and actions are in place to reduce risks, where practical, to an acceptable level.<br>• Refreshed policies and procedures in place.<br>• All major projects and programmes continual monitoring against rigorous project management requirements and have Senior Management oversight.<br>• Tactical projects are monitored against rigorous project management requirements.<br>• A General Data Protection Regulation (GDPR) implementation plan has been in place for the last financial year which includes impact and changes required to our IT estate. | 1. Become a digitally led business. |
| 6 | **Supply chain and 3rd parties**<br>A supply chain failure of both inbound and outbound goods could impact the supply of products and ability to trade.<br>Failure to place contracts with new suppliers impacts our ability to improve stock channels, sourcing hubs and achieve logistical efficiencies. | Potential failure or disruption of our supply chain or loss at one of our warehouses could result in supply of goods restrictions and an impact on stock channels to stores/customers.<br>Potential safety messages on sleep/travel systems not suitable. | • Strategic review of supply chain in place.<br>• Review of our supply chain from a Brexit risk perspective, by our Brexit Working Group.<br>• Business continuity plans are being revisited and updated across the Company. | 3. Offering style, quality and innovation in product. |
| 7 | **Product safety**<br>A product safety incident takes place resulting in damage to our brand (Refer Risk 2). | Suppliers not adhering to agreed quality assurance standards.<br>Potential safety disaster on an H&T product, Toy product or clothing.<br>Clear product safety messages on products.<br>Real-time impact on reputation via social media networks. | • Acceptable quality levels are in place with all suppliers and tested during audits.<br>• Social media policy in place.<br>• External communication advisors are in place. | 3. Offering style, quality and innovation in product. |
| 8 | **Political climate and uncertainty**<br>The impact of Brexit on our business is currently unknown. Expectations are that there may be increased costs, inflation, higher taxes and lower incomes resulting in a spending squeeze. | External factors such as trade deals and agreements may impact on our import and export of goods.<br>Consumers are more 'price sensitive' to changes or increases in the run up to March 2019.<br>Potential for interest rate rises and economic downturn which may impact consumer spend.<br>Impact on stock market pressures, resulting in short-termism. | • A Brexit Risk Register is in place and risks and opportunities are monitored by our Brexit Working Group on a regular basis.<br>• We conduct horizon scanning across all areas of risk, including Brexit.<br>• Improving our customer experience is a strategic focus for the Company with investment being made in all channels to highlight our specialism in industry. | 4. Stabilise and recapture GM.<br>6. Expand further internationally. |

| Risk # | Risk description | Context | Examples of controls in place | Link to our six pillars |
|---|---|---|---|---|
| 9 | **Regulatory and Legal**<br>A failure to comply with increasing regulatory requirements could result in damage to our Brand (refer Risk 1), fines or impact our ability to trade. | Increasing regulatory pressure (GDPR, EUTR) requires additional reporting, costs and takes focus off trade.<br>• Minimum wage increases impacts on costs.<br>• Ability to ensure we meet regulatory requirements both in capability and system ability.<br>Security breach of customer database could result in privacy issues (fines etc) and a lack of customer trust. | • Our Global Code of Conduct training is mandatory and required to be completed on an annual basis.<br>• Anti-Bribery and Corruption training has been rolled out to all colleagues and additional training given to those in higher risk areas.<br>• Audits are carried out to check compliance with legislation, such as Health and Safety matters. Non-compliance is investigated and will result in disciplinary action. | All |
| 10 | **Personnel and talent**<br>Failure to attract, retain, motivate and progress our top talent could lead to high attrition rates and an inability to meet our strategic intentions | Attraction and retention of top talent is challenging in the current climate:<br>• Our restructure impacts may result in the loss of talent.<br>• Benefits and incentive plans may not deliver employee needs resulting in high attrition rates.<br>Potential for executive burn out due to transformation programme, financing activity and challenging trading conditions. | • Significant investment in stores to train more of our Customer Service Advisors to be true specialists.<br>• Investment in our HR team to include key areas of growth for colleagues, including talent retention, training and development and succession planning.<br>• Re-invigoration of Company benefits.<br>• Improved recruitment processes are in place.<br>• Standardised contracts are in place.<br>• Industry benchmarking has taken place this financial year to check that our remuneration is appropriate for our Company.<br>• Improved performance review process is in place for the end of financial year 2017-18 review period.<br>• Performance related bonus pay is in place and open to all employees. | 1. Become a digitally led business.<br>5. Running a lean organisation while investing for the future. |
| 11 | **Competition and customer experience**<br>Our pricing strategy may not allow us to respond to changing customer needs and we may not be competitive against other large players who can beat our prices as 'loss leaders' in the market.<br>Failure to provide the right customer experience and/or adapt to the changing retail industry may lead to a loss in market share and damage our Brand. | We are unable to be competitive against other large players who can beat prices as 'loss leaders' in the market.<br>• We may not be able to have an effective strategy to keep pace with trends, exclusivity/ differentiation and customer demands potentially resulting in a loss of market share and negative impact on profitability.<br>• Our marketing mix isn't as adaptable as it could be (product, price, place and promotion).<br>• We are unable to match customer habits regarding shopping convenience.<br>We may not provide the right shopping experience for our customers. | • Executive objectives are in place to monitor our pricing strategy.<br>• Work with suppliers to ensure we can provide the best price for our product.<br>• Clear price ranges in place for products in the 'good', 'better' and 'best' categories with defined value propositions for each.<br>• Enhancements to our order fulfilment and delivery process.<br>• Investment in our store estate and colleagues to provide a unique and specialist shopping experience to our customers.<br>• Improved customer propositions include credit finance options with a 3rd party, personal shopping experiences, online booking of specialist services, Expectant Parent Events, online parenting groups with the '2am club' and other activities in our stores.<br>• Increased promotional activities both online and in stores. | 3. Offering style, quality and innovation in product. |

# Financial review

**Glyn Hughes**

Chief Financial Officer

## RESULTS SUMMARY

Group adjusted profit before tax fell by £17.4 million to £2.3 million from £19.7 million in the previous year. Adjusted profit before tax excludes adjusted costs and other adjusted items. Adjusted items include specific costs or income that are significant or one-off in nature and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. Included within adjusted items are costs relating to property impairments, store closures, onerous leases, restructuring and foreign currency adjustments. Adjusting for these items is consistent with how business performance is measured internally by the Board and Executive Committee. After adjusted items, the Group recorded a loss before tax of £72.8 million (FY17: profit £7.1 million).

### Income statement

| £ million | 52 weeks ended 24 March 2018 | 52 weeks ended 25 March 2017 |
|---|---|---|
| Revenue | **654.5** | 667.4 |
| **Adjusted profit from operations before interest and share-based payments** | **6.2** | 23.8 |
| Share-based payments | **0.1** | (0.8) |
| Net finance costs | **(4.0)** | (3.3) |
| **Adjusted profit before tax** | **2.3** | 19.7 |
| Adjusted items | **(67.1)** | (15.7) |
| Foreign currency adjustments | **(7.1)** | 4.1 |
| Amortisation of intangible assets | **(0.9)** | (1.0) |
| **(Loss)/profit before tax** | **(72.8)** | 7.1 |
| Basic adjusted (losses)/earnings per share | **(0.8)p** | 9.7p |
| Basic (losses)/earnings per share | **(44.8)p** | 4.8p |

### Results by segment

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

| £ million – Revenue | 52 weeks ended 24 March 2018 | 52 weeks ended 25 March 2017 |
|---|---|---|
| UK | **437.6** | 459.4 |
| International | **216.9** | 208.0 |
| **Total** | **654.5** | 667.4 |

| £ million – Adjusted profit | 52 weeks ended 24 March 2018 | 52 weeks ended 25 March 2017 |
|---|---|---|
| UK | **(19.8)** | (4.4) |
| International | **33.6** | 35.2 |
| Corporate | **(7.6)** | (7.0) |
| **Adjusted profit from operations before interest and share-based payments** | **6.2** | 23.8 |
| Share-based payments | **0.1** | (0.8) |
| Net finance costs | **(4.0)** | (3.3) |
| **Adjusted profit before tax** | **2.3** | 19.7 |
| **Statutory (loss)/profit before tax** | **(72.8)** | 7.1 |

UK like-for-like sales declined by 1.3% due to a reduction in store footfall; online sales were up 1.2% year-on-year. Total UK sales were down 4.8% year-on-year, with a downward trend in underlying trading and the impact of 17 store closures and 2 new store openings.

International retail sales decreased by 5.8% on a constant currency basis and were down 5.0% in actual currency, reflecting difficult trading environments and lower market footfall in Russia.

Corporate expenses represent Board and Company Secretarial costs and other head office costs including audit, professional fees, insurance and head office property, and were higher year-on-year.

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

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 both website sales and sales taken on iPads in store.

International reported sales reflect international royalty and shipment income.

International retail sales are the estimated total retail sales of overseas franchise and joint venture partners 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 24 March 2018** | 52 weeks ended 25 March 2017 | **52 weeks ended 24 March 2018** | 52 weeks ended 25 March 2017 |
| UK retail sales | **400.8** | 423.6 | **400.8** | 423.6 |
| UK wholesale sales | **36.8** | 35.8 | **36.8** | 35.8 |
| Total UK sales | **437.6** | 459.4 | **437.6** | 459.4 |
| International retail sales | **207.1** | 198.7 | **715.5** | 753.2 |
| International wholesale sales | **9.8** | 9.3 | **9.8** | 9.3 |
| Total International sales | **216.9** | 208.0 | **725.3** | 762.5 |
| **Group sales/Group worldwide sales** | **654.5** | 667.4 | **1,162.9** | 1,221.9 |

* International retail sales are estimated and reflect the international franchise partner sales.

### Analysis of worldwide sales movement

| Worldwide sales* | £ million |
|---|---|
| Sales for 52 weeks ended 25 March 2017 | 1,221.9 |
| Currency impact | 6.4 |
| Sales in constant currency for 52 weeks ended 25 March 2017 | 1,228.3 |
| Decrease in International like-for-like sales | (41.1) |
| Decrease in International space | (2.4) |
| Decrease in UK like-for-like sales | (4.4) |
| Decrease in UK space | (17.5) |
| **Sales for 52 weeks ended 24 March 2018** | **1,162.9** |
| International franchise partner sales | (508.4) |
| **Group reported sales for 52 weeks ended 24 March 2018** | **654.5** |

* Worldwide sales include total UK sales and total International sales. Sales in constant currency exclude the impact of movements in foreign exchange on translation. See below for breakdown of the £6.4 million by currency.

Worldwide sales in the year ended 24 March 2018 were lower by £59.0 million primarily as a result of decreased International like-for-like sales and decreased UK space.

International retail sales have decreased by £37.7 million driven by a decline in footfall resulting in lower like-for-like sales.

UK retail sales have fallen by £22.8 million, mainly due a decrease in UK space as a result of planned store closures and a decline in footfall in a challenging retail environment.

## Analysis of profit movement

| Adjusted profit before tax | £ million |
|---|---|
| Adjusted profit for 52 weeks ended 25 March 2017 | 19.7 |
| Currency impact | 0.1 |
| Constant currency adjusted profit for 52 weeks ended 25 March 2017 | 19.8 |
| Increase in International volumes | 2.2 |
| UK closures of loss making stores | 0.6 |
| UK sales and gross margin decline | (13.2) |
| Increase in costs | (2.6) |
| Depreciation/Amortisation | (4.5) |
| Adjusted profit before tax for 52 weeks ended 24 March 2018 | 2.3 |
| Adjusted costs charge & foreign currency adjustments | (75.1) |
| **Statutory loss before tax for 52 weeks ended 24 March 2018** | **(72.8)** |

Excluding the currency impact, adjusted profit has fallen from £19.7 million to £2.3 million. This is driven by a decrease in UK sales and margin along with an increase in costs and depreciation/amortisation, offset by an increase in International volumes.

### Foreign exchange

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

| | **52 weeks ended 24 March 2018** | 52 weeks ended 25 March 2017 |
|---|---|---|
| **Average:** | | |
| Euro | **1.13** | 1.19 |
| Chinese renminbi | **8.77** | 8.78 |
| Kuwaiti dinar | **0.40** | 0.40 |
| Saudi riyal | **4.93** | 4.95 |
| Emirati dirham | **4.85** | 4.81 |
| Russian ruble | **76.34** | 82.40 |
| Indonesian rupiah | **17,731** | 17,326 |
| **Closing:** | | |
| Euro | **1.13** | 1.15 |
| Chinese renminbi | **8.83** | 8.56 |
| Kuwaiti dinar | **0.42** | 0.38 |
| Saudi riyal | **5.23** | 4.65 |
| Emirati dirham | **5.12** | 4.55 |
| Russian ruble | **80.33** | 70.90 |
| Indonesian rupiah | **19,179** | 16,544 |

The principal currencies that impact our results are Euro, Chinese renminbi, Kuwaiti dinar, Saudi riyal, Emirati dirham, Russian ruble and Indonesian rupiah. The net effect of currency translation caused year-on-year worldwide sales and adjusted operating profit to increase by £6.4 million and £0.1 million respectively as shown below:

| | Worldwide sales £ million | Adjusted operating profit £ million |
|---|---|---|
| Chinese renminbi | – | – |
| Kuwaiti dinar | (0.1) | 0.1 |
| Saudi riyal | 0.5 | 0.2 |
| Emirati dirham | (0.4) | 0.1 |
| Russian ruble | 9.9 | 0.1 |
| Indonesian rupiah | (0.8) | – |
| Other currencies | (2.7) | (0.4) |
| | **6.4** | **0.1** |

### Net finance cost

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

| | **52 weeks ended 24 March 2018 £ million** | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| Interest received on bank deposits | **(0.2)** | (0.1) |
| Net interest on liabilities/return on assets of pension | **2.0** | 2.6 |
| Other net interest | **2.2** | 0.8 |
| **Net finance costs** | **4.0** | 3.3 |

### Taxation

The adjusted tax charge is comprised of current overseas taxes and a prior year adjustment for overseas taxes, offset by UK deferred tax. The effective tax rate is 156.5% (FY17: 16.3%). The effective tax rate is higher than the standard tax rate of 19% mainly due to the impact of overseas taxes. An adjusted tax charge of £3.6 million (FY17: £3.2 million) has been included for the period within a total tax charge of £3.3 million (FY17: credit of £1.1 million). The cash tax payments were £2.0 million.

Mothercare has taken a prudent approach given the uncertainty around future profitability and has released the deferred tax asset on retirement benefit obligations and the deferred tax liability on cash flow hedges, resulting in a charge of £21.4 million and a release of £1.4 million respectively to other comprehensive income.

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

### Adjusted items

Adjusted items include specific costs or income that are significant or one-off in nature and, where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. Adjusting for these items is consistent with how business performance is measured internally by the Board and Executive Committee. Adjusted profit before tax excludes the following adjusted items (see Note 6):

Adjusted costs:

- Costs relating to the planned warehouse redevelopment in the UK, £0.9 million;
- Costs associated with head office redundancies, refinancing and restructuring, £7.6 million;
- Store impairment, £16.0 million, and onerous lease charges, £33.8 million;
- Costs relating to previously announced activity on property closure programmes, £5.8 million;
- Costs relating to the disposal of the China joint venture £1.9 million; and
- Costs relating to the impairment of intangible assets, £1.1 million.

Other adjusted items:

- Foreign currency adjustments include:

  a. the retranslation of foreign currency denominated cash, debtor, and creditor balances (predominantly US dollar) to closing spot rate; and

  b. stock purchases where payment is outstanding to the historic rate at the date of purchase.

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

- Amortisation of intangible assets (excluding software).

### Earnings per share and dividend

Basic losses per share were 44.8 pence this year compared to a 4.8 pence earning in FY17. Basic adjusted losses per share were 0.8 pence compared to 9.7 pence earnings last year.

| | 52 weeks ended 24 March 2018 million | 52 weeks ended 25 March 2017 million |
|---|---|---|
| **Weighted average number of shares in issue** | **169.8** | 170.5 |
| Dilution - option schemes (for adjusted results only) | **5.8** | 7.9 |
| **Diluted weighted average number of shares in issue** | **175.6** | 178.4 |
| **Number of shares at period end** | **170.9** | 170.9 |

| | £ million | £ million |
|---|---|---|
| **(Loss)/profit for basic and diluted earnings per share** | **(76.1)** | 8.2 |
| Adjusted items (Note 3) | **75.1** | 12.6 |
| Tax effect of above items | **(0.3)** | (4.3) |
| **Adjusted (losses)/earnings** | **(1.3)** | 16.5 |

| | pence | pence |
|---|---|---|
| **Basic (losses)/earnings per share** | **(44.8)** | 4.8 |
| **Diluted (losses)/earnings per share** | **(44.8)** | 4.6 |
| **Basic adjusted (losses)/earnings per share** | **(0.8)** | 9.7 |
| **Diluted adjusted (losses)/earnings per share** | **(0.8)** | 9.3 |

The Board has concluded that given the refinancing of the business, the Company will not pay a final dividend for the period. The total dividend for the year is nil pence per share (FY17: 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 | 53 weeks ending 30 March 2019 * | 52 weeks ended 24 March 2018 | 52 weeks ended 25 March 2017 |
|---|---|---|---|
| **Income statement** | | | |
| Running costs | (2.7) | **(3.4)** | (3.0) |
| Net interest on liabilities/return on assets | (0.9) | **(2.0)** | (2.6) |
| Net charge | (3.6) | **(5.4)** | (5.6) |
| **Cash funding** | | | |
| Regular contributions | (1.8) | **(2.6)** | (2.4) |
| Deficit contributions | (9.8) | **(9.2)** | (7.2) |
| Total cash funding | (11.6) | **(11.8)** | (9.6) |
| **Balance sheet** | | | |
| Fair value of schemes' assets | n/a | **351.5** | 329.6 |
| Present value of defined benefit obligations | n/a | **(389.2)** | (409.7) |
| Net liability | n/a | **(37.7)** | (80.1) |

* Income statement for FY19 estimate based on assumed expenses as per 2017/18 and latest PPF levy. Funding estimate based on current funding commitments from the 2017 scheme funding valuation.

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:

| | 2017/18 | 2016/17 | 2017/18 Sensitivity | 2017/18 Sensitivity £ million |
|---|---|---|---|---|
| Discount rate | **2.7%** | 2.7% | **+/- 0.1%** | -7.3/+7.5 |
| Inflation – RPI | **3.1%** | 3.2% | **+/- 0.1%** | +4.7/-6.8 |
| Inflation – CPI | **2.0%** | 2.1% | **+/- 0.1%** | +2.6/-3.0 |

### Cash flow

Adjusted free cash flow was an outflow of £9.2 million with cash generated from operations of £16.4 million (FY17: £27.0 million) being used for capital expenditure, interest and taxation.

Capital expenditure of £21.7 million (FY17: £39.3 million) reflected the investment in the year in store refurbishment and IT infrastructure.

Working capital was an inflow of £0.1 million (FY17: outflow of £3.7 million), reflecting the timing profile of payments for stock, and the timing of the mid-season sale in the UK in the previous year.

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| **Adjusted profit from operations before interest and share-based payments** | 6.2 | 23.8 |
| Depreciation and amortisation | 22.7 | 18.2 |
| Retirement benefit schemes | (8.6) | (6.6) |
| Change in working capital | 0.1 | (3.7) |
| Other movements | (4.0) | (4.7) |
| **Adjusted cash generated from operations** | 16.4 | 27.0 |
| Capital expenditure | (21.7) | (39.3) |
| Interest and tax paid | (3.9) | (2.1) |
| **Adjusted free cashflow** | (9.2) | (14.4) |
| Adjusted items[1] | (15.5) | (12.5) |
| **Free cashflow** | (24.7) | (26.9) |
| Drawdown on facility | 27.5 | 15.0 |
| Facility fee paid | (0.6) | – |
| Purchase of own shares | – | (1.2) |
| Exchange differences | (2.9) | (1.3) |
| (Overdraft)/cash and cash equivalents at beginning of period | (0.9) | 13.5 |
| Overdraft at end of period | (1.6) | (0.9) |
| Borrowings | (42.5) | (15.0) |
| **Statutory net debt at end of period** | (44.1) | (15.9) |

1 Adjusted items include cash flows relating to strategic initiatives such as the head office restructure, warehouse redevelopment and store closure costs

### Balance sheet

The balance sheet includes identifiable intangible assets arising on the acquisition of the Early Learning Centre of £4.3 million and goodwill of £26.8 million. These assets are allocated to the International business.

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Goodwill and other intangibles | 66.4 | 63.4 |
| Property, plant and equipment | 55.0 | 80.4 |
| Retirement benefit obligations (net of tax) | (37.7) | (66.4) |
| Net borrowings | (44.1) | (15.9) |
| Derivative financial instruments | (9.9) | 8.0 |
| Other net (liabilities)/assets | (25.1) | 11.9 |
| **Net assets** | 4.6 | 81.4 |
| Share capital and premium | 146.4 | 146.4 |
| Reserves | (141.8) | (65.0) |
| **Total equity** | 4.6 | 81.4 |

Shareholders' funds amount to £4.6 million, a decrease of £76.8 million in the year driven by the loss in the year of £72.8 million and a £21.2 million reduction in the deferred tax asset, partly offset by a fall in the defined benefit obligation (net of tax) of £28.7 million.

### Going concern

The Group's existing financing support is from its two banks, HSBC and Barclays, and consists of a £62.5 million revolving credit facility and a £5.0 million uncommitted overdraft. The facility is made up of two tranches, £50.0 million maturing in May 2020 and an additional £12.5 million maturing in November 2018. At the year end, the Group had net debt of £44.1 million and significant headroom to this facility.

Given the downturn in the Group's performance and the continuing challenges the retail industry faces, the Group initiated financing discussions with its lenders in January 2018 and, as part of this, they agreed to defer the testing of financial covenants due on 24 March 2018.

Mothercare's Refinancing will provide funding of up to £113.5 million, comprising:

- A proposed equity capital raising of £28 million expected to be launched in July 2018 by way of a firm placing, placing and open offer (the "New Equity Issue"). The proceeds of the New Equity issue will be used for general corporate purposes. The New Equity Issue has the benefit of immediate standby underwriting from Numis Securities Limited ("Numis").
- Revised committed debt facilities of £67.5 million with a final maturity extended to December 2020 and certain interim step downs to be provided by the Company's existing lenders (the "Revised Debt Facilities").
- A new £8 million shareholder loan from certain of the Company's largest shareholders (the "Shareholder Loan"). The Shareholder Loan will be convertible into new ordinary shares in the Company at the option of the Shareholder Loan holder, conditional upon, among other things, the approval by the Company's Shareholders of the conversion of the Shareholder Loan as a related party transaction.
- A new debtor backed facility of up to £10 million from the Company's trade partners (the "Trade Partner Loan").

The Shareholder Loan and the Trade Partner Loan will provide immediate access to up to £18 million of additional liquidity which will:

- Fully meet the Company's short term liquidity requirements.
- Represent a strong signal of commitment and support from certain of the Company's largest shareholders and trade partners, alongside the Company's existing lenders, to support mothercare through this process.

The Refinancing arrangements are conditional on certain events. In particular:

- The New Equity Issue is conditional (amongst other things) upon a clean working capital statement, the completion of the CVA Proposals in respect of certain of the UK subsidiaries and upon approval by the Company's shareholders.
- The conversion of the Shareholder Loan into new ordinary shares is conditional (amongst other things) upon approval of the arrangement by the Company's shareholders.
- Funds are available immediately under the Revised Debt Facilities, although such funds would cease to be available in the event that either the New Equity Issue or the CVA Proposals in respect of certain of the UK subsidiaries do not complete.

### Restructuring of the UK store portfolio

The UK Restructuring will involve an accelerated reduction of the UK store estate to reduce losses and rent liabilities and will be effected through the CVA Proposals. The CVA Proposals are only in respect of three of mothercare's UK subsidiaries and only relate to certain of mothercare's UK leasehold property estate and certain mothercare intra-group creditors. A Company Voluntary Arrangement (CVA) is a formal statutory procedure which enables a Company to agree with its unsecured creditors a composition in satisfaction of its debts or an arrangement of its affairs which can determine how its debts should be paid and in what proportions.

We are acutely aware of the impact of the UK Restructuring on certain stakeholders and we have taken the opportunity, where legally appropriate, to consult with:

- the British Property Federation, as the trade body representing many of our Landlords as well as directly with individual landlords wherever possible;
- the Pension Protection Fund ("PPF"), The Pensions Regulator and the trustees of the Company's pension scheme, as a result of which the PPF has indicated its intention to vote in favour of the CVA Proposals; and
- staff representatives, in order to communicate effectively with all employees affected by the proposals.

The CVA Proposals will trigger a Pension Protection Fund ("PPF") assessment period, during which the PPF assumes the rights of the trustees of the Company's pension funds, including voting rights. The Company has entered into a deficit recovery contributions deed to ensure that pension scheme contributions are protected.

The launch of the CVA Proposals is not expected to affect the ordinary course of operations of mothercare and in particular:

- Save for the landlords compromised by the CVA Proposals and certain mothercare intra-group creditors, no other creditors' claims will be affected.
- The process to implement the CVA Proposals is expected to complete in July 2018 with the CVA creditor meetings expected to be held on 1 June 2018.

The CVA Proposals and supporting management actions, once completed, are expected to result in:

- A resized store estate with 50 stores to be exited, and material rent reductions on a further 21 stores.
- A stabilised financial performance through cost savings and/or eliminated losses.
- At least £10 million cash inflow from store closures and working capital initiatives.
- Further cost savings of at least £5 million as the business is right sized.
- Total store portfolio of 78 stores by FY20 (73 in FY22) from 137 stores today.

**Transformation and growth plan**

Recent financial performance, impacted in particular by a large number of legacy loss making stores within the UK estate, has resulted in a perilous financial condition for the Group. Given the financial position, the Board instigated a full financial review. The financial review concluded that delivering the Refinancing and the UK Restructuring represent the most viable option to establish a sustainable future for mothercare. The Board believes the Refinancing and UK Restructuring will deliver:

- Stabilised and renewed financial footing for mothercare.
- Acceleration of mothercare's transformation and growth plan.
- Disciplined focus upon cost control and cash generation throughout the business.

The Directors have reviewed the Group's latest forecasts and projections, which have been sensitivity-tested for reasonably possible adverse variations in performance. These are outlined in detail in the Viability Statement. A critical component of the refinancing is the conditionality on the approval of the CVA. Notwithstanding our confidence in a successful outcome, and therefore our preparation of the financial statements on a going concern basis, we recognise that this dependency on the CVA represents a material uncertainty that may cast doubt on the ability of the Group to continue as a going concern; as such the auditors have included an emphasis of matter in respect of going concern in their audit opinion.

**Viability Statement**

In accordance with provision C.2.2 of the 2016 revision of the UK Corporate Governance Code, the Directors have assessed the prospects and viability of the Company and its ability to meet liabilities as they fall due over the medium term. The Directors concluded that a period of two years is a suitable time period for their review for the following reasons;

- This period aligns with the financing cycle; and
- Performance is significantly impacted by both UK and International economic conditions which are increasingly 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 sustained pressure on the business over the two year period to March 2020. The review included detailed financial projections covering profit and cash flows.

These projections were then reviewed in the context of the refinancing, conditional on the external approval of the CVA and shareholder vote approving the equity raise, as outlined in the Going Concern statement.

The scenario assumed the following key assumptions:

- UK sales decline significantly in year one, following a marked downturn in consumer confidence, equivalent to the worst UK performance over a five year historic performance, with a further decline in year two. The estimated annual cash impact of +/-1% change in sales growth is £1.1 million.

- Underlying UK margin rate decline in year one (after rebasing for one-off stock clearance activity in 2017/18), reflecting further margin investment to stimulate demand with no recovery in UK margin in year two. The estimated annual cash impact of +/- 100bps change in margin rate is £1.4 million.
- International to experience a continuation of external macro-economic and currency pressures across key markets culminating in moderate decline in like-for-like retail sales in both years of the review period. The estimated annual cash impact of +/-1% change in International like-for-like retail sales is £0.2 million.

In the above scenario, 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 the above scenario 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 two years.

### Treasury policy and financial risk management

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

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

### Foreign currency risk

All International sales to franchisees are invoiced in pounds sterling or US dollars. International reported sales represent approximately 33% of Group sales (FY17: 31%). Total International worldwide sales in the 52 week period represent approximately 62% of Group worldwide sales (FY17: 62%). 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 has exposure to credit risk inherent in its trade receivables. The Group has no significant concentration of credit risk. The Group operates effective credit control procedures in order to minimise exposure to overdue debts. 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.

### Directorate changes

Mark Newton-Jones stepped down as Chief Executive Officer on 4 April 2018. David Wood was appointed as Chief Executive Officer on the same date. Alan Parker retired from the position of Non-Executive Chairman on 19 April 2018 and was replaced by Clive Whiley as Interim Executive Chairman on the same date.

### Refinancing and funding review

In May 2018 the Group's two existing banks, HSBC and Barclays, agreed to provide a revolving credit facility of £67.5 million comprising two tranches. Tranche A is £50.0 million, stepping down to £30.0 million in September 2020 with final maturity in December 2020. Tranche B is £17.5 million, maturing in November 2018, at which point an overdraft of £5.0 million becomes uncommitted outside of the revolving credit facility. This is conditional on the approval of a CVA, which the Group launches on 17 May 2018, and a successful equity raise.

The Group has also obtained the support of its shareholders and intends to undertake a placement of shares of £36.0 million in July 2018. This will be conditional on approval of the CVA and has been fully underwritten by Numis Securities Limited. Within this raise, a shareholder loan of £8.0 million has been agreed, receivable immediately, which will be convertible to equity.

