Mothercare plc FY17/18
Half Year Results

Continued transformation of the brand, converting into positive UK like-for-likes set against a challenging consumer backdrop

Mothercare plc, the leading global retailer for parents and young children, today announces half year results for the 28 week period to 7th October 2017.

Highlights for H1 FY17/18

- Group adjusted loss before tax £(0.7)m (H1 FY16/17: £5.9m profit)
- UK transformation progressing
  - UK like-for-like sales +2.5% with online sales +5.3% and margins up 34bps
  - 97 stores now in the modern 'club' format, representing 75% of store estate
  - Store closure programme continues: closed ten underperforming stores; opened one new
  - Adjusted UK EBITDA at £1.0m (H1 FY16/17 £(0.6)m); UK adjusted loss before tax £(9.6)m (H1 FY16/17 £(8.8)m)
- International performance remains challenging, primarily driven by the key Middle East market
  - Constant currency sales (7.7)% (H1 FY16/17: (0.8)%)
  - Transferring our learnings from the UK to International
  - Launched new website in Pakistan and two new marketplaces: India and United Arab Emirates; online presence now in 23 countries across 30 websites and marketplaces
  - Online sales growth +57% in constant currency
  - 127 stores now refurbished in the modern 'club' format
- Statutory Group loss before tax of £(16.8)m (H1 FY16/17 £(0.8)m net). Debt £(37.6)m in line with guidance
- Ongoing restructuring costs and investment to support phase two of the transformation

	28 weeks to 7 Oct 2017 £ million	**28 weeks to 8 Oct 2016 £ million**	***% change vs. last year***
UK			
UK like-for-like sales[1]	2.5%	(0.7)%	-
Total UK sales	229.0	231.2	*(1.0)%*
Adjusted UK loss[2]	(9.6)	(8.8)	*(9)%*
International			
International like-for-like sales[1]	(8.0)%	(2.9)%	-
International retail sales in constant currency[1]	(7.7)%	(0.8)%	-
International retail sales in actual currency	(1.7)%	7.1%	-
Total International sales	398.9	405.6	*(1.7)%*
Adjusted International profit[2]	14.9	20.8	*(28)%*
Group			
Worldwide sales[1]	627.9	636.8	*(1.4)%*
Total group sales	339.5	347.7	*(2.4)%*
Group adjusted (loss)/profit before tax[2]	(0.7)	5.9	*(112)%*
Adjusted items	(16.1)	(6.7)	-
Group (loss)/profit before tax after adjusted items	(16.8)	(0.8)	-
Basic EPS	(8.5)p	0.2p	-
Basic adjusted EPS[2]	0.0p	3.4p	-
Net (debt)/cash	(37.6)	(15.6)	-

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

"We are on track with our transformation plans for our business, with like-for-like sales in the UK growing 2.5% and gross margins up by 34 bps year on year, in the first half. Across the business, we continue to invest and make progress, developing the Mothercare brand into a digitally led, global specialist.

"In the UK, 97 stores are now in the modern 'club' format, representing 75% of the total estate and, as planned, we have closed a further ten stores and opened one new store as we work towards our target of 80-100 stores. We are growing our digital capability, with 42% of our trade now taken online. We have built further strength in personal service, advice and expertise, whilst sharpening our focus on our core markets of maternity, newborn, baby and toddler up to pre-school. As reported in May, we are reducing our cost base as we become an even leaner and simpler business, and we have identified opportunities to go faster in this respect.

"Our International markets remain challenging, primarily as a result of weak trading in the Middle East that is dragging down our overall performance overseas; there is no clear sight as to when things will bottom out in that region. We are working with our partners across the globe to help them improve trading by exporting our digital experience and our modern 'club' format into their territories. We have expanded our digital presence in a further three countries: India, Pakistan and United Arab Emirates

"Towards the end of the reporting period, and in subsequent weeks, we have seen a softening in the UK market with lower footfall and spend which is consistent with recent industry reports. Not-withstanding this uncertain consumer backdrop, the Mothercare brand, whilst not immune, is in a stronger position with a much-improved product and service offer and a more robust business model.

"We remain firmly committed to our vision to be the leading global retailer for parents and young children."

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Notes:

1. UK like-for-like sales are defined as sales from stores that have been trading continuously from the same selling space for at least a year and include online sales. UK online sales include both website sales and sales taken on iPads in store. International retail sales, including online sales, are the estimated retail sales of overseas franchisees and joint ventures and associates to their customers. International like-for-like sales are the estimated franchisee retail sales from stores that have been trading continuously from the same selling space for at least a year. International sales in constant currency exclude the impact of movements in foreign exchange on translation. Worldwide sales are total International sales plus total UK sales. Total International sales are International retail sales plus International Wholesale sales. Total group sales is a statutory number and is made up of total UK sales and receipts from our International partners, which includes royalty payments and the cost of goods dispatched to our franchise partners.
2. The use of alternative performance measures (APM's) within this announcement are intended to assist in providing additional useful information on the ongoing trends, performance and position of the Group and should be considered in addition to IFRS measures (see Note 2 in financial review).
3. This announcement contains certain forward-looking statements concerning the company. Although the Board believes its expectations are based on reasonable assumptions, the matters to which such statements refer may be influenced by factors that could cause actual outcomes and results to be materially different. The forward-looking statements speak only as at the date of this document and the company does not undertake any obligation to announce any revisions to such statements, except as required by law or by any appropriate regulatory authority.
4. Mothercare plc will release their Q3 results for the 13 week period to 6th January 2018, on 11th January 2018.

CHIEF EXECUTIVE'S REVIEW

Overview

In the first half, we have remained focused on delivering the second phase of the transformation of our brand. We continue to make good progress against each of the six strategic pillars, using our learnings and consumer insight, to reshape our business to meet the future needs of both our UK customers and our International partners.

1. Becoming a digitally led business

- Online sales +5.3%
- Online 42% of UK retail sales (c40% H1 FY16/17)
- Mobile 82% of total online sales (80% H1 FY16/17)
- 42% of total online sales generated by iPads in stores (44% H1 FY16/17)
- 2.9m active customers on the database

2. Supported by a modern retail estate and great service

- 97 stores now in the modern 'club' format, representing 75% of store estate
- Closed 10 underperforming stores; opened 1 new
- Expectant Parent Events attended by 32,000 new mums and dads creating c£8m of revenue (+51% H1 FY16/17)

3. Offering style, quality and innovation in product

- 40% of Home and Travel is now exclusive (35% H1 FY16/17)
- 116 Home and Travel exclusive products launched
- 20% of Clothing and Footwear at 'best' end of the range

4. Stabilise and recapture gross margin

- Full price sales at 60% (65% H1 FY16/17) as customers shifted towards promotions
- UK gross margin +34bps
- US$ cost inflation partly offset by negotiation and price increases of 3-5% towards end of H1

5. Running a lean organisation while investing for the future

- Stock position reduced by £6m to £120m
- Investment in warehousing consolidation and merchandising planning systems now complete
- Clear plans to accelerate business simplification and central overhead savings
- Toys range reduced by 50% to focus on younger ages for spring/summer 2018 season

6. Expanding further internationally

- Space down (3.0)% with 1,135 stores in 50 countries
- Opened 68 new stores (closed 83)
- 127 stores now in the modern 'club' format
- Launched new website in Pakistan and two marketplaces: United Arab Emirates and India. Now trading in 23 countries across 30 websites and marketplaces

GROUP RESULTS

Global retail space across all of our markets was down (5.1)% year on year with the UK declining by (9.2)% to c1.4m sq.ft and International down (3.0)% at c2.9m sq.ft. We now have 143 stores in the UK and internationally, our partners now operate from 1,135 stores in 50 countries.

