

mothercare

Annual report and accounts 2006
www.mothercare.com



Our mission is to meet the needs and aspirations of parents for their children, worldwide

1 Performance highlights, Mothercare at a glance	36 Statement of directors' responsibilities
2 Company performance overview	36 Independent auditors' report
4 Chairman and chief executive's statement	38 Consolidated income statement
5 Business review:	38 Consolidated statement of recognised income and expense
5 Our business	39 Consolidated balance sheet
9 Financial review	40 Consolidated cash flow statement
14 Corporate responsibility	41 Notes to the consolidated financial statements
20 Board of directors	69 Company financial statements
21 Directors' report	76 Five year record
24 Corporate governance	ibc Shareholder information
28 Directors' remuneration report	

Performance highlights



Group sales up 5.6%
to £482.7 million
(2005: £457.2 million)



Profit before taxation up
56.1% to £24.2 million
(2005: £15.5 million)



International revenue up
21.4% to £68.1 million
(2005: £56.1 million)



UK gross margin up
0.4 percentage points



Final dividend 6.15p
(2005: 5.3p)



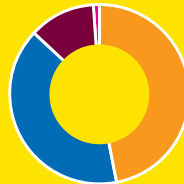
Basic earnings per share 25.5p
(2005: 16.6p)

Mothercare at a glance

Sales breakdown

	£m
UK	414.6
International	68.1
Total	482.7

Product breakdown



Home and travel	47%
Clothing	40%
Toys and gifts	12%
Other	1%

Stores at year end

	Number
UK out-of-town	73
UK in town	158
UK total	231
International	266
Total	497

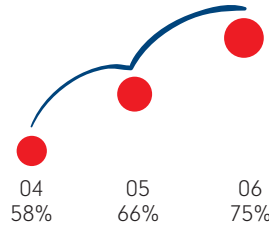
How have we been doing

Our progress of growth, in the three areas of specialism, efficiency and reach, are summarised below:

Specialism

Improvement in customer service and satisfaction

Mystery shopper scores showing benefit of investment in specialist training.

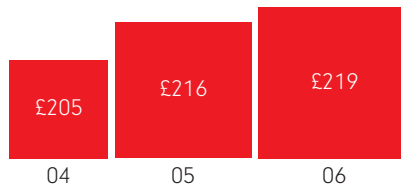


Mystery shopper tests our customer service against defined parameters. It is our aim to be best in class for our sector.

