Major restructuring in 2019 - now focused on rebuilding Mothercare as a global brand

Mothercare plc, the leading specialist global retailer for parents and young children, today announces full year results for the 53 week period to 30 March 2019. Comparatives are based on the 52 week period to 24 March 2018.

Highlights for 2019 full year results *(on a continuing operations basis[10], unless otherwise stated)*

Strategic highlights

- Successfully completed the UK store closure programme, following the CVA process, ahead of schedule. UK estate now comprises 79 stores, down from 134 in the prior year, representing a reduction in space of 30%.
- Delivered annualised cost savings greater than the targeted £19 million.
- Concluded the changes necessary to create a leaner organisational structure and the establishment of three new internal divisions, effective from April 2019: Mothercare Global Brand; Mothercare UK; and Business Services.
- Announced the sale of the Early Learning Centre to the Entertainer for £11.5 million (plus £2.0 million of contingent consideration) and the sale and leaseback of the Watford Head Office for £14.5 million, enabling a further reduction in bank debt and a focus on our core strategic priorities.
- Completion of the first season's product buy with our new sourcing partner W.E. Connor.

Financial highlights

- Total group adjusted loss[2] including discontinued operations before taxation and foreign currency revaluations of £11.6 million[11] (2018: £2.3 million profit[9]) with statutory loss before tax of £87.3 million (2018: £72.8 million loss[9]).
- Significant reduction in net debt[4] to £6.9 million (2018: £44.1 million).
- International business showing signs of moderate recovery:
    - International retail sales down 0.3% in constant currency; down 3.9% in actual currency;
    - Growth in the year in core markets of Russia, China and Indonesia; macroeconomic and trading challenges in the Middle East.
- Continuation of difficult trading conditions in the UK:
    - UK like-for-like sales decline of 8.9% vs prior year, exacerbated in the first half by reduced consumer confidence in the brand following the Group's refinancing, together with wider market uncertainty. Improvements in trade observed in the later part of the year. Total UK Sales decline 11.8%.
- 2019 total group (continuing and discontinued) performance is in line with previous guidance.

Performance – total including continuing and discontinued operations

	2019 53 weeks to 30 Mar 2019 £million	2018 52 weeks to 24 Mar 2018 Restated[9] £million	*% change vs. last year*
Group			
Worldwide sales[1]	1,071.2	1,162.9	(7.9%)
Total Group revenue	566.3	654.5	(13.5%)
Group adjusted loss before taxation[2]	(8.6)	(6.8)	(26.5%)
Group adjusted loss before taxation and foreign currency revaluations[2]	(11.6)	2.3	(604.3%)
Total Group loss before tax	(87.3)	(72.8)	(19.9%)

Group performance - on a continuing operations basis

	2019 53 weeks to 30 Mar 2019 £million	2018 52 weeks to 24 Mar 2018 Restated[9] £million	*% change vs. last year*
Group			
Worldwide sales[1]	948.0	1,020.3	(7.1)%
Total Group revenue	513.8	580.6	(11.5)%
Group adjusted loss before taxation[2]	(18.4)	(29.0)	36.6%
Group adjusted loss before taxation and foreign currency revaluations[2]	(20.4)	(22.6)	9.7%
Group loss before tax from continuing operations	(66.6)	(94.0)	29.1%
Net debt[4]	(6.9)	(44.1)	84.4%
International			
International like-for-like sales[3]	(4.7)%	(5.9)%	
International retail sales in constant currency[3]	(0.3)%	(5.7)%	
International retail sales in actual currency[3]	(3.9)%	(4.8)%	
Total International sales[1]	611.4	638.8	(4.3)%
Total International reported sales	177.2	199.1	(11.0)%
Adjusted International profit before taxation and foreign currency revaluations[2]	28.3	28.8	(1.7)%
UK			
UK like-for-like sales[3]	(8.9)%	0.6%	
UK online sales	140.1	152.3	(8.0)%
Total UK sales	336.6	381.5	(11.8)%
Adjusted UK loss before taxation and foreign currency revaluations[2]	(36.3)	(40.4)	10.1%

Mark Newton-Jones, CEO of Mothercare, commented:

"We have achieved a huge amount this year, refinancing, restructuring and reorganising Mothercare to ensure a sustainable future for the business. The majority of that work is now done, including the completion of our store closure programme, leaving us with 79 stores which are well positioned to support our UK customer base.

We have also sold Early Learning Centre and our Head Office, and the proceeds have been used to greatly reduce our debt. Combined with a new approach to sourcing product and our organisational restructuring, we have a much reduced cost base.

Whilst this major restructuring activity has resulted in significant headline losses for the year, the business is now on a sounder financial footing.

The next phase of our strategic transformation plan is to develop Mothercare as a global brand, maximising the opportunities we see across many international markets. At the same time our primary focus in the UK will be the development of our online proposition, the introduction of enhanced credit options and more exclusivity in product, coupled with a reinforcement of our specialist and service credentials.

In the early stages of this financial year, we are seeing some improving UK trends as we continue to rebuild to be the specialist retailer for parents and young children."

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Notes

The Directors believe that alternative performance measures ("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 business performance is reported to the Board and Operating Board.

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, except where expressly stated. The key APMs that the Group has focused on in the period are as set out in the Glossary.

1 – Total International sales are International retail franchise partner sales to end customers (which are estimated and unaudited) plus International wholesale sales. Worldwide sales are total International sales plus total UK sales. International stores refers to overseas franchise and joint venture stores.

2 – Adjusted loss before taxation and adjusted loss before taxation and foreign exchange revaluations are stated before the impact of the adjusting items set out in note 4.

3 – 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 includes online sales. International retail sales are the estimated total retail sales of overseas franchise and joint venture partners to their customers. International like-for-like sales are the estimated franchisee retail sales at constant currency from stores that have been trading continuously from the same selling space for at least a year and includes online sales on a similar basis.

4 - Net Debt is defined as total borrowings including shareholder loans (note 11) and bank overdraft/cash at bank.

5 – This announcement contains certain forward-looking statements concerning the Group. 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 Group does not undertake any obligation to announce any revisions to such statements, except as required by law or by any appropriate regulatory authority.

6 – The information contained within this announcement is deemed by the Company to constitute inside information for the purposes of the Market Abuse Regulation (EU) No 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

7 – The person responsible for the release of this announcement is Lynne Medini, Group Company Secretary at Mothercare plc, Cherry Tree Road, Watford, Hertfordshire, WD24 6SH.

8 – Mothercare plc's Legal Entity Identifier ("LEI") number is 213800ZL6RPV9Z9GFO74

9 – Adjusted items in the prior year have been reclassified on a consistent basis for the treatment of foreign exchange differences on the revaluation of working capital and adjusted interest costs, and for the discontinued operations of the Early Learning Centre.

10 – The prior year has been restated for the reclassification of ELC discontinued operations (note 7).

11 – £11.6 million total group adjusted loss[2] including discontinued operations before taxation and foreign currency revaluations consists of £20.4 million from continuing operations less £8.8 million from discontinued operations (note 7).

Interim Executive Chairman's Statement

What a difference a year makes
It is not an overstatement to note that just one year ago we began our return to financial health, emerging from a period of acute financial distress, notwithstanding the ongoing trading difficulties experienced in the UK retail business, which threatened to engulf Mothercare plc.

At the outset therefore, on behalf of the Board I would like to thank all our stake-holders - including shareholders, financiers, franchise partners, shareholder loan note subscribers, pension trustees, the Pension Regulator, landlords and employees alike - whose support we harnessed in the month following my appointment. Their contribution was crucial to the Capital Refinancing Plan and UK Restructuring package launched on 17 May 2018, ultimately providing funding of £117.5 million in aggregate.

This support was predicated upon our demonstration of clear evidence of a coherent strategic plan to revitalise the business and undertaking a comprehensive restructuring package, to deliver a root-and-branch review of every facet of the business.

Restructuring Update
I am delighted to report that we have tenaciously adhered to the key restructuring objectives, first set out in our time-line a year ago:

• the UK store closure programme, was completed at the end of March 2019, three months ahead of plan. This was achieved by the launch of the Company Voluntary Arrangements of our subsidiaries, Mothercare UK Limited, Early Learning Centre Limited and Childrens World Limited: encompassing the reduction in number of stores by c60 to retain a UK store estate of 79, representing a reduction in space of 30%;

• the target cost saving of at least £19 million per annum - from rent reductions, store costs, central overheads and rightsizing the business globally - has been significantly exceeded with an annualised total operating cost savings of over £25 million: we anticipate further cost savings during the current year, as we move towards greater efficiency;

• we realised materially more cash proceeds than could have been envisaged a year ago from the sale and leaseback of the UK head office and the disposal of Early Learning Centre, generating total expected cash of some £26 million, with additional operational cash-flow and commercial benefits likely to accrue thereafter;

• last May we stated that we aspired to be bank debt free by the end of calendar 2019, since when we have been assiduously reducing net debt, greatly assisted by a combination of the initiatives highlighted above: net debt was £6.9 million at 30 March 2019, providing the financial flexibility and resources, assuming the ongoing support of our relationship banks and other stakeholders to deliver our core strategic aims.

Whilst as a management team we now have clarity of purpose, are demonstrably agile and transactionally astute, there remains much to do and although we have successfully stabilised the business this was not without cost to the reported results last year. Indeed, we continue to face numerous challenges with the headwinds within the UK retail sector showing no sign of abating, leaving no room for complacency, as detailed in the Chief Executive's Review that follows.

What has not changed

We are fortunate to retain several attractive core characteristics, which we intend to build upon, including:

• Mothercare is a globally recognised specialist brand that stands for trust and quality;

• a constantly renewing prime customer base of new parents - with over 300,000 first time births annually in the UK alone - which has minimal seasonality and significantly more in our international markets;

• leading market shares in certain key product areas, alongside a high proportion of exclusivity from branded suppliers, to whom we are frequently their largest customers;

• a very high degree of operating annuity within our international revenue stream, driving capital light expansion from less moving parts, where we are encouraging further growth from what represents over two thirds of our worldwide sales.

What went wrong?

As highlighted, our priority last year was to stabilise the business. However, shareholders deserve an explanation of the events leading up to the acute short-term cash flow problems and significant diminution in shareholder value suffered in the first half of 2018.

Ultimately, the rapid deterioration in the Company's trading performance through the autumn of 2017 was exacerbated by the necessity to run the business for cash, in order to operate within the Group's then available financing facilities, whilst simultaneously having to bear a mounting burden of professional costs that threatened to inundate the business.

However, 20/20 hindsight reveals an acceleration of events over an extrapolated time period:

• whilst the business had invested approximately a third of its fund raise in 2014 to play catch-up and to modernise its UK store base and its digital capabilities, it did so without the knowledge that the UK would see an unprecedented slow down. Despite an already aggressive store closure programme, the reduction in sales and margin during 2017/18 left the business with a cost base simply too high to support, which led directly to a widening imbalance between total expenses and sustainable revenues;

• the difficult situation was further fuelled by a fracture in the relationship between the non-executive and operating executives, a break-down in trust with key shareholders and the appointment of an array of increasingly expensive professional advisers.

As detailed in the fund-raising Prospectus issued on 9 July 2018, £6 million of advisory costs had already been committed during Feb/April 2018 to which was added the £4 million cost of the Capital Refinancing Plan, implemented during May/July 2018 with the assistance of our new advisory team. In fact, had the recast Board not acted decisively in curtailing professional costs in April 2018 and, more importantly, bridged the disconnect between our relationship banks and our equity providers, these costs alone could have rendered the business unsalvageable.

We remain determined to differentiate Mothercare as a text book recovery case, in parallel demonstrating that Boards can and should foster a greater alignment between their debt and equity providers.

Management and Board changes

When we announced the refinancing initiatives last May we recognised the need for strength in depth at Board level, in both retailing and change management skills, to deliver the challenging turnaround and UK restructuring.

This change process led to a significant number of roles being made redundant, affecting all colleagues and at all levels and contributing to a reduction in total headcount of a quarter. Indeed this programme was weighted towards the senior leadership team, which has been reduced by a third. In addition, all key executives agreed to voluntary reductions to both contracted pension benefits and notice periods which now no longer exceed six months.

Accordingly, we believe that we now have a PLC Board which is appropriate for a company of our size and nature, and which interfaces highly cohesively with the operating board. Furthermore, we are fortunate to have Non-Executive Directors with deeply embedded and relevant skills who have contributed directly to the change process. Therefore, I remain on course to step-back to a non-executive position prior to the end of this year.

As a result, following the completion of the transformation plan, we expect the total PLC Board cost to halve next year, to a level commensurate with a small-cap company.