	28 weeks to 7 Oct 2017 £million	**28 weeks to 8 Oct 2016 £million**	***% change vs. last year***
Adjusted International profit[2]	14.9	20.8	*(28)%*
Adjusted UK loss[2]	(9.6)	(8.8)	*(9)%*
Adjusted corporate expenses	(4.3)	(3.7)	*(16)%*
Adjusted profit from operations[2]	**1.0**	**8.3**	***(88)%***
Adjusted net finance costs	(1.9)	(1.9)	-
Share based payments credit/ (charge)	0.2	(0.5)	-
Adjusted (loss)/profit before tax[2]	**(0.7)**	**5.9**	***(112)%***
Adjusted costs	(15.6)	(10.7)	-
Non-cash foreign currency adjustments	-	4.5	-
Amortisation of intangibles	(0.5)	(0.5)	-
Reported (loss)/profit before tax	**(16.8)**	**(0.8)**	**-**

Worldwide sales were down (1.4)% at £627.9m with total UK sales down (1.0)% at £229.0m and total International sales down (1.7)% at £398.9m. Group sales, which reflect our UK sales and reported revenues or receipts from our International partners, were down (2.4)% at £339.5m.

Adjusted Group loss before tax was £(0.7)m. UK adjusted losses increased to £(9.6)m, while adjusted International profits were down (28)% to £14.9m. Adjusted corporate expenses increased to £(4.3)m, adjusted finance costs remained flat at £(1.9)m and share based payments were a £0.2m credit as vesting assumptions were updated.

After a charge of £(15.6)m for adjusted items, primarily property and restructuring relating to our transformation programme and a £(0.5)m charge for amortisation of intangibles, the reported loss for the half year was £(16.8)m (H1 FY16/17 £(0.8)m).

Our balance sheet remains strong with net assets of £65.8m and net debt of £(37.6)m, in line with expectations, compared with a net debt of £(15.6)m last year, reflecting our investment programme in the UK store estate, IT and infrastructure.

UK

We are making good progress with the second phase of the transformation of our brand, reshaping our business to become more relevant to our digitally enabled customer.

The growth in like-for-like sales of 2.5%, supported by online growth of 5.3% and an improvement in gross margin of 34bps, was more than offset by costs primarily associated with our transformation, including warehouse transition costs, property and depreciation. Productivity is expected to improve in the second half. Adjusted EBITDA in the UK improved to £1.0m from (£0.6)m in H1 FY16/17, although adjusted losses in the UK increased to £(9.6)m from £(8.8)m due to higher depreciation costs as a result of our programme of investment.

	28 weeks to 7 Oct 2017 £million	**28 weeks to 8 Oct 2016 £million**	***% change vs. last year***
UK like-for-like sales growth	2.5%	(0.7)%	-
UK online sales	87.9	83.4	*5.3%*
UK retail sales (including online)	210.6	214.6	*(1.9)%*
UK wholesale sales	18.4	16.6	*10.8%*
Total UK sales	229.0	231.2	*(1.0)%*
Adjusted EBITDA	1.0	(0.6)	*267%*
Adjusted loss	(9.6)	(8.8)	*(9)%*

Becoming a digitally led business

We continue to achieve good growth in our online business as it matures, with sales up 5.3%. Online now accounts for 42% of our total UK retail sales (40% H1 FY16/17). The trend towards mobile continues with mobile now 82% of total online sales (80% H1 FY16/17).

Using our learnings over the last three years and our rich consumer insight from our database of 2.9m active customers, we are growing our digital capability, focusing on developing a truly personalised experience for our customers.

Supported by a modern retail estate

We are making progress with our store strategy, closing underperforming stores, opening new sites and transitioning to two thirds out of town and one third of stores in town. We now have 75% of our store estate in the modern 'club' format (97 stores) and closed ten underperforming stores in the period as part of our planned closure programme. Our omnichannel customer strategy continues to evolve, with 42% of our online sales now from iPads in store.

We continue to develop our stores as community hubs, bringing mums and dads together to connect with each other while obtaining expert knowledge and advice on their parenting journey. Through our Expectant Parent Events, new mums meet-ups and NCT partnership, we are reaching out to many more new parents. Whilst these events are creating a community, they are also commercial, with c£8m of sales generated at our Expectant Parent Events, a growth of 51% on the previous year.

Offering style, quality and innovation in product

We have maintained our price architecture, with an average of 20% of our clothing and footwear in the 'best' range (20% H1 FY16/17) and 40% 'best' in Home and Travel (20% H1 FY16/17). We continue to work with our suppliers to introduce new brands and exclusive ranges. This is particularly important as we combat aggressive discounting in the market.

In **Home and Travel**, we have launched 116 new exclusive products in the period, bringing the total to 178 (+5% H1 FY16/17). New exclusives include the Silver Cross Pioneer Brompton and Silver Cross Pursuit pushchairs and baby monitors by Motorola and Angelcare. New brands introduced include Snuzkot, Merifor, Shnuggle, Moba and Ewan the Sheep.

In total, we now have four out of ten products exclusive to us, compared with one in 20, three years ago.

In **Clothing and Footwear,** our celebrity 'best' brands, My K, Smile and Little Bird, continue to be customer favourites. The modern monochrome collection, designed by Myleene Klass, is a big hit while newborn and girls are top sellers in Julien Macdonald's Smile collection. Little Bird, by Jools Oliver, is an enduring favourite through the seasons and has developed something of a cult following with its colourful, retro inspired range, with products often selling out within days of being released. We extended Little Bird into bedding and maternity in the summer and this autumn/winter season saw the return of favourite Little Bird pieces from the last five years, as voted for by our customers.

Meanwhile we are advancing with our plans to reshape our ranges to focus on our core markets of maternity, newborn, baby and toddler up to pre-school. From autumn/winter 2018 we will no longer sell clothing ranges in the UK for older children.

In **Toys**, brands are now 20% of the mix, from 5% three years ago, with exclusive products from Vtech, Infantino and SmarTrike. Our own Mothercare and ELC products for the season include 'Little Senses' our brand new innovative sensory range for babies six months and up; Blossom Farm, wooden play sets and our Happyland Christmas sets which include the top selling advent calendar.

We have already made decisions that will reduce our toy ranges by c50% as part of our plans to focus on the baby and pre-school markets. The space that will subsequently be released, will be occupied by either Clothing and Footwear or Home and Travel products.

Stabilize and recapture gross margin

UK gross margin rose in the first half by +34bps. Sales of full price product, however, declined to 60% (65% H1 FY16/17) as we saw customers buying more heavily into promotional items. The increase in cost of goods from the devaluation of sterling against the dollar, was partly negotiated away, but has resulted in price increases for customers of 3-5%. These increases only began to flow through towards the end of the first half.

Running a lean organisation while investing for the future

We continue to modernise our brand, investing in infrastructure and shaping our business to meet the needs of today's digitally enabled consumer. We have consolidated our warehousing, so we can now fulfil products for both stores and online from one campus, and we have upgraded our planning and merchandising systems, to enable us to better manage stock and help grow full price sales. Our transformation strategy is progressing well and enables us, as previously reported, to deliver significant

central cost savings.

International

Trading in a number of our international territories continues to be volatile. Total International sales fell by (1.7)% to £393.2m in actual currency (H1 FY16/17 £399.9m) while constant currency delivered a fall of (7.7%). Adjusted profits for our International business were down (28)% to £14.9m

International accounts for 67% of worldwide space and 64% of worldwide sales.

	28 weeks to 7 Oct 2017 £million	**28 weeks to 8 Oct 2016 £million**	***% change vs. last year***
International like-for-like sales growth	(8.0)%	(2.9)%	-
International retail sales: constant currency	(7.7)%	(0.8)%	-
International retail sales: actual currency	(1.7)%	+7.1%	-
International retail sales	393.2	399.9	*(1.7)%*
International wholesale sales	5.7	5.7	*0.0%*
Total International sales	398.9	405.6	*(1.7)%*
Adjusted profit	14.9	20.8	*(28)%*

Adjusted profit is impacted by lower sales, with the benefit of currency translation predominantly negated by our hedging strategy, and the timing of shipments to partners. However, this timing will unwind and will be fulfilled in the second half of the year, along with the pass-through of higher US$ product inflation to our partners, reversing out approximately 50% of the first half's year on year decline in profit.