The Group has also secured the support of its franchise partners that will allow the Group to drawdown a loan against the outstanding trade receivable, to a maximum of £10.0 million.

# Corporate responsibility



**Performance update**

Highlights

In FY2018, the Group:

- Continued to drive the CR2020 strategy across the three areas of products, environment and communities;
- Developed country specific Modern Slavery workshops for colleagues;
- Set ambitious targets for responsibly sourced cotton and timber beyond 2020;
- Continued to reduce total $CO_2e$ emissions through buildings and transport;
- More than tripled our Mother's Day #giftabundle donations; and
- Had 65% 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 performance over the last twelve months and looks ahead at priorities for the coming year. We have structured this update into our three areas of focus and have included an overview of our CR2020 strategy and supporting governance.

**Our CR2020 strategy**

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 CR2020 ambition to 'unite with mums and dads to create a better world for the future of our children, has been developed with key stakeholders 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 and opportunities, we structure our CR2020 programme into three areas:

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.

We recognise that the United Nations Sustainable Development Goals (SDGs) are increasingly providing a framework for businesses to design and measure their corporate responsibility and sustainability strategies. We believe that our CR2020 strategy can achieve the greatest impact on the following goals:

Next year we plan to review these SDGs in more detail with the objective of understanding how the underlying indicators could influence our programme and help us make the most positive impact.

**CR2020 Governance structure**

The strategic direction of our CR programme is developed by the Global Head of Corporate Responsibility and agreed with the Board and Executive Committee.

Plc Board

Progress against our CR2020 vision and strategy is reported at least annually to the plc Board via the Audit and Risk Committee.

CR2020 Steering Committee

The steering committee was established in 2017 to:

- Ensure that CR is endorsed by senior leadership and integrated into the business.
- Oversee the strategy and governance of CR2020.
- Provide a framework for the operational committee to report progress.

The committee meets bi-annually and is made up of key members of the Senior Leadership Team. Alice Darwall, General Counsel and Group Company Secretary, chairs the committee and represents the agenda with the Executive Committee.

CR2020 Operational Committees

The committees are chaired by the Global Head of CR and their purpose is to:

- Deliver annual activities of CR2020.
- Report against KPIs and provide further reporting content where necessary.
- Update CR2020 Steering Committee on progress and raise any relevant concerns.

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 a team of corporate responsibility professionals based in China, India and Bangladesh. The team works on continuous improvement and collaboration with partners such as suppliers, other retailers, NGOs and advisors.

**CR2020 Performance Update**

**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. 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. The update on Products is separated into three areas :

- Responsible sourcing.
- Environmental impacts of production.
- Raw material sustainability.

**A. Responsible sourcing**

For the 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
- demonstrate a strong commitment to business ethics.

**Our approach**

We source from approximately 500 factories and the top five countries; China, India, Turkey, Bangladesh and the UK, account for 88% 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.

Our Responsible Sourcing Handbook, launched in February 2017, is part of our supplier terms and conditions and is sent to all suppliers. It is available on our website at www.mothercareplc.com. The handbook explains in detail our requirements and policies for Responsible Sourcing 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.

We aim to collaborate with suppliers on progressive approaches to improving labour standards and working conditions in our supply chains.

Third Party Audits

Before production is approved, all factories must provide an independent factory ethical audit from a shortlist of providers to demonstrate that the factory complies 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 600 independent audits of factories, including new factories and annual updates.

In-house Factory Assessments

Our Responsible Sourcing (RS) team covers Bangladesh, Cambodia, China, India, Myanmar, Sri Lanka and Vietnam where they carry out announced and unannounced assessments of factories and support them to implement improvements. This year our RS team has carried out 175 factory assessments across all divisions of clothing, footwear, home and travel and toys in China, India, Bangladesh, Sri Lanka and Myanmar. This is a planned and welcomed reduction on the 260 assessments carried out in FY2017 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.

In-house Supplier Training

The in-house Responsible Sourcing team at mothercare has developed a Supplier Development Programme to support factories to build their own knowledge and capacity on specific Responsible Sourcing topics. The modules were developed in response to the issues most frequently identified in audits and factory assessments. In FY2018 training has been developed and conducted in China on two separate topics. The first training day in June 2017 was focussed on health and safety issues and management systems. In total 62 people from 14 factories attended. The second training day in January 2018 was addressing working hours and wage payments and in total 49 people from 17 factories attended. According to feedback from both sessions, 100% of attendees found the content useful and 96% would be able to apply it to their workplace.

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 provides the opportunity for progressive organisations to share the work they are doing and to encourage more action on this topic. In FY2018 we focussed on building our internal knowledge and awareness of modern slavery issues. A training module has been developed in partnership with the expert consultancy Impactt and this training has been carried out at our major sourcing offices in Tirupur and Bangalore (India); Dhaka (Bangladesh); Guangzhou, Shanghai and Hong Kong (China); and Watford (UK). In line with the law, we have reported our actions under the Modern Slavery Act on our website at www.mothercareplc.com. Our next update on FY2018 will be published in July 2018.

### 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 industry bodies are an effective way to influence long-lasting improvements. Concerns identified during factory audits are often industry-wide and cannot be resolved by individual retailers. To address this, we continue to be members of the Ethical Trading Initiative (ETI) 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 examples of some of the key initiatives are detailed below:

I. 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. The programme 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 FY2015 to include 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. For example, progress has been made in building new living quarters for workers, developing and following clear leave policies, strengthening grievance handling mechanisms and providing access to bank accounts for remote mills and factories.

Additionally, all of mothercare's supplier owned mills are part of the ETI Nalam Programme. Over 1600 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. Mothercare have signalled their commitment to continue to support the second phase of this programme due to begin in 2018 .

### China Caucus

We are active members of the ETI's China Caucus group and during FY2018 have continued to be involved in a collaborative project with the ILO (International Labor 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 currently has two factories involved in the project.

### Turkey platform

We work with the ETI Turkey platform, our suppliers and other stakeholders to ensure that our suppliers' factories in Turkey meet our Code of Practice.

We have been concerned about the reports of exploitation of Syrian refugees in garment factories in the country. In FY2017 mothercare developed a policy and remediation guidelines on Syrian refugees working in Turkey, which has been translated into Arabic and Turkish and shared with all factories. An experienced consultant has worked with us to carry out a gap analysis against this policy and to conduct unannounced audits with suppliers and subcontractors.

During FY2018 mothercare completed the second disclosure to the Business and Human Rights Resource Centre on due diligence undertaken regarding Syrian workers in Turkey. Mothercare has also begun to work with the NGO United Work on training sessions with mothercare suppliers to build their capacity in relation to refugees and how they can be supported in the workplace.

II. Bangladesh Accord

Although we were not involved in the Rana Plaza tragedy in April 2013, we are signatories of the 2013 Accord on Building and Fire Safety in Bangladesh and are committed to ensuring that factories in our supply chain meet and improve health and safety standards, as well as other labour standards as part of our Code of Practice.

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 two have received recognition letters for completing initial remediation. However, there is still much to do and mothercare has become a signatory to the 2018 Transition Accord to ensure completion of this important work.

III. Suddoku Programme – Bangladesh

Suddoku is a programme of collaboration between the government of Bangladesh and the governments of the UK and of Switzerland. It is a skills and productivity training programme aimed at helping factories to achieve higher wages for workers. The programme began in July 2017 and five mothercare factories have been involved in the programme. To date, 40 dedicated trainers, 20 assessors, 87 supervisors and 458 workers have been trained, 95% of the workers have been women. We have been encouraged by the methodology and results of the programme and are hoping to reach over 1000 workers with this training during 2018.

IV. Gender Equality Programme – India

Mothercare is proud to be part of the Promoting Gender Equality Programme in India in partnership with two other well-known brands. It is supported by the British High Commission and aims to provide a technology-based grievance mechanism to help tackle the issue of sexual harassment in India. The programme is being run in ten factories in the north and south of India, three of which are mothercare factories. The issue of sexual harassment is deep rooted and complicated so the pace of the programme has been deliberately slow to enable the root cause issues to be uncovered and debated by all stakeholders. The programme addresses the practical difficulties of effective implementation of the legislation adopted in 2013 called 'Prevention, Redressal and Prohibition of Sexual harassment in the Workplace'.

Training has been completed in all factories at a management, supervisor and worker level with 33% of workers having received training (3854 workers). International Women's Day on 8 March 2018 was marked in the factories as part of a gender focus week. The programme is due to complete during 2018 when a full impact evaluation will be completed.

### B. Environmental impacts of production

Environmental sustainability is an integral aspect of our Corporate Responsibility programme and we are committed to helping suppliers reduce the environmental impacts of manufacturing. Our factory 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.

#### Factory environmental scorecard

In FY2018 the mothercare Environmental Scorecard developed in partnership with Carnstone, an experienced CR consultancy, was rolled out to 25 factories in China after a successful pilot the previous year. 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 also helps factories to realise financial savings where possible. Each factory that participated in the environmental scorecard programme received a tailored report which identified opportunities for improvement.

#### IPE Corporate Information Transparency Index

Over the last few years we have been working with a Chinese non-governmental organisation called the Institute of Public and Environmental Affairs (IPE) to help improve our Chinese suppliers' environmental performance. This NGO assesses retailers and brands in a report called the Corporate Information Transparency Index (CITI), based on transparency of environmental data and performance. This year we were pleased to see our score improve, we are now ranked 15th out of 74 brands in the apparel industry.

### C. Raw material sustainability

A review of mothercare's products confirmed that cotton and timber are the most significant raw materials in terms of importance to mothercare and in relation to environmental impacts.

#### Cotton

As mothercare's most important raw material, we want to play an active role in helping cotton to be produced in better ways; better for the people that grow it and better for the environment.

We believe that the Better Cotton Initiative (BCI) is the most appropriate organisation for us to join to source more sustainable cotton. Mothercare has applied for membership of BCI and has set an ambitious goal for 50% of cotton to come from sustainable sources by 2023. Mothercare is excited about joining this programme to make Better Cotton a sustainable mainstream commodity.

#### Timber

Although timber is a less significant raw material in mothercare in terms of volume, the environmental and social impacts of timber are undeniable. Mothercare has therefore set a target for all timber and timber based product to be 100% responsibly sourced by 2023.

# Corporate responsibility
continued

**Product – performance against targets**

| | Activity area | Target | Measure | Lead UN SDG our target supports | Status | Commentary |
|---|---|---|---|---|---|---|
| 1 | Responsible sourcing | Maintain continuous progress in Responsible Sourcing year on year | Maintain or improve % score at the annual ETI (Ethical Trade Initiative) strategic report | 8 DECENT WORK AND ECONOMIC GROWTH | On track | Mothercare submission for FY2017 awarded an 'Achiever' status with a score of 67%. |
| 2 | Environmental impacts of sourcing | All key factories reduce their environmental impacts in terms of waste, pollution and energy use | % of factories with an environmental scorecard making progress against related targets | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | On track | Mothercare has rolled out the environmental scorecards to 25 factories in FY2018 and targets have been set with all of these factories. |
| 3 | Cotton | Source 12% of our cotton from sustainable sources by 2020 and 50% by 2023 | Measured via BCI purchase of cotton relative to total cotton purchase | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | Just started | BCI membership application lodged.<br>Baseline cotton data established.<br>Communication and training materials being developed. |
| 4 | Timber | Source 25% of all wood and paper goods from responsible sources by 2020 and 100% by 2023 | Measured as % of timber volumes purchased | 13 CLIMATE ACTION | Just started | Year one implementation plan being developed.<br>Communication and training materials being developed. |

## 2. Environment

FY2018 continued to be a year of considerable infrastructural change at mothercare, with the on-going reconfiguration of the distribution system, store closure and refit programme.

Our overall $CO_2$e emissions reduced, in absolute terms, by 17% versus FY2017. While both buildings energy and transport energy consumption reduced year on year, a large factor behind the fall was the impact of the DEFRA emissions conversion factor annual changes, which saw grid electricity emissions reduce by 15%.

| Key performance indicators | FY2017 Performance | FY2018 Performance | FY2018 vs FY2017 (+/-) % |
|---|---|---|---|
| Building energy use (m kWh) | 39.56 | 36.63 | -7% |
| Transport fuel used (m litres) | 0.89 | 0.83 | -6% |
| Transport distance (m kilometres) | 3.71 | 3.40 | -8% |
| Kilometres/litres of fuel consumption | 4.18 | 4.08 | -2% |
| $CO_2$e emissions (tonnes)* | 16,934 | 14,075 | -17% |
| Of which: | | | |
| Buildings | 14,613 | 11,905 | -19% |
| Transport | 2,321 | 2,170 | -7% |
| $CO_2$e emissions (per '000 sq. ft) | 11.58 | 10.79 | -7% |
| Total waste (tonnes, UK only) | 5,180 | 4,504 | -13% |
| Recycled waste (%) | 93% | 94% | 1% pt |

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

### Building emissions

Building emissions relate to electricity and gas consumption at our UK stores, UK and overseas offices and at our national distribution centres. During FY2018, the ongoing reconfiguration of our distribution network saw e-commerce fulfilment move to our Nuneaton site, which led to energy savings. Also, energy usage at stores fell by 5%, partly as a result of store closures, and partly due to last year's roll out of automatic electricity meter readers leading to more robust, real-time data.

### Transport emissions

Transport emissions relate to diesel consumption for deliveries between our distribution centres and from the distribution centres to stores. In absolute terms, distance travelled reduced by 8%, and litres consumed fell by 6%, leading to a 7% reduction in transport emissions. The removal of our hub at Dagenham - as part of our ongoing reconfiguration programme – was a major contributor to the fall in distance travelled. However, because of an increase in shorter distance stock movements around our main centre at Nuneaton, we saw fuel efficiency decrease by 2%. We continue to invest in our programme of fleet upgrades and driver efficiency training.

### Waste

A reduction in landfill waste across stores and at our distribution centres of 30% was achieved, in large part by the move of our e-commerce fulfilment to the Nuneaton site. This site already operates a policy of zero waste to landfill. As such, moving operations to Nuneaton led to the removal of 500 tonnes of waste from our environmental footprint.

### Environment – performance against targets

| | Activity area | Target | Measure | Lead UN SDG our target supports | Status | Commentary |
|---|---|---|---|---|---|---|
| 5 | Operational waste | Aim to achieve zero waste to landfill by 2020 | % waste to landfill | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | On track | A reduction in landfill waste across stores and at our distribution centres led to a greater proportion of reycled waste. Landfill now accounts for 6% of waste (down from 7% last year). |
| 6 | Transport energy | Improve fuel efficiency year on year | Km drive/ litre fuel consumption | 13 CLIMATE ACTION | Not Achieved | In absolute terms, distance travelled reduced by 8%, and litres consumed fell by 6%. As part of our reconfiguration programme, we engaged in more shorter, less fuel efficient stock movements at our main centre in Nuneaton, which led to a small decrease in fuel efficiency. |
| 7 | Buildings[1] energy | Improve energy efficiency year on year | Building energy use / £ sales | 13 CLIMATE ACTION | On track | Reduction in buildings[1] energy consumption at our stores and distribution centres, coupled with a substantial decrease in Defra's electricity conversion factors, led to year on year improvements of 13%. |

## 3. Communities

### Mothercare community

Our people are our biggest asset. We employ directly 4567 people in the UK and 160 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 65% of our senior management roles (not including executive management) held by females. Throughout the rest of the business 92% of our UK retail colleagues and 75% of our UK office colleagues are female.

#### *Communication*

FY2018 has been a year of considerable change for mothercare, which has meant that colleague communication has never been more important.

We continue to hold monthly colleague briefings, where the executive team provides an update on trading, progress against strategy and what we are doing to make mothercare a great place to work. We also use Club Hub, our intranet, and plasma screens for internal communications with head office and store-based colleagues.

In the second half of the year we put greater emphasis on colleague engagement, ensuring colleagues are given a voice in mothercare. We created an employee consultative forum (ECF) as part of our restructure of the head office organisation. Through the elected ECF, we sought colleague input on our proposed structure, its implementation and related communications. The approach was well-received and we are now in the process of setting up enduring colleague engagement groups (CEGs) for our head office, mothercare stores and Mini Club stores. There will be an executive chair for each of the CEGs. Through these three elected groups, we will seek colleague feedback on a wide variety of issues.

In 2018, we introduced 'you talk, we listen', informal sessions for colleagues to share their thoughts and opinions on all aspects of mothercare. Each session is hosted by an Executive Director and attended by eight to twelve colleagues from a variety of business areas. There is no set agenda; that is determined by whatever the group wants to discuss. These are opportunities for colleagues to provide

feedback or ask questions and a chance for Executive Directors to hear first-hand what colleagues are experiencing. The executive host debriefs the wider executive team following each session and, as a group, they monitor and act on evolving themes.

***Training and development***

We have a clear set of values and behaviours for our employees and we have been investing in their development through training and development programmes. For example, in buying and merchandising, our teams have been through training on a new merchandise planning tool. 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. We have continued to train specialists who gain their IOSH (Institute of Occupational Safety and Health) qualification after attending a two-day training event in car seat safety.

The Group's talent management and learning management system called 'Inspire' are in regular use enabling employees across the Group to remotely access and develop a number of core skills, from compliance and product knowledge to personal development.

**Charitable giving**

The Mothercare Group Foundation (MGF) aims to help parents in the UK and worldwide meet the needs and aspirations for their children and to give them the very best chance of good health, education, 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. 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 FY2018.

***Charity of the year***

Our official FY2018 Charity of the Year was Bliss. Bliss is a UK charity working to provide the best possible care and support for all premature and sick babies and their families. The MGF made donations of £40,000 during the year. In addition, many colleagues have engaged in fundraising activities, raising over £7,500. Following a review with the MGF Trustees it was decided to extend the partnership with Bliss for another year until April 2019.

***Employee sponsorship matching fund***

Mothercare runs a matching fund, meaning that mothercare will match employees' own fundraising activities up to a maximum of £250 per activity. During FY2018, £5,500 was donated to top up colleague fundraising.

***Single-use carrier bag proceeds: Trees for Cities***

Mothercare 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. The charity is focussed on creating greener cities through volunteering, education and engagement with local communities. During FY2018 £91,000 was donated to Trees for Cities bringing the total donations to the charity since 2015 to £293,000. This year our support has meant that the charity has been able to plant over 1500 trees across 18 sites in the UK, work with 200 school children and 29 community groups and build a bespoke Edible Playground for outdoor learning at a primary school in Watford. To find out more about the charity, please visit www.treesforcities.org.

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

For the second year running, mothercare was proud to run the #giftabundle initiative in partnership with the environmental charity Hubbub. The 2017 #giftabundle initiative was shortlisted for the best communication campaign of the year award at the prestigious Third Sector Excellence Awards. The 2018 initiative was extended to run in 42 stores and was again well received by customers who gifted bundles of good quality clothing for babies and children up to three years, which were then distributed to other local families. An amazing 6,055 bundles were gifted by customers, amounting to approximately 52,000 items of clothing. These bundles have been distributed to 43 local groups, charities and organisations who are passing them onto local families who can benefit from them.

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 130 of our stores across the UK, six times a year (usually in February, April, June, September, October and December). 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. In November 2017 six new expectant parent advisory leaflets were launched to support the expectant parent events and personal shopper appointments. These leaflets cover popular topics such as feeding and weaning and car seats.

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 in Bristol, Manchester, Gateshead, Havant, Solihull, Romford, Edmonton and Leeds which offer a perfect meeting space for parents to relax whilst out shopping with young children.

### Community – performance against targets

| | Activity area | Target | Measure | Lead UN SDG our target supports | Status | Commentary |
|---|---|---|---|---|---|---|
| 8 | Community impact | Develop long term value creating charity partnerships | Delivery of joint partnership strategy goals | 11 SUSTAINABLE CITIES AND COMMUNITIES | On track | Joint Partnership Strategy with Bliss developed and on track. Partnership extended until April 2019 to faciliate more collaborative working and achieving partnership goals. |
| 9 | Colleague volunteering | By 2020 donate 2000 hours to causes that create a better world for the future of our children | Recorded colleague hours volunteered | 11 SUSTAINABLE CITIES AND COMMUNITIES | Not started | Colleague Volunteering offer to be launched with Colleagues from Autumn 2018. |
| 10 | Colleague giving | Enable colleagues to get involved with community and charity activities | year on year growth in % participation of colleagues participating in payroll giving, volunteering and charity partnership activities | 11 SUSTAINABLE CITIES AND COMMUNITIES | Not started | Payroll giving offer to be launched to colleagues with the upgrade of the payroll system in the Autumn 2018. Measurement tool of participation to be developed. |

This strategic report was approved by the Board on 17 May 2018 and signed on its behalf by:

**Glyn Hughes**
Chief Financial Officer

# Board of Directors and Executive Committee

**Committee Memberships key:**
A — Audit and Risk Committee
R — Remuneration Committee
N — Nomination Committee
F — Full Board member
D — Defence Committee
Di — Disclosure Committee

**1. Clive Whiley** N / F / D / Di

—

**Position: Interim Executive Chairman**
**Appointment: April 2018.**
**Skills, competencies, experience:**
Clive Whiley has thirty five years' experience in regulated strategic management positions since becoming a Member of the London Stock Exchange. He has extensive main Board executive director experience across a broad range of financial services, engineering, manufacturing, distribution & leisure businesses: encompassing the UK, Europe, North America, Australasia and the People's Republic of China.

**Other Directorships:**
Mr Whiley is currently a Non-Executive Director of Stanley Gibbons Group plc and Camper & Nicholsons Marina Investments Limited and also Chairman of China Venture Capital Management Limited, First China Venture Capital Limited and Y-LEE Limited.

**2. David Wood** F / D / Di

—

**Position: Chief Executive Officer**
**Appointment: April 2018**
**Skills, competencies, experience:**
David has over 25 years' experience working in senior roles in international branded manufacturing and multi-channel retail businesses. David started his career at Unilever in 1992 where he spent nine years in various UK and European commercial roles. He then joined Kraft Foods where he spent six years, working his way up to European Marketing Director, before joining Tesco in 2007. He initially joined as Commercial Category Director at Tesco UK, before being appointed to the Board of Tesco Hungary as Commercial Director. David then joined the Operating Board of Tesco UK as Chief Marketing Officer, before going on to become Group Managing Director for the Global Health and Wellness Division. Most recently, David was Group President of Kmart Holding Corp.

**Other Directorships:**
None

**3. Glyn Hughes** F / D / Di

—

**Position: Chief Financial Officer**
**Appointment: December 2017.**
**Skills, competencies, experience:**
Glyn has extensive international retail and finance experience gained during his 10 year residence in Asia (2006 – 2016) where he held both CEO and CFO positions within the Dairy Farm Group. Appointments prior to that include senior Finance, Strategy and Business Development roles at Kingfisher, Tesco and KPMG.

**Other Directorships:**
None.

**4. Tea Colaianni** R / N / F

—

**Position: Non-executive director and Remuneration Committee Chair**
**Appointment: 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), Bounty Brands Limited (NED and Chair of Remuneration Committee) and Chair of the Women in Hospitality 2020 Review.

**5. Lee Ginsberg** A / R / N / F / D / Di

—

**Position: Non-executive Director and Audit and Risk Committee Chair**
**Appointment: 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 02 April 2014) and prior to that Group Finance Director at Health Club Holdings Limited (formerly Holmes Place plc) where he also served as Deputy Chief Executive. Lee is a Chartered Accountant having qualified with Pricewaterhouse Coopers.

**Other Directorships:**
Non-executive director and Chair of the Audit Committee at Trinity Mirror plc; Deputy Chairman, Senior Independent non-executive director at Patisserie Holdings plc; Senior Independent non-executive director and Chairman of the audit committee at On The Beach plc; Senior Independent non-executive director and Chairman of the audit committee at Softcat plc; and non-executive Chairman of Oriole Restaurants Limited.

**6. Gillian Kent** A / F

—

**Position: Non-executive director**
**Appointment: 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.

**7. Richard Rivers** R / F / D / Di

—

**Position: Senior Independent Non-executive Director**
**Appointment: 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.

**8. Nick Wharton** A / F

—

**Position: Non-executive director**
**Appointment: 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 Superdry Plc (formerly SuperGroup plc) until 16 July 2018.

# Executive Committee

**David Wood**

—

**Chief Executive Officer**
See opposite page for biography.

**Glyn Hughes**

—

**Chief Financial Officer**
See opposite page for biography.

**9. Alice Darwall**

—

**General Counsel and Group Company Secretary**
**Appointed: November 2017**
**Skills, competencies, experience:**
Most recently Alice was Group General Counsel at FTSE250 Company, Berendsen plc, prior to its takeover by Elis S. A. in September 2017. Prior to that Alice was director of legal at Proximity Advisors Ltd and Group General Counsel at French Connection plc from 2004-2014. Solicitor.

**10. Kirsty Homer**

—

**Global Human Resources Director**
**Appointed to the Executive Committee: June 2017**
**Skills, competencies, experience:**
Formerly Director of Personnel Group and Partnership Services at John Lewis where Kirsty had a career spanning 20 years.

**11. Matt Stringer**

—

**Global Product Officer**
**Appointed February 2013**
**Skills, competencies, experience:**
Formerly Managing Director of Carphone Warehouse; various roles at M&S including International Operations Director and Head of GM Stock Management and New Buying.

**12. Kevin Rusling**

—

**International Managing Director**
**Appointed April 2017**
**Skills, competencies, experience:**
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.

**13. Keith Basnett**

—

**Group Supply Chain and Transformation Director**
**Appointed in February 2018**
**Skills, competencies, experience:**
Keith Basnett joined the Executive Committee having previously been engaged on a number of change programmes and cost reduction initiatives as a senior contractor within the group. He has a wealth of experience across both retail and the wider global operational landscape, having previously held Chief Operations officer roles in Shop Direct and Yodel, as well as senior Director roles in N Brown Group, Hutchison Telecom, Freemans and an early career with American Express.

# Corporate governance

**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 24 March 2018 with the relevant provisions set out in the 2016 UK Corporate Governance Code. Further explanation of how the Main Principals have been applied are set out below and in the main committee reports.

**The Board**

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 Interim Executive Chairman, five independent non-executive directors, and two full-time executive directors being the Chief Executive Officer and the Chief Financial Officer. Whilst the roles of Chairman and CEO are not exercised by the same individual, the current Chairman is in an executive role and therefore not considered to be independent under the 2016 UK Corporate Governance Code. It was appropriate to appoint Clive Whiley in an executive role for his experience of restructuring and finance in order to help steer mothercare through the next phase of its transformation.

Mothercare plc Main Board:

| As at 11 May 2018 | As at 24 March 2018 |
|---|---|
| **Chairman/Non-executive** | **Chairman/Non-executive** |
| Clive Whiley (Interim Executive Chairman) | Alan Parker CBE (Chairman) |
| Tea Colaianni (Chair of the Remuneration Committee) | Tea Colaianni (Chair of the Remuneration Committee) |
| Lee Ginsberg (Chair of the Audit and Risk Committee) | Lee Ginsberg (Chair of the Audit and Risk Committee) |
| Gillian Kent | Gillian Kent |
| Richard Rivers (Senior Independent Director) | Richard Rivers (Senior Independent Director) |
| Nick Wharton | Nick Wharton |
| **Executive** | **Executive** |
| David Wood | Mark Newton-Jones |
| Glyn Hughes | Glyn Hughes |

**Board changes**

There have been a number of changes during the year under review and subsequently. Post balance sheet events are set out at Note 31.

As announced in May 2017, Richard Smothers resigned from the Board as planned in December 2017 and we were delighted to welcome Glyn Hughes who had been acting as CFO Designate since September 2017 and who was promoted to the role of CFO on 1 December 2017.

Post the year end, on 4 April 2018, Mark Newton-Jones was succeeded by David Wood as CEO. Mr Wood's biographical details are set out on page 36. In addition, on 19 April 2018 Alan Parker retired as Chairman and Clive Whiley was appointed on the same day as Interim Executive Chairman. Mr Whiley's biographical details are set out on page 36.

The Nomination Committee was also required to conduct a search for a new Group Company Secretary following the resignation of Daniel Talisman who left the Company on 4 August 2017. Alice Darwall joined the Company on 3 November 2017 as General Counsel and Group Company Secretary and, in the intervening period, the Company benefited from the services of an experienced Company Secretary on an interim basis.

**The Board and its directors**

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

The Board would like to acknowledge the considerable time and commitment afforded to it by its providers of capital during the year and in the current year.

The Board has approved formally the roles and responsibilities of the Chairman and Chief Executive, 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 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.

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 | Renegotiation of the Revolving Credit Facilities |
| Reports from Board committees | GDPR |
| Business performance and financial results | Pensions |
| Annual budget and financial statements | Insurance |
| Consideration of acquisitions and disposals | Appointment of financial adviser |
| Risk management and review | |
| Operational oversight | |

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 11th year of service in July 2018 and is not intending to stand again at the 2018 AGM. The Board would like to thank Richard for his contributions to the business.

The business commitments of each member of the Board are set out in the biographical details on pages 36-37. 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.