Strategic outlook

A combination of our efforts, to galvanise all available resources over the last year, has bought us the time to address the impact of the ongoing trends within the UK retail sector and to concentrate upon our vision to be the leading specialist global brand for parents and young children.

The current year should therefore witness the final steps toward completing the transformation of the business – including our unremitting efforts to evolve, adapt and optimise the structure, format and model for our UK retail operations within the Mothercare UK franchise - alongside exploring ways to supplement our working capital needs. Throughout we will continue to seek to preserve shareholder value, by wherever possible minimising equity dilution, as we strive to optimise the level of sustainable long-term revenues going into 2021 and beyond. In the interim, we remain on consensus for 2020.

Finally I would like to thank all of our colleagues across the organisation for their hard work in the challenging circumstances witnessed over the last year.

Clive Whiley
Interim Executive Chairman

Chief Executive's review

A year of major restructuring

Overview

The past year has been a significant one for Mothercare during which, following a difficult period for the business, we have restructured and refinanced the company to ensure the brand has a sustainable future. On a personal note, I was delighted to be asked to rejoin the business in May 2018, albeit within only 43 days of leaving, by the newly appointed chairman Clive Whiley and with the support of our largest shareholders. This has allowed me, the wider management team and our colleagues to continue the transformation we had started back in 2013 and to accelerate its pace.

The year has been dominated by three major areas of focus. Firstly, the capital raise and the refinancing of the group. Secondly, an accelerated restructuring programme which has led to a complete overhaul and reorganisation of the group and a subsequent cost base reduction of over £25 million per year, which is discussed in more detail below. Thirdly, we have continued to manage the UK business in an increasingly difficult retail market, that was further exacerbated by our restructuring and specifically the store closure programme which is now behind us. This backdrop led to both a lowering of customer confidence in our brand and a shortage of product supply to Mothercare UK.

In the early part of the financial year we faced numerous supply shortages as credit insurance was removed and the supply base became increasingly nervous about their commitments to Mothercare. We worked hard communicating with our suppliers to restore their confidence and slowly through the year supply returned to virtually normal levels, despite credit insurance issues. In the most part our supply base had recognised our market leadership and significant share in their products, and that we are the only large-scale true specialist left in the Mum and Baby sector. Importantly they also recognise that we set out to protect their brands and products from those that would discount it more heavily. We appreciate their support during this past year.

In an extremely busy year, we have taken swift and decisive action to tackle the various issues faced by the business and are now focusing on rebuilding Mothercare, which is covered in more detail below.

Refinancing and store closure programme

In May 2018 we announced a comprehensive refinancing and restructuring of the Group to allow Mothercare to return to a more stable footing, accelerate the transformation of the Group and drive it towards a viable and sustainable future. This included the launch of Company Voluntary Arrangements to restructure the UK store portfolio.

Our shareholders, banks and pension trustees supported the capital refinancing of the Group in July conditional on the acceleration of the previously announced store rationalisation programme.

This programme allowed Mothercare UK to reduce its store base in the second half of the year to 79 stores, a reduction of 55 stores on the prior year. Without the CVAs it would have taken over four years, through natural lease expiry, to achieve the same reduction in store estate. The 79 stores that remain are geographically positioned so that 95% of the customer base is within a 45-minute drive time of a Mothercare store. Of the 79 stores, 72 stores had already been refurbished, spending c.£20 million in capex over a three year period.

Sale of the ELC brand and future concession arrangement

In 2007 Mothercare acquired the Early Learning Centre. The toy business represents less than 15% of UK turnover and whilst it has a franchise business, the royalty stream derived from this is relatively small. The toy market has become increasingly competitive over the last few years and to remain ahead of the competition requires both a singular focus in this category and also capital investment in innovation and tooling. During the year we took the view that the ELC brand would be better managed and nurtured outside of our group and in March 2019, we announced the sale of the Early Learning Centre to The Entertainer for for £11.5 million (plus £2.0 million of contingent consideration), enabling a further reduction in bank debt and a focus on our core strategic priorities. The Entertainer has been a leader in toy markets for over 30 years and brings all the necessary skills and focus to manage the ELC brand, and importantly they are committed to extensive new product development.

We will continue to sell toys in the Mothercare business and see the category as important, albeit it's a small part of our overall product mix. As part of the transaction we agreed that The Entertainer will run our toy offer both in store and online, using the ELC brand and broadening the range. We will provide the space and in return will receive a commission.

Sale of HQ

We chose to sell the head office site and after numerous expressions of interest we realised a sale for a consideration of £14.5 million, on a sale and lease back basis over a ten-year term, with a three-year break. These proceeds have further helped in our reduction of bank debt.

People and organisational restructure

Whilst we had made organisational changes in the prior year at Mothercare's head office, reducing the headcount by c25%, we recognised that a more radical approach was needed to make the organisation leaner still. We have now completed the reshaping of the organisation into three distinct divisions; *Mothercare UK franchise*, *Mothercare Global Brand* and *Mothercare Business Services*. This new organisational and people structure will create more focus on the two operating elements of the group, the Mothercare Global Brand and Mothercare UK franchise and should drive efficiency in the Mothercare Business Services division. The subsequent reduction in the head office headcount as a result of this organisational change is c20%.

A new approach to sourcing Mothercare branded products

During the year we embarked on a major overhaul of how we source product. After a successful trial in the previous year we transitioned from running our own sourcing operation with offices in India, Bangladesh, China and Hong Kong to a third-party specialist sourcing agent. Our chosen agent is W.E Connor who are Hong Kong based and have operated for 70 years. They have multiple retail clients in the US and the UK. By partnering with Connor we are now sitting alongside their other retailers' volumes and thus we anticipate benefits of scale and lower cost prices in the medium term. An added benefit of our new sourcing approach is a lowering of our cost base. As a direct result we have now closed all six of our overseas offices.

Stock reduction programme

With a strict approach to cash management and a planned reduction in store space we set about reducing the stock holding of the business. This stock reduction programme has reduced overall cash in stock by c£20 million without any material impact on the stock availability for our customers.

Rebuilding Mothercare

Three divisions to create commercial focus

As previously mentioned a major cornerstone of this past year's restructuring is the creation of three operating divisions; *Mothercare Global Brand*, *Mothercare UK franchise* and *Mothercare Business Services* (our support functions). Each division has been set up to have its own operating and leadership team and has clear objectives to improve overall performance.

Mothercare Global Brand - The primary role of this division is to design and then source the Mothercare branded product and distribute this product from factory to each franchise market. The advantage of decoupling the Global Brand from Mothercare UK is that the design of product and importantly the architecture of the range will be tailored for our international markets, as opposed to the historical approach where ranges were designed for the UK and then adjusted for the predominately warmer international climates we trade in. The first season of operating under this new structure is spring/summer 2020.

In addition to the changes to product design, the Global Brand now produces all the brand marketing materials, including all of the photography and the content for online trading. These marketing assets will be provided to our franchise partners who will then localise language and nuance for their home markets. Effectively we have now started to act as a truly global retailer with the UK treated in exactly the same fashion as any of our other major markets.

The measure of success in the Global Brand will be our ability to distribute more Mothercare products around the world through Franchising, Wholesale and Licensing.

Mothercare UK franchise - As a natural consequence of forming the Mothercare Global Brand we have created Mothercare UK franchise. This important step will instill all the disciplines we see in our franchise partners around the world into the UK business. The UK will independently operate its local market running stores and its website, it will buy Mothercare branded products from the Global Brand and buy locally to supplement the Mothercare range with brands such as Britax, Silvercross, Joie and Bugaboo. This new way of working has already been put in place with the recently formed UK team attending the franchise buying event alongside all of the other global partners.

The UK is the only franchise we wholly own and its primary objective is to become financially viable.

Mothercare Business Services - This division includes Finance, HR, Property and IT. By grouping these functions together, we expect to improve productivity and lower our overall costs. The Business Services division's primary objective is to improve efficiencies and service levels.

International markets and opportunities for growth

We still see much potential across our international markets with growth opportunities in a number of territories through more retail space and by trading online.

We have developed a new franchise partnership in India with the retail division of Reliance Industries, known as Reliance Brands Limited (RBL). RBL share our ambition for the Mothercare brand across India. Since August 2018 RBL have opened 14 stores taking the total standalone stores in India to 77. Additionally, they have begun a programme to refurbish and modernise the shop in shops in the Shoppers Stop department stores. In total we now have 134 outlets for Mothercare across India. Trading online has also had the same attention with Mothercare recently launching on the RBL platform and also on Amazon India, with the launch of the www.mothercare.in planned for summer of this year.

To support further growth in India and other territories globally we are developing a limited range of lower priced clothing product. This range is pitched to broaden our customer base in emerging economies and allows customers that wouldn't ordinarily be able to afford the Mothercare brand access to it. This new approach to product will enable our franchise partners in several markets to open outlets in tier 2 and 3 cities and thus grow their Mothercare customer base.

In our five largest global markets, China, India, Indonesia, Middle East and Russia, we have seen a mixed performance with growth coming from three of the five territories but with softness in the Middle East. We have seen unprecedented social reform in Saudi Arabia, our largest turnover country in the Middle East, as well as a sales tax at 5% being introduced. The sales tax has also been implemented in Dubai and Bahrain at the same 5% rate. The most significant element of this social change has led to a complete change of work force, as the new governing law stipulates we can only employee Saudi nationals. As a result, we have lost all of the experienced colleagues with an average tenure of 8 years, and have replaced them with a brand new work force who are now learning how to run a Mothercare store.
Vietnam, which has a population of 90 million and an average age below 30, is our latest new market to open and we have expanded the business now to 6 stores with a further 3 in the pipeline.

Global Digital
Digital sales now represent 5% of turnover in our global brand, this compares with 45% in the UK, clearly indicating further opportunities for online growth globally. In China where we are represented on the two major platforms T mall and JD.com we are also now selling on WeChat, the biggest social media platform in the country.
Mothercare now trades online in 22 countries, the brand is presented on both Mothercare websites and across 36 web platforms including Amazon in India, noon in the Middle East and T mall and JD.com in China. In the year ahead, we intend to extend to another four countries (Saudi Arabia, Taiwan, Vietnam and Greece) and an additional five platforms.

UK Digital
We have seen our UK digital sales stall in the last year and move into decline. There are three factors at play here. Firstly, as we closed stores we have lost the ipad generated sales from the store and the online sales in the catchment around the closure store have declined. The full price product online simply couldn't compete with the discounted clearance product in store. Secondly, we reduced our marketing expenditure to preserve cash as the business became financially constrained. This led to a sharp drop in traffic to the website as we relied on organic search alone and not paid search to bring custom in. Thirdly, we stopped any investment in engineering changes to improve the performance of the website and App. This lack of development in the customer journey has left Mothercare behind its competitors.

For the year ahead we have increased marketing spend online, specifically in the traffic driving activities of paid search, email and retargeting. Many development changes have already been put in place to improve the website performance with a redesigned check out launched and improved product presentation pages, driving an improvement in conversion.

Our development focus is very much on mobile and more specifically smart phone. It's worth noting that our mobile mix of sales and traffic is considerably higher than that across other UK retailers. Mobile sales represent 73% of our total online sales and 88% of our web traffic is through a mobile device reflecting the young and busy 'Mum on the go' that is our core customer.

In addition to the programme of activity to restore growth to our online sales we have also improved the delivery proposition, with full tracking of orders in place and time bands introduced for customers to select from.
Social media now plays an increasingly important role in our brand marketing and online performance. We launched our first social campaign with #*bodyproudmums*, a campaign that featured a number of our

customers photographed showing their bodies just a few weeks after child birth. The campaign featured in tube stations across London and was sponsored by Transport for London, it has created significant social noise. The campaign ad was featured in a number of national press titles and also on TV – Lorraine and Loose Women. The campaign was re-posted by celebrities and bloggers and the estimated reach is now at 2.7 million consumers, positioning Mothercare UK as dealing with the reality of child birth and not the airbrushed approach that is often taken.

UK Specialism and Service Initiatives

Over this period of restructuring our focus had moved away from our specialism and service to that of clearing stock, generating cash and closing stores. The store closure programme concluded in the last week of March 2019, with a 55 store reduction, leaving the UK with an estate of 79 stores. The closure programme ran for five months and caused significant distortion to our trading numbers, both in our margins and sales performance. There was also a consequential knock on impact of closing a third of the store estate in short order, with customers left not knowing whether it was their local Mothercare that was closing down or indeed the whole business. This undermining of customer confidence led to concerns about buying our products, and affected customers views of us even in our 'keep' stores, the worry being the Mothercare business may not survive and who would then be there to resolve any after-sales issues. Throughout this period we have tracked customers' perception of our brand and importantly their propensity to buy from us as a result, the latest view on this research is painting a more positive picture. With more time we believe that the UK customers' confidence in our brand will be restored.