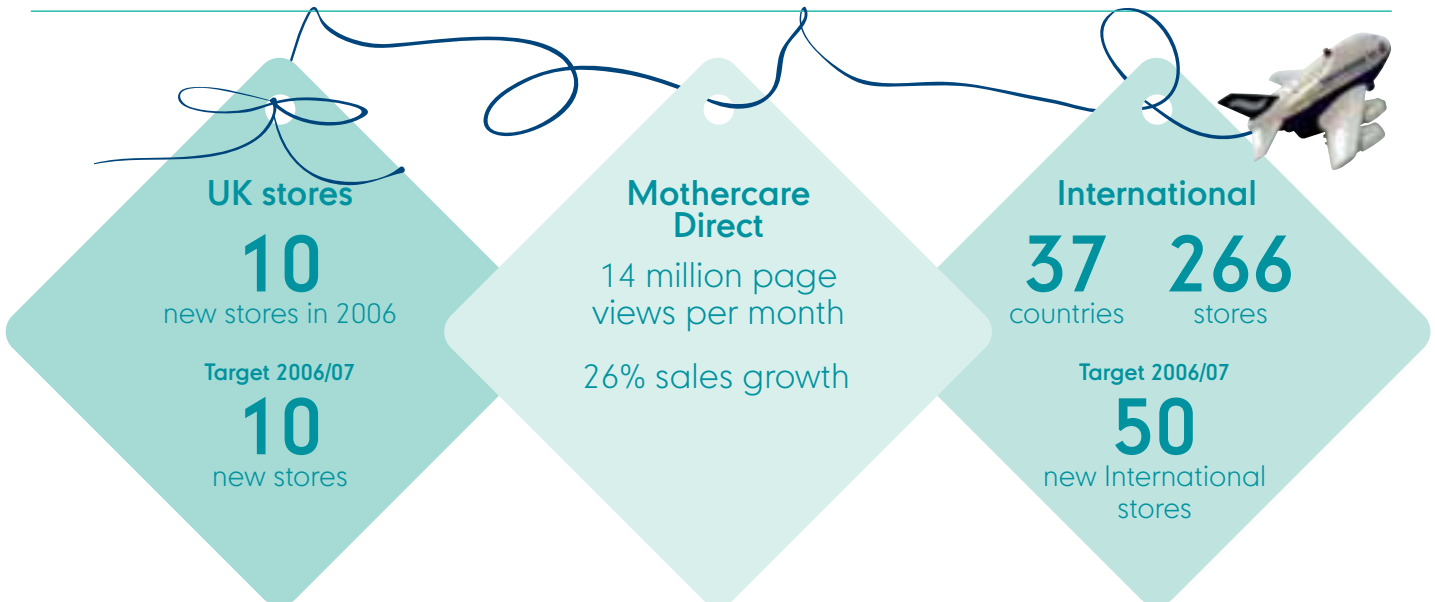


Growing our proposition

UK sales per square foot. (Full year UK store sales on a 52 week basis compared to year end UK store square footage.)



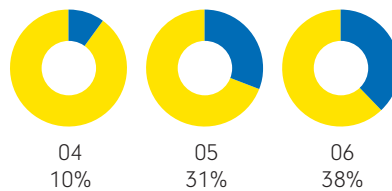
Reach



Efficiency

Improving clothing product purchasing

Sourcing. We are well on our way to our target for directly sourced clothing products.



Long term target:



Reducing UK store distribution costs as a percentage of sales

Supply chain efficiency.

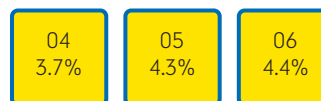


Long term target:

5%

Operating margin

Profit before tax and exceptionals as a percentage of sales.



Long term target:

5%

Environment

Reducing CO₂ emissions

Logistics initiatives reducing costs and helping the environment.

Saved in 2006:

1,311,000 miles

Percentage of total:

25%

3,392 journeys

16%

440,000 litres of fuel

43%



Chairman and chief executive's statement



Ian Peacock Chairman



Ben Gordon Chief executive

Dear shareholder

The strength of Mothercare as a global brand has enabled the Company to deliver a resilient performance in what was a tough year in the UK for all retailers. Despite these conditions sales are up in the UK, our Direct business is growing rapidly, and our International business continues to perform strongly and grow.

Over the last three years the business has been transformed and we are now focused on our growth strategy under a roadmap of Specialism, Efficiency and Reach. Details of this strategy are set out in the business review on pages 5 to 19.

The three strands of our growth strategy will consolidate Mothercare's position as a world-class, speciality brand enabling us to grow our business worldwide through the multi-channel retailing opportunities of Stores, Direct and International. The balance of our business is now radically different to three years ago. We now have more stores overseas than within the UK, and the Mothercare brand continues to travel well, with the concept readily accepted by parents internationally. We have a vibrant Direct business with access to Mothercare product and services through the web and by catalogue.

Against this backdrop we are working hard to drive innovation, design and value in all of our products and have invested significantly in our design team to ensure that we can provide great choice for our customers across all of our product ranges.

A key platform of our success has been and will continue to be the dedication, commitment and enthusiasm of our people around the world. Without this we would be unable to deliver the specialist service that our customers rightly expect. Consequently we were particularly delighted that the high standards of customer service in our stores has been recognised in a number of UK national retailing surveys during the year. Our investment in training has enabled us to grow and differentiate our service and this is key to our continued success.

Furthermore we received a great national accolade by being placed ninth in the Sunday Times Top 20 Best Big Companies to work for, 2006 awards based on the opinions of our UK employees and were also presented with a special 'Well Being' award underlining our commitment to our employees.

Much progress has been made during the year and whilst there are risks both domestically and internationally to the achievement of our global ambitions for the Mothercare brand, we are looking forward to the challenges that the new year will bring.