Expanding further internationally

We continue to work proactively with our partners to manage their store portfolio and grow their digital presence. Space was down (3.0)% in the period, opening 68 stores whilst closing 83. We have refurbished 127 stores in the modern 'club' format.

Online continues to present a significant opportunity globally and is growing steadily from very low penetration levels. We launched a new website in Pakistan and two new marketplaces in United Arab Emirates and India. We are now trading online in 23 markets across 30 websites and marketplaces. Online sales have grown by 73% in moving currency and 57% in constant currency.

International like-for-like sales were down (8.0)%, with the Middle East continuing to be a drag, due to its scale, on overall performance. Russia has been impacted by unseasonably cold weather in the summer months and mild weather in autumn/winter.

Outlook

Towards the end of the reporting period, and in subsequent weeks, we have seen a softening in the UK market with lower footfall and spend which is consistent with recent industry reports. Not- withstanding this uncertain consumer backdrop, the Mothercare brand, whilst not immune, is in a stronger position with a much-improved product and service offer and a more robust business model.

International markets, in particular the Middle East, remain challenging, but in spite of this, we continue to work with our partners to improve their businesses, exporting our digital experience and new store format around the globe.

We remain firmly committed to our vision to be the leading global retailer for parents and young children.

FINANCIAL REVIEW

RESULTS SUMMARY

Group adjusted loss before tax was £(0.7) million, for the 28 weeks to 7 October 2017, (H1 FY2016/17: £5.9 million profit). Adjusted (loss)/profit excludes adjusted costs and other adjusted items which are analysed below. Adjusted costs include costs relating to announced activity on property, development of warehousing, a strategic review of overhead costs and a provision for China JV receivables. After adjusted items, the Group recorded a pre-tax loss of £(16.8) million (H1 FY2016/17: loss of £0.8 million).

Income statement

£ million	28 weeks to 7 October 2017	28 weeks to 8 October 2016	52 weeks to 25 March 2017
Revenue	339.5	347.7	667.4
Adjusted profit from retail operations before interest and share based payments	**1.0**	**8.3**	**23.8**
Share based payments credit/(charge)	0.2	(0.5)	(0.8)
Adjusted net finance costs	(1.9)	(1.9)	(3.3)
Adjusted (loss)/profit before tax	**(0.7)**	**5.9**	**19.7**
Adjusted costs	(15.6)	(10.7)	(15.7)
Non-cash foreign currency adjustments	-	4.5	4.1
Amortisation of intangible assets	(0.5)	(0.5)	(1.0)
(Loss)/profit before tax	**(16.8)**	**(0.8)**	**7.1**
Adjusted EPS – basic	0.0p	3.4p	9.7p
EPS – basic	(8.5)p	0.2p	4.8p

Adjusted profit from retail operations before share based payments includes all of the Group's trading activities, but excludes the share based payment credit to the income statement in accordance with IFRS 2 (see next page).

Note: adjusted (loss)/profit and adjusted items were previously defined as underlying (loss)/profit and exceptional costs and non-underlying items (see Note 2).

Results by segment

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

£ million – Revenue	28 weeks to 7 October 2017	28 weeks to 8 October 2016	52 weeks to 25 March 2017
UK	229.0	231.2	459.4
International	110.5	116.5	208.0
Total	**339.5**	**347.7**	**667.4**

£ million – Adjusted (loss)/profit	28 weeks to 7 October 2017	28 weeks to 8 October 2016	52 weeks to 25 March 2017
UK	(9.6)	(8.8)	(4.4)
International	14.9	20.8	35.2
Corporate	(4.3)	(3.7)	(7.0)
Adjusted profit from operations before interest and share based payments	**1.0**	**8.3**	**23.8**
Share based payments	0.2	(0.5)	(0.8)
Net finance costs	(1.9)	(1.9)	(3.3)
Adjusted (loss)/profit before tax	**(0.7)**	**5.9**	**19.7**

UK LFL have increased by 2.5%, with online sales up 5.3%. However total sales were down on the last half year due to planned store closures. Higher LFL sales and a small improvement of 34 bps in margin were more than offset by higher costs and depreciation which has meant adjusted losses in the UK increased to £(9.6) million from £(8.8) million last half year.

International retail sales in constant currency were down (7.7)% where the continuing challenging economic conditions are impacting performance, primarily driven by continued weakness in the Middle East. International sales decreased by (5.2)% on a reported basis and (1.7)% on a total basis, benefitting from currency tailwinds as sterling devalued, this tailwind having limited benefit to the profit and loss as it was mostly hedged. International adjusted profit was down £(5.9)million on last half year to £14.9 million.

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

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

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

International retail sales are the estimated retail sales of overseas franchisees and joint ventures and associates to their customers (rather than Mothercare sales to franchisees as included in the statutory or reported sales numbers). Total International sales are International retail sales plus International wholesale sales. Group 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*			
	28 weeks ended 7 October 2017	28 weeks ended 8 October 2016	%	52 weeks ended 25 March 2017	28 weeks ended 7 October 2017	28 weeks ended 8 October 2016	%	52 weeks ended 25 March 2017
UK retail sales	210.6	214.6	(1.9)%	423.6	210.6	214.6	(1.9)%	423.6
UK wholesale sales	18.4	16.6	10.8%	35.8	18.4	16.6	10.8%	35.8
Total UK sales	229.0	231.2	(1.0)%	459.4	229.0	231.2	(1.0)%	459.4
International retail sales	104.8	110.8	(5.4)%	198.7	393.2	399.9	(1.7)%	753.2
International wholesale sales	5.7	5.7	-	9.3	5.7	5.7	-	9.3
Total International sales	110.5	116.5	(5.2)%	208.0	398.9	405.6	(1.7)%	762.5
Group sales / Group worldwide sales	**339.5**	**347.7**	**(2.4)%**	**667.4**	**627.9**	**636.8**	**(1.4)%**	**1,221.9**

* Estimated

Analysis of worldwide sales movement

£ million – Worldwide sales	
Sales for 28 weeks ended 8 October 2016	636.8
Currency impact	26.3
Proforma sales for 28 weeks ended 8 October 2016	663.1
Increase in UK LFL	5.1
Decrease in UK space	(9.1)
Decrease in international LFL	(31.5)
Decrease in international space	(1.5)
Increase in wholesale	1.8
Sales for 28 weeks ended 7 October 2017	**627.9**

Sales in the 28 weeks ended 7 October 2017 were lower by £(8.9) million primarily as a result of decreased International LFL, partially offset by a favourable currency impact of £26.3 million due to the devaluation of sterling.

Including the currency impact, international retail sales have decreased by £(6.7) million driven by an decrease in space and LFL, offset by favourable currency impact.

UK retail sales have fallen by £(4.0) million due a decrease in UK space as a result of planned store closures, partially offset by increased LFL.

Analysis of profit movement

£ million – Adjusted profit before tax	
Adjusted profit before tax for 28 weeks ended 8 October 2016	5.9
Currency impact	0.6
Proforma adjusted profit before tax for 28 weeks ended 8 October 2016	6.5
Decrease in International volumes	(3.9)
UK space impact	1.5
UK sales and margin	1.5
Increase in depreciation	(2.7)
Increase in costs	(3.6)
Adjusted loss before tax for 28 weeks ended 7 October 2017	**(0.7)**

On a proforma basis (i.e. excluding the currency impact) adjusted profit before tax has fallen from £6.5 million to a loss of £(0.7) million. This is driven by lower international volumes and increased costs, some of which is timing and depreciation.