We now look forward to the year ahead as we rebuild the Mothercare brand in the UK and have launched a series of initiatives to improve service and reinforce our specialist credentials in the mum and baby sector. To this end we have increased the base pay of all of our store colleagues to be ahead of the national minimum wage, additionally we have put in place further salary increases for those colleagues that go on to become more highly trained in product knowledge and service. Our sales colleagues can today complete a series of training modules of which there are eight in total. Two of these are focused on customer service and a further six on deeper product knowledge. After completing their training they can qualify for the additional skills and receive a further salary increase. We believe this approach to training and then reward will both reduce our staff turnover retaining experienced talent but also materially improve our service and specialist knowledge.

Reaching out to all the expectant parents in the UK will become increasingly important with a smaller store footprint and as a result a longer drive time to access one of our stores. Activity in the community therefore becomes even more important. We run expectant parents' events several times per year, whereby we reach out using our database, to mums and dads in their third trimester and invite them into one of our stores to meet up with experts from across the Mum and Baby sector. These events are used as an opportunity to give expert advice on everything from safety at home for your newborn all the way through to feeding, nurture and travel. We ran our last events in March of this year which 12,000 expectant parents attended, encouragingly this was the same level of attendance as last year yet we have 57 fewer stores.

Enhanced credit proposition

For some time we have offered our customers an interest-free option of either six months or 12 months on the more expensive product we sell. Whilst this offer has been in place the take-up has been relatively small. We are relaunching financial services in the business and increasing the ways to pay. From the end of June 2019 we will offer customers a number of interest free credit options; a months' credit, three months credit or as today 12 months credit. Importantly these three credit propositions will be available both online and in our stores. Historically we have only offered customers credit in our stores. We see this as an opportunity to capture a broader customer base and further grow sales of our home and travel products. There is no risk of debt to the business as the credit is provided by a third party financial services organisation.

Exclusivity in product

Exclusive product is a key element of our range which we had grown to represent over 40% of our home and travel branded products. Unfortunately in the last year with the reduction in credit insurance and the subsequent shortage in supply many suppliers restricted our access to exclusivity, this was purely out of their lack of confidence in the business. Exclusivity levels dropped to circa 25%. As confidence has grown in our restructure and financial stability so has the exclusive product, we are now seeing these lines increase and would hope to get back to the previous levels within this next year. Exclusive product is important to us on two fronts, firstly it cannot be matched in price as we are the only retailer selling it and secondly our customers expect something a little more special from the leading specialist in our sector. Product that is exclusive to us will sell at least three times more in volume than the product that is available elsewhere.

Finally

As we emerge from a year of major restructuring and start the rebuild of Mothercare, I'd like to take the opportunity to thank all our colleagues across the business. Without their hard work and commitment the pace of change simply couldn't have happened.

Mark Newton-Jones
Chief Executive Officer

Mothercare plc
Preliminary Results

FINANCIAL REVIEW

RESULTS SUMMARY

Group adjusted loss before taxation was £18.4 million for the 53 weeks to 30 March 2019 (2018: £29.0 million loss[2]). All results are presented on a continuing operations basis unless otherwise stated.

The Group recorded a pre-tax loss of £66.6 million (2018: £94.0 million loss[2]), which included adjusted items of £48.2 million (2018: £65.0 million[2]).

During the course of the year, the Directors introduced a new profit measure of Group adjusted loss before taxation and foreign currency revaluations[3] (see note 2), to remove foreign exchange volatility from the underlying performance of the business. Group adjusted loss before taxation and foreign currency revaluations[3] was £20.4 million for the 53 weeks to 30 March 2019 (2018: £22.6 million loss[2]).

Adjusted items are analysed below and include costs relating to announced activity on store closures following the Company Voluntary Arrangements ("CVAs") approved on 1 June 2018, costs associated with the refinancing review and equity raise, and further restructuring of the business.

Income Statement – on a continuing operations basis

	53 weeks to 30 March 2019 £million	**52 weeks to 24 March 2018 Restated[2] £million**
Revenue	513.8	580.6
Adjusted loss before interest and taxation	(13.1)	(25.5)
Adjusted net finance costs	(5.3)	(3.5)
Adjusted loss before taxation	(18.4)	(29.0)
Adjusted loss before taxation and foreign currency revaluations	(20.4)	(22.6)
Foreign currency revaluations[1] (note 2)	2.0	(6.4)
Adjusted loss before taxation	**(18.4)**	**(29.0)**
Adjusted costs	(47.3)	(66.7)
Non-cash foreign currency adjustments	(0.9)	2.1
Amortisation of intangible assets	-	(0.4)
Loss before taxation [1]	**(66.6)**	**(94.0)**
(Loss) / profit from discontinued operations (note 7)	(20.7)	21.2
Total loss before taxation	**(87.3)**	**(72.8)**
EPS – basic	(23.8)p	(54.8)p
Adjusted EPS – basic	(7.1)p	(16.3)p

1. In the prior year the foreign exchange differences on the revaluations of working capital were included in adjusted items. These have now been included in loss before adjusted items in line with industry best practice.
2. See note 13.
3. Adjusted results are consistent with how the business performance is measured internally. Refer to adjusted items table in note 4 for further details. See glossary for definitions

Results by segment – on a continuing operations basis

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

£ million	53 weeks ended 30 March 2019 £ million	52 weeks ended 24 March 2018 Restated* £ million
Revenue		
International	177.2	199.1
UK	336.6	381.5
Total	**513.8**	**580.6**
Adjusted (loss)/profit before taxation and foreign currency revaluations		
International	28.3	28.8
UK	(36.3)	(40.4)
Corporate	(7.1)	(7.5)
Adjusted loss from operations before interest and foreign currency revaluations	**(15.1)**	**(19.1)**
Net finance costs	(5.3)	(3.5)
Adjusted loss before taxation and foreign currency revaluations	**(20.4)**	**(22.6)**
Statutory loss before taxation[1]	**(66.6)**	**(94.0)**
Loss before taxation from discontinued operations	(20.7)	21.2
Total loss before taxation	**(87.3)**	**(72.8)**

* See note 13

1. A breakdown of statutory loss by segment is shown in note 3 - Segmental information. See glossary for definitions

Segmental results

International retail sales in constant currency were down 0.3% with challenging economic conditions in some markets impacting performance. Growth across our key markets in Russia, China and Indonesia was offset by underperformance in the Middle East, along with the short-term sales impact from the transition to a new partner in India. With the addition of unfavourable foreign exchange rate movements, the International business achieved an adjusted profit of £28.3 million, a decrease of 2.1% year-on-year. Retail space from continuing operations at the end of the year was 2.6m sq ft from 1,010 stores (2018: 2.5 m sq ft from 962 stores).

UK like-for-like sales declined by 8.9% year-on-year, total UK sales declined 11.8%, with Retail stores sales down by 15.8% and Online sales down by 8.0%. The UK business has been impacted by declining footfall and online sessions driven by macroeconomic factors, as well as challenges around supplier restrictions on stock availability and the impact on the brand from negative coverage of the refinancing and restructuring process announced in May 2018. Store closures driven by the CVAs resulted in additional discounting to clear stock, which has also driven business away from the online full price sales as volumes shifted to closing stores.

UK adjusted losses before taxation and foreign currency revaluations have decreased year-on-year by £4.1 million to £36.3 million (2018: loss of £40.4 million), due to the decline in sales and margin being offset by cost savings throughout the business as a result of store closures and central costs savings following restructures over the last 2 years.

Corporate expenses represent Board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property costs. Corporate expenses have decreased year-on-year after savings achieved as part of the restructuring activity.

On a continuing operations basis:

£ million	Reported sales		Worldwide sales*	
	53 weeks ended 30 March 2019	52 weeks ended 24 March 2018 Restated**	53 weeks ended 30 March 2019	52 weeks ended 24 March 2018 Restated**
UK retail sales	306.3	349.3	306.3	349.3
UK wholesale sales	30.3	32.2	30.3	32.2
Total UK sales	336.6	381.5	336.6	381.5
International retail sales	170.1	191.3	604.3	631.0
International wholesale sales	7.1	7.8	7.1	7.8
Total International sales	177.2	199.1	611.4	638.8
Group sales/Group worldwide sales	**513.8**	**580.6**	**948.0**	**1,020.3**

* International retail sales are estimated and unaudited, and reflect the international franchise partner sales.
** The prior year has been restated for the reclassification of ELC discontinued operations (note 7).

Analysis of worldwide sales movement

On a continuing operations basis

£ million – Worldwide sales*	
Sales for 52 weeks ended 24 March 2018**	**1,020.3**
Currency impact	(22.9)
Sales in constant currency for 52 weeks ended 24 March 2018	**997.4**
Impact of 53rd trading week	16.7
Decrease in International like-for-like sales	(26.3)
Increase in International space	9.7
Decrease in UK like-for-like sales	(28.6)
Decrease in UK space	(20.9)
Worldwide Sales for 53 weeks ended 30 March 2019	**948.0**
Group reported sales for 53 weeks ended 30 March 2019	**513.8**

* International retail sales are estimated and unaudited, and reflect the international franchise partner sales.
** The prior year has been restated for the reclassification of ELC discontinued operations (note 7).

Worldwide sales in 2019 were lower by £66.1 million on a constant currency basis when excluding the impact of week 53, primarily as a result of decreased UK and International like-for-like sales and decreased UK space, offset by the addition of international space.

International worldwide retail sales have decreased by £16.6 million on a constant currency basis when excluding the impact of week 53, driven by a decline in footfall resulting in lower like-for-like sales, offset by the addition of international space.

UK retail sales have fallen by £49.5 million excluding the impact of week 53, mainly due to a decrease in UK space as a result of planned store closures and a decline in footfall in a challenging retail environment. In addition there have been challenges around supplier restrictions on stock availability and the impact on the brand from negative coverage of the refinancing and restructuring process announced in May 2018.

Analysis of profit movement

On a continuing operations basis

£ million – adjusted (loss)/ profit before tax	
Adjusted loss for 52 weeks ended 24 March 2018	(29.0)
Currency impact	(1.4)
Constant currency adjusted loss for 52 weeks ended 24 March 2018	(30.4)
Increase in International volumes	3.8
UK closures of loss making stores	4.9
UK sales and gross margin decline	(8.1)
Decrease in costs	9.9
Depreciation	1.5
Adjusted loss before taxation for 53 weeks ended 30 March 2019	**(18.4)**
Adjusted profit before taxation from discontinued operations	9.8
Total adjusted loss before taxation	**(8.6)**

See glossary for definitions

On a constant currency basis (i.e. excluding the currency impact), adjusted loss before taxation decreased to £18.4 million from a loss of £30.4 million last year. This is driven by lower UK sales and margin, offset by reduced costs from store closures and rent savings.

Foreign exchange

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

	53 weeks ended 30 March 2019	52 weeks ended 24 March 2018
Average:		
Euro	**1.1**	1.1
Russian rouble	**83.6**	76.3
Chinese Renminbi	**8.7**	8.8
Kuwaiti dinar	**0.4**	0.4
Saudi riyal	**5.1**	4.9
Emirati dirham	**4.7**	4.9
Indonesian rupiah	**18,587**	17,731
Indian rupee	**89.1**	85.1
Turkish lira	**6.6**	4.8
Closing:		
Euro	**1.2**	1.1
Russian rouble	**85.4**	80.3
Chinese Renminbi	**8.9**	8.8
Kuwaiti dinar	**0.4**	0.4
Saudi riyal	**5.0**	5.2
Emirati dirham	**4.9**	5.1
Indonesian rupiah	**18,709**	19,179
Indian rupee	**91.4**	90.7
Turkish lira	**7.6**	5.5

The principal currencies that impact the translation of International sales are shown below. The net effect of currency translation caused worldwide sales and adjusted loss to decrease by £22.9 million and £1.4 million respectively as shown below:

	Worldwide sales £ million	**Adjusted Profit/(loss) £ million**
Euro	0.2	-
Russian rouble	(13.5)	(0.7)
Chinese Renminbi	(0.2)	-
Kuwaiti dinar	-	-
Saudi riyal	(0.2)	-
Emirati dirham	0.2	-
Indonesian rupiah	(1.6)	(0.3)
India rupee	(2.0)	(0.1)
Turkish lira	(5.4)	-
Other currencies	(0.4)	(0.3)
	(22.9)	**(1.4)**

See glossary for definitions

Discontinued operations

On 12 March 2019, the Group entered into an agreement for the sale of the Early Learning Centre (ELC) trade and specified assets. This contract completed on 22 March 2019, and the subsequent Curated Wholesale Agreement with TEAL Brands Limited ("TEAL") takes effect from 13 May 2019.