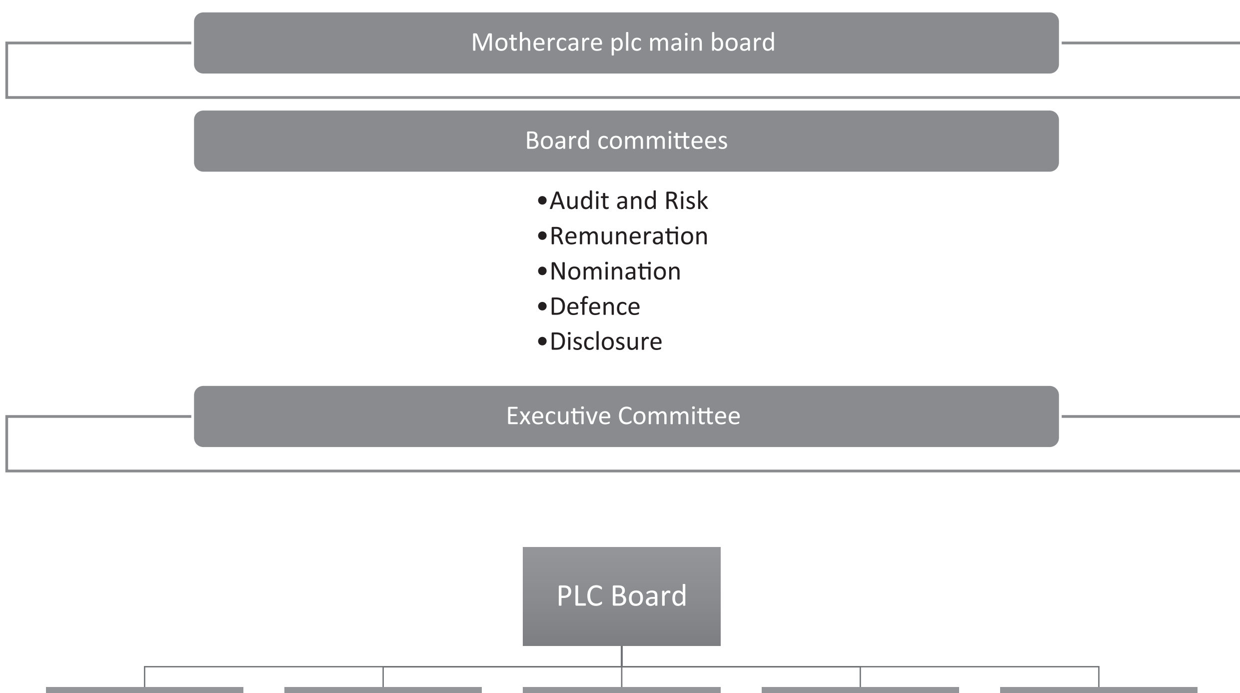
In accordance with the 2016 UK Corporate Governance Code the Board has resolved that all directors should offer themselves for re-election at regular intervals subject to continued satisfactory performance. The Company has applied annual re-elections at its annual general meetings since 2013.

The Board commenced an externally facilitated board evaluation during FY2018, engaging Ian White, an external consultant with experience of evaluating boards of listed and other companies. The evaluation has included individual interviews with Board directors. The evaluation exercise has extended into FY2019 in order to include new directors and the full output of the evaluation will be presented to the Board during the first half of the year. The purpose of the evaluation is to identify some recommendations to enhance the Board process. Other than doing some associate work for a small Company which is part of Equiniti, the Company's registrars, Ian White has no other connection with the Company.

The Chairman, whilst having joined the Board since the start of the new financial year, has considered the contributions made by the directors during the year under review, and is of the opinion that the Company's directors have continued to give effective counsel and commitment to the Company and accordingly should be reappointed by shareholders at the AGM and the new directors elected.

### 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 five main committees of the Board that meet and report on a regular basis: Audit and Risk, Remuneration, Nomination and Defence and, in addition, there is a Disclosure Committee. 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 43.

| A | R | N | D | Di |
|---|---|---|---|---|
| Audit and Risk Committee | Remuneration Committee | Nomination Committee | Defence Committee | Disclosure Committee |
| Committee members: | Committee members: | Committee members: | Committee members: | Committee members: |
| Lee Ginsberg (Chair), Gillian Kent, Nick Wharton | Tea Colaianni (Chair), Lee Ginsberg, Alan Parker (to 20 March 2018), Richard Rivers | Alan Parker (Chair), Tea Colaianni, Lee Ginsberg | Alan Parker (Chair)Richard Rivers, Lee Ginsberg, Mark Newton-Jones, Glyn Hughes | Alan Parker, Richard Rivers, Lee Ginsberg, Mark Newton-Jones, Glyn Hughes |
| Key roles and responsibilities: | Key roles and responsibilities: | Key roles and responsibilities: | Key roles and responsibilities: | 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. | Establishes the remuneration policy, preparation and approval of the directors' remuneration report, approval of specific arrangements for the Chairman and executive directors, review comment and propose to the Board the proposed arrangements for the Executive Committee including short- and long-term incentive programmes. | 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. | Advises the Board in a bid situation, appoints professional advisers to support the Committee and the Board, maintains and reviews the defence process of the Company. | The establishment and maintenance of disclosure controls and procedures in the Company (and their evaluation), for the appropriateness of the disclosures made in order to meet the Company's legal and regulatory obligations and requirements arising from its listing on the London Stock Exchange, and for compliance with the Group's share dealing policy. |

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 24 March 2018 the Executive Committee consisted of the CEO, CFO, Global Product Officer, Human Resources Director, International Managing Director, Business Transformation Director and the General Counsel and Group Company Secretary.

**Board effectiveness and balance**

As described earlier in this report at page 39 an externally facilitated Board evaluation has been undertaken.

In the year ahead the Board intends to support the CEO in the continuing delivery of our strategy, vision and transformation plans and to provide guidance on risk planning and risk management. The Board believes that it has an appropriate range of breadth and expertise to manage the group's activities.

As at 24 March 2018, the Board had five non-executive directors, of which two are women. Details of the experience and background of each director is set out on pages 36 to 37.

**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 ChairmanChairman and executive directors) comprises two women and six men, and the Executive Committee (excluding the executive directors) has two women and five men. The Company has a senior leadership team that reflects

gender diversity, with 65% of the senior management positions (the two grades below Executive Committee) being held by women as at 24 March 2018 (2017: 52%). The Company believes it is well positioned to support gender diversity at all senior levels.

Employee gender diversity as at 24 March 2018

| | Male | % | Female | % | Total |
|---|---|---|---|---|---|
| Directors of the Company (including the Chairman and executive directors) | 6 | 75% | 2 | 25% | 8 |
| Executive Committee (excluding executive directors) | 3 | 60% | 2 | 40% | 5 |
| Senior management positions | 13 | 35% | 24 | 65% | 37 |
| Total senior managers other than directors of the Company | 16 | 38% | 26 | 62% | 42 |
| Other retail support centre employees | 112 | 23% | 366 | 77% | 478 |
| Total retail support centre employees | 131 | 25% | 392 | 75% | 523 |
| Total retail employees of the group | 328 | 8% | 3,716 | 92% | 4044 |
| Grand total employees of the group (retail support centre and retail) | 459 | 10% | 4,108 | 90% | 4567 |

### 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 24.

### Viability statement

In accordance with provision C.2.2 of the 2016 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 pages 25 and 26 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 identity, assess, manage and monitor risks. The Company has an internal audit function which is led by the Head of Enterprise Risk and Assurance and reports through the CFO to the Audit and Risk Committee. In addition, there is an internal Risk Committee, chaired jointly by the CFO and General Counsel, that meets every two months.

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.

Any actions identified through internal audit work are agreed with relevant management and assigned timelines for implementation. All red and amber findings are followed up to check the status of implementation. All internal audit reports are presented to the Audit and Risk Committee.

The principal risks and uncertainties facing the Company are set out on pages 15 to 17.

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.

### 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 headed up by the Global Head of Corporate Responsibility who, in turn, reports directly to the General Counsel and Group Company Secretary. More details are set out in the corporate responsibility section on pages 27 to 35.

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, compulsory anti-bribery and corruption e-learning training modules are now undertaken on induction and annually at all levels across the group (including the Board). 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 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.

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

### Directors' conflict of interest

The Board has maintained procedures whereby potential conflicts of interest are reviewed regularly. These procedures have been designed so that the Board may be reasonably assured that any potential situation where a director may have a direct or indirect interest which may conflict or may possibly conflict with the interests of the Company are identified and where appropriate dealt with in accordance with the Companies Act 2006 and the Company's Articles of Association. The Board has not had to deal with any conflict during the period.



### Director attendance

Director attendance statistics at meetings for the 52-week period ended 24 March 2018:

| | | Committee | | |
|---|---|---|---|---|
| | Board | Audit and Risk | Nomination | Remuneration |
| Maximum number of meetings | 20 | 4 | 6 | 6 |
| Director: | | | | |
| Alan Parker | 20 | | 6 | 6 |
| Tea Colaianni | 18 | | 5 | 6 |
| Lee Ginsberg | 20 | 4 | 6 | 6 |
| Gillian Kent | 19 | 4 | 4/5 | |
| Richard Rivers | 20 | | 5/5 | 6 |
| Nick Wharton | 18 | 4 | 4/5 | |
| Mark Newton-Jones | 19 | | | |
| Richard Smothers* | 8/8 | | | |
| Glyn Hughes* | 12/12 | | | |

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

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

# Audit and risk committee

**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.

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

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

**Composition of the Committee**

The Committee currently comprises Lee Ginsberg as Chairman, and 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 directors are set out on pages 36-37 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 43 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 Enterprise Risk & Assurance and the 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 reviewed the potential impact of Brexit on the group as reported in FY2017 and reviewed the Brexit risk register during the year.

The full terms of reference of the Committee (which were reviewed and 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.<br>• Challenged management's judgements and recommendations on key financial issues, and provided oversight of controls relating to finance and tax.<br>• Reviewed the processes necessary to ensure that the Board is able to confirm that the annual report is "fair, balanced and understandable".<br>• Assisted the Board in its detailed review of the going concern and viability and covenant headroom. |
| **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. | • Considered the output of the procedures used to evaluate and mitigate risk within the group via quarterly risk and assurance updates.<br>• Considered the Company's currency hedging strategy.<br>• Considered international debt management and the group's former joint venture arrangements in China.<br>• Reviewed supplier funding and revenue recognition.<br>• Reviewed the delegated authority levels.<br>• Reviewed and approved the group's insurance arrangements.<br>• Reviewed the Company's Brexit 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.<br>• Agreed the fees and terms of appointment of the external auditors.<br>• Reviewed and revised the terms of reference.<br>• 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.<br>• 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.<br>• Corporate criminal offence.<br>• Received the GDPR compliance programme which was presented to the full Board at the request of the Chair of the Audit and Risk Committee. |
| **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.<br>• Reviewed both the internal and the external audit effectiveness. |

### Fair, balanced and understandable

The Committee has evaluated all of the available information and the assurances provided by management. In particular, the review of items identified as adjusted items that equal prominence was given to statutory measures as the adjusted items. 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 considered a number of significant issues, taking into account in all instances the views of the Company's external auditor. The issues and how they were addressed by the Committee are detailed below:

### Going concern

The Committee reviewed management's assessment of going concern and long-term viability with consideration of forecast cash flows, including sensitivity to trading and expenditure plans and potential mitigating actions. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, and recommended the approval of the viability statement. The Directors are of the opinion that, subject to the material uncertainty surrounding the approval of the CVA, the Group will operate within the terms of its revised borrowing facilities and covenants for the foreseeable future. Accordingly, the financial statements are therefore prepared on the going concern basis. The financial position of the group, its cashflows, liquidity position and borrowing facilities are set out in Financial Review on pages 18 to 26.

### Classification and presentation of adjusted items

The Committee gave consideration to the presentation of the financial statements and in particular the use of alternative performance measures and the presentation of adjusted items in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are one-off in nature and significant in value and/or nature. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of adjusted items. In the current year, management has included in this category:

- 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, refinancing and restructuring;
- Store impairment and onerous lease charges;
- Costs relating to the disposal of the China joint venture;
- Foreign exchange gains/losses; and
- Amortisation of intangible assets (which arose on the acquisition of the Early Learning Centre and Blooming Marvellous.)

This was an area of focus for the Committee in the current year due to the number and value of these items (£75.1 million charge) and the recent guidelines on the use of alternative performance measures issued by the European Securities and Markets Authority. Following detailed review and active discussion with management, the Committee has concluded that the presentation of the financial statements is appropriate.

**Defined benefit pension scheme**

The Committee has reviewed the actuarial assumptions such as discount rate, inflation rate, expected return of scheme assets and mortality which determine the pension cost and the UK defined benefit scheme valuation, and has concluded that they are appropriate. The assumptions have been disclosed in the financial statements.

**Accuracy of the inventory obsolescence provision relating to seasonal stock**

Inventory provisions include obsolete stock, net realisable value below cost and stock loss provisions. The Committee has examined management papers outlining the judgements made regarding provisioning for inventory balances and is satisfied that a sufficiently robust process was followed to confirm quantities of inventory and that net realisable value of inventory exceeds its cost at year end.

**Recognition of supplier funding**

This continues to be monitored closely by management and robust controls are in place to ensure appropriate recognition in the correct period. The Committee has examined management papers outlining the accounting policy and controls in place relating to recognition of supplier funding. The Committee is satisfied with management's conclusion that there is minimal risk of material misstatement.

**Impairment of the China receivable**

The Committee has examined management papers outlining the disposal of the China joint venture and move to a new Franchise agreement. All debt previously provided for from the China JV has been written off following adherence to payment plan. At year end there was no overdue debt related to the new franchise partner.

**Impairment of fixtures and fittings**

The Committee reviewed and challenged management's impairment testing of property assets and estimate of onerous lease provisions. The Committee considered the appropriateness of key assumptions and methodologies. This included challenging projected cash flows, growth rates, discount rates. The Group has recognised a £16.0 million net impairment of property, plant and equipment assets, together with an onerous lease provision net charge of £33.8 million. See Note 6 to the financial statements.

Other significant matters considered by the Committee during the year:

| Other significant matters | How the Committee addressed those matters |
|---|---|
| **Property provisions and onerous leases** | |
| 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 FY2018. This has involved an active programme of managing the expiry dates of lease agreements and engaging and negotiating with landlords the surrender or assignment of other leases. Through this process, the number of UK stores operated by the Group at 24 March 2018 was 137, a reduction from 170 at the same point in the previous year. The Committee reviewed reports from the Company that assessed the judgements around future costs, including dilapidations and closure costs, and the timing of potential future landlord settlements on those remaining properties earmarked for closure. The Committee also reviewed the reports from the external auditor which considered the appropriateness of the retained provision. |
| Onerous lease provision | Given the loss-making status of the UK business, each store lease is assessed to determine if it is considered onerous. The Committee reviewed reports from the Company that consider the assumptions used within the three year plan to assess this and the appropriateness of any assumptions beyond this three year time frame. The Committee also reviewed the reports from the external auditor which considered the appropriateness of the retained provision. |
| Taxation | 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. HMRC is currently undertaking a review relating to national minimum wage and the outcome was still pending at the year end. HMRC is also re-assessing the AEO status of the customs warehouse where the solvency position of Mothercare UK Limited, as the legal entity holding the AEO status, is a concern to HMRC driven by the negative net assets position on the balance sheet. |

### 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. A new audit partner was appointed from the start of the year under review and had already attended a number of Audit and Risk Committee meetings during the previous year (FY2017) 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, as another audit partner was appointed by Deloitte LLP at the end of the former 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 former 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 during continued time of change – both in respect of the change of executive directors and 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 general principle is that:
  - the audit firm should not be requested to carry out non-audit services on any activity of the Company where they may in the future be required to give an audit opinion;
  - the appointment of the audit firm for any non-audit work must be approved by the Committee (or by the Chair of the Committee in the case of minor matters), and will be approved only if it is regarded as being in the best interests of the Company; and
  - the Committee will not approve (and the Company will not pay) any non-audit fees to the auditors on a contingent basis (non-audit fees incurred in the year are set in Note 7).

  Non-audit fees incurred in the year were incurred in respect of interim assurance work totalling £41,000. Post year end Deloitte have been engaged to perform Reporting Accountant procedures in respect of the Group's equity raise. Fees are estimated at £400,000. The Audit and Risk Committee has considered the fees in light of the audit fee and independence requirement however, acknowledge that Deloitte are best placed to do the work given the time frame, knowledge of the Group and independence.
- 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 and Risk Committee, there are several sub-committees and work groups that oversee and manage risk within the Company and the Group. The Company has a formally established Risk Committee, jointly chaired by the CFO and General Counsel and Group Company Secretary, to provide more regular oversight of risk matters, evaluate emerging risks that may affect the business, and design and oversee a compliance and sub-committee framework that ensures the necessary actions are carried out to mitigate risk. The Company's sub-committees include health and safety, retail store compliance and profit protection, internal audit and corporate responsibility.

The Company, like other retail businesses, continues to face unexpected but material risks on a daily basis. The Company seeks to manage risk in its operations and it has its own business continuity plans in other areas of the business. It has also taken external advice on cyber risks that may affect the business. The Company undertook a cyber security business continuity scenario session during the year which included members of the Executive Committee and the group's information technology department. It is planned to extend this scenario planning exercise to other members of senior management below Executive Committee level during FY2019.

### 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.

### Internal control

The key features of the Group's internal control and risk management systems that ensure the accuracy and reliability of financial reporting include clearly defined lines of accountability and delegation of authority, policies and procedures that cover financial planning and reporting, preparing consolidated accounts, capital expenditure, project governance and information security, and the Group's Code of Ethics and Behaviours.

### 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). Post year end Deloitte have been engaged to perform Reporting Accountant procedures in respect of the Group's equity raise. Fees are estimated at £400,000. The Audit and Risk Committee has considered the fees in light of the audit fee and independence requirement however, acknowledge that Deloitte are best placed to do the work given the time frame, knowledge of the Group and independence.

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 to be proposed to shareholders at the 2018 AGM.

### Conclusion

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

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

**Lee Ginsberg**
Chair, Audit and Risk Committee

# Nomination committee

**Dear Shareholder**

During FY2018, and since the beginning of the current financial year, there were a number of changes to the Board overseen by this Committee as detailed later in this report.

I have recently joined the Committee as its Chairman and would like to thank my fellow and former Committee members for their work over the year.

**Clive Whiley**
Chairman

**Composition of the Committee**

The Committee currently comprises the Chairman and two non-executive directors of the Company. When required, the General Counsel and Group Company Secretary provides support. The Committee's key roles and responsibilities are set out in the Corporate Governance report on page 41.

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

**Performance evaluation**

The Board commenced an externally facilitated Board evaluation during FY2018, hiring Ian White, an external consultant with experience of evaluating Boards of listed and other companies. The evaluation has included individual interviews with Board directors. The evaluation exercise has extended into FY2019 in order to include new directors and the full output of the evaluation will be presented to the Board during the first half of the year. The purpose of the evaluation is to identify some recommendations to enhance the Board process. Other than doing some associate work for a small Company which is part of Equiniti, the Company's registrars, Ian White has no other connection with the Company.

**Activities of the Committee**

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

In May 2017, Richard Smothers announced his resignation and a search was undertaken for a replacement CFO. Glyn Hughes was appointed as Interim Finance Director and we were delighted to appoint him to the Board as Chief Finance Officer on 1 December 2018. The Committee worked with Russell Reynolds, an executive search firm, in relation to the CFO search. Russell Reynolds has no other connections to the Company.

There were two post-year-end appointments also overseen by this Committee resulting in the appointment of David Wood as CEO on 4 April 2018 and Clive Whiley as Interim Executive Chairman on 19 April 2018. An external search consultancy, Inzito, was used in respect of David Wood. Inzito has no other connections with the Company. Clive Whiley was invited to become Interim Executive Chairman without the services of a search consultancy.

Clive, David and Glyn will offer themselves for election at the forthcoming AGM.

In addition, the Committee conducted a search for a replacement General Counsel and Group Company Secretary following the resignation of Daniel Talisman which resulted in the appointment of Alice Darwall as General Counsel and Group Company Secretary on 3 November 2017. Hedley May was used for the search and has no other connections to the Company.

All four biographies can be found on pages 36 to 37.

**Diversity**

The importance of improving the diversity balance (including gender) on Boards of UK listed companies is recognised. Details of the Company's gender diversity are set out in the Corporate Governance report on pages 38 to 43.

Finally, I would like to thank all my fellow directors for their considerable hard work and support to the business during a year of so much change.

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

**Approval**
On behalf of the Nomination Committee

**Clive Whiley**
Chairman of the Nomination Committee

# 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 24 March 2018. The corporate governance statement set out on pages 38 to 43 forms part of this report. The Chairman's statement at page 3 gives further information on the work of the Board during the period.

The principal activity of the group is to operate as a specialist 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 38 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 35. The principal risks and uncertainties facing the business are detailed in the Strategic Report at page 15 and the section on risks at page 12. 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 cashflows, liquidity position and borrowing facilities are set out in Financial Review on pages 18 to 26. The Group's going concern position is also set out in the Financial Review. The Directors have reviewed the Group's latest forecasts and projections, which have been sensitivity-tested for reasonably possible adverse variations in performance. The Directors are of the opinion that, subject to the material uncertainty surrounding the approval of the CVA, the Group will operate within the terms of its revised borrowing facilities and covenants for the foreseeable future. Accordingly, the financial statements are therefore prepared on the going concern basis.

**Viability statement**

The viability statement is set out in the Financial Review on pages 25 to 26.

**Dividend**

The directors are not recommending the payment of a final dividend for the year and no interim dividend was paid during the year (FY2017: £nil).

**Shares**

As at 16 May 2018, the Company's issued share capital was 170,871,885 ordinary shares of 50p each all carrying voting rights. The details of the Company's issued share capital as at 24 March 2018 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 24 March 2018, 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 |
|---|---|---|
| Mr Richard Griffiths | 27,030,148 | 15.82 |
| M&G Investment Management | 21,676,985 | 12.69 |
| UBS Asset Management | 17,763,725 | 10.40 |
| DC Thomson Pensions | 17,695,691 | 10.36 |
| Jupiter Asset Management | 15,340,892 | 8.98 |
| Majedie Asset Management | 11,087,458 | 6.49 |
| Legal & General Investment Management | 7,932,350 | 4.64 |

During the period from 25 March 2018 to 16 May 2018 no notifications were received.

**Acquisition of own shares**

The Company was given a general approval at the AGM in July 2017 to purchase up to 10 per cent of its shares in the market. This authority expires after the AGM on 19 July 2018. The authority has not been used during the year.

### Significant agreements and change of control

In May 2018 the Group's two existing banks, HSBC and Barclays, agreed to provide a revolving credit facility of £67.5 million comprising two tranches. Tranche A is £50.0 million stepping down to £30.0 million in September 2020 with final maturity in December 2020. Tranche B is £17.5 million, maturing in November 2018, at which point an overdraft of £5.0 million becomes uncommitted outside of the revolving credit facility. This is conditional on the approval of a CVA, which the Group launched on 17 May 2018, and a successful equity raise.

The Group has also obtained the support of its shareholders and intends to undertake a placement of shares of £36.0 million in July 2018. This will be conditional on approval of the CVA and has been fully underwritten by Numis. Within this raise, a shareholder loan of £8.0 million has been agreed, receivable immediately, which will be convertible to equity.

The Group has also secured the support of its franchise partners that will allow the Group to drawdown a loan against the outstanding trade receivable from that partner, to a maximum of £10.0 million.

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 24 March 2018:

| Name | Appointment |
|---|---|
| Alan Parker[1] | Chairman and non-executive director; Chairman of the nomination committee |
| Mark Newton-Jones[1] | Executive director |
| Glyn Hughes | Executive director (from 1 December 2017) |
| Richard Smothers | Executive director (to 1 December 2017) |
| Tea Colaianni | Independent non-executive director and Chair of the Remuneration Committee |
| Lee Ginsberg | Independent non-executive director and Chairman of the Audit and Risk Committee |
| Gillian Kent | Independent non-executive director |
| Richard Rivers | Independent non-executive director and Senior Independent Director |
| Nick Wharton | Independent non-executive director |

1 These directors have left the business since the year end and will not, therefore, be up for re-election.

Post the year end David Wood, CEO and Clive Whiley, Interim Executive Chairman and Chief Restructuring Officer were appointed as directors on 4 and 19 April 2018 respectively.

In accordance with the requirement of the UK Corporate Governance Code, at the Annual General Meeting of the Company in July 2018 all the current directors with the exception of Richard Rivers as noted in the Corporate Governance report 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 pages 53 to 57.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 64 and 59 respectively. A statement of directors' interests in contracts and indemnity arrangements is set out on page 43.

### 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 Company employee intranet, weekly 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. During the year an employee consultative forum (ECF) was formed in order to support colleagues through a major restructuring. Following the conclusion of the restructuring, the ECF was disbanded and three new colleague engagement groups (CEGs) were formed. The CEG is a forum for the exchange of information and views on matters that affect Mothercare employees and serve as consultative bodies where required. They are made up of elected representatives.

The Company aspires to develop a loyal and high performing team through 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 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.

### Disabled employees

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

The Mothercare Staff Pension Scheme and the Mothercare Executive Pension Scheme were both closed to future accrual with effect from 30 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 30 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 27 to 35. The Group maintained its Global Code of Conduct to all its office employees in the UK and overseas, and obtained declarations of compliance from its employees. The Global Code of Conduct is in addition to the group's anti-bribery and corruption programme as detailed further on page 42.

### 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 32.

### Auditors

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

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

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

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

### Charitable and political donations

Details of charitable donations including money raised from the 5p single use carrier bag levy are set out in the Corporate Responsibility section of this report on page 34.

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 2018 Annual General Meeting will be held on Thursday, 19 July 2018 at 11.00am at the Company's head office at Cherry Tree Road, Watford, Hertfordshire WD24 6SH.

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

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

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

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

By order of the Board

**Alice Darwall**
General Counsel and Group Company Secretary

17 May 2018

# Directors remuneration report



## REMUNERATION REPORT

### STATEMENT FROM THE CHAIR

Our information on Directors' Remuneration is structured as follows:

- Annual Statement from the Chair of the Remuneration Committee, providing an overview of the key developments and remuneration decisions made during the financial year,
- Annual Report on Remuneration, showing how the current Remuneration Policy has been applied in financial year 2018 and how we intend to apply it in financial year 2019 and a summary of the work of the Remuneration Committee in the year.

At our AGM in July 2018, the Annual Statement, together with the Annual Report on Remuneration, will be put to an advisory shareholder vote.

Dear shareholder,

On behalf of the Remuneration Committee and the Board, I am pleased to present the Directors' Remuneration Report for the year ended 24 March 2018.

Our shareholders approved our current Remuneration Policy and long-term value creation plan (VCP) at the General Meeting ("GM") in July 2017, with 76.13% and 76.05% votes in favour respectively.

The Committee discussed at length following the vote whether to proceed with the proposed VCP grant in the form described in the notice of General Meeting in light of the level of support at the GM. The Committee determined that is was appropriate to make no subsequent changes to the Policy or VCP given that:

- The Committee consulted extensively with shareholders prior to publication of the proposed Policy and VCP;
- The Committee incorporated many of the suggested changes to the Policy and VCP put forward by shareholders during the consultation process; and
- Although the Committee recognised that while approximately 24% of shareholders were not supportive, the majority of votes in favour represented a strong endorsement of the Company's proposals.

Since the Policy was approved last year there has been significant change at mothercare. In addition to the material decline in the Company's trading performance and financial position, the Company has appointed a new CEO, CFO and an Interim Executive Chairman and Chief Restructuring Officer with the specific task of returning mothercare to a sound financial footing and delivering a successful plan to improve performance. For this reason the Committee intends to revisit the Remuneration Policy and the long-term incentive arrangements in particular. The Committee will consult with the Company's major shareholders and may seek approval for a new policy and incentives following the conclusion of such consultation.

#### Performance and decisions in the financial year

The results for FY2018 show a sharp decrease in revenue and profit before tax (PBT). The business has been impacted by headwinds within the retail sector and saw a softening in the UK market with lower footfall and website traffic resulting in lower spend both in stores and online. This has been reflected in the Remuneration Committee's decision-making throughout the year. There is more detailed information about our performance in the strategic report on pages 18 to 26.

#### Board changes

On 4 April 2018, we welcomed David Wood to the Board as our Chief Executive Officer. The remuneration package offered to David is fully in line with the recruitment requirements of our Remuneration Policy. David's base annual salary of £430,000 is significantly lower than that paid to his predecessor. This reflects the Company's market capitalisation at the time of his recruitment and its relative position in the FTSE SmallCap index, as well as the need to align remuneration to the size, complexity and circumstances of the Company. David's potential STIP award for FY2019 will be in line with the requirements of our Remuneration Policy. David will also be eligible to participate in a long-term incentive plan in due course.

Our previous Chief Executive Officer, Mark Newton-Jones, stepped down on 4 April 2018. Mark remains an employee of the Company and will continue to receive his salary and benefits from the date he ceased to be Chief Executive Officer until the end of his notice period on 3 April 2019. For the reasons set out earlier, the Committee exercised its discretion to reduce to zero any bonus for which Mark might have been eligible for the financial year ended 24 March 2018. Under the rules of the relevant plans, Mark's awards under the VCP, outstanding LTIPs and deferred shares lapsed.

We also welcomed Glyn Hughes to the Board on 1 December 2017, as our Chief Financial Officer (CFO). The remuneration package offered to Glyn was in line with the recruitment requirements of our Remuneration Policy. His base annual salary on appointment was £295,000, increasing to £325,000 on 1 September 2018 subject to satisfactory performance and taking on additional responsibilities in the intervening period. This salary is lower than that paid to his predecessor to reflect the Company's market capitalisation at the time of

Glyn's recruitment. Glyn was eligible to participate in the STIP for FY2018, pro-rated from the date of his appointment as CFO; however, again for the reasons set out earlier, the Committee exercised its discretion to reduce to zero any bonus for which Glyn might have been eligible.

Our previous CFO, Richard Smothers, stepped down on 1 December 2017 and his employment ceased on the same day. His STIP award and outstanding LTIPs lapsed in accordance with the relevant plan rules.

Clive Whiley joined the Board as Interim Executive Chair and Chief Restructuring Officer on 19 April 2018 for a period of a minimum of nine months. Clive will receive an annual salary of £480,000 (pro-rated) and will be eligible to join the STIP with clearly defined financial performance objectives. Clive will not receive any other benefits from the Company.