A handwritten signature in black ink, appearing to read 'Ian Peacock'. The signature is stylized with a large, sweeping 'I' and 'P'.

Ian Peacock
Chairman

A handwritten signature in black ink, appearing to read 'Ben Gordon'. The signature is written in a cursive, flowing style.

Ben Gordon
Chief executive

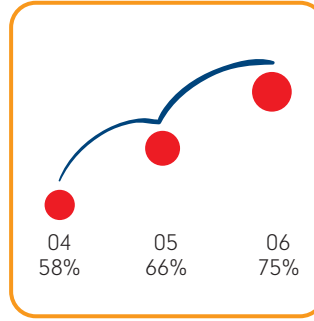
Business review



Cross stitch top £6/£7



Our new maternity brand



Improvement in customer service



Best in class customer service

Our business

Mothercare is a global brand providing parents and parents-to-be with a one-stop-shop offering high quality innovative products for their children. For more than 40 years the brand has been part of the process of parenting.

Mothercare understands the highs and lows of parenting. From pregnancy through to childhood, our experts provide specialist help and advice through stores, the internet, by post and by phone.

We offer our customers a compelling mix of strong design, exceptional quality and great value for money in the areas of clothing, furniture and home furnishings, bedding, feeding, bathing, travel equipment and toys.

Underpinning this goal lies a commitment to developing the infrastructure that will support the delivery of world-class product. With the latest systems and processes we aim to ensure seamless sourcing and delivery from supplier to customer.

Our markets

The strength of the Mothercare brand is universally recognised. We opened 46 stores overseas through the development of new markets and consolidation of our position in those countries outside the UK where we already have a presence.

In the UK over 80 per cent of pregnant mothers walk through our doors and continue to visit Mothercare as their children grow. Some 75 per cent of mothers with 0-2 year olds and 60 per cent of mothers with 3-6 year olds also visit our stores on a regular basis (source: April 2006 Exit Survey). As our stores, products and customer service continue to improve we are increasingly better placed to enhance our strong brand position.

Our long term commitment to offering our customers a multi-channel solution to access Mothercare product and services is paying dividends. In addition to our stores worldwide, catalogue

and website sales continue to grow with the awareness and usage of the website and catalogue. Our analysis shows that 70 per cent of Mothercare shoppers are aware of these facilities and that many of these shoppers have used our website and/or catalogue.

In the UK our catalogue works well to complement the website and our stores. Over 60 per cent of catalogues in the hands of website users were picked up in store. We also know that over 30 per cent of Mothercare website users subsequently go into a Mothercare store to look at our product.

Strategic development

2005/06 was the third year of our three-year turnaround programme designed to rebuild shareholder value at Mothercare and lay the foundations for longer term growth. Since the start of the programme, a pre-tax loss of £24.8 million has been turned into a pre-tax profit of £24.2 million. Total group sales have increased by 11.8 per cent. Over the last three years we have generated over £80 million of cash before capital expenditure. Cash in the balance sheet is now £35.9 million. The total shareholder return of £100 invested at the start is now worth £325.

We are now developing Mothercare's full potential, focusing more aggressively on growth through our Specialism, Efficiency and Reach strategies. These will build Mothercare into a world-class speciality brand enabling us to grow our business through the multi-channel retailing opportunities of Stores, Direct and International.

Specialism

We are working to establish Mothercare as the leading specialist brand worldwide. The combination of the best, most innovative products, with great stores and outstanding service will ensure that Mothercare remains truly differentiated from our competitors.

Product

Our focus on the quality, design and value of our ranges has continued to show benefits. Mothercare's innovative and design

This business review should be read in conjunction with the performance highlights, the company performance overview, the directors' report and the corporate governance report set out on pages 1, 2 and 3, 21 to 23 and 24 to 27 respectively and has been prepared in accordance with the business review requirements under the Companies Act 1985.



New out-of-town store in Basingstoke



Phil & Teds E3 £299.99



Pushchair wall



Opening a new store

led range of own brand pushchairs continues to improve in both quality and value. Our own brand 'Urban Detour' range won the Mother & Baby award, 'Best Pushchair' for the third year in succession. We have also introduced new lines, including branded pushchairs such as Bugaboo, Phil & Teds, Jané, and Mutsy.