The loss from discontinued operations for the period is £25.9 million (2018: £16.9 million profit).

The total statutory loss after tax for the Group is £93.4 million (2018: £76.1 million)

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. Year-on-year finance costs have increased due to the shareholder loans.

£2.7 million of finance costs are included in adjusted items. £1.7 million from the movement on the embedded derivative as part of the shareholder loan, £0.4 million charge for the previously unamortised facility fee and £0.6 million in relation to the unwind of the discount on the onerous lease provision.

Taxation

The tax charge comprises corporation taxes incurred and a deferred tax charge. The total tax charge from continuing operations was £0.9 million (2018: credit of £1.0 million) – (see note 6).

The total tax charge from discontinued operations was £5.2 million (including an £0.4 million credit in adjusted costs) (2018: £4.3 million) – (see note 7).

Adjusted items

Adjusted loss before tax for the 53 weeks ending 30 March 2019 excludes the following adjusted items (see note 4):

- Property related costs of £31.8 million, including impairment and onerous lease charges of £43.2 million (2018: £49.8 million), a £2.5 million credit on store closure costs and the profit on the sale of the Head Office of £8.9 million (2018: £nil);
- Cost associated with restructuring, redundancies and refinancing of £12.8 million (2018: £7.0 million);
- Costs included in finance costs of £2.7 million (2018: £0.2 million); and
- Non-cash foreign currency adjustments relating to the revaluation of outstanding forward contracts which have not yet been matched to the purchase of stock of £0.9 million (2018: £2.1 million credit).
- Adjusted costs of £30.5 million (2018: £1.0 million) relating to discontinued operations (note 7).

Earnings per share and dividend

Basic adjusted losses per share from continuing operations were 7.1 pence (2018: 16.3 pence). Continuing statutory losses per share were 23.8 pence (2018: 54.8 pence).

Total basic adjusted losses per share were 5.6 pence (2018: 5.8 pence). Total statutory losses per share were 33.1 pence (2018: 44.8 pence).

For continuing operations	53 weeks ended 30 March 2019 £ million	52 weeks ended 24 March 2018 Restated* £ million
Loss for basic and diluted earnings per share	**(67.5)**	(93.0)
Adjusted items (note 4)	**48.2**	65.0
Tax effect of adjusted items	**(0.9)**	0.3
Adjusted losses for continuing operations	**(20.2)**	(27.7)

For continuing operations	pence	pence Restated*
Basic losses per share	**(23.8)**	(54.8)
Diluted losses per share	**(23.8)**	(54.8)
Basic adjusted losses per share	**(7.1)**	(16.3)
Diluted adjusted losses per share	**(7.1)**	(16.3)

For total continuing and discontinued operations	£ million	£ million
Loss for basic and diluted earnings per share	**(93.4)**	(76.1)
Adjusted items	**78.7**	66.0
Tax effect of adjusted items	**(1.3)**	0.3
Adjusted losses for continuing and discontinued operations	**(16.0)**	(9.8)

For total continuing and discontinued operations	pence	pence Restated*
Basic losses per share	**(33.1)**	(44.8)
Diluted losses per share	**(33.1)**	(44.8)
Basic adjusted losses per share	**(5.6)**	(5.8)
Diluted adjusted losses per share	**(5.6)**	(5.8)

* The prior year has been restated for the reclassification of ELC discontinued operations (note 7).

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 (2018: nil pence per share).

Pensions

The Mothercare defined benefit pension schemes were closed with effect from 30 March 2013. Details of the income statement net charge, total cash funding and net assets and liabilities are as follows:

£ million	52 weeks ending 28 March 2020*	53 weeks ended 30 March 2019	52 weeks ended 24 March 2018
Income statement			
Running costs	(3.5)	(3.3)	(3.4)
Past service costs in respect of GMP equalisation (see note 4)	-	(0.6)	-
Past service credit in respect of PIE (see note 4)	-	1.6	-
Net interest on liabilities / return on assets	(0.5)	(0.9)	(2.0)
Net charge	(4.0)	(3.2)	(5.4)
Cash funding			
Regular contributions	(1.6)	(2.2)	(2.6)
Additional contributions	(2.0)	(6.9)	-
Deficit contributions	(11.2)	(5.3)	(9.2)
Total cash funding	(14.8)	(14.4)	(11.8)
Balance sheet**			
Fair value of schemes' assets	n/a	363.7	351.5
Present value of defined benefit obligations	n/a	(388.6)	(389.2)
Net liability	n/a	(24.9)	(37.7)

*Forecast
**The forecast fair value of schemes' assets and present value of defined benefit obligations is dependent upon the movement in external market factors, which have not been forecast by the Group for 2020 and therefore have not been disclosed.

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:

	2019	2018	2019 Sensitivity	2019 Sensitivity £ million
Discount rate	2.6%	2.7%	+/- 0.1%	-7.5 /+7.7
Inflation – RPI	3.2%	3.1%	+/- 0.1%	+5.1 /-7.3
Inflation – CPI	2.1%	2.0%	+/- 0.1%	+3.1 /-2.9

Net Debt and Cash flow

Net debt of £6.9 million is significantly reduced (by £37.2 million) since the prior year, mainly as a result of the equity raise of £29.6 million (net of fees), the sale of the Head office (£14.5 million net of fees), and the sale of the ELC business (£6.0 million).

Adjusted free cash flow (as defined in note 2) was an inflow of £33.4 million with cash generated from operations of £41.2 million (2018: £15.9 million). Statutory net cash inflow from operating activities (note 11) was £2.1 million compared with an outflow of £29.3 million in the prior year, reflecting improvements in working capital.

Net capital expenditure was markedly lower at £3.3 million (2018: £21.7 million), due to proceeds received on the sale of the Head Office in December 2018.

The inflow from working capital of £37.0 million (2018: outflow of £2.6 million), reflects lower inventory driven by store closures and tighter buying, and a reduction in receivables from International franchise partners.

	53 weeks ended 30 March 2019 £ million	52 weeks ended 24 March 2018 £ million
Adjusted loss from operations before interest and share-based payments	(13.9)	(25.6)
Depreciation and amortisation	20.3	22.1
Retirement benefit schemes	(12.2)	(8.6)
Change in working capital	37.0	(2.6)
Other movements[1]	4.1	(1.5)
Discontinued operations	5.9	32.1
Adjusted cash generated from operations	41.2	15.9
Capital expenditure	(3.3)	(21.7)
Interest and tax paid	(4.5)	(3.4)
Adjusted free cashflow	33.4	(9.2)
Adjusted items[1]	(27.8)	(15.5)
Free cashflow	5.6	(24.7)
(Repayment)/drawdown on facility	(25.5)	27.5
Payment of facility fee	(0.7)	(0.6)
Issue of share capital(net of expenses)	29.6	-
Shareholder loan	8.0	-
Exchange differences	0.9	(2.9)
(Overdraft)/cash and cash equivalents at beginning of period	(1.6)	(0.9)
Cash at bank/(overdraft) at end of period	16.3	(1.6)
Borrowings – due to banks	(17.0)	(42.5)
Borrowings – Shareholder loans	(6.2)	-
Statutory net debt at end of period	(6.9)	(44.1)

See glossary for definitions

1. Other movements mainly comprise utilisations of provisions in the period including onerous lease and store closure provisions.

Balance sheet

Total equity at 30 March 2019 was a deficit of £49.4 million, a reduction of £54.0 million year-on-year, driven predominantly by the losses in the year of £93.4 million, partially offset by a decrease in the defined benefit pension obligation (net of tax) of £12.8 million, and the capital raise of £29.6 million (£32.5 million less £2.9 million of advisor fees).

The net liability position is driven by impairments of software and UK store assets and therefore by non-cash movements. The Group's working capital position is closely monitored and forecasts demonstrate the Group is able to meet its debts as they fall due. The net current liability position includes the unwind of certain non-cash provisions.

In March 2019 the Group entered into an agreement for the sale of the Early Learning Centre (ELC) trade and specified assets – consequently, the remaining intangible assets and goodwill arising from the acquisition of the Early Learning Centre have been written off.

	30 March 2019	24 March 2018
	£ million	£ million
Goodwill and other intangibles	**16.3**	66.4
Property, plant and equipment	**27.7**	55.0
Retirement benefit obligations (net of tax)	**(24.9)**	(37.7)
Net borrowings	**(6.9)**	(44.1)
Derivative financial instruments	**(3.3)**	(9.9)
Other net liabilities	**(58.3)**	(25.1)
Net (liabilities) / assets	**(49.4)**	4.6
Share capital and premium	**176.0**	146.4
Reserves	**(225.4)**	(141.8)
Total equity	**(49.4)**	4.6

Going concern

The Group's business activities and the factors likely to affect its future development are set out in the principal risks and uncertainties section of these financial statements. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial review.

As at 30 March 2019 the Group had a net debt of £6.9 million (2018: £44.1 million) and was in compliance with covenant requirements. Current net debt as at 17 May 2019 amounts to £15.0 million, including a £13 million drawdown on the Revolving Credit Facility ("RCF"). The cash outflow since year end reflects the seasonal working capital cycle and timing of orders placed with our trade suppliers for the AW19 season.

At the start of the financial year, the Group had successfully completed a refinancing with the support of its two Banks, HSBC Plc and Barclays Bank Plc. At this stage the Group had access to a RCF of £67.5 million, which included an uncommitted overdraft facility of £5.0 million, expiring in December 2020.

In the financial year the Group realised cash from a number of investments, each of which was used to reduce the RCF facility. In addition, there was a contractual £17.5 million stepdown in facility limit, including the removal of the overdraft facility of £5.0 million, in November 2018. At the same time, the Group agreed with the banks to soften its covenant targets to December 2019.

On 14 December 2018, the Group completed the sale and leaseback of its UK head office, with net proceeds of £14.5 million.

On 12 March 2019, the Group agreed to sell Early Learning Centre to The Entertainer for £11.5 million. The first instalment of £6.0 million was received on 22 March 2019, with a further instalment of £5.5 million received on 15 May 2019. Under the terms of the signed Curated Wholesale Agreement which governs the terms of future trading, a further £2.0 million is expected to be received over the next two years through an earn-out commission, taking the total consideration for the deal to £13.5 million. In addition, the proceeds from selling excess Early Learning Centre stock will be applied against the RCF, with the limit stepping-down by £2.0 million increments in June, July and August.

On 25 April 2019, the Group closed the stores in Ayr and Paisley, leading to proceeds of £0.5 million.

As a result of the above, by the end of August 2019, the RCF will be £18.0 million.

The Group also has access to an uncommitted debtor backed facility of up to £10.0 million (but not exceeding the total debt outstanding) from one of the Company's trade partners, expiring in October 2019.

The consolidated financial information in our full year accounts has been prepared on a going concern basis. When considering the going concern assumption, the Directors of the Group have reviewed a number of factors, including the Group's trading results, its continued access to sufficient borrowing facilities and its ability to continue to operate within its financial covenants against the Group's latest forecasts and projections, comprising of:

- A Base Case forecast; and
- A Reasonable Worse Case forecast ("RWC"), which applies sensitivities against the Base Case for reasonably possible adverse variations in performance, reflecting the ongoing volatility in UK and International trading performance.

The RWC scenario assumes the following key sensitivities:

- Significant further decline in UK sales, beyond that already seen in 2019, following a marked downturn in consumer confidence linked to uncertainty caused by the delay to BREXIT, the assumed rate of decline for 2020 is worse than that experienced in any year in the UK over the last five years
- Following the decline in underlying UK margin rate in 2019, margin is assumed to be broadly flat in 2020 (after normalising for the impact of the store closure programme), reflecting the continued margin investment necessary to stimulate demand.
- 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.

However, if the risk and sensitivities applied in our RWC forecast, or a more significant and prolonged decline in trading performance were to materialise, beyond that seen in 2019, and the Group were not able to execute further cost or cash management programmes the Group would breach its fixed charge covenant on its existing banking facilities and at certain points of the working capital cycle have insufficient headroom against existing facility limits. If this scenario were to crystallise the Group would need to renegotiate with its relationship banks in order to secure additional funding and a reset of covenants. Therefore, we have concluded that, under the RWC, there is a material uncertainty that casts significant doubt that the Group will be able to operate as a going concern.