Foreign exchange

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

	28 weeks ended 7 October 2017	28 weeks ended 8 October 2016	52 weeks ended 25 March 2017
Average:			
Russian rouble	**75.02**	88.95	82.40
Saudi riyal	**4.84**	5.17	4.95
Emirati dirham	**4.74**	5.03	4.81
Kuwaiti dinar	**0.39**	0.42	0.40
Closing:			
Russian rouble	**77.11**	81.58	70.90
Saudi riyal	**5.02**	4.87	4.65
Emirati dirham	**4.92**	4.77	4.55
Kuwaiti dinar	**0.40**	0.39	0.38

The principal currencies that impact our results are the Russian rouble, Saudi riyal, Emirati dirham and Kuwaiti dinar. The net effect of currency translation caused worldwide sales and adjusted operating profit to increase by £26.3 million and £0.6 million respectively compared with 2016 as shown overleaf:

	Worldwide Sales £ million	Adjusted Operating profit £ million
Net effect of currency translation;		
Russian rouble	12.7	0.2
Saudi riyal	3.9	0.2
Emirati Dirham	2.6	0.2
Kuwaiti dinar	1.2	0.1
Other currencies	5.9	(0.1)
	26.3	**0.6**

The profit benefits are limited due to hedging of royalty receipts.

In addition to the translation exposure, the Group is also exposed to movements on certain of its transactions, principally movements in the US dollar. Although they are largely hedged, eventually the impact of GBP sterling depreciation flows through the cost of goods and is passed on in price increases.

Share based payments

Adjusted profit before tax also includes a share based payments credit of £0.2 million (H1 FY2016/17: £(0.5) million charge) in relation to the Company's long-term incentive schemes. The credit is due to a change in the estimated number of shares that will vest and hence an accumulated true up.

Financing and taxation

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

The tax credit for total loss comprises corporation taxes incurred and a deferred tax charge. The total tax credit was £2.3 million (H1 FY2016/17: credit of £1.2 million) – (see note 6).

Adjusted items

Adjusted (loss)/profit before tax excludes the following adjusted items (see note 4):

Adjusted costs:

- Costs relating to announced activity on property and retail restructuring programmes;
- Costs relating to the planned development of warehouses in the UK;
- Costs relating to a strategic review of overhead costs;
- Costs relating to the joint venture trade receivable provision and associated legal costs;
- Costs relating to refinancing in May 2017.
- Costs relating to stock provisions associated with ranges to be exited as part of the strategic review announced in May 2017.

Other adjusted items:

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

Earnings per share and dividend

Basic adjusted earnings per share were nil pence compared to 3.4 pence in the 28 weeks to 8 October 2016.

	28 weeks ended 7 October 2017 Million	28 weeks ended 8 October 2016 Million	52 weeks ended 25 March 2017 Million
Weighted average number of shares in issue	**169.8**	170.8	170.5
Dilution- option schemes	**7.5**	4.2	7.9
Diluted weighted average number of shares in issue	**177.3**	175.0	178.4
Number of shares at period end	**170.9**	170.9	170.9

	£ million	£ million	£ million
(Loss)/profit for basic and diluted earnings per share	**(14.5)**	0.4	8.2
Adjusted items (note 4)	**16.1**	6.7	12.6
Tax effect of above items	**(1.6)**	(1.3)	(4.3)
Adjusted earnings	**0.0**	5.8	16.5

	Pence	Pence	Pence
Basic earnings per share	**(8.5)**	0.2	4.8
Basic adjusted earnings per share	**0.0**	3.4	9.7
Diluted earnings per share	**(8.5)**	0.2	4.6
Diluted adjusted earnings per share	**0.0**	3.3	9.3

The Board has concluded that given the cash investment required to deliver the current strategy the Company will not pay an interim dividend for 2017/18. The total dividend for the period is nil pence per share (2016/17: 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	**28 weeks ending 7 October 2017**	**28 weeks ending 8 October 2016**	**52 weeks ending 25 March 2017**
Income statement			
Running costs	(1.7)	(1.6)	(3.0)
Net (interest on liabilities)/return on assets	(1.1)	(1.3)	(2.6)
Net charge	(2.8)	(2.9)	(5.6)
Cash funding			
Regular contributions	(2.6)	(2.4)	(2.4)
Deficit contributions	(4.5)	(3.6)	(7.2)
Total cash funding	(7.1)	(6.0)	(9.6)
Balance sheet			
Fair value of schemes' assets	339.7	329.4	329.6
Present value of defined benefit obligations	(408.6)	(435.9)	(409.7)
Net liability	(68.9)	(106.5)	(80.1)

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

	H1 FY2017/18	**H1 FY2016/17**	**H1 FY2017/18 Sensitivity**	**H1 FY2017/18 Impact on scheme liabilities £ million**
Discount rate	2.7%	2.6%	+/- 0.1%	-7.8/7.8
Inflation – RPI	3.2%	3.2%	+/- 0.1%	7.5/-7.5
Inflation - CPI	2.1%	2.1%	+/- 0.1%	2.7/-2.7

The tri-ennial valuation of the pension scheme has been concluded (based on the FY17 balance sheet year end date) and this will be reflected in the valuation as at 24 March 2018.

Cash flow

Adjusted free cash flow (as defined in Note 2) was an outflow of £(13.7) million with adjusted cash generated from operations of £0.1 million.

Capital expenditure of £(12.4) million reflected the continued investment in store refurbishment and IT infrastructure but was materially lower than in the 28 weeks ended 8 October 2016 as the next stage of the transformation of the UK store estate was being planned.

Working capital was an outflow of £(5.3) million, reflecting higher stocks and receivables partially offset by higher payables as stocks built for the seasonal peak.

Cash outflows in respect of adjusted costs of £8.9 million include cash spent on restructuring costs and warehousing and store closures costs.

Other movements include movements in provisions, amortisation of lease incentives and lease incentives received.

	28 weeks ended 7 October 2017 £ million	28 weeks ended 8 October 2016 £ million	52 weeks ended 25 March 2017 £ million
Adjusted profit from operations before interest and share based payments	**1.0**	8.3	23.8
Depreciation and amortisation	**12.3**	9.6	18.2
Retirement benefit schemes	**(5.4)**	(4.4)	(6.6)
Change in working capital	**(5.3)**	(6.8)	(3.7)
Other movements	**(2.5)**	(5.9)	(4.7)
Cash generated from operations	**0.1**	0.8	27.0
Capital expenditure	**(12.4)**	(25.1)	(39.3)
Interest and tax paid	**(1.4)**	(1.0)	(2.1)
Adjusted Free cashflow	**(13.7)**	(25.3)	(14.4)
Adjusted costs	**(8.9)**	(2.1)	(12.5)
Free cashflow	**(22.6)**	(27.4)	(26.9)
Drawdown on facility	**24.5**	30.0	15.0
Payment of facility fee	**(0.6)**	-	-
Purchase of own shares	**-**	-	(1.2)
Exchange differences	**0.9**	(1.7)	(1.3)
(Overdraft)/cash and cash equivalents at beginning of period	**(0.9)**	13.5	13.5
Cash and cash equivalents/ (overdraft) at end of period	**1.3**	14.4	(0.9)
Borrowings (including facility fee)	**(38.9)**	(30.0)	(15.0)
Statutory net debt at end of period	**(37.6)**	(15.6)	(15.9)

Balance sheet

The balance sheet includes identifiable intangible assets arising on the acquisition of the Early Learning Centre of £4.7 million and goodwill of £26.8 million. These assets are allocated to the International business.

	7 October 2017 £ million	8 October 2016 £ million	25 March 2017 £ million
Goodwill and other intangibles	**61.8**	54.8	63.4
Property, plant and equipment	**70.1**	77.0	80.4
Retirement benefit obligations (net of tax)	**(57.2)**	(88.4)	(66.4)
Net borrowings	**(37.6)**	(15.6)	(15.9)
Derivative financial instruments	**(0.7)**	21.7	8.0
Other net assets	**29.4**	12.8	11.9
Net assets	**65.8**	62.3	81.4
Share capital and premium	**146.4**	146.4	146.4
Reserves	**(80.6)**	(84.1)	(65.0)
Total equity	**65.8**	62.3	81.4

Shareholders' funds amount to £65.8 million, an increase of £3.5 million year on year driven predominantly by a decrease of £31.2 million in the defined benefit obligation (net of deferred tax) partly offset by the losses since H1 FY2016/17.