Our independent Non-Executive Chairman, Alan Parker, retired from the Board on 19 April 2018 after six years in the role. Alan will continue to receive his fees from the date he left the Board to the expiry of his notice period on 18 October 2018.

### Salary review

The Committee decided that Executive Directors' salaries would not increase as of April 2018. The Committee also agreed that there would be no annual salary increase for colleagues across the business, with the exception of an increase to the mothercare minimum wage which is set above the national living wage. As of 25 March 2018, mothercare's minimum wage for colleagues aged 21 and over is £8.00/hour – an increase of 6.6% on our previous minimum wage.

### Annual bonus – STIP

The PBT component of the STIP FY2018 was not achieved. Although some individual strategic financial and non-financial objectives were achieved by the Executive Directors, the Committee decided after careful consideration that, in light of the significant decrease in the Group's adjusted PBT, the significant increase in the Group's statutory losses, the severe decline in shareholder value over FY2018, the cash constraints being experienced by the Group and its overall strained financial situation, it should exercise its discretion in line with the rules of the STIP to reduce any bonus awards for which the Executive Directors might have been eligible to zero. Full disclosure of individual targets and performance against those targets is laid out on pages 60 to 61.

### Long-term incentives

In accordance with the terms of the Remuneration Policy, approved at the General Meeting on 31 July 2017, the Committee awarded the Chief Executive (whose award has since lapsed as detailed below) and three members of the Executive Team a one-off grant under the VCP in August 2017 and granted a one-off award to Glyn Hughes in September 2017. Details are available on page 62.

### Board fees

In light of the financial difficulties experienced by the Group and to reflect the reduced market capitalisation of the Company, the independent Non-Executive Chairman and the independent Non-Executive Directors offered to reduce their fees during FY2018. This offer was accepted by the Company and effective from 1 February 2018 the Non-Executive Chairman's fee was reduced from £200,000 to £130,000, and the Non-Executive Directors' fees were reduced from £50,000 to £40,000. The Senior Independent Director and Chair of Committee additional fees remained at the same level, £5,000 and £7,500 respectively.

### Gender pay gap

At the end of this financial year, we published the Company's first Gender Pay Gap Report. We were pleased to report that, when comparing equal pay within the same grades (e.g. males vs females in the same grade), we are performing very well and are considered a fair employer. When looking at the organisation as a whole – without the division of grades – a gender pay gap does exist due to the demographic make-up of our workforce. We are committed to reducing our 'demographic pay gap' and have a plan in place with a number of activities already under way.

There is more detailed information about our demographic pay gap and the work we are doing to reduce it in the full report, available on the Company's website at www.mothercareplc.com.

### Looking ahead

For FY2019, our priority is to substantially strengthen the financial position of the Group and restore shareholders', lenders', partners', employees' and customers' confidence in the Group. The Committee will continue to show restraint in its remuneration decisions to reflect the financial circumstances the Group is facing.

### Conclusion

As outlined in this statement, the Committee has exercised its discretion and applied restraint in a number of areas to ensure that remuneration decisions were and will continue to be reflective of the financial circumstances the Group is facing.

We also continue to have regular dialogue with all stakeholders including productive discussions with ISS, IA and Glass Lewis in early 2018. When drafting the Remuneration Report the Committee also ensured it complied with the principles of openness and transparency expected by shareholders and their advisory bodies. If you have questions about any aspect of the Directors' Remuneration Report, please contact me.

The Committee looks forward to receiving a positive advisory vote on the Remuneration Report and Chair's statement at the AGM on 19 July 2018.

Yours sincerely,

**Tea Colaianni**
Chair of the Remuneration Committee

17 May 2018



## 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.

## AT A GLANCE

### Key financial highlights for FY2018

| | |
|---|---|
| Worldwide sales[1] | £1,163m (4.8)% |
| Group sales | £654m (1.9)% |
| Adjusted profit[2] | £2.3m (88.4)% |
| Statutory loss | £(72.8)m (1,125.3)% |

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

2 Adjusted profit before tax excludes adjusted items as detailed on page 21 of the financial review

### Total Remuneration for Executive Directors

| | Salary £'000 | Benefits £'000 | Pension £'000 | Bonus £'000 | LTIP £'000 | Total 2018 £'000 | Total 2017 £'000 |
|---|---|---|---|---|---|---|---|
| Mark Newton-Jones[1] | 618 | 13 | 96 | – | – | 727 | 718 |
| Richard Smothers[2] | 248 | 7 | 37 | – | – | 292 | 420 |
| Glyn Hughes[3] | 91 | 4 | 14 | – | – | 109 | – |

1 Mark Newton-Jones received an overpayment of £2,915 of his pension supplement in error. This is being recovered during FY2019.

2 Richard Smothers ceased to be a director on 1 December 2017. His salary, benefits and pension represent the actual amounts paid during the financial year. He was not eligible for a bonus payment and his long term incentive awards lapsed on departure.

3 Glyn Hughes became an Executive Director on 1 December 2017. His salary, benefits and pension represent the actual amounts paid during the financial year.

For more detail see page 59

**Annual bonus plan – targets and outcomes**

| | Maximum (% of salary) | Achievement (% of maximum) | | | Pay-out (£'000) |
|---|---|---|---|---|---|
| | | Group PBT (50%) | Financially based strategic measures (20%) | Non-financial strategic measures (30%) | |
| Mark Newton-Jones | 125% | 0% | 16% | 15% | £0 |
| Richard Smothers[1] | 125% | Not eligible | | | |
| Glyn Hughes | 125% | 0% | 16% | 15% | £0 |

1 Richard Smothers ceased to be a director on 1 December 2017 and in line with the terms of the Remuneration Policy was not eligible for a bonus payment

Based on a purely formulaic calculation of certain specific targets under the STIP for FY2018, annual bonuses would have been £239,522 and £38,104 respectively for Mark Newton-Jones and Glyn Hughes. The Committee decided after careful consideration that in light of the significant decrease in the Group's adjusted PBT, the significant increase in the Group's statutory losses, the severe decline in shareholder value over FY2018, the cash constraints being experienced by the Group and its overall strained financial situation, it should exercise its discretion in line with the rules of the STIP to reduce any bonus awards for which the Executive Directors might have been eligible to zero. For more detail see page 60

**Long-term incentives**

The LTIP and VCP awards for Mark Newton-Jones and Richard Smothers lapsed when notice was given.

# Annual report on remuneration

This section reports on the activities of the Remuneration Committee for the financial year ended 24 March 2018. It sets out the details of 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) Regulations 2008 ("the Regulations") as amended in August 2013. The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the Annual General Meeting on 19 July 2018.


- Remuneration in FY2018: page 59
- Audited section: page 59
- Remuneration in FY2019: page 68


**Remuneration in FY2018**

**Composition, remit and activity of the Remuneration Committee**

The Remuneration Committee currently comprises three independent Non-Executive Directors; Tea Colaianni (Remuneration Committee Chair), Richard Rivers and Lee Ginsberg. The former Company Chairman Alan Parker was also a member of the Remuneration Committee until 20 March 2018. Following feedback from ISS regarding membership of the Committee, the Committee decided that going forward the Company Chairman would no longer be a member of the Remuneration Committee and will only attend Remuneration Committee meetings as and when invited by the Remuneration Committee Chair.

The General Counsel and 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 member level, 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 six meetings during the year. Each member's attendance at the meetings is set out on page 43 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 financial year:

| | Duties | Action |
|---|---|---|
| **Strategy and policy** | To set the remuneration policy for all Executive Directors and the Company Chairman and senior management.<br>To ensure compliance with the Remuneration Policy. | A new Directors' Remuneration Policy was approved at a General Meeting on 31 July 2017. The Policy took effect for a period of up to three years from this date. It was developed taking into account the principles of the UK Corporate Governance Code 2016, and the latest guidelines from investor groups. |
| **Recruitment** | | Glyn Hughes and David Wood were appointed as Executive Directors on 1 December 2017 and 4 April 2018 respectively. The Committee approved their remuneration package in line with the Policy.<br>Clive Whiley was appointed Interim Executive Chairman and Chief Restructuring Officer on 19 April 2018. The Committee approved Clive's remuneration package in line with the Policy.<br>Executive Committee: approved remuneration packages for new appointees in year (General Counsel and Group Company Secretary). |
| **Salary** | To recommend to the Board the remuneration for all Executive Directors, the Chairman and the Company Secretary, and consider the levels and structure of remuneration for Executive Committee members and other members of senior management.<br>Approval of any pay awards to the Executive Directors or Executive Committee. | In line with the Remuneration Policy an annual review of salaries was undertaken in March 2018.<br>No change was applied to Mark Newton-Jones' salary.<br>No change was applied to Glyn Hughes' salary beyond the implementation of the review already agreed and included in his offer letter. An increase from his current salary of £295,000 to £325,000 will become effective on 1 September 2018 subject to performance and acquisition of additional responsibilities in the intervening period and will be reviewed again in March 2019.<br>No salary increases were made for the Executive Committee in March 2018.<br>In addition, the Committee considered the general staff pay review. It supported the increase of the mothercare minimum wage to £8.00/hour with effect from 25 March 2018 which means the Company continues to pay above the national living wage. |
| **Annual bonus – STIP** | To determine targets and monitor performance against those targets for any performance-related pay schemes operated by the Company, and approve the total annual payments made under such schemes. | Approved the full year FY2018 targets and weightings for Mark Newton-Jones and Richard Smothers.<br>Approved part-year FY2018 targets and weightings for Glyn Hughes on his appointment to CFO in December 2017.<br>Applied discretion to reduce the FY2018 bonus to £nil as reported on page 56.<br>Approved FY2018 annual bonus plan offered to Executive Committee and other employees.<br>As reported on page 56 the Committee exercised its discretion to reduce any bonus awards for which the Executive Directors might have been eligible to zero and no employees of the Group received any annual bonus for FY2018. |

| | Duties | Action |
|---|---|---|
| **Long term incentives** | To review the design of all share incentive plans for approval by the Board and shareholders.<br>For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and other designated senior executives and the performance targets to be used. | A new long-term incentive plan – the Value Creation Plan (VCP) - was approved at a General Meeting on 31 July 2017.<br>Approved one-off grant of the VCP award in August 2017 for the CEO and three members of the Executive Committee and in September 2017 for the CFO Designate prior to his appointment as an Executive Director.<br>Assessment of vesting of the PBT element of LTIP 3.<br>Assessment of vesting of the TSR element of LTIP 4. |
| **Benefits** | To recommend to the Board the remuneration for all Executive Directors, the Chairman and the Company Secretary, and consider the levels and structure of remuneration for Executive Committee members and other members of senior management. | No changes made to Executive Director or Executive Committee benefits during the year. The Committee reviewed pensions changes that the Company introduced to ensure auto-enrolment legal compliance. |



### Single total figure remuneration table (audited)

The table below shows the single total figure remuneration for qualifying services in FY2018 with comparative figures for FY2017.

| | Salary and fees | | Benefits | | Pension | | Annual bonus | | Long Term Incentives[3] | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Director | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| **Executive** | | | | | | | | | | | | | | |
| Mark Newton-Jones | 618 | 612 | 13 | 14 | 96[5] | 92 | 0 | 0 | 0 | 0 | 0 | 0 | 727 | 718 |
| Richard Smothers[1] | 248 | 355 | 7 | 12 | 37 | 53 | 0 | 0 | 0 | 0 | 0 | 0 | 292 | 420 |
| Glyn Hughes[2] | 91 | – | 4 | – | 14 | – | 0 | 0 | 0 | 0 | 0 | 0 | 109 | – |
| **Non Executive**[4] | | | | | | | | | | | | | | |
| Alan Parker | 188 | 200 | 0 | 1 | | | | | | | | | 188 | 201 |
| Lee Ginsberg | 56 | 58 | 0 | 1 | | | | | | | | | 56 | 59 |
| Richard Rivers | 53 | 55 | 0 | 3 | | | | | | | | | 53 | 58 |
| Nick Wharton | 48 | 50 | 2 | 3 | | | | | | | | | 50 | 53 |
| Tea Colaianni | 56 | 26 | 1 | 2 | | | | | | | | | 57 | 28 |
| Gillian Kent | 48 | 1 | 0 | 0 | | | | | | | | | 48 | 1 |

1 Richard Smothers ceased to be a director on 1 December 2017. His salary, benefits and pension represent the actual amounts paid during the financial year. In line with the terms of the Remuneration Policy he was not eligible for a bonus payment.

2 Glyn Hughes became an Executive Director on 1 December 2017. His salary, benefits and pension represent the actual amounts paid during the financial year.

3 LTIP and VCP awards for Mark Newton-Jones and Richard Smothers lapsed on notice being given. Glyn Hughes did not have any long-term incentives eligible for vesting for the FY2018 performance year.

4 The Non-Executive Directors' fees were reduced during the year as set out below.

5 Mark Newton-Jones received an overpayment of £2,915 of his pension supplement in error. This is being recovered during FY2019.

### Executive Director base salary (auditable)

At the start of FY2018, both Mark Newton-Jones and Richard Smothers received a 1% salary increase.

Glyn Hughes was appointed on 1 December 2017 and his annual salary was set at £295,000.

### Non-Executive Director fees (audited)

To reflect the Company's current size and market capitalisation, during the year the independent Chairman and Non-Executive Directors offered to reduce their fees. This offer was accepted by the Company and fees were reduced on 1 February 2018. Further information is available on page 69.

# Annual report on remuneration
continued

### Taxable benefits (audited)

Benefits for Executive Directors typically include a Company car, medical insurance and other similar benefits. For Non-Executive Directors, reimbursement of certain expenses relating to the performance of such 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 ensures that the director is not out of pocket by settling the related tax via a PAYE Settlement Agreement (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 59.

### Total pension entitlements (audited)

Base salary is the only element of remuneration used to determine pensionable earnings. During the year, Mark Newton-Jones, Richard Smothers and Glyn Hughes received 15% of their base salary as a pension contribution from the Company. Mark Newton-Jones and Richard Smothers did not, and Glyn Hughes does not, have an entitlement to a defined benefit pension as the scheme closed to future accrual on 30 March 2013.

### Annual Bonus Plan (audited)

In the table below, we summarise the achievement of each performance measure.

| | Maximum (% of salary) | Achievement (% of maximum) Group PBT | Financially based strategic measures | Non-financial strategic measures | Pay-out (£'000) |
|---|---|---|---|---|---|
| Mark Newton-Jones | 125% | 0% | 16% | 15% | £0 |
| Richard Smothers[1] | 125% | | Not eligible | | |
| Glyn Hughes | 125% | 0% | 16% | 15% | £0 |

1 Richard Smothers ceased to be a director on 1 December 2017 and in line with the terms of the Remuneration Policy was not eligible for a bonus payment.

Based on a purely formulaic calculation of certain specific targets under the STIP for FY2018, annual bonuses would have been £239,522 and £38,104 respectively for Mark Newton-Jones and Glyn Hughes. However, the PBT component of the STIP FY2018 was not achieved and although some individual strategic financial and non-financial objectives were achieved by the Executive Directors, the Committee decided after careful consideration that, in light of the material decrease in the Group's adjusted PBT, the significant increase in the Group's statutory losses, the severe decline in shareholder value over FY2018, the cash constraints being experienced by the Group and its overall strained financial situation, it should exercise its discretion in line with the rules of the STIP to reduce any annual bonus awards for which the Executive Directors might have been eligible to £nil.

Despite the Remuneration Committee exercising its discretion in this way, in line with best practice disclosure, we provide a breakdown of the assessment of performance for each element of the award below.

It should be noted that each of the elements of the award operate independently of each other, for example the financial strategic objectives can vest without the Group PBT objective being met and vice versa. It should also be noted that the financial strategic objectives and non-financial strategic objectives comprise of multiple measures and each individual measure can also vest independently of other measures. Each financial strategic and non-financial strategic measure vests on an all or nothing basis and there is no payment for partial achievement of a measure.

Group PBT objective (50% of total award) for FY2018

| | Weighting of total award (%) | Targets (£m) Threshold | Target | Maximum | Achievement £m | Assessment |
|---|---|---|---|---|---|---|
| Group PBT | 50% | 19.7 | 24.5 | 31.5 | £2.3m | Not met therefore nil pay-out under this element |

Financial strategic objectives (20% of total award) for FY2018 - these objectives were shared by both the CEO and the CFO in the year.

| Measure | Weighting of total award (%) | Target | Achievement (%) | Assessment |
|---|---|---|---|---|
| Central cost reduction | 4% | Head office cost reduction to £51m | 100% | £3.5m of savings achieved. |
| Stores portfolio management | 4% | 17 closures, 12 refurbishments, 1 relocation and 1 opening | 100% | Store closures/ openings/ relocations and refurbishments targets were met. |
| Digital sales mix | 4% | Increase digital sales mix to 43% | 100% | Digital sales mix at year end of 43.4%. |
| Stock cover reduction | 4% | Reduce stock total to £95m | 100% | Reduction in total group stock to £87m. |
| Cash management | 4% | Manage net debt to £30m | 0% | Net debt at year-end did not meet the target of £30m. |



Non-financial strategic objectives (30% of total award) for FY2018 - the non-financial strategic objectives were set individually for the CEO and CFO and the tables below outline each Executive Director's targets.

Mark Newton-Jones

| Measure | Weighting of total award (%) | Achievement (%) | Assessment |
|---|---|---|---|
| Design and implement new organisation structure and operating model including recruitment of key executives | 5% | 0% | New structure was developed, however not all key roles were filled. |
| Obtain shareholder and colleague "buy in" for next phase of business transformation | 5% | 100% | Feedback received from investors and colleagues was positive. |
| Commercially sensitive[1] | 5% | 0% | The targets were not met. |
| China JV to be restructured | 5% | 100% | China JV plan was agreed and executed within the year. |
| Further develop the international footprint | 5% | 100% | New routes to foreign markets opened. These new routes delivered strong financial results. |
| Define the digital systems roadmap | 5% | 0% | Not delivered. |

1 The Committee considers that this measure remains commercially sensitive as disclosure could give a competitive advantage to the Company's peers. The Committee is therefore of the view that retrospective disclosure is not possible this year or in future years.

Glyn Hughes

| Measure | Weighting of total award (%) | Achievement (%) | Assessment |
|---|---|---|---|
| Develop a robust forecasting and budget process for this year improving accuracy and the ability to guide the business and inform the market. | 7.5% | 100% | Robust cash and budget forecasting process embedded. |
| Commercially sensitive[1] | 7.5% | 0% | The targets were not met. |
| China JV to be restructured. | 7.5% | 100% | China JV plan was agreed and executed within the year. |
| Define the digital systems roadmap. | 7.5% | 0% | Not delivered. |

1 The Committee considers that this measure remains commercially sensitive as disclosure could give a competitive advantage to the Company's peers. The Committee is therefore of the view that retrospective disclosure is not possible this year or in future years.

The Committee remains committed to transparent reporting in all aspects within the framework of operating in a highly competitive international market. The Committee will continue to assess the commercial sensitivity of measures and targets with the aim of disclosing wherever possible.

The Executive Directors' FY2018 maximum bonus opportunity was 125% of base salary (the same as in FY2017). In line with the Remuneration Policy up to 100% of salary is payable in cash. Any bonus payable in excess of this is delivered in shares vesting after three years subject to continued employment. There was no payment of annual bonus for FY2018 and so there was no deferral.

# Annual report on remuneration
continued

**Long term incentive plans (audited)**

LTIP 3

The LTIP 3 award made in December 2014 was tested in relation to share price at the end of FY2017 and the target was not met. Consequently, there was £nil vesting under this element as reflected in the single figure table. The Committee did not exercise any discretion in this regard. The Group PBT element was measured during FY2018 and the target was not met resulting in £nil vesting under this element of the award.

| Measure | Weighting (% of total award) | Threshold[1] (25% vesting) | Maximum[1] (100% vesting) | Outcome | Vesting of this element |
|---|---|---|---|---|---|
| Share price | 50% | £2.50 | £3.70 | Targets were assessed in prior financial year and not met resulting in nil vesting of this element | |
| Group PBT | 50% | £40m | £55m | Below threshold | 0% |

1 Straight line vesting between threshold and maximum

The LTIP 3 awards for Mark Newton-Jones and Richard Smothers lapsed when they ceased to be a Director of the Company.

LTIP 4

The LTIP 4 award granted in June 2015 was tested in relation to the relative TSR position at the end of FY2018 and the threshold target was not met. Consequently, there was nil vesting under this element as reflected in the single figure table. The Committee did not exercise any discretion in this regard. The Group PBT element will be measured when the FY2019 financial results are announced.

| Measure | Weighting (% of total award) | Threshold[1] (25% vesting) | Maximum[1] (100% vesting) | Outcome | Vesting of this element |
|---|---|---|---|---|---|
| Relative TSR against FTSE All Share Retailers | 50% | Median | Upper quartile | Below median | 0% |
| Group PBT | 50% | £55m | £70m | To be assessed at the end of FY2019 | |

1 Straight line vesting between threshold and maximum

The LTIP 4 awards for Mark Newton-Jones and Richard Smothers lapsed when they ceased to be a Director of the Company.

LTIP 5

The LTIP 5 award granted in August 2015 is subject to two performance measures - an underlying EPS growth target, which accounts for 50% of the award and relative TSR which accounts for the balance. Both will be assessed at the end of FY2020. 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. There are no Executive Directors currently participating in this plan.

**VCP awarded during FY2018**

In FY2018 following approval at the General Meeting, a one-off award under a new 5-year VCP was granted in place of future annual awards under the LTIP.

| VCP parameter | Proposed implementation |
|---|---|
| **Hurdle** | Share price of £2.00<br>• This is adjusted for any dividends paid<br>• This ensures management are only rewarded once shareholders have seen significant returns on the current share price |
| **Performance & holding period** | Overall 5-year period:<br>• 3-year performance period to 28 March 2020 – this is aligned to the period over which the strategy will be delivered<br>• 2-year phased holding period - one-third of the award will be exercisable immediately after 3 years, one-third after 4 years and one-third after 5 years |
| **Participation pool / value delivered** | If hurdle of £2.00 is achieved at the end of the 3-year period, award delivers 12.5% of growth in value above £1.50 |
| **Measurement and value delivered** | If share price adjusted for dividends at end of 3 years is at least £2.00, award delivers 12.5% of growth in value above £1.50 |
| **Award limit** | Dilution capped at 5% of issued share capital over 5 years for all plans |

Mark Newton-Jones was granted an award under the VCP of 4.375% (35% of the total 12.5% pool) of the value created above a starting share price of £1.50 if a hurdle share price of £2.00 is met up to a maximum of 4.5 million shares. However, his entitlement lapsed on 4 April 2018.

On his appointment as CFO Designate prior to his appointment as an Executive Director, Glyn Hughes was granted an award under the VCP of 1.75% (14% of the total 12.5% pool) of the value created above a starting share price of £1.50 if a hurdle share price of £2.00 is met up to a maximum of 1.8 million shares.

At the current share price, it is projected that no vesting will occur under the VCP.

**Payments to past directors (audited)**

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

**Payments for loss of office (audited)**

Richard Smothers left the Company on 1 December 2017. No further payments in respect of salary or benefits are due to him. Richard's annual bonus award and outstanding LTIP awards lapsed on his leaving the Company. As such, there were no payments for loss of office during FY2018.

Mark Newton-Jones stepped down from his position as the Company's CEO on 4 April 2018. Under his service agreement Mark will continue to receive salary and benefits until the expiry of his notice period on 3 April 2019. Mark's eligibility to be considered for a bonus for FY2019, outstanding LTIP awards and VCP award lapsed on 4 April 2018.

Alan Parker retired from the Board on 19 April 2018. Under his contract Alan will continue to receive fees from 19 April 2018 until the end of his notice period on 18 October 2018.

**Other directorships**

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 at Pockit Limited. Mark Newton-Jones received €70,000 in respect of his appointment at INGKA Holding B.V. There are no other fees received in relation to his external appointments.

At the time of leaving, Richard Smothers was a member of the Finance Committee, University College London and Treasurer and Audit and Risk Chair Trustee at NCT. He received no fees in relation to these appointments.

Glyn Hughes holds no external directorships.

**Statement of shareholding and share interests (audited)**

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. There is currently no requirement for the Interim Executive Chairman and Chief Restructuring Officer to build up a shareholding in the Company.

The Executive Directors are committed to building up their shareholding in mothercare.

Since his appointment to the role of CFO Glyn Hughes has purchased 123,799 shares at 71p and 46p per share representing 25.2% of his gross salary at the time of purchase.

The levels of share ownership as at 24 March 2018 are shown below:

| | | | Shares held directly Other | | Shares | | Options | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Director | Shareholding requirement (% salary)[2] | Current shareholding (% salary)[3] | Legally owned as at 24 March 2018 | Legally owned as at 25 March 2017 | 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[1] | 150% | 30% | 733,576 | 268,972 | – | 31,545 | – | 2,417,756 | 20,000 | No |
| Richard Smothers[1] | | | 96,524 | 96,524 | | | | | | |
| Glyn Hughes | 100% | 11% | 123,799 | – | – | – | – | | | No |
| **Non-Executive Directors** | | | | | | | | | | |
| Alan Parker | n/a | n/a | 562,428 | 462,428 | 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 | 210,869 | 78,869 | n/a | n/a | n/a | n/a | n/a | n/a |
| Nick Wharton[4] | 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 | 40,000 | – | 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 |

1 Holding as at date of ceasing to be a director

2 Executive Director shareholding must be built up within five years of joining the Company

3 Shareholding percentage was calculated by reference to the average mid-market quoted share price over the 30 days to the balance sheet date

4 Nick Wharton's interest is held by his spouse, a person closely associated

There were no movements in the shareholding of current directors since the year end and the date of finalising this report.

The outstanding awards as at 24 March 2018 under the LTIP, deferred annual bonuses and SAYE are set out in the table below.

| Director | Plan | Date of award | Number of awards at 25.03.17 | Awards granted | Awards vested | Awards lapsed | Number of awards at 24.03.18 | Exercise price | Date at which award vests | Expiry date of awards |
|---|---|---|---|---|---|---|---|---|---|---|
| Mark Newton-Jones | SAYE | 22.12.16 | 20,000 | – | – | | 20,000 | 90p | 01.03.20 | 30.08.20 |
| | LTIP 3 | 12.12.14 | 989,011 | – | – | – | 989,011 | Nil | 50% end FY17*<br>50% end FY18* | 12.12.24 |
| | LTIP 4 | 03.06.15 | 522,079 | – | – | – | 522,079 | Nil | 50% end FY18*<br>50% end FY19* | 03.06.25 |
| | LTIP 5 | 08.08.16 | 906,666 | – | – | – | 906,666 | Nil | 50% end FY19*<br>50% end FY20 | 08.08.26 |
| | 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*<br>50% end FY18* | 23.03.25 |
| | LTIP 4 | 03.06.15 | 258,864 | – | – | 258,864 | – | Nil | 50% end FY18*<br>50% end FY19* | 03.06.25 |
| | LTIP 5 | 08.08.16 | 460,185 | – | – | 460,185 | – | Nil | 50% end FY19*<br>50% end FY20 | 08.08.26 |
| | Annual Bonus | – | – | – | – | – | – | – | – | – |
| Glyn Hughes[1] | SAYE | – | – | – | – | – | – | – | – | – |
| | Annual Bonus | – | – | – | – | – | – | – | – | – |

The table above shows the maximum number of shares that could have been released if awards were to vest in full. However, all outstanding awards in this table have lapsed in line with the plan rules.

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

1 On his appointment as CFO Designate, Glyn Hughes was granted an award under the VCP of 1.75% (14% of the total 12.5% pool) of the value created above a starting share price of £1.50 if a hurdle share price of £2.00 is met up to a maximum of 1.8million shares.