Notwithstanding this material uncertainty, the Board's confidence in the Group's Base Case forecast, which indicates the Group will operate within the terms of its committed borrowing facilities and covenants for the foreseeable future, and the Group's proven cash management capability supports our preparation of the financial statements on a going concern basis.

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 directors concluded that a period to the end of March 2022 is a suitable time period for their review for the following reasons;

- This period aligns with our medium term forecasting cycle
- 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 Group, 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 three year period to March 2022.

These projections were then reviewed in the context of the available funding. The bank revolving credit facility is due to expire in December 2020 and it is assumed that the Group will be able to secure a similar level of funding at this point if required.

The scenario assumed the following key assumptions:

- UK sales decline significantly in year one, beyond that already seen in 2019, following a marked downturn in consumer confidence linked to uncertainty caused by the delay to BREXIT. The assumed rate of decline for 2020 is worse than that experienced in any year in the UK over the last five years. Further decline is forecast in year two followed by marginal recovery in the final year of the review. The estimated annual cash impact of +/-1% change in sales growth is £0.9 million.
- Following the decline in underlying UK margin rate in 2019, margin is assumed to be broadly flat in 2020 (after normalising for the impact of the store closure programme), reflecting the continued margin investment necessary to stimulate demand. Marginal recovery is assumed in year two and three. The estimated annual cash impact of +/- 100bps change in margin rate is £2.5 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 all three years of the review period. The estimated annual cash impact of +/-1% change in International like-for-like retail sales is £0.2 million.
- Potential FX volatility, primarily in respect of US Dollars as a result of hedges expiring is not reflected in our forecast. There is a natural hedge in place between the income we receive from franchise partners invoiced in US Dollars and the purchases from our trade suppliers. The impact on the Group could be material. If sterling were to weaken by 10%, there would be an annualised cost of £11 million resulting from the net exposure to purchases in US Dollars, whilst a 10% strengthening of sterling would result in £10 million annualised saving.

In the above scenario, the profitability and liquidity of the business would be significantly impacted and management would seek to take significant mitigating actions, such as an immediate and material reduction in capital spend and costs. In addition in this scenario, covenants and headroom would be breached and the Group would require additional short term support from its relationship banks in order to retain sufficient cash available for the business to remain liquid over the period reviewed. Notwithstanding the above and the material uncertainty as outlined in the Going Concern Statement, the directors confirm they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due for the next three years. It is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

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 34% of Group sales (2018: 34%). Total International worldwide sales in the 53 week period represent approximately 64% of Group worldwide sales (2018: 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 where feasible, all material exposures are hedged by using forward currency contracts.

Interest rate risk

The principal interest rate risk of the Group arises in respect of the drawdown of the Revolving Credit Facility ("RCF"). This facility is at a fixed rate plus LIBOR, and 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.

At 30 March 2019, Group has drawn down £17.0 million on the RCF, which attracts an interest rate of 4.25% above LIBOR, and 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.

The shareholder loans (note 11) raised in the period attract a monthly compound interest rate of 0.83%. These loan agreements contain an option to convert to equity which is treated as an embedded derivative and fair valued. This fair value is calculated using the Black Scholes model and is therefore sensitive to the relevant inputs, particularly share price.

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 trade 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. IFRS 9 'Financial Instruments' has been applied retrospectively as at 25 March 2018 by adjusting the opening balance sheet at that date. Receivables balances are held net of a provision calculated using a risk matrix, taking micro and macro-economic factors into consideration as detailed in note 2.

Shareholders' funds

Shareholders' funds amount to a deficit of £49.4 million, a reduction of £54.0 million in the 53 week period to 30 March 2019. This was driven predominantly by the losses in the year of £ 93.4 million, partly offset by a decrease in the net defined benefit pension obligation of £12.8 million and the capital raise of £32.5 million (£29.6 million net of expenses).

DIRECTORS' RESPONSIBILITY STATEMENT

The 2019 Annual Report and Accounts which will be issued in May 2019, contains a responsibility statement in compliance with DTR 4.1.12 of the Listing Rules which sets out that as at the date of approval of the Annual Report on 24 May 2019, the directors confirm to the best of their knowledge:

- the Group and unconsolidated Company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company, and the undertakings included in the consolidation taken as a whole; and

- the performance review contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Consolidated income statement

For the 53 weeks ended 30 March 2019

	Note	**53 weeks ended 30 March 2019**			52 weeks ended 24 March 2018 Restated*		
		Before adjusted items	**Adjusted items[1]**	**Total**	Before adjusted items	Adjusted items[1]	Total
		£ million	**£ million**	**£ million**	£ million	£ million	£ million
Revenue	3	**513.8**	**-**	**513.8**	580.6	-	580.6
Cost of sales		**(494.4)**	**(1.1)**	**(495.5)**	(569.3)	0.1	(569.2)
Gross profit / (loss)		**19.4**	**(1.1)**	**18.3**	11.3	0.1	11.4
Administrative expenses		**(32.5)**	**(44.4)**	**(76.9)**	(36.8)	(64.9)	(101.7)
Loss from operations	3	**(13.1)**	**(45.5)**	**(58.6)**	(25.5)	(64.8)	(90.3)
Net finance costs	5	**(5.3)**	**(2.7)**	**(8.0)**	(3.5)	(0.2)	(3.7)
Loss before taxation		**(18.4)**	**(48.2)**	**(66.6)**	(29.0)	(65.0)	(94.0)
Loss before taxation and foreign currency revaluations		**(20.4)**	**(47.3)**	**(67.7)**	(22.6)	(67.1)	(89.7)
Foreign currency adjustments		**2.0**	**(0.9)**	**1.1**	(6.4)	2.1	(4.3)
Loss before taxation		**(18.4)**	**(48.2)**	**(66.6)**	(29.0)	(65.0)	(94.0)
Taxation		**(1.8)**	**0.9**	**(0.9)**	1.3	(0.3)	1.0
Loss for the period from continuing operations		**(20.2)**	**(47.3)**	**(67.5)**	(27.7)	(65.3)	(93.0)
Discontinued operations							
Profit / (loss) for the period from discontinued operations	7	**4.2**	**(30.1)**	**(25.9)**	17.9	(1.0)	16.9
Loss for the period attributable to equity holders of the parent		**(16.0)**	**(77.4)**	**(93.4)**	(9.8)	(66.3)	(76.1)
Losses per share							
From continuing operations							
Basic	9	**(7.1)p**		**(23.8)p**	(16.3)p		(54.8)p
Diluted	9	**(7.1)p**		**(23.8)p**	(16.3)p		(54.8)p
From continuing and discontinued operations							
Basic	9	**(5.6)p**		**(33.1)p**	(5.8)p		(44.8)p
Diluted	9	**(5.6)p**		**(33.1)p**	(5.8)p		(44.8)p

See glossary for definitions.

1. Includes adjusted costs (property costs, restructuring costs and impairment charges), the fair value movement on embedded derivatives, and the impact of non-cash foreign currency adjustments as set out in note 4. 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 Operating Board.

*Prior year results have been reclassified to be on a consistent basis with the current year (see note 13) for the treatment of foreign exchange differences on the revaluation of working capital, adjusted interest costs and 'other adjusted items' previously shown separately (see note 4), and for the discontinued operations of the Early Learning Centre (see note 7).

Consolidated statement of comprehensive income

For the 53 weeks ended 30 March 2019

	53 weeks ended 30 March 2019	52 weeks ended 24 March 2018
	£ million	£ million
Loss for the period	**(93.4)**	(76.1)
Items that will not be reclassified subsequently to the income statement:		
Actuarial gain on defined benefit pension schemes	**1.6**	36.0
Income tax relating to items not reclassified	**0.2**	(21.4)
	1.8	14.6
Items that may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**0.1**	(0.6)
Cash flow hedges: gain / (loss) arising in the period	**12.9**	(18.8)
Deferred tax on cash flow hedges	**(0.6)**	1.4
	12.4	(18.0)
Other comprehensive income/(expense) for the period	**14.2**	(3.4)
Total comprehensive expense for the period wholly attributable to equity holders of the parent	**(79.2)**	(79.5)

Consolidated balance sheet

As at 30 March 2019

	30 March 2019	24 March 2018
	£ million	£ million
Non-current assets		
Goodwill	**-**	26.8
Intangible assets	**16.3**	39.6
Property, plant and equipment	**27.7**	55.0
Trade and other receivables	**-**	0.1
Deferred tax asset	**-**	3.6
	44.0	125.1
Current assets		
Inventories	**66.8**	87.0
Trade and other receivables	**45.9**	64.5
Derivative financial instruments	**1.5**	0.1
Cash and cash equivalents	**16.3**	-
Assets classified as held for sale	**0.5**	-
	131.0	151.6
Total assets	**175.0**	276.7
Current liabilities		
Trade and other payables	**(102.6)**	(106.3)
Borrowings	**(11.5)**	(1.6)
Current tax liabilities	**(0.7)**	(0.3)
Derivative financial instruments	**-**	(9.4)
Provisions	**(21.8)**	(16.8)
	(136.6)	(134.4)
Non-current liabilities		
Trade and other payables	**(14.8)**	(20.1)
Borrowings	**(11.7)**	(42.5)
Retirement benefit obligations	**(24.9)**	(37.7)
Derivative financial instruments	**(4.8)**	(0.6)
Provisions	**(31.6)**	(36.8)
	(87.8)	(137.7)
Total liabilities	**(224.4)**	(272.1)
Net (liabilities)/assets	**(49.4)**	4.6
Equity attributable to equity holders of the parent		
Share capital	**87.1**	85.4
Share premium account	**88.9**	61.0
Own shares	**(1.1)**	(1.1)
Translation reserve	**(1.8)**	(1.9)
Hedging reserve	**1.3**	(9.4)
Retained deficit	**(223.8)**	(129.4)
Total equity	**(49.4)**	4.6

Consolidated statement of changes in equity

For the 53 weeks ended 30 March 2019

	Equity attributable to equity holders of the parent						
	Share capital	Share premium account	Own shares	Translation reserve	Hedging Reserve	Retained earnings	**Total equity**
	£ million	£ million	£ million	£ million	£ million	£ million	**£ million**
Balance at 25 March 2018 as previously reported	**85.4**	**61.0**	**(1.1)**	**(1.9)**	**(9.4)**	**(129.4)**	**4.6**
Cumulative adjustment to opening balances from the application of IFRS 15	-	-	-	-	-	(0.8)	(0.8)
Cumulative adjustment to opening balances from the application of IFRS 9	-	-	-	-	-	(2.0)	(2.0)
Balance at 25 March 2018 as restated *	85.4	61.0	(1.1)	(1.9)	(9.4)	(132.2)	1.8
Other comprehensive income for the period	-	-	-	0.1	12.3	1.8	14.2
Loss for the period	-	-	-	-	-	(93.4)	(93.4)
Total comprehensive (expense)/income for the period	-	-	-	0.1	12.3	(91.6)	(79.2)
Issue of new shares	1.7	30.8	-	-	-	-	32.5
Expenses of issue of equity shares	-	(2.9)	-	-	-	-	(2.9)
Transfer to equity from inventories during the period	-	-	-	-	(1.6)	-	(1.6)
Balance at 30 March 2019	**87.1**	**88.9**	**(1.1)**	**(1.8)**	**1.3**	**(223.8)**	**(49.4)**

*The prior year has been restated for the reclassification of ELC discontinued operations (see note 7).