Going concern

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

The Group's business activities and the factors likely to affect its future development are set out in the principal risks and uncertainties section. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial review.
As at 7 October 2017 the Group had a net debt of £37.6 million and had headroom on both cash and covenants on its facility.

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

The directors have reviewed the Group's latest forecasts and projections, which have been sensitivity-tested for reasonably possible adverse variations in performance. This indicates the Group will operate within the terms of its borrowing facilities and covenants for the foreseeable future. To the extent that future trading is worse than a reasonably possible downside, which the directors do not consider a likely scenario, then there are mitigating actions available, which would enable the Group to continue to operate within the terms of the borrowing facilities and covenants for at least the next 12 months. Based on this, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 12 months. Accordingly, the financial statements are therefore prepared on the going concern basis.

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 32.5% of Group sales. Total International sales in the 28 week period represent approximately 63.5% of Group worldwide sales. The Group therefore has some currency exposure on these sales, but they are used to offset or hedge in part the Group's US dollar denominated product purchases. The Group policy is that all material exposures are hedged by using forward currency contracts. To help mitigate against the currency impact on royalty receipts, the Group has hedged against its major market currency exposure.

Interest rate risk

The Group has drawn down £39.5 million on the Revolving Credit Facility. The RCF attracts an interest rate of 2.5% above 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.

Credit risk

The Group's exposure to credit risk is inherent in its trade receivables. The Group has no significant concentration of credit risk, except with the China joint venture. The Group operates effective credit control procedures in order to minimise exposure to overdue debts. 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.

Shareholders' funds

Shareholders' funds amount to £65.8 million, an increase of £3.5 million in the 52 week period. This represents £0.39 per share compared to £0.36 per share on 8 October 2016.

Post balance sheet events

Additional costs within adjusted items are expected in the second half of FY2017/18 as subsequent to the balance sheet date it was announced that there will be a wider head office restructure to save overhead costs by £7-£10 million before any re-investment.

Condensed income statement

For the 28 weeks ended 7 October 2017

	Note	**28 weeks ended 7 October 2017 (unaudited)**			28 weeks ended 8 October 2016 (unaudited)			52 weeks ended 25 March 2017
		Before adjusted items[1] £ million	**Adjusted items [2] £ million**	**Total £ million**	Before adjusted items[1] £ million	Adjusted items [2] £ million	Total £ million	Total £ million
Revenue		**339.5**	**-**	**339.5**	347.7	-	347.7	667.4
Cost of sales		**(317.4)**	**(1.5)**	**(318.9)**	(320.1)	(0.5)	(320.6)	(608.6)
Gross profit/(loss)		**22.1**	**(1.5)**	**20.6**	27.6	(0.5)	27.1	58.8
Administrative expenses		**(20.9)**	**(2.7)**	**(23.6)**	(19.8)	(5.3)	(25.1)	(47.9)
Profit/(loss) from retail operations		**1.2**	**(4.2)**	**(3.0)**	7.8	(5.8)	2.0	10.9
Other adjusted costs	4	**-**	**(11.7)**	**(11.7)**	-	(0.9)	(0.9)	(0.5)
Profit/(Loss) from operations		**1.2**	**(15.9)**	**(14.7)**	7.8	(6.7)	1.1	10.4
Net finance costs	5	**(1.9)**	**(0.2)**	**(2.1)**	(1.9)	-	(1.9)	(3.3)
(Loss)/profit before taxation		**(0.7)**	**(16.1)**	**(16.8)**	5.9	(6.7)	(0.8)	7.1
Taxation	6	**0.7**	**1.6**	**2.3**	(0.1)	1.3	1.2	1.1
(Loss)/profit for the period attributable to equity holders of the parent		**0.0**	**(14.5)**	**(14.5)**	5.8	(5.4)	0.4	8.2
Earnings per share								
Basic	8	**0.0p**		**(8.5)p**	3.4p		0.2p	4.8p
Diluted	8	**0.0p**		**(8.5)p**	3.3p		0.2p	4.6p

All results relate to continuing operations.

(1) Before items described in note 2 below. This was previously defined as underlying
(2) Adjusted items includes property costs, costs of developing warehousing, stock provisions and restructuring costs and other adjusted items of amortisation of intangible assets (excluding software) and the impact of non-cash foreign currency adjustments under IAS 39 and IAS 21 as set out in note 4 to the financial statements. These items were previously defined as exceptional and non-underlying items

Condensed statement of comprehensive income/(expense)

For the 28 weeks ended 7 October 2017

	28 weeks ended 7 October 2017 (unaudited)	28 weeks ended 8 October 2016 (unaudited)	52 weeks ended 25 March 2017
	£ million	£ million	£ million
(Loss)/profit for the period	**(14.5)**	0.4	8.2
Items that will not be reclassified subsequently to the income statement:			
Actuarial gain/(loss) on defined benefit pension schemes	**6.9**	(35.1)	(9.7)
Income tax relating to items not reclassified	**(1.1)**	4.8	0.5
	5.8	(30.3)	(9.2)
Items that may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations	**(0.6)**	(1.7)	(1.8)
Cash flow hedges: (losses)/gains arising in the period	**(4.1)**	17.1	20.2
Deferred tax on cash flow hedges	**1.2**	(1.4)	1.1
	(3.5)	14.0	19.5
Other comprehensive income/(expense) for the period	**2.3**	(16.3)	10.3
Total comprehensive (expense)/income for the period wholly attributable to equity holders of the parent	**(12.2)**	(15.9)	18.5

Condensed balance sheet

As at 7 October 2017

	Note	**7 October 2017 (unaudited) £ million**	8 October 2016 (unaudited) £ million	25 March 2017 £ million
Non-current assets				
Goodwill		**26.8**	26.8	26.8
Intangible assets		**35.0**	28.0	36.6
Property, plant and equipment	10	**70.1**	77.0	80.4
Long term receivable		**-**	-	0.8
Deferred tax asset	6	**25.2**	24.8	24.8
Derivative financial instruments	13	**0.9**	2.2	0.2
		158.0	158.8	169.6
Current assets				
Inventories		**119.6**	125.8	102.0
Trade and other receivables		**71.8**	75.0	67.6
Cash and cash equivalents	11	**1.3**	14.4	-
Current tax asset		**2.2**	0.9	-
Derivative financial instruments	13	**2.3**	20.4	8.6
		197.2	236.5	178.2
Total assets		**355.2**	395.3	347.8
Current liabilities				
Trade and other payables		**(131.4)**	(147.5)	(125.5)
Bank overdraft		**-**	-	(0.9)
Current tax liabilities		**-**	-	(0.2)
Derivative financial instruments	13	**(3.9)**	(0.9)	(0.8)
Short term provisions		**(8.2)**	(9.0)	(8.8)
		(143.5)	(157.4)	(136.2)
Non-current liabilities				
Trade and other payables		**(23.3)**	(21.3)	(21.5)
Borrowings	11	**(38.9)**	(30.0)	(15.0)
Retirement benefit obligations	12	**(68.9)**	(106.5)	(80.1)
Long term provisions		**(14.8)**	(17.8)	(13.6)
		(145.9)	(175.6)	(130.2)
Total liabilities		**(289.4)**	(333.0)	(266.4)
Net assets		**65.8**	62.3	81.4
Equity attributable to equity holders of the parent				
Share capital		**85.4**	85.4	85.4
Share premium account		**61.0**	61.0	61.0
Own shares		**(1.1)**	(0.3)	(1.5)
Translation reserve		**(1.9)**	(1.2)	(1.3)
Hedging reserve		**(0.8)**	14.3	5.2
Retained deficit		**(76.8)**	(96.9)	(67.4)
Total equity		**65.8**	62.3	81.4

Condensed statement of changes in equity

For the 28 weeks ended 7 October 2017 (unaudited)