In clothing, we have made significant progress in the development of our own brand MODA range of maternity wear and this is now featured in 54 stand-alone areas in our larger stores. MODA has been successful in addressing the needs and aspirations of the more fashion conscious shopper for maternity wear within our stores and is also successful in our overseas markets. We believe MODA has considerable scope for further growth.

During the year we continued to improve the quality, design and value of our baby and childrenswear ranges and have seen a further increase in market share in our children's clothing, building on the performance of the past two years.

Last year we introduced a new gift offer which focused on our core market of birth to age 2. During the year, the range was extended to all stores and added to our internet gift service, and is showing strong growth.

Stores

With the substantial completion of the High Street refit programme our attention has now turned to the out-of-town stores. We have refitted two out-of-town stores with a new trial concept designed to enhance the shopping experience, increase sales densities, expand our successful home and travel ranges and maximise the benefit from concessions.

Early indications are that the performance of the refitted stores has been encouraging and we plan to extend the trial to at least a further ten out-of-town stores in 2006.

We continue to optimise our store portfolio to ensure we have the best size and location wherever we trade. We opened ten stores and closed ten stores in the year, four of which were direct resites

to smaller sized units and/or more suitable locations in the same town. In each case the rightsizing of the portfolio increased sales per square foot and reduced the operating costs of those units. Further optimisation of the portfolio will take place during 2006.

Service and people

We continue to invest in further developing the expertise and specialism of our staff. We were particularly pleased that the high standards of customer service in our stores have been recognised in various national retailing surveys during the year. This underpins the results of our independent mystery shopper programme. In the results for the quarter to 1 April 2006 we achieved a score consistent with the best in class customer service scores of other service orientated multiple retail chains in the UK.

Mothercare was also placed ninth in the Sunday Times Top 20 Best Big Companies to work for, 2006 awards. The Company was presented with a special 'Well Being' award, recognising its efforts in supporting its employees.

Efficiency

Mothercare is building a highly efficient operating platform, including a new cost effective supply chain and state-of-the-art sourcing capability that will enable Mothercare to operate as a world-class speciality retailer.

Sourcing

Continued progress has been made with our sourcing initiatives, allowing us to grow our UK margin over the year by 0.4 percentage points (and by 8.3 percentage points over the last three years).

We continue to consolidate our direct sourcing activities in India, China and Europe. Some 38 per cent of our clothing and 12 per cent of our home and travel ranges are now sourced directly. We are on track to achieve our aim to increase directly sourced clothing to 50 per cent. The establishment of our Indian sourcing office will be completed in this financial year and we expect to see further benefits to gross margin and efficiency.



Business review continued



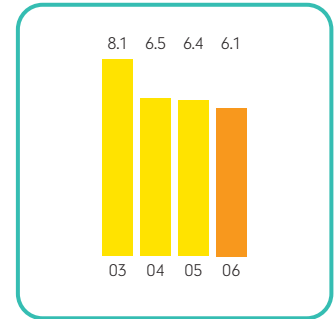
Palm tree t-shirt £7/£8



Large tubs £9.99



Improved visual merchandising



Reducing UK distribution costs as a percentage to sales

Supply chain

In November 2004 we announced our new distribution strategy and the plan to move the bulk of our operation to a new National Distribution Centre. At that time we indicated that the completion of the transition would take place in the summer of 2006. This transition is both on plan and budget.

We continue to make significant progress on product availability. Through the efficiency of our overall distribution operations, availability is now around 90 per cent up from 85 per cent last year and from 65 per cent three years ago. The completion of the move to the National Distribution Centre will give us the opportunity to drive further efficiencies from our distribution operations and reduce the distribution cost as a percentage of sales.

Infrastructure

During the year we successfully completed the roll out of our new EPOS system to all UK stores. All stores now have new till systems that have reduced transaction times for our customers, and give us the opportunity to implement a number of other in-store efficiencies; releasing more store staff hours into customer facing activities. All tills are web-enabled, providing a platform for our Web in Store offer.