For the 52 weeks ended 24 March 2018

	Equity attributable to equity holders of the parent						
	Share capital	Share premium account	Own shares	Translation reserve	Hedging reserve	Retained earnings	**Total equity**
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Balance at 26 March 2017	**85.4**	**61.0**	**(1.5)**	**(1.3)**	**5.2**	**(67.4)**	**81.4**
Other comprehensive (expense)/income	-	-	-	(0.6)	(17.4)	14.6	(3.4)
Loss for the period	-	-	-	-	-	(76.1)	(76.1)
Total comprehensive expense for the 52 week period to 24 March 2018	**-**	**-**	**-**	**(0.6)**	**(17.4)**	**(61.5)**	**(79.5)**
Transfer to equity from inventories during the period	-	-	-	-	2.8	-	2.8
Charge to equity for equity-settled share-based payments	-	-	-	-	-	(0.1)	(0.1)
Shares transferred to employees	-	-	0.4	-	-	(0.4)	-
Balance at 24 March 2018	**85.4**	**61.0**	**(1.1)**	**(1.9)**	**(9.4)**	**(129.4)**	**4.6**

Consolidated cash flow statement

For the 53 weeks ended 30 March 2019

	Note	**53 weeks ended 30 March 2019 £ million**	52 weeks ended 24 March 2018 Restated* £ million
Net cash flow from operating activities – continuing operations	11	**1.0**	(31.3)
Net cash flow from operating activities – discontinued operations		**0.4**	32.6
Cash flows from investing activities			
Interest received		**0.1**	-
Purchase of property, plant and equipment		**(5.9)**	(15.6)
Purchase of intangibles – software		**(6.4)**	(8.5)
Proceeds from sale of property, plant and equipment		**14.5**	-
Net cash used in investing activities – continuing operations		**2.3**	(24.1)
Net cash used in investing activities – discontinued operations		**-**	-
Cash flows from financing activities			
Issue of share capital		**32.5**	-
Expenses of share issue		**(2.9)**	-
Shareholder loans		**8.0**	-
Interest paid		**(3.6)**	(1.4)
Repayment of facility		**(61.5)**	(61.5)
Drawdown of facility		**36.0**	89.0
Payment of facility fee		**(0.7)**	(0.6)
Net cash raised in financing activities – continuing operations		**7.8**	25.5
Net cash raised in financing activities – discontinued operations		**5.5**	(0.5)
Net increase in cash and cash equivalents		**17.0**	2.2
Overdraft at beginning of period		**(1.6)**	(0.9)
Effect of foreign exchange rate changes		**0.9**	(2.9)
Cash and cash equivalents /(overdraft) at end of period		**16.3**	(1.6)

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 Chairman's statement, 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.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS.

The financial information set out in this announcement does not constitute the Group's statutory accounts for the 53 week period ended 30 March 2019 or the 52 week period ended 24 March 2018, but it is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Group's annual general meeting. The auditor has reported on the 2019 accounts; their report is unqualified, but the audit opinion refers to an emphasis of matter regarding the material uncertainty concerning the Group's ability to continue as a Going Concern without qualifying their report and did not contain statements under s498 (2) or (3) of the Companies Act 2006. The 2018 financial statements are available on the Group's website (www.mothercareplc.com).

2. Accounting Policies and Standards

Going concern

The Directors have reviewed the Group's latest forecasts and projections, which have been sensitivity-tested for reasonably possible adverse variations in performance, reflecting the ongoing volatility in UK trading performance and restructuring activity across the store estate and head office. This indicates the Group will operate within the terms of its committed borrowing facilities and covenants for the foreseeable future.

If the risk and sensitivities applied in our Reasonable Worst Case ("RWC") forecast, or a more significant and prolonged decline in trading performance were to materialise, beyond that seen in 2019, and the Group were not able to execute further cost or cash management programmes the Group would breach its fixed charge covenant on its existing banking facilities and at certain points of the working capital cycle have insufficient headroom against existing facility limits. If this scenario were to crystallise the Group would need to renegotiate with its relationship banks in order to secure additional funding and a reset of covenants. Therefore, we have concluded that, under the RWC, there is a material uncertainty that casts significant doubt that the Group will be able to operate as a going concern.

Notwithstanding this material uncertainty, the Board's confidence in the Group's Base Case forecast, which indicates the Group will operate within the terms of its committed borrowing facilities and covenants for the foreseeable future, and the Group's proven cash management capability supports our preparation of the financial statements on a going concern basis.

Adoption of new IFRSs

The same accounting policies, presentation and methods of computation are followed in this yearly report as applied in the Group's last audited financial statements for the 52 weeks ended 24 March 2018, with the exception of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for which the 53 weeks ended 30 March 2019 is the Group's first period of application. The Group has adopted IFRS 9 and IFRS 15 effective for the period ending 30 March 2019.

Impact of application of IFRS 9 – Financial Instruments

IFRS 9 introduced new requirements for:
1) The classification and measurement of financial assets and financial liabilities;
2) Impairment of financial assets; and
3) Hedge accounting.

IFRS 9 has been applied retrospectively as at 25 March 2018 by adjusting the opening balance sheet at that date, and in accordance with the transitional provisions set out in this standard.

Classification and measurement of financial assets
The Directors of the Company reviewed and assessed the Group's existing financial assets as at 25 March 2019 based on the facts and circumstances that existed at that date and assessed the initial application of IFRS 9 on the Group's financial assets as regards their classification and measurement.
All financial assets held by the Group are considered to be debt instruments held within a business model whose objective is to collect the contractual cash flows, where these contractual cash flows are solely payments of principal and interest on the principal, and are therefore subsequently measured at amortised cost.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss (ECL) model, which replaces IAS 39's incurred credit loss model. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise an allowance for expected credit losses on trade receivables and contract assets.

Trade receivable balances are held net of a provision calculated using a risk matrix, taking micro and macro-economic factors into consideration. The receivables provision was calculated as at 25 March 2018 as it would have been if IFRS 9 had applied, and an adjustment was recognised through retained earnings to reflect that under IFRS 9, the provision would have been £2.0 million higher.

Impact of application of IFRS 15 – Revenue from Contracts with Customers
IFRS 15 has been applied from 25 March 2018 with the application of the standard in the current accounting period and a cumulative effect adjustment at the date of initial application recognised through retained earnings of £0.8 million.

Under the Group's standard contract terms for the sale of goods, customers have a right of return within 30 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product from customers when they exercise their right of return so consequently recognises a right to returned goods asset

and a corresponding adjustment to cost of sales. A right of return asset and a refund liability are therefore held gross on the balance sheet.
Gift card breakage, previously recognised on expiry, is now recognised in proportion to its usage pattern to the extent it is recoverable. IFRS 15 also requires the reclassification of certain items previously reported in cost of sales to revenue.

The total impact of these adjustments was to increase revenue and cost of sales in the current financial year by £0.6 million and £0.3 million respectively.

Standards issued 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 and endorsed by the EU, but not yet effective:

- IFRS 16, 'Leases'
- Amendments to IFRS 9 'Prepayment features with negative compensation'
- Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses'

The Directors anticipate that, with the exception of IFRS 16 'Leases', adoption of these standards and interpretations in future periods will have no material impact on the Group's financial statements.

IFRS 16 'Leases'

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. The Group will apply IFRS 16 under the modified retrospective approach, with the cumulative effect of initially applying the standard being recognised at the date of initial application.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Criteria for control include:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

Distinctions between operating leases and finance leases are removed for lessee accounting and replaced by a model where a right-of -use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost less impairment and lease incentives, and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability.

Lease incentives (including rent-free periods and landlord contributions) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

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 rent payments, as well as the impact of lease modifications.

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 interest payments and depreciation, which will be presented as financing and operating cash flows respectively.

Under IFRS 16, right‑of‑use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

As at 30 March 2019, the Group has non-cancellable operating lease commitments of £150.1 million. The Group will recognise a lease liability of between a range of £113.0 million and £121.0 million in respect of these.

The Group has elected to rely on its assessment of whether or not a lease is onerous under IAS 37: Provisions, Contingent Assets, and Contingent Liabilities immediately before the date of initial application, and included an adjustment to the right-of-use asset in accordance with this.

The Group will also recognise a right‑of‑use asset between a range of £58.0 million and £67.0 million.
The provision for onerous lease contracts which was required under IAS 17 of £43.7 million will be derecognised.

Lease liability incentives of £18.0 million currently recognised in respect of the operating leases will be derecognised and the amount factored into the measurement of the right‑to‑use assets and lease liabilities.

There are nine leases which fall due for renewal in 2020 and are therefore excluded from these numbers by virtue of the practical expedient whereby leases where the term ends within 12 months of the date of initial application have been accounted for as short-term leases. The transition adjustments to the balance sheet would therefore be impacted by the terms on which these leases are renewed, but the lease length and rent are currently unknown.

Operating lease commitments within one year of £26.4 million include £0.7 million in relation to stores closed in 2019, and £2.1 million in relation to stores due to close in 2020. The practical expedient has been employed such that leases where the term ends within 12 months of the date of initial application have been accounted for as short-term leases.

The Group's weighted average incremental borrowing rate is within the range of 7.0-7.5%. As a practical expedient, a lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics; leases have been grouped according to location, type, and lease length.

Discontinued operations
In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated).

Non-current assets transferred to held for sale
Non‑current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell and are transferred to current assets. Non‑current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through

continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Prior period reclassification of foreign currency revaluations

In previous periods the Group has included all foreign currency transactions relating to the retranslation of foreign currency denominated cash and debtor balances as part of adjusted items. These gains/losses are now included before adjusted items in line with industry best practice and accordingly the prior period treatment of these items have been reclassified onto a comparable basis.

Foreign currency adjustments

The Group applies hedge accounting on some of 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". Revaluation adjustments relating to cash and debtors are included before adjusted items with those relating to hedged items reported as adjusted items such that the Group reports its adjusted performance consistently with its cash flows.

Retirement benefits

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 pension obligation has been updated to reflect: current market discount rates; current market values of investments and actual investment returns; and also for 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). A full definition is shown in the glossary at the end of this document.

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 measures.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the performance and position of the Group because they are consistent with how business performance is reported to the Board and Operating Board.

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 except where expressly stated.

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.

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.

Profit/(loss) before adjusted items
The Group's policy is to exclude items that are considered to be one-off and significant in both nature and/or value 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 53 week period ended 30 March 2019:

- Property related costs of £31.8 million, including impairment and onerous lease charges of £43.2 million (2018: £49.8 million), a £2.5 million credit on store closure costs and the profit on the sale of the Head Office of £8.9 million (2018: £nil);
- Cost associated with restructuring, redundancies and refinancing of £12.8 million (2018: £7.0 million);

- Costs included in finance costs of £2.7 million (2018: £0.2 million); and
- Non-cash foreign currency adjustments relating to the revaluation of outstanding forward contracts which have not yet been matched to the purchase of stock of £0.9 million (2018: £2.1 million credit).
- Adjusted costs of £30.5 million (2018: £1.0 million) relating to discontinued operations (note 7).

Profit/(loss) before taxation and foreign currency revaluations
The Group has introduced a new measure this year, which is profit/(loss) before taxation and foreign currency revaluations on the basis that foreign currency differences on the revaluation of foreign currency denominated cash and debtor balances, albeit recurring, are significant in size, volatile and distort the underlying performance of the Group.

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 the statutory performance for the Group. The reconciliation from adjusted free cash flow to statutory cash flow is shown in the Financial review.

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 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.

	53 weeks ended 30 March 2019 – on a continuing basis			
	International £ million	**UK £ million**	**Unallocated corporate expenses £ million**	**Consolidated £ million**
Revenue				
Reported sales	**177.2**	**336.6**	**-**	**513.8**
Segment result[1] (before adjusted items)	**29.5**	**(35.5)**	**(7.9)**	**(13.9)**
Share-based payments credit			**0.8**	**0.8**
Non-cash foreign currency adjustments (adjusted item)			**(0.9)**	**(0.9)**
Amortisation of intangible assets (adjusted item)			-	-
Adjusted costs (note 4)	**(7.9)**	**(34.1)**	**(2.6)**	**(44.6)**
Profit/(loss) from operations	**21.6**	**(69.6)**	**(10.6)**	**(58.6)**
Finance cost (including adjusted item of £2.7 million)				**(8.0)**
Loss before taxation				**(66.6)**
Taxation				**(0.9)**
Loss after taxation from continuing operations				**(67.5)**
Loss for the period from discontinued operations				**(25.9)**
Loss for the period after tax and discontinued operations				**(93.4)**

1. The International segment result includes a foreign currency revaluation gain of £1.2 million and the UK Segment result includes a foreign currency revaluation gain of £0.8 million.

	52 weeks ended 24 March 2018– on a continuing basis			
	International	UK	Unallocated corporate expenses	Consolidated Restated*
	£ million	£ million	£ million	£ million
Revenue				
Reported sales	199.1	381.5	-	580.6
Segment result[1] (before adjusted items*)	25.4	(43.4)	(7.6)	(25.6)
Share-based payments credit	-	-	0.1	0.1
Non-cash foreign currency adjustments (adjusted item)	-	-	2.1	2.1
Amortisation of intangible assets (adjusted item)	-	-	(0.4)	(0.4)
Adjusted costs (note 4)	(5.2)	(59.3)	(2.0)	(66.5)
Profit/(loss) from operations	20.2	(102.7)	(7.8)	(90.3)
Finance costs (including adjusted item of £0.2 million)				(3.7)
Loss before taxation				(94.0)
Taxation				1.0
Loss after taxation from continuing operations				(93.0)
Profit for the period on discontinued operations				16.9
Loss for the period				(76.1)

1. The International segment result includes a foreign currency revaluation loss of £3.5m and the UK Segment result includes a foreign currency revaluation loss of £3.0m.