### Mothercare Employees' Share Trustee Limited

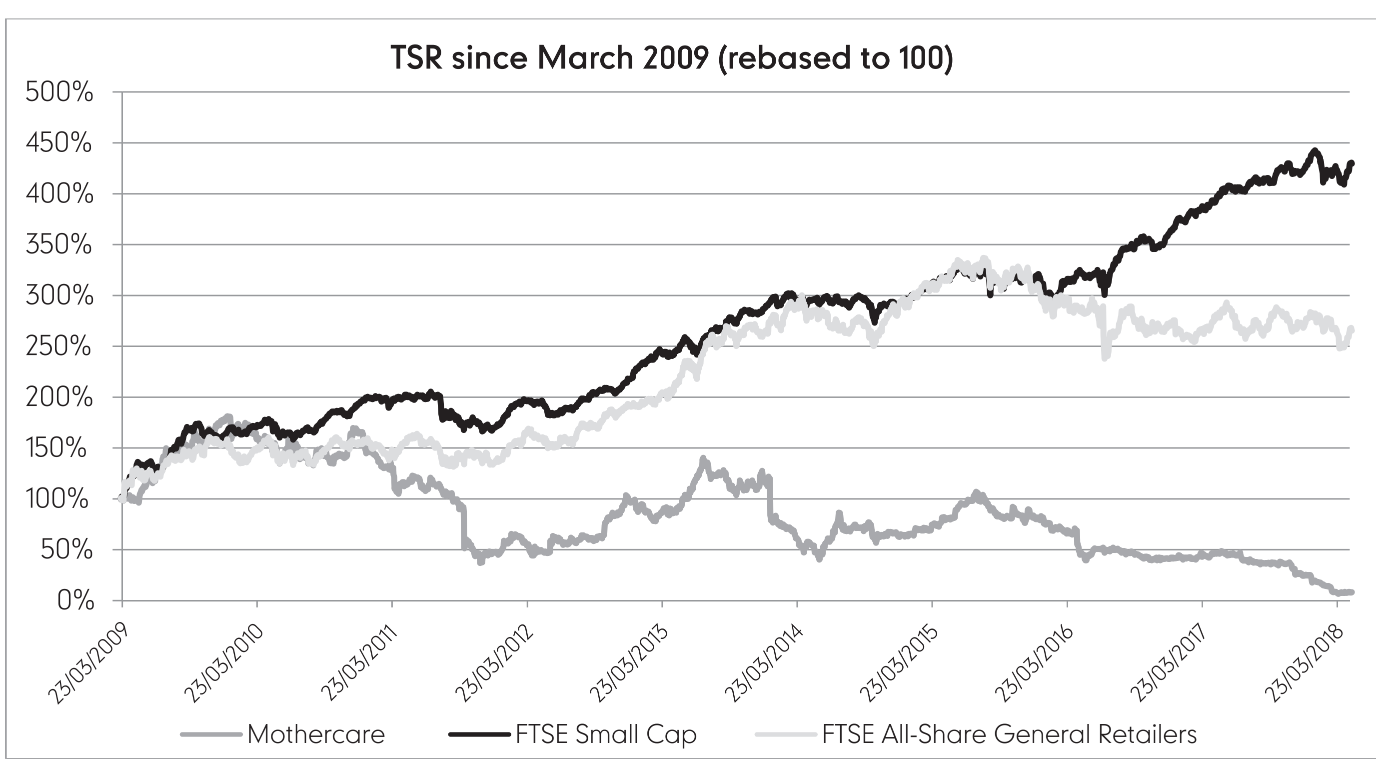
The Mothercare Employees' Share Trustee Limited, held 5,986 Mothercare plc shares in trust on 24 March 2018 (25 March 2017: 5,986 shares). A separate trust, the Mothercare Employee Trust, held 1,013,707 shares on 24 March 2018 (25 March 2017: 1,068,687 shares).

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.

### Performance graph

The performance graph below shows the Group's TSR against the return achieved by the FTSE SmallCap index. Given the Company's share price and market capitalisation, the Committee believes that the FTSE SmallCap now represents the most appropriate index for comparison.

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 nine financial years to 24 March 2018.




### CEO remuneration table

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

| Year | CEO | CEO single figure of total remuneration (£'000s) | Annual bonus pay-out against maximum (%) | Long term incentive vesting rates against maximum opportunity (%) |
|---|---|---|---|---|
| 2018 | Mark Newton-Jones | 727 | 0% | 0% |
| 2017 | Mark Newton-Jones | 718 | 0% | 0% |
| 2016 | Mark Newton-Jones | 814 | 0% | 0%[1] |
| 2015 | Mark Newton-Jones | 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 FY2017 and accounted for 50% of the total award.

2 Mark Newton-Jones had no LTIPs eligible to vest in FY2016, FY2015 and the FY2018 VCP award, along with all outstanding LTIP and STIP awards lapsed in accordance with the plan rules following notice being given.

Mark Newton-Jones was appointed CEO on 17 July 2014 and stepped down from that position on 4 April 2018. 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 FY2017 and FY2018.

| | CEO | | | Average of salaried employees | | |
|---|---|---|---|---|---|---|
| | FY2018<br>£ | FY2017<br>£ | % Change | FY2018<br>£ | FY2017<br>£ | % Change |
| Base Salary p.a. | 618,000 | 612,000 | 1% | 39,148 | 37,624 | 4%[1] |
| All taxable benefits[2] | 12,928 | 14,048 | -8% | 6,073 | 3,051 | 99% |
| Annual Bonuses | – | – | n/a | – | – | n/a |

(1) Average salary excludes hourly paid employees due to the variability in the hours they work and includes salaries for part-time employees.

(2) Mark Newton-Jones's taxable benefits are actual spend and include car allowance and medical.

### Relative importance of spend on pay

The following table sets out the percentage change in dividends and overall spend on pay in FY2018 compared to FY2017.

| | FY2018 | FY2017 | % Change |
|---|---|---|---|
| Dividend | Nil | Nil | 0 |
| Employee Remuneration | £72.2m | £78.2m | -7.6% |

Employee remuneration taken from Note 7 on page 107 and includes hourly paid employees.

### Advisors to the Committee

The Committee retains external suppliers to provide advice on specific topics during the year, some of whom 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, shareholder consultation and attendance at various Committee meetings. | £91,100 excluding VAT, calculated based on both hourly rates and fixed fee bases (FY2017 £63,050).<br><br>This year on year increase is due to support on the design and implementation of the new approved Policy and VCP. |

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 also provides certain other advice and non-audit services to the Group (including VAT advice). 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 General Meeting

The FY2017 Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy) was approved at the Annual General Meeting held on 31 July 2017. The revised Directors' Remuneration Policy and establishment of a long-term value creation plan (VCP) were approved at the General Meeting held on the same date. Having passed a binding vote at the General Meeting on 31 July 2017 the Policy is next subject to a binding vote in 2020.

The resolutions were passed on a show of hands at the meetings. The following proxy votes were received in advance.

| 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 (2017) | 131,438,419 | 89.16 | 15,973,700 | 10.84 | 147,412,119 | 53,537 | 0.04 |
| To approve the Directors' Remuneration Policy (2017) | 112,201,336 | 76.13 | 35,176,121 | 23.87 | 147,377,457 | 44,379 | 0.03 |
| To approve the establishment of a long-term value creation plan ("VCP") | 112,077,201 | 76.05 | 35,293,800 | 23.95 | 147,371,001 | 50,835 | 0.03 |

* 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 28 July 2017, the Company's issued share capital and total voting rights consisted of 170,867,830 ordinary shares each carrying voting rights. There are no shares in treasury. As a result, proxy votes representing approximately 86% of the voting capital were cast for both the AGM and the General Meeting.

Prior to the meetings the Committee sought to engage with shareholders as much as possible, consulting with 25 shareholders who made up of 85% of the Company's shareholding register. The Committee received positive feedback for the proposals. The Committee also made several changes to the policy as a result of this process, for example raising the hurdle price required for pay-out under the VCP and introducing a cap on the VCP pay-out.

Following the results of the General Meeting which saw the new Directors' Remuneration Policy receive a vote 'for' of 76.13%, the Committee discussed at length the result itself as well as the views of individual shareholders. The Committee felt that the results showed that shareholders were supportive of the proposals and considered this an endorsement of not only the proposals but also the Company's strategy. One-off awards under the VCP were subsequently made on 16 August 2017 to the CEO and three members of the Executive Committee and to the newly appointed CFO Designate in September 2017.

The Committee will continue to engage with shareholders and their advisory bodies on an ongoing basis as appropriate.

**Statement of implementation in FY2019**

**Executive Directors**

Base pay

Executive Director salaries are normally reviewed in March each year. In light of the Company's trading and profit position it was decided not to increase Mark Newton-Jones' salary. David Wood's salary will be reviewed again in March 2019.

On appointment to the Board, Glyn Hughes' base annual salary was set at £295,000 increasing to £325,000 on 1 September 2018 subject to satisfactory performance and taking on additional responsibilities in the intervening period. His salary will be reviewed again in March 2019 in line with the other Executive Directors.

| Job Title | Name | FY2018/19 | FY2017/18 | Increase |
|---|---|---|---|---|
| Interim Executive Chairman and CRO | Clive Whiley[1] | £480,000 | – | – |
| CEO | David Wood[2] | £430,000 | n/a | – |
| CEO | Mark Newton-Jones[3] | n/a | £618,120 | – |
| CFO | Glyn Hughes | £295,000 | £295,000[4] | 0% |

1 Clive Whiley was appointed as Interim Executive Chairman and Chief Restructuring Officer on 19 April 2018 for a period of a minimum of 9 months. The salary shown above represents his annual salary.

2 David Wood was appointed on 4 April 2018.

3 Mark Newton-Jones stepped down as CEO of the Company on 4 April 2018 and therefore an FY2019 salary is not shown above. He will be paid salary and benefits for the balance of his notice period to 3 April 2019.

4 With effect from 1 September 2018 Glyn Hughes' base salary will increase to £325,000 subject to performance in role and taking on of additional responsibilities in the intervening period.

Annual bonus (STIP)

The Interim Executive Chairman and Chief Restructuring Officer's FY2019 maximum bonus opportunity is 100%. The CEO and CFO's opportunity is 125% (the same as in FY2018). In line with the Remuneration Policy any award up to 100% of salary will be payable in cash. Any bonus payable in excess of this will be delivered in shares vesting after three years subject to continued employment.

The performance measures and weightings for the Interim Executive Chairman and Chief Restructuring Officer for FY2019 are outlined below.

| Measure | Weighting |
|---|---|
| Group PBT | 50% |
| Financially based strategic measures | 50% |

The performance measures and weightings for the CEO and CFO for FY2019 are outlined below:

| Measure | Weighting CEO | Weighting CFO |
|---|---|---|
| Group PBT | 50% minimum | 50% minimum |
| Financially based strategic measures | 20% | 30% |
| Non-financial strategic measures | 30% maximum | 20% maximum |

Due to the potential impact on our commercial interests, annual bonus targets are considered commercially sensitive and therefore will be disclosed in the FY2019 Remuneration Report following completion of the financial year.

Measures and targets will be set taking into account the Company's current financial position and the imperative to focus on the delivery of a successful plan to improve performance.

Long term incentive awards

No grants under the VCP will be made in FY2019.

Pensions and benefits

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

The Interim Executive Chairman and Chief Restructuring Officer is not entitled to any additional benefits from the Company.

#### The Non-Executive Chairman and Non-Executive Directors

In light of the Company's financial position, market capitalisation and size the Non-Executive Chairman and Non-Executive Directors offered to reduce their fees and the Company accepted. The reduction became effective from 1 February 2018 and these changes are detailed below. Expenses incurred are reimbursed in accordance with the normal business expense policy.

| Job Title | Name | FY2019 | FY2018 | Decrease | Notes |
|---|---|---|---|---|---|
| Chairman | Alan Parker | £130,000 | £200,000 | 35% | |
| NED | Richard Rivers | £45,000 | £55,000 | 18% | Includes supplementary fee of £5,000 as Senior Independent Director |
| NED | Lee Ginsberg | £47,500 | £57,500 | 17% | Includes supplementary fee of £7,500 as Chair of the Audit & Risk Committee |
| NED | Nick Wharton | £40,000 | £50,000 | 20% | |
| NED | Tea Colaianni | £47,500 | £57,500 | 17% | Includes supplementary fee of £7,500 as Chair of the Remuneration Committee |
| NED | Gillian Kent | £40,000 | £50,000 | 20% | |

1 Alan Parker retired from the Board on 19 April 2018. In line with his letter of appointment, he will continue to receive a fee until 18 October 2018.

Governance

## THE REMUNERATION POLICY REPORT

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


- Operation of the Remuneration Committee: page 69
- Remuneration Policy: page 70
- Incentive plan discretions: page 74
- Chairman and NED fees policy: page 75
- Service contracts: page 76
- Recruitment policy: page 75


The Remuneration Policy Report sets out the Remuneration Policy for Executive Directors. The Policy was approved at a General Meeting of the Company on 31 July 2017. As the Company is not seeking approval for a new Policy this year, in line with regulations an abbreviated Policy will be presented in this report. Details of the full policy can be found in the GM notice which can be found on the Company's website (www.mothercareplc.com).

## OPERATION OF THE 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 and were updated in 2017 following the appointment of the new Committee Chair.

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. The Committee is committed to full disclosure, including in relation to the performance measures (and the extent of their achievement) for the annual bonus provided that such measures are not commercially sensitive. 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 Policy for the Executive Directors, explaining how each element operates and how each part links to the corporate strategy.

### Key elements of remuneration

| 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** | Paid four-weekly in cash via payroll<br>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:<br>• an individual's experience, expertise or performance,<br>• changes to responsibilities during the year,<br>• average change in pay elsewhere in the workforce, and<br>• affordability and general market conditions.<br>Occasionally there may be a review of an individual's salary during the year in the event of material change.<br>No recovery or withholding applies to base salary. |
| **Maximum 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 & SmallCap 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 measures** | Executive Directors participate in the Company's annual performance management process.<br>Both individual and Company performance is taken into account when determining whether any salary increases are appropriate. |

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** | 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.<br>No recovery or withholding applies to pensions payments. |
| **Maximum opportunity** | Executive Directors are eligible for a Company contribution/cash supplement of up to 15% of base salary. |
| **Performance measures** | No performance metrics apply. |

**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** | 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.<br>Relocation and related benefits may be offered where a Director is required to relocate in line with Company policy.<br>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.<br>No recovery or withholding applies to benefits. |
| **Maximum 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 measures** | No performance metrics apply. |

**Annual Bonus**

| | |
|---|---|
| **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.<br>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** | 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.<br>Any bonus payable up to an amount equal to 100% of salary is payable in cash with the remainder deferred into shares for a further three years.<br>Dividend equivalents may accrue on deferred shares during the vesting period.<br>Malus and clawback provisions will apply in full to the annual bonus. |
| **Maximum opportunity** | The maximum bonus entitlement for Executive Directors is 125% of base salary.<br>At threshold levels of performance up to 25% of the bonus entitlement based on an appropriate mix of financial measures (e.g. PBT) will be payable. At target and stretch levels of performance up to 50% and 100% (respectively) of the bonus entitlement based on an appropriate mix of financial measures (e.g. PBT) will be payable.<br>A maximum of 20% of the bonus entitlement based on financially based strategic measures will be payable if these measures are achieved.<br>A maximum of 30% of the bonus entitlement based on non-financially based strategic measures will be payable if these measures are achieved. |

| | |
|---|---|
| **Performance measures** | The policy is for at least 50% of the bonus entitlement to be based on an appropriate mix of financial measures such as profit before tax, cash generation or net debt and an additional 20% of the bonus entitlement to be based on financially based strategic measures linked directly to the delivery of the second phase of the transformation. No more than 30% of the bonus entitlement will be linked to non-financial strategic measures linked to the turnaround strategy. These strategic measures shall include successful implementation of store closures, cost reduction, expansion of international footprint and for example further development of online penetration domestically and internationally. The targets set in relation to non-financial strategic measures will be similarly challenging to the range of financial targets set.<br>The Committee reviews all targets annually to ensure that they support the execution of the second phase of the transformation for the relevant financial year.<br>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. |

| Long-term incentive: VCP | |
|---|---|
| **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, execute the second phase of the transformation, deliver share price growth, grow the business profitably to achieve superior long-term share price growth over the performance period and support recruitment and retention. |
| **Operation** | The VCP will replace the LTIP for future awards for the duration of this Policy.<br>A single award was granted immediately following approval of the VCP at General Meeting with vesting dependent on the achievement of a hurdle share price (adjusted for dividends paid) of £2.00 at the end of the three-year performance period. Further awards may be made to new joiners during the performance period.<br>Awards vest early on a change of control or the occurrence of certain other corporate events provided that the offer price is no less than the hurdle share price of £2.00 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 pro-rating the award by time.<br>Two-thirds of any value earned under the VCP will be subject to a further two year holding period and will become exercisable at the end of FY2020/21 as to one-third and at the end of FY2021/22 as to the final third.<br>Awards will be made as nil-cost options over Company shares.<br>The Committee will have discretion to adjust the level of awards on vesting in the event that management does not successfully execute the second phase of the transformation and significant share price movement is derived exclusively from external factors outside of management's control (e.g. oil price, FX rates, and other circumstances).<br>Separate to this discretion, the awards will be subject to malus and clawback provisions. |
| **Maximum opportunity** | The total pool available under the VCP will be 12.5% of the total value created at the end of FY2019/20 above £1.50.<br>The CEO will be entitled to 35% of the pool and the CFO will be entitled to up to 17.5% of the pool.<br>The maximum number of shares that can be awarded to the CEO under the plan is 4.5 million shares.<br>The maximum number of shares that can be delivered under the plan is 12.9 million shares. There is a 5% dilution cap across all executive share plans and any shares required to satisfy awards in excess of this will be market purchased shares. |
| **Performance measures** | Absolute total shareholder return measure. Participants will only be entitled to share of value if the 90-day average share price of £2.00 (adjusted for any dividends paid) is met at the end of 2019/20. If this hurdle is not met, the awards will lapse.<br>Absolute total shareholder return has been selected for a number of reasons. Firstly, the Committee believes that a successful execution of the second phase of mothercare's transformation by management is the most likely route to deliver a sustainable recovery in the Company's share price. Secondly, focussing executives on a recovery in the Company's share price clearly aligns the interests of shareholders and management. Thirdly, absolute total shareholder return rewards executives for paying dividends, unlike other measures such as share price or market cap hurdles which exclude this. Fourthly, it is easy to communicate to both shareholders and participants, and also easy to explain on the basis of the value received by participants as a proportion of the value delivered to shareholders. Finally, absolute total shareholder return is the generally accepted measure currently used in the market, when considering recent VCPs implemented by FTSE all share companies. |

| Long-term incentive: LTIP | |
|---|---|
| **Purpose and link to strategy** | Had the VCP not been approved then the Committee would have granted awards under the existing LTIP. |
| **Operation** | Following approval of the VCP by shareholders a grant was subsequently made and, therefore no further awards will be made under the LTIP to Executive Directors.<br>The LTIP allowed for annual grants of awards (usually in the form of nil-cost options) depending on certain performance conditions.<br>Three annual awards have been granted over the past three years, referred to as LTIP3 (granted in FY2014/15), LTIP 4 (granted in FY2015/16) and LTIP 5 (granted in FY2016/17) with vesting dependent on the achievement of stretching performance targets and continued employment over a three to four-year performance period.<br>Awards may vest early on a change of control or the occurrence of certain other corporate events. In such cases the proportion of awards vesting would be determined by the Committee, taking into account the level of satisfaction of the performance conditions and (at its discretion) pro rating the award by time.<br>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.<br>The Committee also 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.<br>Malus and clawback provisions set out below apply to the LTIP awards LTIP 4 and LTIP 5. |
| **Maximum opportunity** | Up to 300% of salary may be awarded in certain circumstances, such as recruitment of an Executive Director, although the normal policy maximum is 200% of salary for the CEO and 175% of salary for the CFO. |
| **Performance measures** | The Committee has the discretion to set different performance conditions, including performance measures and weightings, for each year by way of future award. Previous awards have measured profit measures including Group PBT and EPS and share price measures including absolute share price and relative TSR. |

| All Employee Share Plan (SAYE) | |
|---|---|
| **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** | The SAYE is the only current all employee scheme and has standard terms under which all UK employees including Executive Directors may participate.<br>Executive Directors may be eligible to participate in any other HMRC approved all employee share plans which the Company may adopt.<br>No recovery or withholding applies. |
| **Maximum opportunity** | All eligible employees can save up to the HMRC limits applying over a three-year savings period. |
| **Performance measures** | No performance metrics apply. |

| 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** | 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.<br>75% of vested LTIP awards (after sale of shares to cover associated personal tax liabilities) must be retained until the guideline is met.<br>The Committee has discretion to extend the period for meeting the requirement, where, for example, there have been low or no bonus and LTIP pay-outs, the share price has moved significantly but there has been a clear pattern of an individual building up their personal shareholding.<br>All vested but unexercised nil-cost options will count towards the shareholding requirement.<br>No recovery or withholding applies. |
| **Maximum opportunity** | N/A |
| **Performance measures** | No performance metrics apply. |

### Incentive plan discretions

The Committee will operate the incentive plans the according to their respective rules, the policy set out above, and in accordance with the Listing Rules and HMRC rules where relevant. Copies of the Annual Bonus plan, VCP and LTIP rules are available on request from the 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), and
- Discretion in relation to all employee share plans would be exercised within the parameters of HMRC and UKLA Listing Rules.

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.

### Malus and Clawback

Malus and clawback provisions apply to the Annual Bonus, VCP and LTIP. 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 provisions apply to all cash and share awards granted in FY2016 and FY2017. The overall intention is that, except in exceptional circumstances, malus will apply before awards are paid or vest. Clawback will apply under the annual bonus scheme, for up to three years from when the cash payment is made, and malus will apply to any deferred shares (awarded at the same time as the cash payment) for the three year period of the deferral. Under the VCP clawback will apply for up to two years following the end of the three year performance period. Under the LTIP, clawback will continue to 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 | |

## CHAIRMAN AND NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

| Fees and benefits | |
|---|---|
| **Purpose and link to strategy** | To attract and retain Non-Executive Directors of appropriate calibre and experience. |
| **Operation** | The Chairman's fee is reviewed annually by the Committee (without the Chairman present).<br>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.<br>Remuneration is set taking account of the commitment and responsibilities of the relevant role.<br>No performance conditions apply.<br>No recovery or withholding applies. |
| **Maximum opportunity** | The Chairman receives a single fee to cover all his Board duties.<br>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.<br>Details of current fee levels are set out in the Annual Report on Remuneration. |



## RECRUITMENT POLICY

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

The remuneration package for a new director will therefore be set in accordance with the Company's Policy subject to approval and 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, being 125% of salary in the annual bonus plan and participation in the VCP.

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

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

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

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

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

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

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

## SERVICE CONTRACTS AND PAYMENT FOR LOSS OF OFFICE

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.

New Non-Executive Directors will be appointed through letters of appointment and fees set at a competitive market level and in line with the other existing Non-Executive Directors. Letters of appointment are normally for an initial term of three years followed by annual re-election at the Company's AGM and are subject to a notice period of one month by either party.

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 10.45am on the day of the General Meeting until the conclusion of the General Meeting.

| | DIRECTOR | DATE OF APPOINTMENT | NOTICE PERIOD |
|---|---|---|---|
| EXECUTIVE DIRECTORS | Clive Whiley | 19 April 2018 | 12 weeks[1] |
| | David Wood | 4 April 2018 | 12 months |
| | Glyn Hughes | 1 December 2017 | 12 months |
| | 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 |

1 Subject to a 9 month minimum term

### Leavers

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 an 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.

The definition of a good leaver is as follows:

- Cash and deferred elements of the Annual Bonus – a leaver by reason of:
  - death,
  - ill-health,
  - injury or disability,
  - redundancy,
  - retirement,
  - employing Company ceasing to be a Group Company,
  - transfer of employment to a Company which is not a Group Company, and/or
  - at the discretion of the Committee.
- VCP (during the performance period) – a leaver by reason of:
  - death;
  - ill-health;
  - injury or disability;
  - redundancy;
  - retirement;
  - employing Company ceasing to be a Group Company;

  - transfer of employment to a Company which is not a Group Company; and
  - at the discretion of the Committee.
- VCP (during the holding period) – an employee who gives notice during the two-year holding period and who has neither been dismissed for gross misconduct nor is in breach of contractual obligations; otherwise at the discretion of the Committee.
  - death,
  - ill-health,
  - injury or disability,
  - redundancy,
  - retirement,
  - employing Company ceasing to be a Group Company,
  - transfer of employment to a Company which is not a Group Company, and/or
  - at the discretion of the Committee.
- LTIP – a leaver by reason of:
  - death,
  - ill-health,
  - injury or disability,
  - redundancy,
  - retirement,
  - employing Company ceasing to be a Group Company,
  - transfer of employment to a Company which is not a Group Company, and/or
  - at the discretion of the Committee.

Cessation of employment in circumstances other than those set out above is cessation for "other reasons" (also known as bad leaver).

| Remuneration element | Treatment on Cessation of Employment |
|---|---|
| **General** | 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. |
| **Salary, Benefits and Pension** | 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. |
| **Cash bonus** | **Good leaver:**<br>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.<br>**Other reason:**<br>No bonus payable for year of cessation.<br>**Discretion:**<br>The Committee has the following elements of discretion to:<br>• determine that an Executive Director is a good leaver,<br>• 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, and<br>• determine whether to pro-rate the bonus to time and to test for performance. |

Governance

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|---|---|
| **Deferred share awards** | **Good leaver:**<br>All subsisting deferred share awards will vest,<br>**Other reason:**<br>Lapse of any unvested deferred share awards.<br>**Discretion:**<br>The Committee has the following elements of discretion to:<br>• determine that an Executive Director is a good leaver, and<br>• allow vesting of deferred shares at the end of the original deferral period or at the date of cessation. The Committee will make this determination depending on the reason resulting in the cessation. |
| **VCP** | **Good leaver:**<br>Leaver during three-year performance period - award is retained but pro-rated until cessation, exercisable under the normal schedule to the extent it vests.<br>Leaver during two year holding period post vesting – vested awards are exercisable in full under the normal schedule.<br>**Other reason:**<br>Leaver during three-year performance period – award is forfeited In full.<br>Leaver during two year holding period post vesting – unexercised vested award is forfeited.<br>**Discretion:**<br>The Committee has the following elements of discretion to:<br>• determine that an Executive Director is a good leaver, and<br>• allow award to be retained for leavers within the three-year performance period, pro-rated until cessation, exercisable under the normal schedule to the extent it vests. |
| **LTIP** | **Good leaver:**<br>Pro-rated for time and tested for performance in respect of each outstanding LTIP award, exercisable for up to six months following cessation (12 months following death).<br>**Other reason:**<br>Lapse of any unvested LTIP awards.<br>**Discretion:**<br>The Committee has the following elements of discretion to:<br>• determine that an Executive Director is a good leaver,<br>• measure performance over the original performance period or at the date of cessation. The Committee will make this determination depending on the type of good leaver reason resulting in the cessation,<br>• 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, and<br>• determine the length of period award holders have to exercise awards following the end of the performance period and when awards are to be released. 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. |
| **Other contractual obligations** | There are no other contractual provisions. |

## CONSIDERATION OF SHAREHOLDER VIEWS

The Committee engages pro-actively with the Company's major shareholders. For example, when any material changes are made to the Policy, the Committee Chair will consult with major shareholders in advance. During May 2017 the Chairman of the Company and the Chair of the Remuneration Committee consulted with 22 shareholders representing over 87% of the shareholder register and with the key shareholder advisory bodies: The Investment Association, Institutional Shareholder Services and Glass Lewis.

We are committed to continue our engagement with shareholders and their advisory bodies. The Committee recognises the greater attention placed on executive remuneration this year from both a political and corporate governance perspective. The Committee will continue to reflect in 2018 how best to implement the new reporting requirements placed on Companies from 2019.

## APPROVAL

This report was approved by the Board of Directors on 17 May 2018 and signed on its behalf by Tea Colaianni, Chair of the Remuneration Committee.

# Financial statements

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# 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 2018 and is signed on its behalf by:

**David Wood**
Chief Executive Officer

**Glyn Hughes**
Chief Financial Officer

# Independent auditor's report to the members of mothercare plc

## Report on the audit of the financial statements

### Opinion

**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 24 March 2018 and of the Group's loss 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 Financial Reporting Standard 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.**

We have audited the financial statements of Mothercare plc (the 'parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent Company balance sheets;
- the consolidated and parent Company statements of changes in equity;
- the consolidated cash flow statement;
- the related consolidated notes 1 to 31 and parent Company Notes 1 to 8.

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, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

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

We are independent of the group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent auditor's report to the members of mothercare plc continued

**Material uncertainty relating to going concern**

We draw attention to Note 1 in the financial statements, concerning the Group's ability to continue as a going concern. The Group incurred a loss before tax of £72.8 million during the 52 weeks ended 24 March 2018 and is in the process of undertaking a restructuring plan and refinancing plan, comprising new committed debt facilities, an underwritten equity issue and access to other sources of capital.

The Directors are of the view that upon the successful completion of the Company Voluntary Agreement ("CVA") and subsequent equity issue, the Group will have sufficient financing to deliver its transformation plan, with a significantly reduced store estate, supported by ongoing savings in store costs and a lower working capital requirement. The new management team, as set out in the CEO's statement are also focused on ensuring the broader cost base is appropriate for the size of the business. Specifically:

- The proposed UK Restructuring will involve an accelerated reduction of the UK store estate to reduce losses and rent liabilities and will be effected through the CVA Proposals. The CVA Proposals are only in respect of three of mothercare's UK subsidiaries and only relate to certain of mothercare's UK leasehold property estate and certain mothercare intra-group creditors.
- The CVA Proposals and supporting management actions, once completed, are expected to result in:
  - total store portfolio reducing to 78 stores by FY20 (73 in FY22) from 137 stores currently and including material rent reductions on 21 stores;
  - a stabilised financial performance through cost savings and/or eliminated losses;
  - a cash inflow from store closures and working capital initiatives; and
  - further cost savings as the business is streamlined.

The ongoing availability of the Group's existing bank loan arrangements is contingent on the CVA Proposals and subsequent equity issue. The Group has been working with its advisors to assess the financing options open to the Group; the key agreed facilities comprise:

- new bank loan for £50 million for 2 years, replacing the existing facility;
- current facility of £17.5 million, repayable on 30 November 2018;
- shareholder loan of £8 million to be converted into equity as part of the £36 million underwritten equity issue; and
- facilities of up to £10 million from a Franchise partner.

As noted above, the banking and other loan facilities are all subject to and linked to a successful CVA process and subsequent equity issue, which are subject to external approval which includes landlords, the Pensions Regulator, other creditors and shareholders respectively, which are outside the control of the Group and Company. Further details on the conditions attached to the above financing are set out in Note 1.

In response to this we:

- assessed the design and implementation of the controls in place to address this key audit matter;
- engaged in regular discussions with the directors on the status of their proposed restructuring and financing proposals, including a review of relevant agreements;
- obtained an understanding of the financing facilities, including the nature of facilities, repayment terms, covenants and attached conditions;
- challenged the appropriateness of management's forecasts by testing their mechanical accuracy, assessing historical forecasting accuracy and understanding management's consideration of downside sensitivity analysis;
- assessed the facility and covenant headroom calculations on both a base case scenario, and the directors' downside scenario;
- considered the consistency of management's forecasts with other areas of the audit, such as the impairment financial models and the forecasts underpinning the viability statement; and
- reviewed the wording of the going concern statement, including the material uncertainty, and assessed its consistency with management's forecasts.