To address the industry wide issue of rising occupancy, energy and fuel costs we are focusing on controllable aspects of our overheads. For example, we are mitigating increases in occupancy costs by measures including store resiting, resizing and closures, while inflation in fuel costs is being offset by refining the frequency and timing of deliveries to stores.

Reach

With the foundations of specialism and efficiency firmly in place, we can really drive our third priority which is about expanding our reach to parents here in the UK and around the world. This is supported by a world-class franchisee network and an integrated multi-channel catalogue and internet operation.

UK stores

We have a significant opportunity over the next five years to relocate and resize a number of our stores where leases fall for renewal. We have also identified at least 40 additional high street and 20 out-of-town locations where Mothercare could trade successfully. This gives us the opportunity to build a profitable UK store portfolio for the future and achieve our target of 80 per cent of the UK population within easy reach of a Mothercare store.

Mothercare Direct

Over the last few years, we have grown a very successful multi-channel business through Direct. Mothercare Direct comprises Direct in Home (Web in Home and telephone catalogue ordering) and Direct in Store (web-enabled stores). Overall sales from our Direct channel grew by 26.1 per cent to £41.1 million during the year. With the completion of the EPOS roll out to all stores, enabling all tills to access the internet, we have been able to extend the Web in Store ordering service and this has grown very strongly during the year.

Mothercare.com is the number one parenting site in the UK. We estimate that two-thirds of pregnant mothers use our site and we have 14 million page views each month. Our investment in the Direct business, which includes the extension of the Web in Store facility provides the Company with a powerful opportunity to exploit both the in-store and in-home based internet retailing opportunities. We believe that our Direct business has significant potential for future growth worldwide.

International

Our International business continues to provide a substantial growth opportunity. We now trade in 37 countries through 266 stores. Total retail sales made by our franchisees were £169.4 million. Overall, franchisee like-for-like sales grew by an estimated 7 per cent. Our income from franchisees increased by 21.4 per cent during the year to £68.1 million.



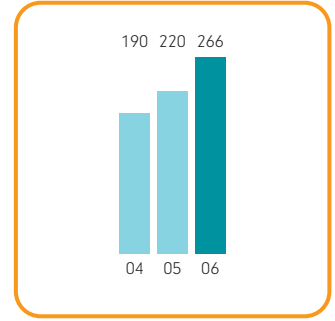
Indonesia – Taman Angrek



Serafi – Jeddah



India – Mumbai



Growth in numbers of International stores

During the current financial year we expect to open at least 50 new stores, the majority of which will be in existing markets. Our first stores in India opened in April 2006. We now have two stores in Mumbai, one in Pune, one in Hyderabad and one in Bangalore. We expect to have ten stores open and trading in India by the end of the financial year.

There are considerable opportunities to expand in the Middle East, South Asia and the Far East as well as to add to our portfolio of countries within Europe. To support this growth we have invested further in the supply chain for our International business by opening distribution centres in India to complement those in Singapore and Dubai.

Outlook

We are confident that the underlying strength of the Mothercare brand together with the actions we are taking to improve the specialism, efficiency and reach of our business will help us to continue to grow in the UK and we are also confident that the UK Direct business and the International business will continue to develop strongly during the year.

We will provide a trading statement for the first quarter on 20 July 2006, the date of our AGM.

Ben Gordon
Chief executive

Financial review

Results summary

Total group sales have increased by 5.6 per cent to £482.7 million (2005: £457.2 million). Profit before tax and exceptional items improved by 8.7 per cent to £21.3 million from £19.6 million last year. After an exceptional profit of £2.9 million (2005: exceptional loss of £4.1 million) which arose from the disposal of property interests, pre-tax profit was up by 56.1 per cent to £24.2 million (2005: £15.5 million).