*Adjusted items in the prior year have been reclassified to be on a consistent basis with the current year (see note 13) for the treatment of foreign exchange differences on the revaluation of working capital, adjusted interest costs and 'other adjusted items' previously shown separately (see note 4), and for the discontinued operations of the Early Learning Centre (see note 7).

4. Adjusted items

The total adjusted items before tax from continuing operations reported for the 53-week period ended 30 March 2019 is a net charge of £48.2 million. The adjustments made to reported loss before tax to arrive at adjusted profit are:

	53 weeks ended 30 March 2019	**52 weeks ended 24 March 2018 Restated***
	£ million	**£ million**
Adjusted costs:		
Restructuring costs included in cost of sales	**(0.2)**	(0.9)
Impairment costs in cost of sales	**-**	(1.1)
Property related costs included in administrative expenses	**(31.8)**	(55.6)
Non-property related restructuring costs included in administrative expenses	**(12.6)**	(7.0)
Joint venture restructuring costs included in administrative expenses	**-**	(1.9)
Restructuring costs included in finance costs	**(2.7)**	(0.2)
Total adjusted costs:	**(47.3)**	(66.7)
Other adjusted items:		
Non-cash foreign currency adjustments under IAS 39 and IAS 21 included in cost of sales	**(0.9)**	2.1
Amortisation of intangible assets	**-**	(0.4)
Total adjusted items before tax	**(48.2)**	(65.0)

*Adjusted items for the full year 2018 have been restated on a consistent basis for the treatment of foreign exchange differences on the revaluation of working capital (2018 : £1.9 million loss) and adjusted interest costs (2018: £0.2 million) and for the reclassification of ELC discontinued operations (see note 7).

Restructuring costs in cost of sales

Costs of £0.2 million have been incurred in relation to store redundancies. In the prior period restructuring costs included £0.9 million relating to the warehouse development project.

Impairment costs in cost of sales

The prior year included an impairment charge for the Blooming Marvellous tradename of £1.1 million.

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

Property related costs in administrative expenses
The charge of £31.8 million (2018: £55.6 million) includes: £15.4 million of UK store impairments; £14.5 million of software impairment; £13.3 million of increase in the onerous lease provision; a £2.5 million credit in respect of store closure costs; and a profit arising on the sale of the Head office freehold property of £8.9 million.

Store closure costs - £2.5 million credit

Following the approval of the company voluntary arrangements ("CVA") for Mothercare and ELC and the administration of Childrens World Limited, the closure programme has been accelerated. 47 stores (including three standalone ELC stores) have closed during the current year (and 15 stores closed post year-end in April 2019). The associated cost of closing these stores in the period include costs of redundancy, agent fees, and dilapidations costs. A net credit of £2.5 million was recognised with respect to store closures, including property dilapidations, redundancy and lease exit costs.

The prior year provision reflected the transformation strategy to take the core estate down to 80-100 destination stores over three years. The CVAs have reduced the time and cost of those closures resulting in a credit to the income statement in the current period.

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

Store impairment charges – £15.4 million, and onerous lease provisions – £ 13.3 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 £15.4 million has been incurred with respect to impairment of the assets associated with these stores. A charge of £13.3 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 an adjusted item on the basis of the significant value of the charge in the period to the results of the Group.

Software impairment – £14.5 million
A charge of £14.5 million has been included for software impairment which comprise £1.7 million of licences for aspects of a planning system that will no longer be installed, and £12.8 million of general impairment against remaining intangibles.

The charge associated with the impairment of software have been classified as an adjusted item on the basis of the significant value of the charge in the period to the results of the Group.

Sale of the Head office freehold properties - £ 8.9 million credit
In December 2018, the Group sold and leased back the UK Head Office for proceeds of £14.5 million (net of £0.2 million fees). The carrying value of the assets prior to disposal was £5.6 million, generating a profit on disposal of £8.9 million.

The sale of the head office is considered significant in value and one-off in nature. As a result, this transaction is not considered to be within normal business operations.

Non-property related restructuring costs included in administrative expenses

During the 53 weeks ended 30 March 2019 an expense of £12.6 million (2018: £7.0 million) was recognised. This comprised:

Head office and store restructure costs - £7.0 million (2018: £5.9 million)
During the period it was announced that the overseas sourcing offices would be closed with a third party taking on sourcing activities to drive economies of scale. Associated costs of £2.5 million relating to the closure of the sourcing office have been provided for and include severance pay, lease costs, and advisor fees. Further costs of £4.2 million relate to the UK head office and Stores restructure and include fees, the cost of specific project heads and redundancy costs. The salary costs for individuals that are substantially working on the restructure have been included in adjusted costs on the basis that these costs would not have been incurred had these projects not taken place.

Refinancing costs - £5.9 million (2018: £1.1 million)
In May 2018 the Group entered into a refinancing and funding review resulting in: an equity raise, shareholder loans, two CVAs, the administration of Childrens World Limited, and an amendment to the Group's banking facilities. Fees of £5.9 million associated with these activities have been recognised as adjusted costs.

Pension related items - £0.8 million gain (2018: £ nil)
In November 2018, members of the defined benefit pension scheme were offered the option of participating in a pension increase exchange (PIE). This enabled members the option of taking a higher pension now, in exchange for future increases being reduced to 75% of what they would otherwise have been. This has been recognised as a past service cost through the income statement. Fees of £0.2 million were incurred to implement this change, including the independent legal advice offered to members.

On 26 October 2018 a High Court judgement was handed down regarding the Lloyds Banking Group's defined benefit pension scheme which affects many pension schemes in the UK. The judgement concluded that schemes should be amended to ensure that members who have guaranteed minimum pensions (GMP) receive the same benefits regardless of their gender. This change impacts GMP benefits accrued between 1990 and 1997. In consultation with independent actuaries, the Group has estimated the financial effect of equalising benefits is to increase the Group accounting pension deficit by £0.6 million. This has been recognised as a past service cost.

As these items are regarded as one-off in nature they are presented as an adjusted item.

National Minimum Wage - £0.5 million
The Group has made a specific pay provision for the potential costs of complying with the National Minimum Wage (NMW) Regulations of £0.5 million. The provision is based on detailed workings for one year, extrapolated for the six-year review period. These discussions with HMRC are ongoing and the final settlement may differ to the provision held.

This provision, which is considered one-off and significant in value, relates to the catch up of historical liabilities, and as a result, is not considered to be within normal operating costs of the business.

Joint venture trade receivable provision included in administrative expenses
The prior period charge of £1.9 million included a provision for debts and legal fees in connection with the former China joint venture. The China joint venture was disposed of during the year ended 24 March 2018.

Restructuring costs included in finance costs- £2.7 million
In May 2018 the Group entered a refinancing and funding review, resulting in an equity raise, four Shareholder loans, two CVAs (Mothercare and ELC), and the amendment to the Group's banking facilities. The terms of the Shareholder loans allow for these loans to be converted into new ordinary shares of the Company at specific dates. The lenders' option to convert represents an embedded derivative that is fair valued using a Black Scholes model at each balance sheet date. The movement in the embedded derivative of £1.7 million is recognised as a finance cost in adjusted items.

Upon the renegotiation of banking facilities in the current period, a charge of £0.4 million for the previously unamortised facility fee was recognised in adjusted costs (2018: £0.2 million charge relating to the previous facility).

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

Other adjusted items
Non-cash foreign currency adjustments include the revaluation of stock liabilities held in foreign currencies and the revaluation of outstanding forward contracts which have not yet been matched to the purchase of stock. The prior period totals have been adjusted to reflect consistent classification with the current period.

These revaluation and hedging adjustments are reported as adjusted items as the Group reports its underlying performance on a consistent basis with its cash flows; this is in line with how business performance is measured internally by the Board and Operating Board.

Amortisation charges on the intangible assets which arose on the acquisition of the Blooming Marvellous tradename were amortised on a straight line basis. These were fully impaired at March 2018.

5. Net finance costs

	53 weeks ended 30 March 2019 £ million	52 weeks ended 24 March 2018 Restated* £ million
Interest and bank fees on bank loans and overdrafts	**3.5**	1.9
Other interest payable	**1.4**	-
Unwinding of discount on provisions	**0.6**	-
Fair value movement on embedded derivatives	**1.7**	-
Net interest on liabilities/return on assets on pension	**0.9**	2.0
Interest payable	**8.1**	3.9
Interest received on bank deposits	**(0.1)**	(0.2)
Net finance costs	**8.0**	3.7

*The prior year has been restated for the reclassification of ELC discontinued operations (see note 7).

Financing represents interest receivable on bank deposits, less amounts capitalised for borrowing costs associated with the build of qualifying assets, fees payable on borrowing facilities, the amortisation of costs relating to bank facility fees and the net interest charge on the liabilities/assets of the pension scheme.

6. Taxation

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

	53 weeks ended 30 March 2019 £ million	52 weeks ended 24 March 2018 Restated* £ million
Current tax – overseas tax and UK corporation tax	**0.8**	(1.8)
Deferred tax – UK tax charge for temporary differences	**0.1**	0.8
Charge/(credit) for taxation on loss for the period	**0.9**	(1.0)

The prior year has been restated for the reclassification of ELC discontinued operations (see note 7).

UK corporation tax is calculated at 19% (2018: 19%) of the estimated assessable loss 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 for the period before taxation per the consolidated income statement as follows:

	53 weeks ended 30 March 2019 £ million	52 weeks ended 24 March 2018 Restated* £ million
Loss for the period on continuing operations	**(66.6)**	(94.0)
Loss for the period before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**(12.7)**	(17.8)
Effects of:		
Expenses not deductible for tax purposes	**0.2**	1.7
Profits/losses surrendered to discontinued operations	**(1.1)**	(0.1)
Impact of difference in current and deferred tax rates	**1.3**	(0.1)
Impact of overseas tax rates	**2.8**	1.6
Impact of overseas taxes expensed	**(0.3)**	(0.2)
Deferred tax not recognised	**10.9**	14.5
Adjustment in respect of prior periods – current tax	**(0.2)**	-
Adjustment in respect of prior periods – deferred tax	**-**	(0.6)
Charge/(credit) for taxation on loss for the period	**0.9**	(1.0)

In addition to the amount charged to the income statement, a deferred tax relating to cash flow hedges and share-based payments amounting to £0.4 million charge (2018: £20.0 million credit) has been taken directly to the consolidated statement of comprehensive income.

7. Discontinued operations

On 12 March 2019, the Group entered into an agreement for the sale of the Early Learning Centre (ELC) trade and specified assets. This contract completed on 22 March 2019, and the subsequent Curated Wholesale Agreement with TEAL Brands Limited ("TEAL") takes effect from 13 May 2019.

The results of the discontinued operations, which have been included in the consolidated income statement were as follows:

	53 weeks ended 30 March 2019			52 weeks ended 24 March 2018		
	Before adjusted items* £ million	**Adjusted items £ million**	**Total £ million**	Before adjusted items* £ million	Adjusted items £ million	Total £ million
Revenue:	**52.5**	**-**	**52.5**	73.9	-	73.9
Expenses	**(42.8)**	**(0.2)**	**(43.0)**	(47.6)	(1.0)	(48.6)
Gross profit	**9.7**	**(0.2)**	**9.5**	26.3	(1.0)	25.3
Administrative expenses	**(0.4)**	**(30.3)**	**(30.7)**	(0.9)	-	(0.9)
Profit/(loss) from operations	**9.3**	**(30.5)**	**(21.2)**	25.4	(1.0)	24.4
Net finance costs	**(0.5)**	**-**	**(0.5)**	(0.5)	-	(0.5)
Loss before taxation and foreign currency revaluations	**8.8**	**(30.5)**	**(21.7)**	24.9	(1.0)	23.9
Foreign currency revaluations	**1.0**	**-**	**1.0**	(2.7)	-	(2.7)
Profit/(loss) before taxation on discontinued operations	**9.8**	**(30.5)**	**(20.7)**	22.2	(1.0)	21.2
Adjusted item (net of taxation)	**(5.6)**	**0.4**	**(5.2)**	(4.3)	-	(4.3)
Net (loss)/profit attributable to discontinued operations	**4.2**	**(30.1)**	**(25.9)**	17.9	(1.0)	16.9

*Adjusted profit after tax on discontinued operations of £4.2 million (2018: £17.9 million) includes only those costs that are clearly identifiable as costs of the component that is being disposed of and that will not be recognised on an ongoing basis.

The results of the discontinued operations differ significantly from the reported statutory results of Early Learning Centre Limited, because they exclude fixed costs of £13.5 million (2018: £15.3 million) that currently remain in the Group, for example store occupancy and distribution costs, as these costs weren't discontinued as a result of the disposal agreement. Foreign exchange revaluation losses of £0.6 million (2018: £4.8 million) are also excluded from the presented discontinued operations result as they arose on balances which were not included in the sale agreement.