As stated in Note 1, these events or conditions, along with the other matters as set forth in Note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

| Summary of our audit approach | |
|---|---|
| **Key audit matters** | The key audit matters that we identified in the current year were:<br>• Going concern assumption (see material uncertainty related to going concern section);<br>• Classification and presentation of adjusted items;<br>• Accuracy and completeness of the inventory obsolescence provision;<br>• Recognition of certain supplier funding arrangements;<br>• Impairment of UK store assets and associated onerous lease provisions; and<br>• Recoverability of deferred tax assets.<br>Within this report, any new key audit matters are identified with<br>and any key audit matters which are the same as the prior year identified with |
| **Materiality** | The materiality that we used for the group financial statements was £1.7 million which was determined on the basis of considering a number of different measures including revenue and the average adjusted profits of the Group for the periods 2015-2017. |
| **Scoping** | Full audit procedures were performed over 100% of the Group's net assets and revenue and 97% of the Group's loss before tax which includes the Hong Kong and India components. |
| **Significant changes in our approach** | This year we have included three new key audit matters. The appropriateness of the going concern assumption has been elevated to a key audit matter as a result of the Group's current period losses and uncertainty relating to the availability of finance facilities which are contingent on the Group's ability to complete a successful CVA and subsequent equity raise.<br>Impairment of fixtures and fittings and onerous lease provisions has been elevated to a key audit matter on the basis of the Group's forecasts and restructuring impacting the valuation of certain store assets and lease arrangements.<br>The recoverability of deferred tax assets has been elevated to a key audit matter due to the significant management judgement exercised in determining whether amounts are likely to be recoverable given the history of trading losses.<br>Following the conversion of the joint venture in China to a franchise agreement together with the establishment of a specific payment plan which is being adhered to, we no longer consider the recoverability of this debtor as a key audit matter. |



**Conclusions relating to principal risks and viability statement**

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 15 to 17 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 25 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; or
- the directors' explanation on page 25 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**Aside from the impact of the matters disclosed in the material uncertainty relating to going concern section, we confirm that we have nothing material to add or draw attention to in respect of these requirements**

# Independent auditor's report to the members of mothercare plc continued

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

**Classification and presentation of adjusted items**

**Key audit matter description**

The Group presents alternative performance measures to provide supplemental information to enable users of the financial statements to gain an understanding of the underlying trading results of the Group. Current year items relating principally to property rationalisation, restructuring costs, refinancing, amortisation and foreign exchange have been treated and disclosed as adjusting items, as detailed by management in Note 6. The total impact of these is to adjust the Group statutory consolidated loss for the period before tax of £72.8 million to an adjusted consolidated profit before tax for the period of £2.3 million.

The classification of items as adjusting is an area of judgement and the appropriateness and consistency of the presentation of adjusted measures of performance are attracting increased levels of scrutiny from financial reporting regulators. They could also present the opportunity for management bias in presentation, particularly in light of the pressures which the retail industry is currently facing.

Management has highlighted adjusted items as a critical accounting judgement in Note 3. Further information in respect of these items is included in Note 6. The Audit and Risk Committee report on page 44 also refers to adjusted items as one of the significant judgements considered by the Committee.

**How the scope of our audit responded to the key audit matter**

We evaluated the appropriateness of the adjustments made to the statutory loss before taxation to derive adjusted profit before tax. Our audit procedures included:

- challenging the appropriateness and classification of these items by testing a sample of these and agreeing them back to supporting documentation;
- assessing the completeness of any credits to adjusting items;
- considering the nature and scope of the charges related to property and restructuring and confirming the costs described as adjusting relate to activities identified in the group accounting policy;
- reviewing the related disclosure in the Group financial statements and assessing consistency with the prior period and current market best practice; and
- benchmarking the items which are excluded from the adjusted result measure against both peers and the European Securities and Markets Authority (ESMA) guidance and Financial Reporting Council (FRC) FAQs.

**Key observations**

We consider the rationale for classifying items as adjusting is consistent year on year and is in accordance with the group's accounting policy.

However, we highlighted to those charged with governance that the inclusion of certain of these items as adjusting is not in line with current market practice, particularly in respect of certain foreign exchange charges totaling £8.2 million. Management has enhanced its disclosure of these adjusting items to explain why they are appropriate for inclusion as adjusting items.

## Accuracy and completeness of the inventory obsolescence provision

**Key audit matter description**

At the year end the gross inventory balance is £92.0 million (2017: £108.4 million), less £5.0 million (2017: £6.4 million) obsolescence allowance against the carrying value.

The challenging retail environment means there is significant management judgement involved in determining the adequacy of the inventory obsolescence provision, in particular the provision percentages applied to reduced-to-clear and slow moving inventory lines. Given the high level of management judgement involved, we deemed this a potential fraud risk for our audit.

The Audit and Risk Committee report on page 44 also refers to inventory provisioning as one of the significant issues and judgements. Further information is included in Note 3b and Note 17.

**How the scope of our audit responded to the key audit matter**

We considered the methodology used to calculate the inventory provision. and assessed its consistency with prior periods.

We challenged the reasonableness of management's judgements and the assumptions used, specifically by assessing the provision percentages based on an evaluation of sales of reduced-to-clear inventory lines. For other lines we assessed the forecast sales demand in comparison to prior periods.

We assessed the integrity of the underlying calculation by checking the accuracy of the ageing of a sample of reduced-to-clear inventory items.

We also reviewed the level of inventory write offs in the year compared to the overall inventory provision.

We tested the completeness of the provision by assessing the net realisable value for a sample of stock lines.

**Key observations**

We consider the Group's provisioning policy to be appropriate and are satisfied the overall provision is appropriate.



## Recognition of certain supplier funding arrangements

**Key audit matter description**

The value recognised in relation to certain supplier funding arrangements (volume rebates and promotional funding) is significant in relation to the results for the period with the judgements applied giving rise to a risk of potential fraud and error. The Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers. Accrued income in respect of supplier rebates totals £3.4 million (2017: £4.5 million).

Volume rebates, in particular, require judgements to be made as to the quantum and timing of income recognised, which are dependent upon achieving pre-agreed purchasing targets over an extended period of time.

The Audit and Risk Committee report on page 44 also refers to supplier funding as one of the significant issues and judgements. Further information is included in Note 3a.

**How the scope of our audit responded to the key audit matter**

We assessed management's controls over the calculation of year end accrued income and rebate accruals. In addition we assessed the design and implementation of controls in respect of supplier funding and considered the adequacy of the disclosures in the financial statements.

We circularised a sample of suppliers to test whether the arrangements recorded are accurate and complete. Where responses were not received, we completed alternative procedures such as vouching amounts to signed supplier rebate forms.

We tested the completeness and accuracy of the inputs for recording supplier funding by agreement to supporting evidence, including volume data and promotion dates.

**Key observations**

We are satisfied that the recognition of supplier funding income is appropriate and is recorded in a manner consistent with the group's policy.

| Impairment of UK store assets and associated onerous lease provisions | |
|---|---|
| **Key audit matter description** | We consider the risk of store impairment has increased given the Group has incurred current period losses as a result of the ongoing challenging retail environment impacting the trading performance of UK stores in the year. UK store assets total £40.4 million (2017: £55.6 million); there is a risk that assets held in, and associated with, each store are not recoverable. Management has performed a full impairment assessment for all stores to determine if the carrying value of these UK assets is supported. As a result a total charge of £16.0 million has been recorded in respect of impairment provisions.<br>When a review for impairment is conducted the recoverable amount is determined based on value in use calculations which rely on the directors' assumptions and estimates of future trading performance.<br>The key assumptions applied by the directors in the impairment reviews are:<br>• cashflow forecasts in the context of the going concern review;<br>• future revenue growth;<br>• discount rates;<br>• gross margin; and<br>• store costs.<br>Associated onerous lease provisions total £37.5 million (2017: £7.2 million). The key assumptions in assessing the level of provision required are:<br>• the net present value of future store contributions;<br>• the fixed cost to lease expiry; and<br>• the estimated disposal costs.<br>In carrying out their review over the completeness of onerous lease provisions an additional charge of £33.8 million has been recorded in the year.<br>The Audit and Risk Committee report on page 44 also refers to this as one of the significant issues and judgements. Further information is included in Notes 3a and 3b and Notes 15 and 23. |
| **How the scope of our audit responded to the key audit matter** | UK store impairment<br>We considered the appropriateness of the methodology applied by the directors in calculating the impairment charges. In addition, we assessed the design and implementation of controls in respect of the impairment review process, and considered the adequacy of the disclosures in the financial statements.<br>We assessed the impairment models and calculations by:<br>• checking the mechanical accuracy of the impairment models;<br>• assessing the discount rate applied to the impairment reviews with support from our internal valuations specialist, and comparing the rates to our internal benchmarked data;<br>• comparing forecast growth rates to economic data; and<br>• evaluating the information included in the impairment models through our knowledge of the business gained through reviewing trading plans, strategic initiatives, meeting minutes and our retail industry knowledge.<br>Where stores were trading significantly below the original base case scenario, we considered the evidence available to support future improvements in performance by assessing trading plans and actions being taken on an individual store basis.<br>Onerous lease provisions<br>We considered the appropriateness of the methodology applied by the directors in calculating the onerous lease provision. In addition, we assessed the design and implementation of controls in respect of the onerous lease review process and considered the adequacy of the disclosures in the financial statements.<br>We assessed the provision model and calculations by:<br>• checking the mechanical accuracy of the model including agreeing lease data to supporting evidence;<br>• assessing the risk-free rate applied to the model and comparing the rates to external market data;<br>• comparing forecast growth rates to economic data; and<br>• evaluating the information included in the provision model through our knowledge of the business gained through reviewing trading plans, strategic initiatives and meeting minutes. |
| **Key observations** | We assessed the level of impairment recorded in respect of the UK business, together with the additional onerous lease provisions made, and are satisfied that the judgements applied by management and the level of charges recorded in the year are appropriate. |

| Recoverability of deferred tax assets | |
|---|---|
| **Key audit matter description** | At the year end deferred tax assets total £3.6 million (2017: £24.8m million). Management judgement is required to determine if and when these assets can be recovered against future trading profits which requires an assessment of the likely future results of the Group. This assessment is more judgmental given the Group's recent history of trading losses and expected forecast trading going forwards.<br>As a result of the trading losses and uncertainty described above, a charge of £21.2 million has been recorded in respect of the deferred tax assets.<br>The Audit and Risk Committee report on page 44also refers to this as one of the significant issues and judgements. Further information is included in Note 3a and Note 16. |
| **How the scope of our audit responded to the key audit matter** | We considered the appropriateness of the methodology applied by the directors in determining the likely recoverability of the deferred tax assets. This included an assessment by asset type, the look-out period used and anticipated utilisation. In addition, we assessed the design and implementation of controls in respect of deferred tax recoverability and the adequacy of the disclosures in the financial statements.<br>We challenged the assumptions applied by management on their ability to recover the deferred tax assets based on forecast future taxable profits, including looking at historical forecasting accuracy, in conjunction with our procedures on going concern. |
| **Key observations** | We assessed the charges recorded in respect of deferred tax assets and are satisfied that the judgements applied by management and the level of charges recorded in the year are appropriate. |



**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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Parent Company financial statements |
|---|---|---|
| **Materiality** | £1.7 million (2017: £2.1 million) | £1.6 million (2017: £1.1 million) |
| **Basis for determining materiality** | Given the losses in the period, materiality has been determined on the basis of considering a number of different measures including revenue and the average adjusted profits of the group for the periods 2015-2017. | Approximately 1% of net assets adjusted for one-off items related to investments. |
| **Rationale for the benchmark applied** | Adjusted items relating to property rationalisation, restructuring costs, refinancing, amortisation and foreign exchange are excluded from materiality considerations due to their volatility; this is consistent with the group's internal and external reporting to facilitate a better understanding of the underlying trading performance. Materiality represents approximately 0.3% of revenue (2017: 0.3%) and 0.6% of total assets (2017: 0.6%). | Adjusted net assets have been used as this is a non-trading holding Company and we consider this to be the most appropriate basis. |

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £85,000 (2017: £105,000), 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.

# Independent auditor's report to the members of mothercare plc continued

**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 audit scope on the UK trading entities, (including both the UK and International operating segments), the Group's sourcing operations in Hong Kong and India and the parent Company, which is consistent with the prior year. All of these were subject to a full audit. Our audit work at the entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged between 40% and 95% (2017: 50% and 80%) of Group materiality. These locations represent the principal business units and account for 100% (2017: 100%) of the Group's net assets and revenue and 97% (2017: 100%) of the Group's loss before tax for the 52 weeks ended 24 March 2018. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. The UK trading entities and parent Company together account for 99% (2017: 99%) of Group revenue and were audited by the group team. This audit approach is consistent with the prior year.

The group audit team is directly involved in the audit of the UK trading entities. 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 of their work.

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.

**Other information**

***We have nothing to report in respect of these matters.***

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

*Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

*Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

*Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the financial statements

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

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

### Use of our report

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

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the strategic report and the directors' report for the financial 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 applicable legal requirements.

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

### Matters on which we are required to report by exception

*Adequacy of explanations received and accounting records*

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

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

***We have nothing to report in respect of these matters.***

*Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

***We have nothing to report in respect of these matters.***

### Other matters

*Auditor tenure*

Following the recommendation of the audit committee, we were appointed by the shareholders at the Annual General Meeting on 19 July 2002 to audit the financial statements for the period ending 29 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the periods ending 29 March 2003 to 24 March 2018.

*Consistency of the audit report with the additional report to the Audit and Risk Committee*

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

**Sukhbinder Kooner (Senior statutory auditor)**

for and on behalf of Deloitte LLP
Senior Statutory Auditor

London, UK
17 May 2018

# Consolidated income statement

For the 52 weeks ended 24 March 2018

| | | 52 weeks ended 24 March 2018 | | | 52 weeks ended 25 March 2017 | | |
|---|---|---|---|---|---|---|---|
| | Note | **Before adjusted items[1] £ million** | **Adjusted items[2] £ million** | **Total £ million** | Before adjusted items[1] £ million | Adjusted items[2] £ million | Total £ million |
| Revenue | 4, 5 | **654.5** | **–** | **654.5** | 667.4 | – | 667.4 |
| Cost of sales | | **(610.5)** | **(10.0)** | **(620.5)** | (606.2) | (2.4) | (608.6) |
| Gross profit | | **44.0** | **(10.0)** | **34.0** | 61.2 | (2.4) | 58.8 |
| Administrative expenses | 6 | **(37.7)** | **(65.1)** | **(102.8)** | (38.2) | (10.2) | (48.4) |
| **(Loss)/profit from operations** | 7 | **6.3** | **(75.1)** | **(68.8)** | 23.0 | (12.6) | 10.4 |
| Net finance costs | 8 | **(4.0)** | **–** | **(4.0)** | (3.3) | – | (3.3) |
| (Loss)/profit before taxation | | **2.3** | **(75.1)** | **(72.8)** | 19.7 | (12.6) | 7.1 |
| Taxation | 9 | **(3.6)** | **0.3** | **(3.3)** | (3.2) | 4.3 | 1.1 |
| **(Loss)/profit for the period attributable to equity holders of the parent** | | **(1.3)** | **(74.8)** | **(76.1)** | 16.5 | (8.3) | 8.2 |
| **Earnings per share** | | | | | | | |
| Basic | 11 | **(0.8)p** | | **(44.8)p** | 9.7p | | 4.8p |
| Diluted | 11 | **(0.8)p** | | **(44.8)p** | 9.3p | | 4.6p |

1 Before adjusted items described in footnote 2 below.

2 Includes adjusted costs (property costs, restructuring costs and impairment charges) and provision for receivables and other adjusted items of amortisation of intangible assets (excluding software) and the impact of foreign currency adjustments under IAS 39 and IAS 21 as set out in Note 6 to the consolidated financial statements. Adjusted items are considered to be one-off or significant in nature and /or value. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across the periods because it is consistent with how the business performance is reviewed by the Board and the Executive Committee

All results relate to continuing operations.

# Consolidated statement of comprehensive income

For the 52 weeks ended 24 March 2018

| | Note | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|---|
| **(Loss)/profit for the period** | | **(76.1)** | 8.2 |
| **Items that will not be reclassified subsequently to the income statement:** | | | |
| Remeasurement of net defined benefit liability actuarial gain/(loss) on defined benefit pension schemes | 29 | **36.0** | (9.7) |
| Deferred tax relating to items not reclassified | 16 | **(21.4)** | 0.5 |
| | | **14.6** | (9.2) |
| **Items that may be reclassified subsequently to the income statement:** | | | |
| Exchange differences on translation of foreign operations | 25 | **(0.6)** | (1.8) |
| Cash flow hedges: (losses)/gains arising in the period | 25 | **(18.8)** | 20.2 |
| Deferred tax relating to items reclassified | 16 | **1.4** | 1.1 |
| | | **(18.0)** | 19.5 |
| **Other comprehensive (expense)/income for the period** | | **(3.4)** | 10.3 |
| **Total comprehensive (expense)/income for the period wholly attributable to equity holders of the parent** | | **(79.5)** | 18.5 |

Financials

# Consolidated balance sheet

As at 24 March 2018

| | Note | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 14 | **26.8** | 26.8 |
| Intangible assets | 14 | **39.6** | 36.6 |
| Property, plant and equipment | 15 | **55.0** | 80.4 |
| Investments in joint ventures | 13 | **–** | – |
| Long-term receivable | 18 | **0.1** | 0.8 |
| Deferred tax asset | 16 | **3.6** | 24.8 |
| Derivative financial instruments | 21 | **–** | 0.2 |
| | | **125.1** | 169.6 |
| **Current assets** | | | |
| Inventories | 17 | **87.0** | 102.0 |
| Trade and other receivables | 18 | **64.5** | 67.6 |
| Derivative financial instruments | 21 | **0.1** | 8.6 |
| Cash and cash equivalents | 19 | **–** | – |
| | | **151.6** | 178.2 |
| **Total assets** | | **276.7** | 347.8 |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **(106.3)** | (125.5) |
| Borrowings | 20 | **(1.6)** | (0.9) |
| Current tax liabilities | | **(0.3)** | (0.2) |
| Derivative financial instruments | 21 | **(9.4)** | (0.8) |
| Provisions | 23 | **(16.8)** | (8.8) |
| | | **(134.4)** | (136.2) |
| **Non-current liabilities** | | | |
| Trade and other payables | 22 | **(20.1)** | (21.5) |
| Borrowings | 20 | **(42.5)** | (15.0) |
| Derivative financial instruments | 21 | **(0.6)** | – |
| Retirement benefit obligations | 29 | **(37.7)** | (80.1) |
| Provisions | 23 | **(36.8)** | (13.6) |
| | | **(137.7)** | (130.2) |
| **Total liabilities** | | **(272.1)** | (266.4) |
| **Net assets** | | **4.6** | 81.4 |
| **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 | **(1.1)** | (1.5) |
| Translation reserve | 25 | **(1.9)** | (1.3) |
| Hedging reserve | 25 | **(9.4)** | 5.2 |
| Retained loss | | **(129.4)** | (67.4) |
| **Total equity** | | **4.6** | 81.4 |

Approved by the Board and authorised for issue on 17 May 2018 and signed on its behalf by:

**Glyn Hughes**
Chief Financial Officer

Company Registration Number: 1950509

# Consolidated statement of changes in equity

## For the 52 weeks ended 24 March 2018

| | Note | 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 2017** | | **85.4** | **61.0** | **(1.5)** | **(1.3)** | **5.2** | **(67.4)** | **81.4** |
| Loss for the period | | – | – | – | – | – | (76.1) | (76.1) |
| Other comprehensive (expense)/income | | | | | | | | |
| Exchange differences on translation of foreign operations | 25 | – | – | – | (0.6) | – | – | (0.6) |
| Remeasurements of net defined benefit liability | 29 | – | – | – | – | – | 36.0 | 36.0 |
| Cash flow hedges: losses arising in the period | 25 | – | – | – | – | (18.8) | – | (18.8) |
| Tax related to components of other comprehensive income | 16 | – | – | – | | 1.4 | (21.4) | (20.0) |
| **Total other comprehensive (expense)/ income** | | – | – | – | (0.6) | (17.4) | 14.6 | (3.4) |
| **Total comprehensive expense** | | **–** | **–** | **–** | **(0.6)** | **(17.4)** | **(61.5)** | **(79.5)** |
| Transfer to equity from inventory during the period | 25 | – | – | – | – | 2.8 | – | 2.8 |
| Shares transferred to employees | | – | – | 0.4 | – | – | (0.4) | – |
| Charge to equity for equity-settled share-based payments | | – | – | – | – | – | (0.1) | (0.1) |
| **Balance at 24 March 2018** | | **85.4** | **61.0** | **(1.1)** | **(1.9)** | **(9.4)** | **(129.4)** | **4.6** |

## For the 52 weeks ended 25 March 2017

| | Note | Share capital £ million | Share premium account £ million | Own shares £ million | Translation reserve £ million | Hedging reserve £ million | Retained earnings £ million | **Total equity £ million** |
|---|---|---|---|---|---|---|---|---|
| **Balance at 27 March 2016** | | **85.4** | **61.0** | **(0.3)** | **0.5** | **9.7** | **(67.2)** | **89.1** |
| Profit for the period | | – | – | – | – | – | 8.2 | 8.2 |
| Other comprehensive (expense)/income | | | | | | | | |
| Exchange differences on translation of foreign operations | 25 | – | – | – | (1.8) | – | – | (1.8) |
| Remeasurements of net defined benefit liability | 29 | – | – | – | – | – | (9.7) | (9.7) |
| Cash flow hedges: gains arising in the period | 25 | – | – | – | – | 20.2 | – | 20.2 |
| Tax related to components of other comprehensive income | 16 | – | – | – | – | 1.1 | 0.5 | 1.6 |
| **Total other comprehensive (expense)/ income** | | **–** | **–** | **–** | **(1.8)** | **21.3** | **(9.2)** | **10.3** |
| **Total comprehensive (expense)/income** | | **–** | **–** | **–** | **(1.8)** | **21.3** | **(1.0)** | **18.5** |
| Removal from equity to inventory during the period | 25 | – | – | – | – | (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** |

# Consolidated cash flow statement

For the 52 weeks ended 24 March 2018

| | Note | **52 weeks ended 24 March 2018 £ million** | 52 weeks ended 25 March 2017 £ million |
|---|---|---|---|
| **Net cash flow from operating activities** | 26 | **1.3** | 15.3 |
| **Cash flows from investing activities** | | | |
| Interest received | | **–** | 0.1 |
| Purchase of property, plant and equipment | | **(15.6)** | (28.2) |
| Purchase of intangibles – software | | **(8.5)** | (14.4) |
| Proceeds from sale of property, plant and equipment | | **–** | 1.3 |
| **Net cash used in investing activities** | | **(24.1)** | (41.2) |
| **Cash flows from financing activities** | | | |
| Interest paid | | **(1.9)** | (1.0) |
| Drawdown on facility | | **27.5** | 15.0 |
| Facility fee paid | | **(0.6)** | – |
| Purchase of own shares | | **–** | (1.2) |
| **Net cash from financing activities** | | **25.0** | 12.8 |
| **Net increase/(decrease) in cash and cash equivalents** | | **2.2** | (13.1) |
| (Overdraft)/cash and cash equivalents at beginning of period | | **(0.9)** | 13.5 |
| Effect of foreign exchange rate changes | | **(2.9)** | (1.3) |
| **Overdraft at end of period** | 26 | **(1.6)** | (0.9) |

# Notes to the consolidated financial statements

## 1. General information

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.

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 139. The nature of the Group's operations and its principal activities are set out in Note 5 and in the business review on pages 8 to 10.

## 2. Significant accounting policies

### *Basis of presentation*

The Group's accounting period covers the 52 weeks ended 24 March 2018. The comparative period covered the 52 weeks ended 25 March 2017.

### *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*

There have been no significant changes to accounting under IFRS which have affected the Group's results for the current financial year.

*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'

IFRS 9 "Financial instruments" is applicable for periods beginning on or after 1 January 2018. IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities; a new model for recognising provisions based on expected credit losses; and simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

IFRS 15 "Revenue from contracts with customers" is applicable for periods beginning on or after 1 January 2018. It is not expected to impact the Group's profit. The majority of the Group's sales are for standalone products made direct to customers at standard prices either through franchisees, in-store or online. Estimates are already made of anticipated returns and sales awaiting delivery to the customer.

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 'Leases' is applicable for periods beginning on or after 1 January 2019, and will therefore be applied by the Group in the 2019/20 financial year. IFRS 16 will have a material impact on the reported assets, liabilities and income statement. IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of -use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and lease of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and interest payments, as well as the impact of lease modifications, amongst others. There is no cash impact of adoption of this standard but the classification of cash flows will be affected because operating lease payments under IAS17 are presented as operating cash flows: whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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. We would expect this to be carried out during the 2018/19 financial year and an update on this will be issued with the year end results.

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 38. The Directors have reviewed the latest forecasts and projections which have been sensitivity tested for reasonably possible adverse variations in performance. These are outlined in the Viability Statement on pages 25 to 26.

In May 2018 the Group's two existing bankers agreed to provide a revolving credit facility of £67.5 million comprising two tranches (refer to Note 31). This is conditional on the approval of a CVA, which the Group launches on 17 May 2018, and a successful equity raise.

The Group has also obtained the support of its shareholders and intends to undertake a placement of shares of £36.0 million in July 2018. This will also be conditional on approval of the CVA and has been fully underwritten by Numis Securities Limited. Within this raise, a shareholder loan of £8.0 million has been agreed, receivable immediately, which will be convertible to equity.

The Directors are of the opinion that subject to this material uncertainty surrounding the approval of the CVA, the Group will operate within the terms of its revised borrowing facilities and covenants for the foreseeable future and accordingly the financial statements are prepared on a going concern basis. Further details on going concern are shown in the Financial Review on page 24.

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 24 March 2018. 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.

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 the income statement 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 operations***

Profit from operations is stated after restructuring costs but before investment income and finance costs.

***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 directly attributable to marketing costs is recognised as a deduction to administrative expenses.

Included in the balance sheet are amounts receivable of £3.4 million in respect of supplier funding income, comprising £1.0 million of settlement discounts invoiced but not yet settled and £2.4 million of promotional and retrospective rebate contributions earned but not yet invoiced, netted against £1.4 million of deferred rebate income on stock not yet sold.

### *Adjusted earnings*

The Group believes that adjusted profit before tax provides additional useful information for shareholders. The term adjusted 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 adjusted business performance which provides more useful information on underlying trends.

The adjustments made to reported results are as follows:

*Adjusted items*

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

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

On this basis the following items are analysed as adjusted items on the face of the income statement.

- Costs relating to previously announced activity on property closure programmes;
- Costs relating to the planned development of warehouses in the UK;
- Costs associated with head office redundancies and restructuring;
- Store impairment and onerous lease charges;
- Costs relating to the disposal of the China joint venture;
- Costs relating to the impairment of intangible assets;
- Foreign currency adjustments under IAS39 and IAS21; and
- Amortisation of intangible assets

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

### *Foreign currency transactions*

Foreign currency adjustments include:

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

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

*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.

*Unwinding of discount on adjusted provisions*

Where property provisions are charged to adjusted items, the associated unwinding of the discount on these provisions is classified as an adjusted item.

Joint ventures

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

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

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

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

### *Leasing*

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

*The Group as lessor*

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

*The Group as lessee*

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

remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

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

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

***Foreign currencies***

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

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

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

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

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

***Hedge accounting***

The Group designates its 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 statement of comprehensive income and any ineffective portion is recognised immediately in the income statement. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item. Movements in the hedging reserve in equity are detailed in 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 has an unconditional right to a refund of surplus under the rules.

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

***Taxation***

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 the income statement.

***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.

***Intangible assets – other 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 | – 10 - 20 years |
| Customer relationships | – 10 years |

***Impairment of tangible and intangible assets excluding goodwill***

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior 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 initially measured at fair value and subsequently measured at amortised cost less provision or impairment. 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.

*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.

*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.

***Provisions***

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

***Share-based payments***

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

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

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

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

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

***Onerous leases***

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

*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 performance and position of the Group and across the period because it is consistent with how the business performance is reported to the Board and Executive Committee.

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 during the period are as follows:

- Group worldwide sales: Group worldwide sales are total International sales plus total UK sales. Total International sales are International retail sales plus International Wholesale sales. Total Group revenue is a statutory number and is made up of total UK sales and receipts from International franchise partners, which includes royalty payments and the cost of goods dispatched to international franchise partners. A reconciliation is included within the Financial Review on pages 18 to 26.
- 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 website sales and sales taken on iPads in store. International retail sales are the estimated retail sales of overseas franchise and joint venture partners 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. The Group reports some financial measures on both a reported and constant currency basis. Sales in constant currency exclude the impact of movements in foreign exchange translation. The constant currency basis retranslates the previous year revenues at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the year on year reported results. Further details are disclosed within the Financial Review on pages 18 to 26.
- Profit before adjusted items: The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusted items for the 52-week period ended 24 March 2018:
  - 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 restructuring;
  - Store impairment and onerous lease charges;
  - Costs relating to the disposal of the China joint venture;
  - Foreign exchange gains/losses; and
  - Amortisation of intangible assets (which arose on the acquisition of the Early Learning Centre and Blooming Marvellous.)

A reconciliation of adjusted earnings is shown in Note 11.