	Share capital £ million	Share premium account £ million	Own shares £ million	Translation reserve £ million	Hedging reserve £ million	Retained deficit £ million	**Total equity £ million**
Balance at 25 March 2017	85.4	61.0	(1.5)	(1.3)	5.2	(67.4)	81.4
Other comprehensive (expense)/income for the period	-	-	-	(0.6)	(2.9)	5.8	2.3
Loss for the period	-	-	-	-	-	(14.5)	(14.5)
Total comprehensive (expense)/income for the period	-	-	-	(0.6)	(2.9)	(8.7)	(12.2)
Removal from equity to inventories during the period	-	-	-	-	(3.1)	-	(3.1)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	(0.2)	(0.2)
Deferred tax on share-based payments	-	-	-	-	-	(0.1)	(0.1)
Shares transferred to employees on vesting	-	-	0.4	-	-	(0.4)	-
Balance at 7 October 2017 (unaudited)	**85.4**	**61.0**	**(1.1)**	**(1.9)**	**(0.8)**	**(76.8)**	**65.8**

For the 28 weeks ended 8 October 2016 (unaudited)

	Share capital £ million	Share premium account £ million	Own shares £ million	Translation reserve £ million	Hedging reserve £ million	Retained deficit £ million	**Total equity £ million**
Balance at 26 March 2016	85.4	61.0	(0.3)	0.5	9.7	(67.2)	89.1
Other comprehensive (expense)/income for the period	-	-	-	(1.7)	15.7	(30.3)	(16.3)
Profit for the period	-	-	-	-	-	0.4	0.4
Total comprehensive (expense)/income for the period	-	-	-	(1.7)	15.7	(29.9)	(15.9)
Removal from equity to inventories during the period	-	-	-	-	(11.1)	-	(11.1)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	0.3	0.3
Deferred tax on share-based payments	-	-	-	-	-	(0.1)	(0.1)
Balance at 8 October 2016 (unaudited)	**85.4**	**61.0**	**(0.3)**	**(1.2)**	**14.3**	**(96.9)**	**62.3**

For the 52 weeks ended 25 March 2017

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

Condensed cash flow statement

For the 28 weeks ended 7 October 2017

	Note	**28 weeks ended 7 October 2017 (unaudited)**	28 weeks ended 8 October 2016 (unaudited)	52 weeks ended 25 March 2017
		£ million	£ million	£ million
Net cash flow from operating activities	15	**(7.6)**	(1.9)	15.3
Cash flows from investing activities				
Interest received		**-**	-	0.1
Purchase of property, plant and equipment		**(11.5)**	(21.1)	(28.2)
Purchase of intangibles – software		**(2.8)**	(4.0)	(14.4)
Net cash received on disposal of joint venture		**-**	-	1.3
Net cash used in investing activities		**(14.3)**	(25.1)	(41.2)
Cash flows from financing activities				
Interest paid		**(0.7)**	(0.4)	(1.0)
Drawdown on facility		**24.5**	30.0	15.0
Purchase of own shares		-	-	(1.2)
Payment of facility fee		**(0.6)**	-	-
Net cash raised in financing activities		**23.2**	29.6	12.8
Net increase/(decrease) in cash and cash equivalents		**1.3**	2.6	(13.1)
(Overdraft)/cash and cash equivalents at beginning of period		**(0.9)**	13.5	13.5
Effect of foreign exchange rate changes		**0.9**	(1.7)	(1.3)
Net cash and cash equivalents/(overdraft) at end of period		**1.3**	14.4	(0.9)

Notes

1 General information

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

The results for the 28 weeks ended 7 October 2017 are unaudited but have been reviewed by the Group's auditor, whose report forms part of this document. The information for the 52 weeks ended 25 March 2017 included in this report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that period has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified or modified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

2 Accounting Policies and Standards

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

Taxation
The taxation charge for the 28 week period is calculated by applying the best estimate of the average annual effective tax rate expected for the full year to the profit for the period and recognising a tax credit only to the extent that the resulting tax asset is more than likely not to reverse.

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

Non-cash foreign currency adjustments
Since January 2014 the Group has adopted hedge accounting on its foreign currency contracts. The adjustment made by the Group ensures that it reports its adjusted profit performance consistently with cash flows, reflecting the economic hedging which is in place. In addition, foreign currency monetary assets and liabilities are revalued to the closing balance sheet rate under IAS21 "The Effects of Changes in Foreign Exchange Rates".

Amortisation of intangible assets
The average estimated useful life of identifiable intangible assets is 10 to 20 years for trade names and 5 to 10 years for customer relationships. The amortisation of these intangible assets is recorded in adjusted items.

Retirement benefits
In consultation with the independent actuaries to the schemes, the valuation of the pension obligation has been updated to reflect current market discount rates, current market values of investments and actual investment returns, and also to consider whether there have been any other events that would significantly affect the pension liabilities. The impact of these changes in assumptions and events has been estimated in arriving at the valuation of the pension obligation.

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.

Notes (continued)

2 Accounting Policies and Standards (continued)

Purpose
The directors believe that these APMs assist in providing additional useful information on the ongoing trends, performance and position of the Group. APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the directors and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with prior year. The key APMs that the Group has focused on this half year are as follows:

• Group worldwide sales: This is the headline measure of revenue for the Group. Worldwide sales are total International sales plus total UK sales. Total International sales are International retail sales plus International Wholesale sales. Total Group sales is a statutory number and is made up of total UK sales and receipts from our International partners, which includes royalty payments and the cost of goods dispatched to our franchise partners.

• Like-for-like sales (LFL): This is a widely used indicator of a retailer's current trading performance. This is defined as sales from stores that have been trading continuously from the same selling space for at least a year and include online sales. International retail sales are the estimated retail sales of overseas franchisees and joint ventures and associates to their customers. International like-for-like sales are the estimated franchisee retail sales from stores that have been trading continuously from the same selling space for at least a year.

• Constant currency sales exclude the impact of movements in foreign exchange on translation.

• Adjusted (loss)/profit: This is the headline measure of the Group's performance, and is based on (loss)/profit before adjusted items; adjusted costs, amortisation of intangibles and impact of non-cash foreign currency adjustments under IAS 39 and IAS 21. Certain items due to their significance or one-off nature have been classified as adjusted costs. The gains and losses on these discrete items, such as profits/losses on the disposal/termination of property interests, provision for onerous leases, inventory, receivables, impairment charges, restructuring costs and other non-operating items can have a material impact on the absolute amount of and trend in the profit from operations and the result for the period. Therefore any gains and losses on such items are analysed as adjusted items on the face of the income statement.

• Adjusted free cash flow: This is the headline 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.

• Adjusted earnings per share: This is the earnings per share using adjusted (loss)/profit after tax as the earnings.

Note: adjusted profit and adjusted items were previously defined as underlying profit and exceptional and non-underlying items.

3 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 costs.

Notes (continued)

3 Segmental information (continued)

	28 weeks ended 7 October 2017 (unaudited)			
	UK £ million	**International £ million**	**Unallocated Corporate Expenses £ million**	**Consolidated £ million**
Revenue				
External sales	**229.0**	**110.5**	**-**	**339.5**
Result				
Adjusted profit from retail operations before interest and share based payments	**(9.6)**	**14.9**	**(4.3)**	**1.0**
Share-based payments credit				**0.2**
Adjusted profit from retail operations				**1.2**
Non-cash foreign currency adjustments (adjusted item)				**-**
Amortisation of intangible assets (adjusted item)				**(0.5)**
Adjusted costs (excluding adjusted items in finance costs)				**(15.4)**
Loss from operations				**(14.7)**
Finance costs				**(2.1)**
Loss before taxation				**(16.8)**
Taxation				**2.3**
Loss for the period				**(14.5)**

	28 weeks ended 8 October 2016 (unaudited)			
	UK £ million	International £ million	Unallocated Corporate Expenses £ million	Consolidated £ million
Revenue				
External sales	231.2	116.5	-	347.7
Result				
Adjusted profit from retail operations before interest and share based payments	(8.8)	20.8	(3.7)	8.3
Share-based payments				(0.5)
Adjusted profit from retail operations				7.8
Non-cash foreign currency adjustments (adjusted item)				4.5
Amortisation of intangible assets (adjusted item)				(0.5)
Adjusted costs				(10.7)
Profit from operations				1.1
Finance cost				(1.9)
Loss before taxation				(0.8)
Taxation				1.2
Profit for the period				0.4