The adjusted item arising from the sale of the ELC operations was comprised as follows:

	30 March 2019 £ million
Consideration received or receivable:	
Cash	**6.0**
Deferred cash consideration	**5.5**
Total disposal consideration*	**11.5**
Legal expenses	**(1.2)**
Total net consideration	**10.3**
Write off of goodwill and intangible assets	**(30.8)**
Write down of property, plant and equipment	**(1.4)**
Write down of inventory	**(2.3)**
Write down of other assets	**(0.8)**
Transfer of inventory to TEAL Brands Limited	**(5.5)**
Adjusted item before taxation	**(30.5)**
Taxation	**0.4**
Loss on sale of Early Learning Centre (adjusted item)	**(30.1)**

*Additional consideration of £1.0 million in May 2020 and £1.0 million in May 2021 has been deferred as it will be earnt over the first two years of trading under the Curated Wholesale Agreement with TEAL Brands Limited, and therefore the total consideration is £13.5 million.

During the year ELC discontinued operations generated £0.4 million (2018 £32.6 million) to the Groups' net operating cash flows, paid £nil million (2018: £0.4 million) in respect of investing activities and received £5.5 million (2018: £0.5 million outflow) in respect of financing activities.

A loss of £30.1 million arose on the disposal of the ELC trade activities, being the difference between the proceeds of disposal and the carrying value of the subsidiary's remaining net assets and attributable goodwill as shown in the table above.

8. Dividends

The Directors are not recommending the payment of a final dividend for the year (2018: £nil). No interim dividend was paid during the year (2018: £nil).

9. Earnings per share

	53 weeks ended 30 March 2019 Million	52 weeks ended 24 March 2018 Million
Weighted average number of shares in issue for the purposes of basic earnings per share	**283.5**	169.8
Dilution – option schemes	**28.0**	2.0
Weighted average number of shares in issue for the purpose of diluted earnings per share	**311.5**	171.8
Number of shares at period end	**341.7**	170.9

	£ million	Restated* £ million
Loss for basic and diluted earnings per share	**(93.4)**	(76.1)
Adjusted items (Note 4)	**78.7**	66.0
Tax effect of above items	**(1.3)**	0.3
Adjusted loss for continuing and discontinued operations	**(16.0)**	(9.8)

*Adjusted items in the prior year have been restated on a consistent basis for the treatment of foreign exchange differences on the revaluation of working capital loss of £9.1 million) and adjusted interest costs (£0.2 million).

From continuing and discontinued operations	pence	pence
Basic losses per share	**(32.9)**	(44.8)
Basic adjusted losses per share	**(5.6)**	(5.8)
Diluted losses per share	**(32.9)**	(44.8)
Diluted adjusted losses per share	**(5.6)**	(5.8)

	£ million	£ million
Loss for basic and diluted earnings per share	**(67.5)**	(93.0)
Adjusted items (Note 4)	**48.2**	65.0
Tax effect of above items	**(0.9)**	0.3
Adjusted loss for continuing operations	**(20.2)**	(27.7)

From continuing operations	pence	pence
Basic losses per share	**(7.1)**	(16.3)
Basic adjusted losses per share	**(23.8)**	(54.8)
Diluted losses per share	**(7.1)**	(16.3)
Diluted adjusted losses per share	**(23.8)**	(54.8)

From continuing and discontinued operations	pence	pence
Basic losses per share	**(5.6)**	(5.8)
Basic adjusted losses per share	**(33.1)**	(44.8)
Diluted losses per share	**(5.6)**	(5.8)
Diluted adjusted losses per share	**(33.1)**	(44.8)

10. Share Capital and Share Premium

On 9 July 2018 the Company announced a proposed subdivision of shares (into 1p ordinary shares and 49p deferred shares) and a placing and open offer of 170,871,885 ordinary 1p shares on a 1 for 1 basis at 19p per ordinary share. Immediately before the placing and open offer, the issued share capital was 170,871,885. 170,871,885 new ordinary shares were issued on 27 July 2018. The total issued share capital immediately following the placing and open offer was 341,743,770. This raised equity of £32.5 million, an increase in share capital of £1.7 million, and £27.9 million in share premium (after expenses of £2.9 million).

11. Notes to the cash flow statement

	53 weeks ended 30 March 2019 £ million	52 weeks ended 24 March 2018 Restated* £ million
Loss from operations	**(58.6)**	(90.3)
Adjustments for:		
Depreciation of property, plant and equipment	**9.8**	13.7
Amortisation of intangible assets	**10.5**	8.4
Impairment of property, plant and equipment and intangible assets	**29.9**	17.1
Profit on sale of property, plant and equipment	**(9.0)**	-
Loss on non-cash foreign currency adjustments	**2.6**	3.9
Share-based payments	**(0.8)**	-
Movement in provisions	**(0.2)**	31.0
Amortisation of lease incentives	**(7.9)**	(4.3)
Lease incentives received	**1.0**	2.4
Payments to retirement benefit schemes	**(14.5)**	(11.8)
Charge in respect of retirement benefit schemes	**2.3**	3.2
Operating cash flow before movement in working capital	**(34.9)**	(26.7)
Decrease/(increase) in inventories	**28.9**	(2.4)
Decrease/(increase) in receivables	**20.1**	(8.2)
(Decrease)/increase in payables	**(10.3)**	1.7
Foreign exchange (gains)/losses arising on working capital	**(1.7)**	6.3
Net cash flow from operating activities	**2.1**	(29.3)
Income taxes paid	**(1.1)**	(2.0)
Cash generated from/(utilised by) – continuing operations	**1.0**	(31.3)
Cash generated from operations – discontinuing operations	**0.4**	32.6

*The prior year has been restated for the reclassification of ELC discontinued operations (see note 7).

Analysis of net debt

	24 March 2018 £ million	Cash flow £ million	Foreign exchange £ million	Non – cash movements[1] £ million	**30 March 2019 £ million**
Cash and cash equivalents/bank overdrafts	(1.6)	17.0	0.9	-	16.3
Borrowings - Banks	(42.5)	25.5	-	-	(17.0)
Borrowings - Shareholder loans (net of fees)	-	(8.0)	-	1.8	(6.2)
Net debt	(44.1)	34.5	0.9	1.8	(6.9)

1. Non-cash movements comprise the £3.0 million valuation of the embedded derivative at inception, £1.4 million of interest accrued on the shareholder loans, and £(0.2) million of facility fee amortisation.

The RCF at 30 March 2019 had a limit of £30.0 million (of which £17.0m was drawndown), which included a £10.0 million committed overdraft facility.

On 25 April 2019, £0.5 million proceeds from the sale of the held for sale properties Ayr and Paisley; and, on 15 May 2019, £5.5 million of deferred consideration from the sale of ELC to TEAL Brands Limited were used to repay the RCF. The RCF limit will be further reduced by £2.0 million increments in June, July and August, through repayment of the proceeds received from the sale of ELC stock not transferred to TEAL, such that by the end of August 2019, the limit on the RCF will be £18 million.

12. Events after the balance sheet date

On 13 May 2019, the disposal of ELC to TEAL Brands Limited was completed, and the deferred disposal consideration of £5.5 million was received (see note 7). On the same date, a Curated Wholesale Agreement was entered into with TEAL Brands Limited.

In April 2019, the sale of the two held for sale freehold properties was completed, for consideration of £0.5 million.

Since the year end date, a further fifteen stores within the UK store estate have been closed as part of the Group's closure programme; this has brought the total UK estate to 79 stores.

13. Reconciliation of prior year comparative results

The table below shows a reconciliation of the income statement from the published year end March 2018 financial statements to the restated amounts shown for the current year.

	Before adjusted items				Adjusted items			
	As previously stated 24 March 2018 £ million	Restated for foreign exchange[1] £ million	Restatement for discontinued operations[3] £ million	As restated at 24 March 2018 £ million	As previously stated 24 March 2018 £ million	Restated for foreign exchange and interest[2] £ million	Restatement for discontinued operations[3] £ million	As restated at 24 March 2018 £ million
Revenue	654.5	–	(73.9)	580.6	–	–	–	–
Cost of sales	(610.5)	(9.1)	50.3	(569.3)	(10.0)	9.1	1.0	0.1
Gross profit	44.0	(9.1)	(23.6)	11.3	(10.0)	9.1	1.0	0.1
Administrative expenses	(37.7)	–	0.9	(36.8)	(65.1)	0.2	–	(64.9)
Loss from operations	6.3	(9.1)	(22.7)	(25.5)	(75.1)	9.3	1.0	(64.8)
Net finance costs	(4.0)	–	0.5	(3.5)	–	(0.2)	–	(0.2)
Loss before taxation	2.3	(9.1)	(22.2)	(29.0)	(75.1)	9.1	1.0	(65.0)
Loss before taxation and foreign currency revaluations	2.3	–	(24.9)	(22.6)	(68.0)	–	0.9	(67.1)
Foreign currency adjustments	-	(9.1)	2.7	(6.4)	(7.1)	9.1	0.1	2.1
Loss before taxation	2.3	(9.1)	(22.2)	(29.0)	(75.1)	9.1	1.0	(65.0)
Taxation	(3.6)	0.6	4.3	1.3	0.3	(0.6)	–	(0.3)
Loss for the period from continuing operations	(1.3)	(8.5)	(17.9)	(27.7)	(74.8)	8.5	1.0	(65.3)
Discontinued operations								
Profit and loss for the year from discontinued operations			17.9	17.9			(1.0)	(1.0)
Loss for the period attributable to equity holders of the period	(1.3)	(8.5)	–	(9.8)	(74.8)	8.5	–	(66.3)

1. Adjusted items in 2018 have been restated for the treatment of foreign exchange differences on the revaluation of working capital.
2. Interest classified as adjusted has been reclassified from administrative expenses to net finance costs.
3. Discontinued operations are disclosed in note 7.

Glossary – Alternative Performance Measures (APMs)

Introduction

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 measures.

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 business performance is reported to the Board and Operating Board.

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, except where expressly stated.

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.

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

International retail sales are the estimated retail sales of overseas franchise and joint venture partners to their customers.

International like-for-like sales

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.

Profit/(loss) before adjusted items

The Group's policy is to exclude items that are considered to be one-off and significant in both nature and/or value and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group.

Profit/(loss) before taxation and foreign currency revaluations

The Group has introduced a new measure this year which is profit/(loss) before taxation and foreign currency revaluations on the basis that foreign currency differences on the revaluation of foreign currency denominated cash and debtor balances, albeit recurring, are significant in size, volatile and distort the underlying performance of the Group.

	53 weeks to 30 March 2019 £million	**52 weeks to 24 March 2018 Restated* £million**
Adjusted loss before taxation and foreign currency revaluations – continuing operations	(20.4)	(22.6)
Adjusted profit before taxation and foreign currency revaluations – discontinued operations (note 7)	8.8	24.9
Adjusted total loss before taxation and foreign currency revaluations	(11.6)	2.3
Foreign currency revaluation adjustments – continuing operations	2.0	(6.4)
Foreign currency revaluation adjustments – discontinued operations (note 7)	1.0	(2.7)
Adjusted total loss before taxation	(8.6)	(6.8)

* The prior year has been restated for the reclassification of ELC discontinued operations (note 7).

	53 weeks to 30 March 2019 £million	**52 weeks to 24 March 2018 Restated* £million**
Segment profit – International (note 3)	29.5	25.4
Less: Foreign currency revaluation (gain)/loss – continuing operations	(1.2)	3.4
Adjusted International profit before taxation and foreign currency revaluations	28.3	28.8

	53 weeks to 30 March 2019 £million	**52 weeks to 24 March 2018 Restated* £million**
Segment loss – UK (note 3)	(35.5)	(43.4)
Less: Foreign currency revaluation (gain)/loss – continuing operations	(0.8)	3.0
Adjusted UK loss before taxation and foreign currency revaluations	(36.3)	(40.4)

* The prior year has been restated for the reclassification of ELC discontinued operations (note 7).

Reconciliation of foreign exchange currency revaluations to adjusted income statement:

	53 weeks to 30 March 2019 £million	**52 weeks to 24 March 2018 Restated* £million**
International segment foreign currency revaluation (gain)/loss – continuing operations	(1.2)	3.4
UK segment foreign currency revaluation (gain)/loss – continuing operations	(0.8)	3.0
Total foreign currency revaluations (gains)/losses	(2.0)	6.4

* The prior year has been restated for the reclassification of ELC discontinued operations (note 7).

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 the statutory performance for the Group.