- Adjusted free cash flow: This is the adjusted measure of cash flow for the Group. This is based on the adjusted performance excluding the impact of adjusted items. The presentation of adjusted free cash flow differs from the statutory cash flow statement which is based on statutory performance for the group. The reconciliation from adjusted free cash flow to statutory cash flow is shown in the Financial Review on pages 18 to 26.

**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 judgements that have an effect on the application of policies and reported amounts.

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

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

**3a. Critical accounting judgements**

***Adjusted items***

The directors believe that the adjusted profit and earnings per share measures provide additional useful information for shareholders on the performance of the business.

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

The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable

with adjusted profit measures used by other companies. The classification of adjusted items requires significant management judgement after considering the nature and intentions of a transaction.

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

***Deferred taxation***

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

***Impairment of assets***

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

***Supplier funding***

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

**3b. Key sources of estimation uncertainty**

***Retirement benefits***

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

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 expectancy 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 24 March 2018, the Group's pension liability was £37.7 million (2017: £80.1 million). Further details of the accounting policy on retirement benefits are provided in Note 2.

Sensitivities to changes in assumptions in respect of discount rates/ inflation and life expectancy are included in Note 29.

***Onerous leases***

Provision has been made in respect of leasehold properties for vacant, partly let and loss making trading stores for the shorter of the remaining period of the lease and the period until in the Directors' opinion they will be able to exit the lease commitment. The amount provided is based on future rental obligations together with other fixed outgoings, net of any sub-lease income and in the case of trading stores the expected future shortfall in contribution to cover the fixed outgoings. In determining the provision, the cash flows have been discounted on a pre-tax basis using a risk free rate of return. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change.

***Allowances against the carrying value of inventory***

The 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).

## 4. Revenue

| | 52 weeks 24 March 2018 £ million | 52 weeks 25 March 2017 £ million |
|---|---|---|
| Sale of goods | **654.5** | 667.4 |

## 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 24 March 2018 |
|---|---|---|---|---|
| | UK £ million | International £ million | Unallocated corporate expenses £ million | £ million |
| **Revenue** | | | | |
| External sales | **437.6** | **216.9** | – | **654.5** |
| **Result** | | | | |
| Segment result (before adjusted items) | **(19.8)** | **33.6** | **(7.6)** | **6.2** |
| Share-based payments | | | **0.1** | **0.1** |
| Foreign currency adjustments (adjusted item) | | | **(7.1)** | **(7.1)** |
| Amortisation of intangible assets (adjusted item) | | | **(0.9)** | **(0.9)** |
| Adjusted items (Note 6) | **(59.6)** | **(5.2)** | **(2.3)** | **(67.1)** |
| **Loss from operations** | **(79.4)** | **28.4** | **(17.8)** | **(68.8)** |
| Net finance costs | | | | **(4.0)** |
| Loss before taxation | | | | **(72.8)** |
| Taxation | | | | **(3.3)** |
| **Loss for the period** | | | | **(76.1)** |

| | | | | 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 (before adjusted items) | (4.4) | 35.2 | (7.0) | 23.8 |
| Share-based payments | | | (0.8) | (0.8) |
| Foreign currency adjustments (adjusted item) | | | 4.1 | 4.1 |
| Amortisation of intangible assets (adjusted item) | | | (1.0) | (1.0) |
| Adjusted items (Note 6) | (5.3) | (9.6) | (0.8) | (15.7) |
| **Profit from operations** | (9.7) | 25.6 | (5.5) | 10.4 |
| Net finance costs | | | | (3.3) |
| Profit before taxation | | | | 7.1 |
| Taxation | | | | 1.1 |
| **Profit for the period** | | | | 8.2 |

Revenues are attributed to countries on the basis of the customer's location. The largest International customer represents approximately 17.4% (2017: 15.9%) of group sales.

| | | | 52 weeks ended 24 March 2018 |
|---|---|---|---|
| | UK £ million | International £ million | Total £ million |
| **Other information** | | | |
| Capital additions | **14.8** | **3.6** | **18.4** |
| Depreciation and amortisation | **19.0** | **4.6** | **23.6** |
| **Balance sheet** | | | |
| **Assets** | | | |
| Segment assets | **180.0** | **93.0** | **273.0** |
| Unallocated corporate assets | | | **3.7** |
| Consolidated total assets | | | **276.7** |
| **Liabilities** | | | |
| Segment liabilities | **176.0** | **4.0** | **180.0** |
| Unallocated corporate liabilities | | | **92.1** |
| Consolidated total liabilities | | | **272.1** |

In addition to the depreciation and amortisation reported above, impairment losses of £16.0 million (2017: £3.3 million) were recognised in respect of property, plant and equipment. The UK store impairment testing during the period identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores and as a result a charge of £16.0 million has been incurred in respect of the impairment of the assets associated with these stores. These impairment losses were attributable to the UK segment and are detailed in Note 6: Adjusted items.

| | | | 52 weeks ended 25 March 2017 |
|---|---|---|---|
| | UK £ million | International £ million | Total £ 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 |

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. Adjusted items

The total adjusted items reported for the 52-week period ended 24 March 2018 is a net charge of £75.1 million. The adjustments made to reported (loss)/profit before tax to arrive at adjusted (loss)/profit are:

| | **52 weeks ended 24 March 2018 £ million** | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| **Adjusted costs:** | | |
| Restructuring costs in cost of sales | **(2.0)** | (5.5) |
| Property related costs included in administrative expenses | **(55.6)** | (0.5) |
| Non-property related restructuring costs and property impairment included in administrative expenses | **(7.6)** | (5.7) |
| Joint venture restructuring costs included in administrative expenses | **(1.9)** | (4.0) |
| **Total adjusted costs:** | **(67.1)** | (15.7) |
| **Other adjusted items:** | | |
| Foreign currency adjustments under IAS 39 and IAS 21 | **(7.1)** | 4.1 |
| Amortisation of intangible assets | **(0.9)** | (1.0) |
| **Adjusted items before tax** | **(75.1)** | (12.6) |

**Restructuring costs in cost of sales - £2.0 million**

Restructuring costs include £0.9 million relating to the warehouse development project and a £1.1 million charge relating to the impairment of the Blooming Marvellous tradename. The Group completed significant changes to warehouse and order management systems and the consolidation of warehouse facilities. The current year charge of £0.9 million is the final cost incurred following the exit of an old warehouse.

These costs are considered to be an adjusted item as they are significant in value and are one-off in nature. As a result, they are not considered to be normal operating costs of the business.

The impairment of the Blooming Marvellous tradename has been classified as an adjusted item on the basis that it is one-off in nature and significant in value.

**Property related costs included in administrative expenses - £55.6 million**

The charge of £55.6 million includes £5.8 million store closure provision for expected closure costs; £16.0 million UK store impairment following annual impairment review, and a £33.8 million onerous lease provision.

£0.5 million previously classified in 2017 as other adjusted items relating to onerous leases provisions has been reclassified to property related costs included in administrative expenses.

**Store closure provision - £5.8 million**

During the period the Group announced a new transformation strategy, including closing stores to take the core estate down to 80-100 destination stores.

A net charge of £5.8 million was recognised with respect to store closures, including property dilapidations, redundancy and lease exit costs.

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

**The UK store impairment - £16.0 million, and onerous lease provision - £33.8 million**

The UK store impairment testing during the period has identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £16.0 million has been incurred with respect to the impairment of the assets associated with these stores. A charge of £33.8 million has been incurred in respect of onerous lease provisions.

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

**Non-property related costs included in administrative expenses - £7.6 million**

During the period the Group undertook a review of central costs and its head office structure. This resulted in a reduction of circa 192 head office roles (14 deferred to the period ending 30 March 2019) achieved through redundancy and natural attrition. The reorganisation cost of £6.3 million comprised redundancy payments, legal fees and other one-off costs.

In January 2018 the Group entered into refinancing discussions and a review of additional funding sources. Costs of £1.3 million have been incurred relating to consultancy and other advisor costs.

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

**Joint venture restructuring costs included in administrative expenses - £1.9 million**

In December 2017 the Group fully disposed of the joint venture in China and entered into a new franchise agreement. A charge of £1.9 million has been recognised; £0.9 million for a loan, £0.5 million for gross trade receivables write-off and £0.5 million for legal fees.

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

**Foreign currency adjustments under IAS 39 and IAS 21 included in cost of sales - £7.1 million**

Foreign currency adjustments include:

a. the retranslation of foreign currency denominated cash, debtor, and creditor balances (predominantly US$) to closing spot rate

b. stock purchases where payment is outstanding to the historic rate at the date of purchase

In the 52 week period ended 25 March 2017 the US$ spot rate declined and at year end was below the average contract rates ($1.24 vs $1.46). A gain of £4.1 million was recognised in adjusted items. In the 52 week period ended 24 March 2018 the spot rate increased and at period end has moved above the average contract rates ($1.38 vs $1.25). A loss of £7.1 million has been recognised in adjusted items.

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

**Amortisation of intangible assets included in cost of sales - £ 0.9 million**

Amortisation charges on the 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. Amortisation costs are classified in adjusted items as they are significant and this is consistent year-on-year. The average estimated useful life of the assets is as follows:

| | |
|---|---|
| Trade name | – 10 to 20 years |
| Customer relationships | – 10 years |

### 7. Profit/(loss) from operations

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

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| Net total foreign exchange gains | **(2.5)** | (8.1) |
| Cost of inventories recognised as an expense | **417.0** | 407.2 |
| Write down of inventories to net realisable value | **3.4** | 3.4 |
| Depreciation of property, plant and equipment | **14.7** | 14.9 |
| Amortisation of intangible assets – software (included in cost of sales before adjusted items) | **8.0** | 4.0 |
| Amortisation of intangible assets – tradenames and customer relationships (included in adjusted items in cost of sales) | **0.9** | 1.0 |
| Impairment of property, plant and equipment | **16.0** | 3.3 |
| Loss on disposal of property, plant and equipment | **–** | 0.6 |
| Net rent of properties (see Note 27) | **39.6** | 42.8 |
| Amortisation of lease incentives | **(4.3)** | (4.1) |
| Hire of plant and equipment | **0.6** | 0.6 |
| Staff costs (including directors): | | |
| Wages and salaries (including cash bonuses, excluding share-based payment charges) | **62.4** | 67.0 |
| Social security costs | **4.4** | 4.9 |
| Pension costs (see Note 29) | **5.5** | 5.5 |
| Share-based payment (credit)/ charge (see Note 28) | **(0.1)** | 0.8 |

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 24 March 2018 Number | 52 weeks ended 25 March 2017 Number |
|---|---|---|
| Number of employees comprising: | | |
| UK stores | **3,932** | 4,321 |
| Head Office | **642** | 703 |
| Overseas | **163** | 187 |
| | **4,737** | 5,211 |
| Full time equivalents | **2,791** | 3,099 |

Details of Directors' emoluments, share options and beneficial interests are provided within the remuneration report on page 59.

For the 52 weeks ended 24 March 2018, profit from operations is stated after an adjusted items net charge of £7.1 million (2017: £4.1 million credit) to cost of sales as a result of foreign currency adjustments under IAS 39 and IAS 21.

The analysis of auditor's remuneration is as follows:

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ 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 | **0.4** | 0.2 |
| Total audit fees | **0.5** | 0.3 |
| Total non-audit fees | **0.1** | 0.1 |

The policy for the approval of non-audit fees is set out on page 47, in the corporate governance report.

Deloitte have been engaged for non-audit services after the balance sheet date to produce a working capital report with regard to the proposed equity issue referred to in the Financial Review on pages 18 to 26. The fee for this is expected to be £0.4 million.

### 8. Net finance costs

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| Interest and bank fees on bank loans and overdrafts | **2.2** | 0.8 |
| Net interest on liabilities/return on assets on pension | **2.0** | 2.6 |
| **Interest payable** | **4.2** | 3.4 |
| Interest received on bank deposits | **(0.2)** | (0.1) |
| **Net finance costs** | **4.0** | 3.3 |

### 9. Taxation

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

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| Current tax: | | |
| Current year | **2.1** | 1.6 |
| Adjustment in respect of prior periods | **–** | 0.2 |
| | **2.1** | 1.8 |
| Deferred tax: (see Note 16) | | |
| Current year | **1.8** | 0.5 |
| Change in tax rate in respect of prior periods | **–** | 0.3 |
| Adjustment in respect of prior periods | **(0.6)** | (3.7) |
| | **1.2** | (2.9) |
| **Charge/(credit) for taxation on (loss)/profit for the period** | **3.3** | (1.1) |

UK corporation tax is calculated at 19% (2017: 20%) of the estimated assessable profit for the period. The UK corporation tax rate will decrease further to 17% from 1 April 2020.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| (Loss)/profit for the period before taxation | **(72.8)** | 7.1 |
| (Loss)/profit for the period before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%) | **(13.8)** | 1.4 |
| Effects of: | | |
| Expenses/(income) not deductible for tax purposes | **1.7** | (0.3) |
| Rate change on deferred tax | **–** | 0.3 |
| Impact of difference in current and deferred tax rates | **(0.2)** | (0.1) |
| Impact of overseas tax rates | **1.7** | 1.1 |
| Impact of overseas taxes expensed | **(0.2)** | – |
| Deferred tax not recognised/written off | **14.7** | – |
| Adjustment in respect of prior periods – current tax | **–** | 0.2 |
| Adjustment in respect of prior periods – deferred tax | **(0.6)** | (3.7) |
| **Charge/(credit) for taxation on (loss)/ profit for the period** | **3.3** | (1.1) |

In addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations, share-based payments and cash flow hedges amounting to £20.0 million (2017: credit of £1.6 million) has been charged directly to other comprehensive income.

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

### 10. Dividends

The directors are not recommending the payment of a final dividend for the period (2017: £nil) and no interim dividend was paid during the period (2017: £nil).

### 11. Earnings per share

| | 52 weeks ended 24 March 2018 million | 52 weeks ended 25 March 2017 million |
|---|---|---|
| **Weighted average number of shares in issue** | **169.8** | 170.5 |
| Dilution – option schemes | **5.8** | 7.9 |
| **Diluted weighted average number of shares in issue** | **175.6** | 178.4 |
| | | |
| **Number of shares at period end** | **170.9** | 170.9 |
| | | |
| | **£ million** | £ million |
| **(Loss)/profit for basic and diluted earnings per share** | **(76.1)** | 8.2 |
| Adjusted items (Note 6) | **75.1** | 12.6 |
| Tax effect of above items | **(0.3)** | (4.3) |
| **Adjusted (losses)/earnings** | **(1.3)** | 16.5 |
| | | |
| | **Pence** | Pence |
| **Basic (losses)/earnings per share** | **(44.8)** | 4.8 |
| **Basic adjusted (losses)/earnings per share** | **(0.8)** | 9.7 |
| **Diluted (losses)/earnings per share** | **(44.8)** | 4.6 |
| **Diluted adjusted (losses)/earnings per share** | **(0.8)** | 9.3 |

# Notes to the consolidated financial statements
continued

### 12. Subsidiaries

Details of all the Group's investments in subsidiaries, all of which are wholly owned and included in the consolidation, at the end of the reporting period is as follows:

| | Country | % owned | Nature of Business | Direct/ indirect |
|---|---|---|---|---|
| Chelsea Stores Holdings Limited | UK[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 [11] | UK[3] | 100% | Dormant | Direct |
| Mothercare Shops Group [11] | UK[3] | 100% | Dormant | 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

(11) Company in liquidation, not yet dissolved

## 13. Investments in joint ventures

| | **52 weeks ended 24 March 2018 £ million** | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| Summary aggregate financial results and position of joint ventures: | | |
| Current assets | – | 17.6 |
| Non-current assets | – | 7.9 |
| Total assets | – | 25.5 |
| Current liabilities | – | (21.6) |
| Non-current liabilities | – | (3.3) |
| Total liabilities | – | (24.9) |
| Total joint venture revenue | **22.3** | 31.8 |
| Total loss for the period | **(4.2)** | (9.0) |

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 |

On 20 December 2017 Mothercare- Goodbaby China Retail Limited disposed of its stake in the China joint venture. 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 24 March 2018 amounted to £1.3 million (2017: £2.7 million).

### 14. Goodwill and intangible assets

| | | Intangible assets | | | | |
|---|---|---|---|---|---|---|
| | Goodwill £ million | Trade name £ million | Customer relationships £ million | Software £ million | Software under development £ million | Total £ million |
| **Cost** | | | | | | |
| As at 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 |
| Additions | – | – | – | 6.7 | 1.8 | 8.5 |
| Reclassification from property, plant and equipment | – | – | – | 4.6 | – | 4.6 |
| Transfers | – | – | – | 4.7 | (4.7) | – |
| Exchange differences | – | (0.2) | – | – | – | (0.2) |
| **As at 24 March 2018** | **68.6** | **29.0** | **5.7** | **71.8** | **1.8** | **108.3** |
| Amortisation and impairment | | | | | | |
| As at 26 March 2016 | 41.8 | 21.7 | 5.6 | 26.3 | – | 53.6 |
| Amortisation | – | 0.9 | 0.1 | 4.0 | – | 5.0 |
| Exchange differences | – | 0.2 | – | – | – | 0.2 |
| As at 25 March 2017 | 41.8 | 22.8 | 5.7 | 30.3 | – | 58.8 |
| Amortisation | – | 0.9 | – | 8.0 | – | 8.9 |
| Impairment | – | 1.1 | – | – | – | 1.1 |
| Exchange differences | – | (0.1) | – | – | – | (0.1) |
| **As at 24 March 2018** | **41.8** | **24.7** | **5.7** | **38.3** | **–** | **68.7** |
| Net book value | | | | | | |
| 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 |
| **As at 24 March 2018** | **26.8** | **4.3** | **–** | **33.5** | **1.8** | **39.6** |

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 business combinations has been allocated to the two groups of cash-generating units ("CGUs") that are expected to benefit from that business combination, being UK (£nil, 2017: £nil) and International (£26.8 million, 2017: £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 rate and growth rates. Management has used a pre-tax discount rate of 10.7% (2017: 11.5%) 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 nil growth rate (2017: 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 a sensitivity analysis on each of the base case assumptions used for assessing the goodwill in the International CGU with other variables held constant. The directors have concluded that there are no reasonably possible changes in key assumptions that would indicate that the carrying amount of goodwill and intangible assets should be impaired as there is still headroom after applying these sensitivities.

Impairment of trade name

During the year the Group tested the trade names for impairment and as a result Blooming Marvellous has been fully impaired at a cost of £1.1 million.

Software

Software additions include £3.6 million (2017: £3.6 million) of internally generated intangible assets.

The carrying value for intangible assets includes £14.4 million and £5.7 million linked, respectively, to two major transformation projects undertaken over recent years: the Merchandise Transformation Programme and the Distribution Rationalisation Programme. The residual asset values will be amortised over a further 5 years.

At 24 March 2018, the Group had entered into contractual commitments for the acquisition of software amounting to £0.6 million (2017: £5.4 million).

**15. Property, plant and equipment**

| | Freehold £ million | Leasehold £ million | Fixtures, fittings, equipment £ million | Assets in course of construction £ million | Total £ million |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| 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 |
| Transfers | – | – | 4.9 | (4.9) | – |
| Reclassification to software | – | – | (4.6) | – | (4.6) |
| Additions | – | 5.3 | 2.8 | 1.8 | 9.9 |
| Disposals | – | (6.3) | (9.4) | – | (15.7) |
| Exchange differences | – | – | (0.1) | – | (0.1) |
| **As at 24 March 2018** | **6.9** | **95.8** | **142.1** | **1.8** | **246.6** |
| **Accumulated depreciation and impairment** | | | | | |
| 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 |
| Charge for period | – | 4.2 | 10.5 | – | 14.7 |
| Impairment | – | 10.2 | 5.8 | – | 16.0 |
| Disposals | – | (6.3) | (9.4) | – | (15.7) |
| Exchange differences | – | – | (0.1) | – | (0.1) |
| **As at 24 March 2018** | **2.7** | **74.7** | **114.2** | **–** | **191.6** |
| **Net book value** | | | | | |
| 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 |
| **As at 24 March 2018** | **4.2** | **21.1** | **27.9** | **1.8** | **55.0** |

The net book value of leasehold properties includes £21.0 million (2017: £28.7 million) in respect of short leasehold properties. A £16.0 million charge for the impairment of property, plant and equipment has been included within adjusted items - administrative expenses as impairment testing during the period has identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores.

At 24 March 2018, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.0 million (2017: £2.7 million).

Freehold land and buildings with a carrying amount of £4.2 million (2017: £4.2 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 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 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 |
| (Charge)/credit to income | (3.8) | (3.1) | 7.4 | (0.1) | – | (1.6) | (1.2) |
| Credit/(charge) to other comprehensive income | – | 1.2 | (21.1) | (0.1) | – | – | (20.0) |
| **At 24 March 2018** | **4.0** | **0.4** | **–** | **–** | **(0.8)** | **–** | **3.6** |

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:

| | **24 March 2018 £ million** | 25 March 2017 £ million |
|---|---|---|
| Deferred tax assets | **4.4** | 33.8 |
| Deferred tax liabilities | **(0.8)** | (9.0) |
| | **3.6** | 24.8 |

Deferred tax liabilities include £0.8 million on intangible assets.

A deferred tax asset of £3.6 million has been recognised in the financial statements at the balance sheet date only to the extent that the realisation of the related tax benefit is probable. In applying judgement in recognising the deferred tax assets, management has critically assessed all available information, including future business profit projections and in certain cases, analysis of historical operating results. These forecasts are consistent with those prepared and used internally for business planning and impairment testing purposes. Following this evaluation, it was determined there would be sufficient taxable income generated to realise the benefit of the remaining deferred tax assets in the near future.

The Group has taken a prudent approach given the uncertainty around future profitability of the relevant statutory entities and as at the balance sheet date deferred tax assets of £9.1 million on accelerated depreciation, £2.9 million on short-term timing differences, and £6.4 million on retirement benefit obligations have not been recognised. The Group also has unrelieved tax losses of £69.6 million (2017: £12.3 million) available for offset against future profits at the balance sheet date. No deferred tax asset has been recognised for such losses.

At the reporting date, deferred tax liabilities of £2.1 million (2017: £0.1 million) relating to withholding taxes have not been provided for in respect of the aggregate amount of unremitted earnings of £19.7 million (2017: £12.9 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 24 March 2018, the Group has unused capital losses of £647.2 million (2017: £646.7 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

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Gross value | **92.0** | 108.4 |
| Allowance against carrying value of inventories | **(5.0)** | (6.4) |
| **Finished goods and goods for resale** | **87.0** | 102.0 |

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 (2017: £3.4 million charge).

## 18. Trade and other receivables

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Trade receivables gross | **49.9** | 54.0 |
| Allowance for doubtful debts | **(2.7)** | (7.0) |
| Trade receivables net | **47.2** | 47.0 |
| Prepayments | **9.6** | 10.6 |
| Accrued income | **3.7** | 6.4 |
| Prepaid facility fees | **0.4** | 0.2 |
| Other receivables | **3.6** | 3.4 |
| **Trade and other receivables due within one year** | **64.5** | 67.6 |
| | | |
| **Non-current assets** | | |
| Other receivables | **0.1** | – |
| Loan to joint venture | **–** | 0.8 |
| **Trade and other receivables due after more than one year** | **0.1** | 0.8 |

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

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| Balance at beginning of period | **(7.0)** | (1.6) |
| Amounts written off during the period as uncollectable | **6.2** | – |
| Amounts recovered in the period | **0.2** | 1.3 |
| Charged in the period | **(2.1)** | (6.7) |
| **Balance at end of period** | **(2.7)** | (7.0) |

During the period the Group made a further £0.5 million write-off (included within adjusted items – Note 6) in respect of the China joint venture (2017: £4.0 million).

On 20 December 2017 the China joint venture transitioned from being a joint venture to a franchisee arrangement. A schedule of payments has been maintained and no provision is now required as there is no remaining balance with the joint venture. A total of £5.5 million was written off using the provisions recognised in 2017 and a charge in the current year of £0.5 million.

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. 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.

Debtor balances which are not provided for are either on payment plans and abide or pay to terms with the exception of timing due to unforeseen circumstances. 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.

The ageing of the Group's current trade receivables is as follows:

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Trade receivables gross | **49.9** | 54.0 |
| Allowance for doubtful debts | **(2.7)** | (7.0) |
| Trade receivables net | **47.2** | 47.0 |
| Of which trade receivables gross comprise: | | |
| Amounts not past due on the reporting date | **34.8** | 34.9 |
| Amounts past due: | | |
| Less than one month | **5.1** | 5.2 |
| Between one and three months | **4.1** | 3.8 |
| Between three and six months | **2.1** | 2.4 |
| Greater than six months | **3.8** | 7.7 |
| Allowance for doubtful debts: | | |
| Amounts not past due on the reporting date | **–** | (0.3) |
| Less than one month | **(0.1)** | – |
| Between one and three months | **(0.6)** | (0.4) |
| Between three and six months | **(0.9)** | (0.6) |
| Greater than six months | **(1.1)** | (5.7) |
| **Trade receivables net carrying amount** | **47.2** | 47.0 |

Provisions for doubtful trade receivables are established based upon the difference between the receivable value and the estimated net collectible amount. The Group establishes its provision for doubtful trade receivables 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 24 March 2018 of £44.1 million (2017: £15.9 million).

In 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% to 3% above LIBOR). The amended credit facility is made up of two tranches, £50.0 million maturing in May 2020 (with an option to extend for an additional 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 May 2018 the Group's two existing banks, HSBC and Barclays, agreed to provide a revolving credit facility of £67.5 million comprising two tranches. Tranche A is £50.0 million stepping down to £30.0 million in September 2020 with final maturity in December 2020. Tranche B is £17.5 million, maturing in November 2018, at which point an overdraft of £5.0 million becomes uncommitted outside of the revolving credit facility. This is conditional on the approval of a CVA, which the Group launches on 17 May 2018, and a successful equity raise.

Further details are shown within Note 31.

Borrowing facilities

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Borrowings: | | |
| Secured borrowings at amortised cost: | | |
| Bank overdraft | **1.6** | 0.9 |
| Revolving credit facility | **42.5** | 15.0 |
| Total Borrowings | **44.1** | 15.9 |
| Amount due for settlement within one year | **1.6** | 0.9 |
| Amount due for settlement after one year | **42.5** | 15.0 |
| **Weighted average interest rate paid (for when borrowings in place)** | **2.86%** | 2.85% |

### 21. Financial risk management

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 contracts mature between March 2018 and May 2019.

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.

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.

Derivatives embedded in non-derivative host contracts have been recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

International sales represent 33% (2017: 31%) of Group sales. Of these sales, 33% (2017: 33%) were invoiced in foreign currency. The Group purchases product in foreign currencies, representing approximately 65% (2017: 56%) of purchases.

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

| | **24 March 2018 £ million** | 25 March 2017 £ million |
|---|---|---|
| Foreign currency forward exchange contracts: | | |
| Less than one year | **132.1** | 197.6 |
| After one year but not more than five years | **21.5** | 39.3 |
| | **153.6** | 236.9 |

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

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **24 March 2018 £ million** | 25 March 2017 £ million | **24 March 2018 £ million** | 25 March 2017 £ million |
| US dollar | **(0.7)** | – | **33.3** | 15.2 |
| Euro | **–** | – | **1.6** | 1.4 |
| Hong Kong dollar | **(1.0)** | (1.0) | **0.3** | 0.3 |
| Indian rupee | **(0.9)** | (4.3) | **5.4** | 5.0 |
| Chinese renminbi | **(0.9)** | (0.7) | **0.8** | 0.6 |
| Bangladeshi taka | **(0.2)** | (0.2) | **0.3** | 0.2 |
| | **(3.7)** | (6.2) | **41.7** | 22.7 |

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

| | **24 March 2018 £ million** | 25 March 2017 £ million |
|---|---|---|
| At notional value | **153.6** | 236.9 |
| At fair value – less than one year | **9.4** | 7.8 |
| At fair value – more than one year | **0.6** | 0.2 |
| Total fair value | **10.0** | 8.0 |

Of the outstanding forward foreign currency contracts due in less than one year fair valued at £9.4 million (2017: £7.8 million), £9.4 million (2017: £0.8millon) are liabilities and £nil million (2017: £8.6 million) are current assets.

At 24 March 2018, the average hedged rate for outstanding forward foreign currency contracts is 1.34 for US dollars. There are no outstanding hedged contracts in Euros or Russian roubles. These contracts mature between March 2018 and May 2019.

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 above notional value (2017: £0.1 million below).

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 adjusted items or in other comprehensive income where pounds sterling strengthens against the US dollar.

| | Reflected in profit and loss | | Reflected in equity | |
|---|---|---|---|---|
| | **24 March 2018 £ million** | 25 March 2017 £ million | **24 March 2018 £ million** | 25 March 2017 £ million |
| US dollar impact | **(3.7)** | (2.7) | **11.7** | (19.3) |

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 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. Debtor balances which are not provided for are either on payment plans and abide or pay to terms with exception of timing due to unforeseen circumstances. 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.

The average credit period on gross trade receivables was 26 days (2017: 30 days) based on total group revenue. The average credit period on International gross trade receivables based on international revenue was 73 days (2017: 87 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.

As referred to in the Financial Review on pages 18 to 26 the Group initiated financing discussions with its lenders in January 2018 and as part of this, they agreed to defer the testing of financial covenants due on 24 March 2018. The Group's two existing Banks have agreed to maintain a revolving credit facility of £67.5 million. This is conditional on the approval of a CVA, which the Group launches on 17 May 2018, and a successful equity raise. Revised covenant terms have also been agreed with the Banks.

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 cashflow 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.