	52 weeks ended 25 March 2017			
	UK £ million	International £ million	Unallocated Corporate Expenses £ million	Consolidated £ million
Revenue				
External sales	459.4	208.0	-	667.4
Result				
Adjusted profit from retail operations before interest and share based payments	(4.4)	35.2	(7.0)	23.8
Share-based payments				(0.8)
Adjusted profit from retail operations				23.0
Non-cash foreign currency adjustments (adjusted item)				4.1
Amortisation of intangible assets (adjusted item)				(1.0)
Adjusted costs				(15.7)
Profit from operations				10.4
Finance costs				(3.3)
Profit before taxation				7.1
Taxation				1.1
Profit for the period				8.2

Notes (continued)

4 Adjusted items

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

	28 weeks ended 7 October 2017 (unaudited) £ million	**28 weeks ended 8 October 2016 (unaudited) £ million**	52 weeks ended 25 March 2017 £ million
Adjusted costs:			
Restructuring costs included in cost of sales	**(1.0)**	(4.5)	(5.5)
Restructuring costs and property impairment included in administrative expenses	**(1.3)**	(1.3)	(5.7)
Property related costs in other adjusted costs	**(11.7)**	(0.9)	(0.5)
Joint venture trade receivable provision in administrative expenses	**(1.4)**	(4.0)	(4.0)
Restructuring costs in finance costs	**(0.2)**	-	-
Total adjusted costs:	**(15.6)**	(10.7)	(15.7)
Other adjusted items:			
Non-cash foreign currency adjustments under IAS39 and IAS21 included in cost of sales	**-**	4.5	4.1
Amortisation of intangibles included in cost of sales	**(0.5)**	(0.5)	(1.0)
Adjusted items before tax	**(16.1)**	(6.7)	(12.6)

Restructuring costs included in cost of sales

During the 28 weeks ended 7 October 2017 a charge of £1.0 million was recognised for further incremental costs associated with the planned development of UK warehousing that began in the prior year.

In H1 FY2016/17, a charge of £4.5 million was recognised, £3.6 million was related to costs associated to the international restructure (in particular a £3.2m charge to increase the stock provision to align international trading with UK) and £0.9 million was related to the planned development of warehouses in the UK and consists of incremental labour and warehouse storage costs.

Restructuring costs and property impairment included in administration expenses

During the 28 weeks ended 7 October 2017 a charge of £1.3 million was recognised. The majority of this amount related to an ongoing strategic review of the overhead cost base of the business, the costs include consultancy fees, staff costs, a £0.4 million increase in stock provisioning associated with ranges to be exited, and redundancy costs. Additional adjusted costs are expected in the second half of FY2017/18 as subsequent to the balance sheet date it was announced that there will be a wider head office restructure to save central costs by £7-£10 million before any re-investment.

In H1 FY2016/17, a £1.3 million charge related to head office redundancies.

Property related costs in other adjusted costs

During the 28 weeks ended 7 October 2017 a charge of £11.7 million was recognised. A £7.9 million charge related to store closures costs and impairments following the store closure programme announced during the period. A £3.2 million charge related to accelerated depreciation for stores refurbished by FY2017/18 and H1 FY2018/19. Additionally a charge of £0.6 million for dilapidations on an expired warehouse lease.

In H1 FY2016/17, a charge of £0.9 million was recognised. A £0.4 million charge related to accelerated depreciation for stores refurbished by FY2016/17 and H1 FY2017/18. The remaining £0.5 million charge related to asset write-downs for stores refurbished or closed.

Notes (continued)

4 Adjusted items (continued)

Joint venture trade receivable provision in administration expenses

During the 28 weeks ended 7 October 2017 the Group had made considerable progress in converting the joint venture in China to a franchise agreement. This transition has led to a £1.4 million charge to adjusted costs consisting of; £0.9 million for a loan write off, £0.3 million legal fees and a £0.2 million increase in the trade receivable provision.

In HY17, the Group fully provided for all outstanding debt at FY2015/16, £4.0 million. In H2 FY2016/17 a further £1.5 million was provided (charged to adjusted profit).

Restructuring in finance costs

A renegotiation on new banking facilities was signed on 5 May 2017 and a charge of £0.2 million for the write off of the previous unamortised facility charge was recognised in the 28 weeks ended 7 October 2017.

5 Net finance costs

	28 weeks ended 7 October 2017 (unaudited) £ million	28 weeks ended 8 October 2016 (unaudited) £ million	52 weeks ended 25 March 2017 £ million
Interest on pension liabilities/return on assets	**1.1**	1.3	2.6
Other net interest	**1.0**	0.6	0.7
Net finance costs	**2.1**	1.9	3.3

6 Taxation

	28 weeks ended 7 October 2017 (unaudited) £ million	28 weeks ended 8 October 2016 (unaudited) £ million	52 weeks ended 25 March 2017 £ million
Current tax – Overseas tax and UK corporation tax	**(1.6)**	-	1.8
Deferred tax - UK tax charge for timing differences	**(0.7)**	(1.2)	(2.9)
Total tax credit	**(2.3)**	(1.2)	(1.1)

The deferred tax credit arises on UK temporary differences.

The net deferred tax asset at 7 October 2017 is £25.2 million (H1 FY2016/17: £24.8 million) including £11.7 million of deferred tax assets in relation to retirement benefit obligations (H1 FY2016/17: £18.1 million).

HMRC will be reviewing Mothercare's compliance with the National Minimum Wage legislation in the second half of the year. Currently the outcome of this is unknown and it is not possible to estimate any potential cost.

7 Dividends

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

Notes (continued)

8 Earnings per share

	28 weeks ended 7 October 2017 (unaudited) million	28 weeks ended 8 October 2016 (unaudited) million	52 weeks ended 25 March 2017 million
Weighted average number of shares in issue for the purpose of basic earnings per share	**169.8**	170.8	170.5
Dilution – option schemes	**7.5**	4.2	7.9
Weighted average number of shares in issue for the purpose of diluted earnings per share	**177.3**	175.0	178.4

	£ million	£ million	£ million
(Loss)/ profit for basic and diluted earnings per share	**(14.5)**	0.4	8.2
Adjusted items (Note 4)	**16.1**	6.7	12.6
Tax effect of above items	**(1.6)**	(1.3)	(4.3)
Adjusted earnings	**0.0**	5.8	16.5

	Pence	Pence	Pence
Basic earnings per share	**(8.5)**	0.2	4.8
Basic adjusted earnings per share	**0.0**	3.4	9.7
Diluted earnings per share	**(8.5)**	0.2	4.6
Diluted adjusted earnings per share	**0.0**	3.3	9.3

9 Seasonality of the Early Learning Centre

Sales for the Early Learning Centre are more heavily weighted towards the second half of the year, with approximately 38% of annual sales forecast to occur in the third quarter (mid-October to early January).

10 Property, plant and equipment

Capital additions of £6.4 million were made during the period (H1 FY2016/17: £19.4 million). The decrease over H1 FY2016/17 is primarily driven by the rest of the store refurbishment programme being planned.

11 Bank loans and overdrafts

As at 7 October 2017, the Group had drawn down £39.5 million of the Revolving Credit Facility. The RCF attracts an interest rate of 2.5% above LIBOR. This is offset by £0.6 million facility fee and £1.3 million of cash and cash equivalents resulting in net debt of £(37.6) million.

12 Retirement benefit schemes

The Group updated its accounting for pensions under IAS 19 as at 7 October 2017. This involved rolling forward the assumptions from the prior year end and updating for changes in market rates in the first half. For the UK schemes, based on the actuarial assumptions from the last full actuarial valuations carried out in March 2014, a liability of £68.9 million (H1 FY2016/17: £106.5 million) has been recognised. This represents a material decrease year on year, primarily as a result of higher gilt and corporate bond yields and increased asset values.

The tri-ennial valuation of the pension has been concluded (based on the FY17 balance sheet year end date) and this will be reflected in the valuation as at 24 March 2018.