F. 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

## 22. Trade and other payables

| | **24 March 2018 £ million** | 25 March 2017 £ million |
|---|---|---|
| **Current liabilities** | | |
| Trade payables | **55.6** | 72.8 |
| Payroll and other taxes including social security | **0.8** | 0.8 |
| Accruals | **43.9** | 45.7 |
| Deferred income | **0.4** | 0.4 |
| Lease incentives | **4.2** | 4.2 |
| VAT payable | **1.4** | 1.6 |
| | **106.3** | 125.5 |
| **Non-current liabilities** | | |
| Lease incentives | **20.1** | 21.5 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 48 days (2017: 64 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

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| **Current liabilities** | | |
| Property provisions | **16.5** | 8.4 |
| Other provisions | **0.3** | 0.4 |
| **Short-term provisions** | **16.8** | 8.8 |
| Non-current liabilities | | |
| Property provisions | **36.5** | 13.2 |
| Other provisions | **0.3** | 0.4 |
| **Long-term provisions** | **36.8** | 13.6 |
| Property provisions | **53.0** | 21.6 |
| Other provisions | **0.6** | 0.8 |
| **Total provisions** | **53.6** | 22.4 |

The movement on total provisions is as follows:

| | Property provisions £ million | Other provisions £ million | Total provisions £ million |
|---|---|---|---|
| Balance at 26 March 2017 | 21.6 | 0.8 | 22.4 |
| Utilised in period | (8.5) | (0.2) | (8.7) |
| Charged in period | 40.1 | – | 40.1 |
| Released in period | (0.2) | – | (0.2) |
| **Balance at 24 March 2018** | **53.0** | **0.6** | **53.6** |

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

Other provisions represent provisions for uninsured losses (£0.6 million), hence the timing of the utilisation of these provisions is uncertain.

### 24. Share capital

| | 52 weeks ended 24 March 2018 Number of shares | 52 weeks ended 25 March 2017 Number of Shares | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|---|---|
| **Issued and fully paid** | | | | |
| Ordinary shares of 50 pence each: | | | | |
| Balance at beginning of period | **170,867,497** | 170,862,863 | **85.4** | 85.4 |
| Issued under the Mothercare Sharesave Scheme | **4,388** | 4,634 | **–** | – |
| **Balance at end of period** | **170,871,885** | 170,867,497 | **85.4** | 85.4 |

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

The own shares reserve of £1.1 million (2017: £1.5 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 1,019,693 (2017: 1,074,673) with a market value at 24 March 2018 of £0.2 million (2017: £1.3 million).

## 25. Translation and hedging reserves

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| **Translation reserve** | | |
| Balance at beginning of period | **(1.3)** | 0.5 |
| Exchange differences on translation of foreign operations | **(0.6)** | (1.8) |
| **Balance at end of period** | **(1.9)** | (1.3) |
| **Hedging reserve** | | |
| Balance at beginning of period | **5.2** | 9.7 |
| Cash flow hedges: (losses)/gains arising in the period | **(18.8)** | 20.2 |
| Addition to/(removal) from equity to/from inventory during the period | **2.8** | (25.8) |
| Deferred tax on cash flow hedges | **1.4** | 1.1 |
| **Balance at end of period** | **(9.4)** | 5.2 |

## 26. Reconciliation of cash flow from operating activities

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| **(Loss)/profit from operations** | **(68.8)** | 10.4 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **14.7** | 14.2 |
| Amortisation of intangible assets | **8.9** | 5.0 |
| Impairment of property, plant and equipment and intangible assets | **17.1** | 1.9 |
| Loss/(profit) on adjusted foreign currency movements | **7.1** | (4.1) |
| Equity-settled share-based payments | **–** | 0.8 |
| Movement in provisions | **31.2** | (7.0) |
| Cash payments for other adjusted costs | **–** | (0.2) |
| Amortisation of lease incentives | **(4.3)** | (5.0) |
| Lease incentives received | **2.4** | 2.0 |
| Payments to retirement benefit schemes | **(11.8)** | (9.6) |
| Charge to profit from operations in respect of retirement benefit schemes | **3.2** | 3.0 |
| **Operating cash flow before movement in working capital** | **(0.3)** | 11.4 |
| Decrease/(increase) in inventories | **11.2** | (0.5) |
| (Increase)/decrease in receivables | **(1.7)** | 7.5 |
| Decrease in payables | **(5.9)** | (2.0) |
| **Cash generated from operations** | **3.3** | 16.4 |
| **Income taxes paid** | **(2.0)** | (1.1) |
| **Net cash flow from operating activities** | **1.3** | 15.3 |

### Analysis of net debt

| | 26 March 2017 £ million | Cash flow £ million | Foreign exchange £ million | Other non-cash movements £ million | 24 March 2018 £ million |
|---|---|---|---|---|---|
| **Cash and cash equivalents** | – | – | – | – | **–** |
| Borrowings | (15.0) | (27.5) | – | – | **(42.5)** |
| Bank overdrafts | (0.9) | 2.2 | (2.9) | – | **(1.6)** |
| **Net debt** | (15.9) | (25.3) | (2.9) | – | **(44.1)** |

Financials

### 27. Operating lease arrangements

The Group as lessee:

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| Amounts recognised in cost of sales for the period: | | |
| Minimum lease payments paid | **39.6** | 42.7 |
| Contingent rents | **0.1** | 0.2 |
| Minimum sublease payments received | **(0.1)** | (0.1) |
| **Net rent expense for the period** | **39.6** | 42.8 |

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:

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Not later than one year | **42.4** | 42.3 |
| After one year but not more than five years | **101.3** | 120.4 |
| After five years | **63.1** | 72.6 |
| **Total future minimum lease payments** | **206.8** | 235.3 |

At the balance sheet date, the following future minimum lease amounts are contractually receivable from sub-tenants:

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Not later than one year | **0.4** | 0.4 |
| After one year but not more than five years | **1.1** | 1.5 |
| **Total future minimum lease receivables** | **1.5** | 1.9 |

### 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.

Share-based payments is a credit of £0.1 million (2017: £0.8 million charge), including national insurance, of which a £0.1 million credit (2017: £0.8 million charge) was equity-settled. At 24 March 2018 the liability in the balance sheet is £0.7 million related to the expected national insurance charge when share-based payment schemes vest (2017: £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
E. Value Creation Plan
F. Senior Management Incentive Plan and Management Incentive Plan

Details of the share schemes that the Group operates are provided in the directors' remuneration report on pages 71 to 73.

For each scheme, expected volatility was determined with reference to the 90-day volatility of the Company 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 24 March 2018 Number of shares** | 52 weeks ended 25 March 2017 Number of Shares |
|---|---|---|---|
| Balance at beginning of period | **114p** | **3,505,488** | 2,247,102 |
| Granted during period | **–** | **–** | 2,430,840 |
| Forfeited during period | **113p** | **(310,553)** | (119,924) |
| Exercised during period | **90p** | **(4,388)** | (4,634) |
| Cancelled in the period | **110p** | **(950,229)** | (877,863) |
| Expired during period | **159p** | **(188,502)** | (170,033) |
| Balance at end of period | **112p** | **2,051,816** | 3,505,488 |

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

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 |
|---|---|---|---|
| Number of options granted | 2,430,840 | 1,216,606 | 998,525 |
| Share price at grant date | 112p | 224p | 178p |
| Exercise price | 90p | 169p | 148p |
| Expected volatility | 52.0% | 42.0% | 42.0% |
| Risk free rate | 0.23% | 0.54% | 0.60% |
| Expected dividend yield | Nil | Nil | Nil |
| Time to expiry | 3.25 years | 3.25 years | 3.25 years |
| Fair value of option | 48.8p | 90.8p | 165.8p |

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 targets for the financial year ending March 2018. The awards in this scheme will lapse due to the Group not meeting the performance conditions.

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 |

C. Long Term Incentive Plans

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 % of the shares vest. No consideration is payable for the grant of these awards.

| | December 2014 | December 2014 | March 2015 | March 2015 |
|---|---|---|---|---|
| Grant date | PBT Awards | Share price Awards | PBT awards | Share price awards |
| Number of shares awarded | 1,466,718 | 1,466,718 | 412,000 | 412,000 |
| Share price at date of grant | 184p | 184p | 192p | 192p |
| Exercise price | Nil | Nil | Nil | Nil |
| Expected volatility | 56.3% | 47.7% | 56.3% | 47.7% |
| Risk-free rate | 0.92% | 0.60% | 0.92% | 0.60% |
| Expected dividend yield | Nil | Nil | Nil | Nil |
| Fair value of shares granted | 184p | 71p | 184p | 71p |
| Average time to expiry | 3.3 years | 2.3 years | 3.3 years | 2.3 years |

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 (TSR) weighted equally 50:50. These conditions will be tested in relation to financial year ending March 2019 and financial year ending March 2018 respectively to determine what % of the shares vest. No consideration is payable for the grant of these awards.

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

| Grant date | August 2016 EPS awards | August 2016 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 years | 3.5 years |

D. Retention Share Plan

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

| Grant date | August 2016 PBT awards | August 2016 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 |



E. Valuation Creation Plan

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

F. Senior Management Incentive Plan and Management Incentive Plan

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

**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 £1.9 million (2017: £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 valuation was carried out as of 30 March 2017 and was updated for the purpose of these disclosures with the advice of professionally qualified actuaries. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit method.

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

Below is an outline of the risks, what they are and how the Group mitigates 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 proportion in growth assets. At year end both Schemes were in the process of implementing revised de-risking strategies with only the Staff Pension Scheme expected to have a new global synthetic equity mandate (13% of assets, representing c.31% exposure) following the proposed changes. There was a strategic allocation of 24% to diversified growth funds for both Schemes. 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. | Since the previous year end, The Company and Trustee have introduced a leveraged liability driven investment portfolio with formal interest rate and inflation hedge ratios (c 56% and c 55% on a technical provisions basis for the Staff and Executive Pension Schemes respectively). This is designed to reduce funding level volatility by investing in assets which more closely match the characteristics of the liabilities. The investment strategy is expected to continue to evolve to further de-risk the Staff and Executive Pension Schemes over time. |
| **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 19%) 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. | |

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 24 March 2018 disclosed a net defined pension deficit of £37.7 million (2017: £80.1 million).

The major assumptions used in the updated actuarial valuations were:

| | 24 March 2018 | 25 March 2017 |
|---|---|---|
| Discount rate | **2.7%** | 2.7% |
| Inflation rate – RPI | **3.1%** | 3.2% |
| Inflation rate – CPI | **2.0%** | 2.1% |
| Future pension increases | **3.0%** | 3.0% |
| Male life expectancy at age 65 | **22.0 years** | 21.9 years |
| Male life expectancy at age 65 (currently aged 45) | **23.3 years** | 23.3 years |
| Female life expectancy at age 65 | **24.1 years** | 23.3 years |
| Female life expectancy at age 65 (currently aged 45) | **25.7 years** | 24.8 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%. 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% | -7.3 /+7.5 |
| Rate of RPI inflation | +/- 0.1% | +4.7 /-6.8 |
| Rate of CPI inflation | +/- 0.1% | +2.6 /-3.0 |
| Life expectancy (age 65) | + 1 year | + 13.4 |
| Discount rate | +/- 0.5% | -39.0 /+39.0 |
| Rate of RPI inflation | +/- 0.5% | +31.3 /- 29.1 |

The above sensitivities are applied to adjust the defined benefit obligation at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide an approximation to the sensitivity of the assumptions shown.

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

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

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

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

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

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Present value of defined benefit obligations | **389.2** | 409.7 |
| Fair value of schemes' assets | **(351.5)** | (329.6) |
| **Liability recognised in balance sheet** | **37.7** | 80.1 |

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

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| At beginning of period | **409.7** | 361.9 |
| Interest expense | **10.7** | 12.9 |
| Actuarial losses/(gains) arising from changes in demographic assumptions | **6.1** | (18.0) |
| Actuarial (gains)/losses arising from changes in financial assumptions | **(5.4)** | 79.4 |
| Experience losses on liabilities | **(20.2)** | (17.5) |
| Benefits paid | **(11.7)** | (9.0) |
| **At end of period** | **389.2** | 409.7 |

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

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| At beginning of period | **329.6** | 287.5 |
| Interest income | **8.7** | 10.3 |
| Scheme administration expenses | **(3.4)** | (3.0) |
| Return on scheme assets excluding interest income | **16.5** | 34.2 |
| Company contributions | **11.8** | 9.6 |
| Benefits paid | **(11.7)** | (9.0) |
| **At end of period** | **351.5** | 329.6 |

The major categories of scheme assets are as follows:

| | 24 March 2018 £ million | 24 March 2018 £ million | 25 March 2017 £ million | 25 March 2017 £ million |
|---|---|---|---|---|
| | Quoted market price in active market | No quoted market price in active market | Quoted market price in active market | No quoted market price in active market |
| UK equities | **41.6** | – | 39.1 | – |
| Overseas equities | **22.9** | – | 85.8 | – |
| Corporate bonds | **67.6** | – | 63.1 | – |
| Index-linked government bonds | – | – | 62.3 | – |
| Liability driven investments | **65.0** | – | – | – |
| Diversified growth funds | **82.7** | – | 76.9 | – |
| Cash and cash equivalents | **71.7** | – | 2.4 | – |
| | **351.5** | – | 329.6 | – |

The percentage split of the scheme assets between sterling & non-sterling are as follows as at 24 March 2018:

| | Sterling | Non-sterling |
|---|---|---|
| UK equities | **100%** | – |
| Overseas equities | **91%** | 9% |
| Corporate bonds | **100%** | – |
| Index-linked government bonds | **100%** | – |
| Liability driven investments | **100%** | – |
| Diversified growth funds | **73%** | 27% |
| 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 53 weeks ending 30 March 2019 is £9.8 million.

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 |
|---|---|---|---|
| 2019 | £2.06 million | 2019 | £7.74 million |
| 2020 | £2.35 million | 2020 | £9.05 million |
| 2021 | £2.73 million | 2021 | £10.47 million |
| 2022 | £3.16 million | 2022 | £12.14 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 24 March 2018 is approximately 22 years (2017: 23.5 years).

The defined benefit obligation at 24 March 2018 can be approximately attributed to the scheme members as follows:

- Active members: 0% (2017: 0%)
- Deferred members: 66% (2017: 67%)
- Pensioner members: 34% (2017: 33%)

All benefits are vested at 24 March 2018 (unchanged from 25 March 2017).

### 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 24 March 2018 | Sales of goods £ million | Purchases of goods £ million | Amounts owed by related parties £ million | Amounts owed to related parties £ million |
|---|---|---|---|---|
| **Joint ventures** | **6.4** | **–** | **1.8** | **–** |

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

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

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received at the year end. A provision of £0.9 million (2017: £6.3 million) has been made for doubtful debts in respect of the amounts owed by related parties.

The joint venture in China was fully disposed of on 20 December 2017. As part of the disposal a loan and gross trade receivables were written off against a provision of the same amount.

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 59 to 63.

| | 52 weeks ended 24 March 2018 £ million | 52 weeks ended 25 March 2017 £ million |
|---|---|---|
| Short-term employee benefits | **3.5** | 5.4 |
| Post-employment benefits | **0.3** | 0.5 |
| Compensation for loss of office | **0.3** | 0.3 |
| | **4.1** | 6.2 |

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**

Directorate changes

Mark Newton-Jones stepped down as Chief Executive Officer on 4 April 2018. David Wood was appointed as Chief Executive Officer on the same date. Alan Parker retired from the position of Non-Executive Chairman on 19 April 2018 and was replaced by Clive Whiley as Interim Executive Chairman on that date.

On 17 May 2018 the Company announced its intent to reappoint Mark Newton- Jones as Chief Executive Officer subject to execution of contract.

Refinancing and funding review

In May 2018 the Group's two existing banks, HSBC and Barclays, agreed to provide a revolving credit facility of £67.5 million comprising two tranches. Tranche A is £50.0 million stepping down to £30.0 million in September 2020 with final maturity in December 2020. Tranche B is £17.5 million, maturing in November 2018, at which point an overdraft of £5.0 million becomes uncommitted outside of the revolving credit facility. This is conditional on the approval of a CVA, which the Group launches on 17 May 2018, and a successful equity raise.

The Group has also obtained the support of its shareholders and intends to undertake a placement of shares of £36.0 million in July 2018. This will be conditional on approval of the CVA and has been fully underwritten by Numis Securities Limited. Within this raise, a shareholder loan of £8.0 million has been agreed, receivable immediately, which will be convertible to equity.

The Group has also secured the support of its franchise partners that will allow the Group to drawdown a loan against the outstanding trade receivable, to a maximum of £10.0 million.

# Company financial statements

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# Company balance sheet
As at 24 March 2018

| | Note | **24 March 2018 £ million** | 25 March 2017 £ million |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments in subsidiary undertakings | 3 | **78.2** | 165.4 |
| | | **78.2** | 165.4 |
| **Current assets** | | | |
| Debtors – amounts falling due within one year | 4 | **156.1** | 212.6 |
| | | **156.1** | 212.6 |
| **Creditors** – amounts falling due within one year | 5 | **(156.3)** | (152.6) |
| **Net current (liabilities)/assets** | | **(0.2)** | 60.0 |
| **Total assets less current liabilities** | | **78.0** | 225.4 |
| **Creditors** – amounts falling due after more than one year | 5 | **(42.5)** | (15.0) |
| **Net assets** | | **35.5** | 210.4 |
| **Equity** | | | |
| Called up share capital | 6 | **85.4** | 85.4 |
| Share premium | 7 | **61.0** | 61.0 |
| Own shares | 7 | **(1.1)** | (1.5) |
| Profit and loss account | 7 | **(109.8)** | 65.5 |
| **Total Equity** | | **35.5** | 210.4 |

For the 52 weeks ended 24 March 2018

The Company reported a loss for the financial period ended 24 March 2018 of £174.8 million (2017: profit of £19.0 million).

Approved by the Board on 17 May 2018 and signed on its behalf by:

**Glyn Hughes**
Chief Financial Officer

Company Registration Number: 1950509

# Company statement of changes in equity

| | Note | Share capital £ million | Share premium account £ million | Own share reserve £ million | Profit and loss account £ million | **Total £ million** |
|---|---|---|---|---|---|---|
| Balance at 27 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 26 March 2017** | | 85.4 | 61.0 | (1.5) | 65.5 | 210.4 |
| Loss for the period | 7 | – | – | – | (174.8) | (174.8) |
| Other comprehensive income for the period | | – | – | – | – | – |
| **Total comprehensive income for the period** | | – | – | – | (174.8) | (174.8) |
| Shares transferred to employees | 7 | – | – | 0.4 | (0.4) | – |
| Capital contribution for equity-settled share based payments | 7 | – | – | – | (0.1) | (0.1) |
| **Balance at 24 March 2018** | | **85.4** | **61.0** | **(1.1)** | **(109.8)** | **35.5** |

# Notes to the company financial statements

General information

Mothercare plc is a public Company limited by shares incorporated in Great Britain under the Companies Act 2006. The address of the registered office is given in the shareholder information on page 139. Mothercare plc acts as a holding Company for a group of companies operating as a specialist multi- channel retailer, franchisor and wholesaler of products for mothers-to-be and children under the mothercare and Early Learning Centre brands.

**1. Significant accounting policies**

The Company's accounting period covers the 52 weeks ended 24 March 2018. The comparative period covered the 52 weeks ended 25 March 2017.

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council (FRC). Accordingly these financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemption available under the standard in relation to share-based payments presentation of comparative information in respect of certain assets, capital management, the presentation of a cash flow statement, standards not yet effective and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

Principal risks and uncertainties

Going concern

The financial statements have been prepared on the historical cost basis and on the going concern basis, as described in the going concern statement in the corporate governance report on page 42. The Directors have reviewed the latest forecasts and projections which have been sensitivity tested for reasonably possible adverse variations in performance. These are outlined in the Viability Statement on pages 25 to 26. The Directors are of the opinion that subject to the material uncertainty surrounding the approval of the CVA, the Group and Company will operate within the terms of its revised borrowing facilities and covenants for the foreseeable future and accordingly the financial statements are prepared on a going concern basis.

Interest rate risk

The principal interest rate risk of the Company arises in respect of the drawdown of the revolving credit facility. This facility is at a fixed rate plus LIBOR, it exposes the Company to cashflow 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 Company has exposure to credit risk inherent in its receivables due from its subsidiary undertakings.

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 and Company'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 of the consolidated financial statements is a description of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

As referred to in the Financial Review on pages 18 to 26 the Group initiated financing discussions with its lenders in January 2018 and as part of this, they agreed to defer the testing of financial covenants due on 24 March 2018. The Group's two existing Banks have agreed to maintain a revolving credit facility of £67.5 million comprising two tranches. This is conditional on the approval of a CVA, which the Group launches on 17 May 2018, and a successful equity raise. Revised covenant terms have also been agreed with the Banks.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company financial statements requires management to make judgements, estimates and assumptions in applying the Company's accounting policies to determine the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions to accounting estimates applied prospectively.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. Estimates and judgements are continually evaluated and are based on historical experience

and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

Allowances against the carrying value of investment in subsidiaries

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. The recoverable amounts of individual investments in subsidiaries 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 rate and growth rates. Management has used a pre-tax discount rate of 10.7% (2017:11.5%) which reflects the time value of money and risks related to the cash generating units.

### 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 loss for the 52 weeks ended 24 March 2018 was £174.8 million (2017: profit of £19.0 million). The auditor's remuneration for audit and other services is disclosed in Note 7 to the consolidated financial statements.

Financials

### 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:

| | **24 March 2018 £ million** | 25 March 2017 £ million |
|---|---|---|
| Investments in subsidiaries | **78.2** | 99.9 |
| Loans to subsidiary undertakings | **–** | 65.5 |
| Net book value | **78.2** | 165.4 |

| | £ million |
|---|---|
| **Cost** | |
| At 26 March 2017 | 373.2 |
| Addition | 80.0 |
| Share-based payments to employees of subsidiaries | (0.1) |
| At 24 March 2018 | 453.1 |
| **Impairment** | |
| At 26 March 2017 | (207.8) |
| Charged during the period | (167.1) |
| At 24 March 2018 | (374.9) |
| **Net book value** | **78.2** |

The recoverable amounts of individual investments in subsidiaries 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 rate and growth rates. Management has used a pre-tax discount rate of 10.7% (2017:11.5%) which reflects the time value of money and risks related to the cash generating units. The cash flow projections are based on the financial budgets and forecasts approved by the Board covering a five year period. No growth rate has been applied. As a result an impairment charge of £167.1 million was charged during the period against mothercare and the Early Learning Centre subsidiaries.

During the period an intercompany debt of £80.0 million due to the Company from one subsidiary undertaking (Early Learning Centre Limited) was assigned to another (Mothercare UK Limited).

### 4. Debtors

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| Amounts due from subsidiary undertakings | **155.7** | 212.1 |
| Other debtors | **0.4** | 0.5 |
| | **156.1** | 212.6 |

Amounts due from subsidiary undertakings are recognised at fair value and repayable on demand. No interest is charged on the outstanding balances.

### 5. Creditors

| | 24 March 2018 £ million | 25 March 2017 £ million |
|---|---|---|
| **Creditors: amounts due within one year** | | |
| Amounts due to subsidiary undertakings | **146.7** | 143.8 |
| Borrowings and bank overdraft | **8.8** | 8.0 |
| Accruals and other creditors | **0.8** | 0.8 |
| | **156.3** | 152.6 |
| **Creditors: amounts due after one year** | | |
| Borrowings and bank overdraft | **42.5** | 15.0 |
| | **42.5** | 15.0 |

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

In May 2017 the Group refinanced with the support of its two existing banks HSBC and Barclays, amending its committed facilities of £50.0 million to a £62.5 million revolving credit facility and a £5.0 million uncommitted. The amended credit facility is made up of two tranches, £50.0 million maturing in May 2020 and an additional £12.5 million maturing in November 2018.

In May 2018 the Group's two existing banks agreed to continue to provide a facility of £67.5 million. This facility is conditional on the approval of a CVA, which the Group launches on 17 May 2018. Further information is provided within Note 31 'Events after the balance sheet date' in the consolidated financial statements.

### 6. Called up share capital

| | Number of shares | £ million |
|---|---|---|
| Issued and fully paid | | |
| Ordinary shares of 50p each: | | |
| Balance at 26 March 2017 | 170,867,497 | 85.4 |
| Issued under the Mothercare Sharesave Scheme at 90p per share | 4,388 | – |
| **Balance at 24 March 2018** | **170,871,885** | **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 2017 | 61.0 | (1.5) | 65.5 |
| Vesting of shares | – | 0.4 | (0.4) |
| Fair value of share-based payments | – | – | (0.1) |
| Loss for the financial year | – | – | (174.8) |
| **Balance at 24 March 2018** | **61.0** | **(1.1)** | **(109.8)** |

The own shares reserve of £1.1 million (2017: £1.5 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 1,019,693 (2017: 1,074,673) with a market value at 24 March 2018 of £0.2 million (2017: £1.3 million).

### 8. Events after the balance sheet date

Details on events after the balance sheet date are shown in Note 31 to the consolidated financial statements.

# Five year record
(unaudited)

| | 2018 £ million | 2017 £ million | 2016 £ million | 2015 £ million | 2014 £ million |
|---|---|---|---|---|---|
| **Summary of consolidated income statements** | | | | | |
| Revenue | **654.5** | 667.4 | 682.3 | 713.9 | 724.9 |
| Adjusted[1] profit from operations before interest | **6.3** | 23.0 | 22.8 | 18.0 | 15.9 |
| Adjusted[2] items | **(75.1)** | (12.6) | (9.9) | (24.6) | (35.0) |
| Interest (net) | **(4.0)** | (3.3) | (3.2) | (6.5) | (7.2) |
| (Loss)/profit before taxation | **(72.8)** | 7.1 | 9.7 | (13.1) | (26.3) |
| Taxation | **(3.3)** | 1.1 | (3.3) | (2.3) | (1.2) |
| (Loss)/profit for the financial year | **(76.1)** | 8.2 | 6.4 | (15.4) | (27.5) |
| Basic (losses)/earnings per share | **(44.8p)** | 4.8p | 3.8p | (12.6p) | (31.0p) |
| Basic adjusted (losses)/earnings per share | **(0.8p)** | 9.7p | 9.6p | 8.6p | 7.7p |
| **Summary of consolidated balance sheets** | | | | | |
| Deferred tax asset | **3.6** | 24.8 | 20.3 | 23.6 | 18.5 |
| Other non-current assets | **121.5** | 144.8 | 123.5 | 109.6 | 111.5 |
| Net current assets | **17.2** | 42.0 | 57.8 | 64.1 | 12.2 |
| Retirement benefit obligations | **(37.7)** | (80.1) | (74.4) | (81.2) | (49.7) |
| Other non-current liabilities | **(100.0)** | (50.1) | (38.1) | (38.4) | (77.3) |
| Total net assets | **4.6** | 81.4 | 89.1 | 77.7 | 15.2 |
| **Other key statistics** | | | | | |
| Share price at year end | **17.5p** | 118.5p | 180.0 | 206.5p | 189.0p |
| Net (debt)cash/equity | **(89.1%)** | (19.5%) | 15.0% | 40.5% | (238.5%) |
| Number of issued shares | **170,871,885** | 170,867,497 | 170,863,741 | 170,469,020 | 88,813,598 |
| Capital expenditure | **24.1** | 42.6 | 39.2 | 12.7 | 10.9 |
| Depreciation and amortisation | **23.6** | 19.9 | 18.3 | 17.7 | 20.3 |
| Rents | **39.6** | 42.8 | 44.6 | 48.2 | 48.7 |
| Number of UK stores | **137** | 152 | 170 | 189 | 220 |
| Number of International stores | **1,131** | 1,150 | 1,142 | 1,121 | 1,080 |
| UK selling space (000's sq.ft.) | **1,305** | 1,462 | 1,552 | 1,658 | 1,737 |
| International selling space (000's sq.ft.) | **2,869** | 2,946 | 2,921 | 2,776 | 2,522 |
| Average number of employees | **4,737** | 5,211 | 5,346 | 5,433 | 5,613 |
| Average number of full time equivalents | **2,791** | 3,099 | 3,153 | 3,304 | 3,486 |

1 Before items described in Note 2 below.

2 Includes adjusted items (property costs, restructuring costs, impairment charges) and other adjusted items of amortisation of intangible assets (excluding software) and the impact of foreign currency adjustments under IAS 39 and IAS 21 as set out in Note 6 to the consolidated financial statements.

# Shareholder information

### Shareholder analysis

A summary of holdings as at 24 March 2018 is as follows:

| | Mothercare ordinary shares | |
|---|---|---|
| | Number of shares | Number of shareholders |
| Banks, insurance companies and pension funds | 258,910 | 3 |
| Nominee companies | 146,465,608 | 357 |
| Other corporate holders | 20,176,447 | 76 |
| Individuals | 3,970,920 | 19,006 |
| | **170,871,885** | **19,442** |

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

| | **2018** | 2017 |
|---|---|---|
| Share price at 24 March 2018 (25 March 2017) | **17.5p** | 118.5p |
| Market capitalisation | **£29.9m** | £202.5m |
| Share price movement during the year: | | |
| High | **132.00p** | 194.00p |
| Low | **14.68p** | 106.25p |

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. On 27 October 2014 79,942,294 new ordinary shares were issued. 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

| | 2018 |
|---|---|
| Annual General Meeting | 19 July |
| Announcement of interim results | 24 November |
| | 2019 |
| Preliminary announcement of results for the 53 weeks ending 29 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

Alice Darwall

### 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:

# Shareholder information
continued

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

Shore Capital Stockbrokers Limited, Bond Street House,
14 Clifford Street,
London W1S 4JU
Telephone 020 7408 4080

**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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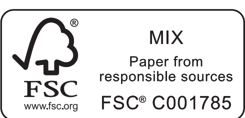


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