Notes (continued)

13 Financial instruments' fair value disclosures

The Group held the following financial instruments at fair value at 7 October 2017. The fair value of foreign currency forward contracts is measured using quoted foreign exchange rates and yield curves from quoted rates matching the maturities of the contracts, and they therefore are categorised within level 2 of the fair value hierarchy set out in IFRS 7.

	Fair value measurements at 7 October 2017 (unaudited) £ million	Fair value measurements at 8 October 2016 (unaudited) £ million	Fair value measurements at 25 March 2017 £ million
Non-current financial assets:			
Derivative financial instruments:			
Forward foreign currency contracts	**0.9**	2.2	0.2
Current financial assets:			
Derivative financial instruments:			
Forward foreign currency contracts	**2.3**	20.4	8.6
Current financial liabilities:			
Derivative financial instruments:			
Forward foreign currency contracts	**(3.9)**	(0.9)	(0.8)
	(0.7)	21.7	8.0

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

The valuations incorporate the following inputs:

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

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

14 Share-based payments

A charge is recognised for share-based payments based on the fair value of the awards at the date of grant, the estimated number of shares that will vest and the vesting period of each award. The total net credit for share-based payments under IFRS 2 is £0.2 million (H1 FY2016/17: £0.5 million charge) of which £0.2 million (H1 FY2016/17: £0.3 million) will be equity settled. The assumptions used to measure the fair values of the share-based payments are in line with those previously published.

Notes (continued)

15 Notes to the cash flow statement

	28 weeks ended 7 October 2017 (unaudited)	28 weeks ended 8 October 2016 (unaudited)	52 weeks ended 25 March 2017
	£ million	£ million	£ million
(Loss)/profit from retail operations	**(3.0)**	2.0	10.9
Adjustments for:			
Depreciation of property, plant and equipment	**8.4**	7.0	14.2
Amortisation of intangible assets	**4.4**	3.1	5.0
Impairment of property, plant and equipment and intangible assets	**(0.2)**	-	1.9
Losses on disposal of property, plant and equipment and intangible assets	**(0.1)**	-	-
Loss on non-cash foreign currency adjustments	**-**	(4.5)	(4.1)
Equity settled share-based payments	**(0.2)**	0.5	0.8
Movement in provisions	**(5.3)**	(3.7)	(7.5)
Cash payments for other adjusted items	**(0.1)**	-	(0.2)
Amortisation of lease incentives	**(2.3)**	(3.0)	(5.0)
Lease incentives received	**1.9**	0.9	2.0
Payments to retirement benefit schemes	**(7.1)**	(6.0)	(9.6)
Charge to profit from operations in respect of retirement benefit schemes	**1.7**	1.6	3.0
Operating cash flow before movement in working capital	**(1.9)**	(2.1)	11.4
Increase in inventories	**(18.4)**	(22.9)	(0.5)
(Increase)/decrease in receivables	**(7.0)**	1.3	7.5
Increase/(decrease) in payables	**20.4**	22.4	(2.0)
Cash (used in)/generated from operations	**(6.9)**	(1.3)	16.4
Income taxes paid	**(0.7)**	(0.6)	(1.1)
Net cash (outflow)/inflow from operating activities	**(7.6)**	(1.9)	15.3

Analysis of net debt

	25 March 2017 £ million	Cash flow £ million	Foreign exchange £ million	**7 October 2017 £ million**
Cash and cash equivalents	-	0.4	0.9	1.3
Borrowings	(15.0)	(24.5)	-	(39.5)
Facility fee	-	0.6	-	0.6
Bank overdrafts	(0.9)	0.9	-	-
Net debt	**(15.9)**	**(22.6)**	**0.9**	**(37.6)**

Notes (continued)

16 Related party transactions

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

Trading transactions:

Joint ventures and associates	Revenue from related parties £ million	Amounts owed by related parties (net of provisions) £ million
28 weeks ended 7 October 2017 (unaudited)	3.8	7.2
28 weeks ended 8 October 2016 (unaudited)	6.4	4.0
52 weeks ended 25 March 2017	9.8	6.3

Income earned from related parties includes royalty income on retail sales of related parties to their customers, plus sales of goods to related parties made at the Group's usual list price.

The net amounts owed by related parties relate to the China JV (£6.8 million) and the Ukraine JV (£0.4 million).

A provision of £5.7 million and £0.8 million (H1 FY2016/17: £4.5 million and £1.0 million) exists for doubtful debts in respect of the amounts owed by China JV and Ukraine JV respectively. In addition a loan balance with China of £0.9 million has been written off during the 28 weeks ended 7 October 2017.

The amounts outstanding are unsecured and will be settled in cash.

17 Post balance sheet events

Additional costs within adjusted items are expected in the second half of FY2017/18 as subsequent to the balance sheet date it was announced that there will be a wider head office restructure to save overhead costs by £7-£10 million before any re-investment.

Risks and uncertainties

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

- The anticipated turnaround of the Group's UK business may not be achievable if it fails to implement effectively key aspects of its new strategic plan such as IT, store and infrastructure transformation.
- The Group may be affected by challenging economic conditions and political developments affecting the UK and International markets in which it operates.
- The Group's brands and reputation are key to its success both in the UK and internationally; any damage to the Group's brands or concerns relating to its products (including their quality or safety) could have an adverse effect on the business.
- The Group is dependent on a small number of franchise partners that make up a significant proportion of its International business, many of which are due for re-negotiation.
- The Group's results of operations may be affected by both transactional and translational foreign exchange risk.
- The Group's future success depends on the performance of its key senior management and the ability to attract and retain high quality and highly skilled personnel.
- The Group's business is dependent on its ability to source products successfully from its suppliers, most of which are based outside the UK. The Group relies on its manufacturers, suppliers and distributors to comply with employment, environmental and other laws.
- The Group relies on its ability to improve existing products and successfully develop and launch new innovative products.
- The Group supplies and sources its products and operates in a number of countries in which bribery and corruption pose significant risks.
- Any unauthorised access or disclosure of confidential information stored or obtained by the Group, either by criminal cyber-attack or a speculative loner, could have a negative effect on its business.
- The Group's exposure to credit risk is inherent in its trade receivables. The Group has no significant concentration of credit risk, except with the China joint venture. The Group operates effective credit control procedures in order to minimise exposure to overdue debts. 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.

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

Responsibility statement

We confirm that to the best of our knowledge:

(a) The condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";

(b) The interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first 28 weeks of the year and description of principal risks and uncertainties for the remaining 24 weeks of the year); and

(c) The interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Mark Newton-Jones
Chief Executive

Richard Smothers
Chief Financial Officer

22 November 2017

Independent review report to Mothercare plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 28 weeks ended 7 October 2017 which comprises the condensed income statement, the condensed balance sheet, the condensed statement of changes in equity, the condensed statement of comprehensive income, the condensed cash flow statement and related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

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

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 28 weeks ended 7 October 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, UK
22 November 2017

Shareholder information

Financial calendar

	2018
Preliminary announcement of results for the 52 weeks ending 24 March 2018	End May
Issue of report and accounts	Mid-June
Annual General Meeting	Mid-July
Announcement of interim results for the 28 weeks ended 6 October 2018	End November

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

Group General Counsel and Company Secretary
Alice Darwell

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

Equiniti Limited
Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
Telephone 0371 384 2013 (calls to this number are charged at 8p per minute plus network extras)
Overseas +44 (0)121 415 7042
www.equiniti.com

Share dealing service
A postal share dealing service is available through the Company's registrars for the purchase and sale of Mothercare plc shares. Further details can be obtained from Equiniti on 0371 384 2030. Online and telephone services are also available through the Company's registrars – www.shareview.co.uk and 03456 037 037. Lines are open 08:30 to 17:30, Monday to Friday.

The Company's stockbrokers are:

J.P. Morgan Cazenove & Co Limited
25 Bank Street
Canary Wharf,
London E14 5JP
Telephone 020 7742 4000

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

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

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