The results can be summarised as follows:

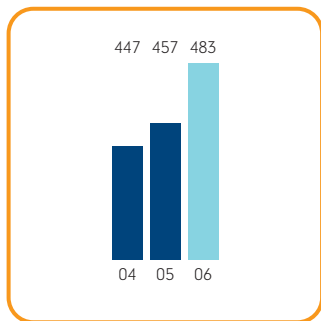
Income statement

	53 weeks 1 April 2006 £m	52 weeks 26 March 2005 £m
Revenue	482.7	457.2
Profit from operations before exceptional items	17.9	16.7
Investment income and finance costs	3.4	2.9
Profit before exceptional items and taxation	21.3	19.6
Exceptional items	2.9	(4.1)
Taxation	(6.7)	(4.2)
Profit after taxation	17.5	11.3
Earnings per share	25.5p	16.6p
Dividend per share	9.0p	8.0p

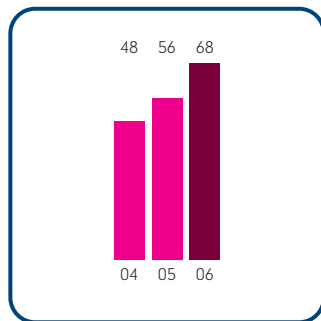
53rd week in 2006

The year ended 1 April 2006 contained 53 weeks compared with 52 weeks last year and the financial statements have therefore been prepared on this basis.

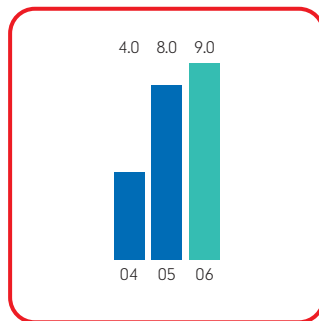




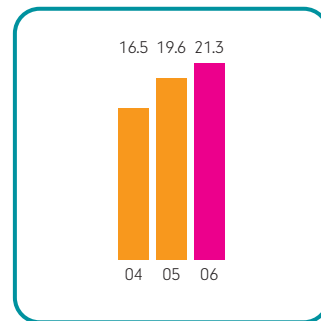
Group sales growth
£ million



International income growth
£ million



Total dividend
pence



Growth in profit before interest, tax
and exceptionals
£ million

For information, on a more comparable, 52 weeks basis:

- group sales up 3.7 per cent to £474.2 million (2005: £457.2 million);
- UK sales up 1.5 per cent to £407.3 million (2005: £401.1 million) (including Direct in Store sales up 31.4 per cent to £20.5 million) and Direct in Home sales up 15.9 per cent to £19.7 million;
- International revenue up 19.3 per cent to £66.9 million;
- group profit before exceptional items and taxation up 4.1 per cent to £20.4 million (2005: £19.6 million); and
- group profit after tax up 49.6 per cent to £16.9 million.

IFRS

We have fully adopted International Financial Reporting Standards (IFRS) and prior period comparatives have been restated. The impact of IFRS on profit after tax for 2004/05 was an increase of £0.2 million. A full reconciliation was issued at our AGM on 15 July 2005, and can be found on our website at www.mothercare.com/investorinfo.

Two of the new standards adopted, IAS 19 (Employee Benefits) and IAS 39 (Financial Instruments: Recognition and Measurement) give rise to non-cash adjustments to the income statement, some of which could be highly volatile, and not reflective of the underlying profit of the business.

The profit from operations in the year would be £1.2 million higher (2005: £1.5 million higher) and profit after tax would be £0.5 million lower (2005: £0.2 million higher) if the effect of these volatile non-cash elements of IFRS are excluded.

Results by segment

The primary segments of Mothercare plc are the UK (which includes the Direct business) and International businesses. We have adjusted the way that we report the profit from operations before exceptional items of our business segments. In the past, we reported the International business on a contribution basis, only apportioning direct costs. In accordance with IAS 14 we now also apportion certain shared costs to the International business.

£ million 2006	Revenue	Profit (old basis)	Profit (new basis)
UK	414.6	8.9	19.3
International	68.1	9.0	5.3
Corporate	–	–	(6.7)
	482.7	17.9	17.9
£ million 2005			
UK	401.1	9.4	19.6
International	56.1	7.3	4.4
Corporate	–	–	(7.3)
	457.2	16.7	16.7

Costs previously allocated to the UK and now allocated to International amount to £3.7 million (2005: £2.9 million) being mostly buying, merchandising, certain distribution and management costs. Corporate expenses not allocated to UK or International represent head office costs, board and senior management costs, insurance, annual and interim reporting costs and audit and professional fees.

Results by category and channel

Sales in the year have increased in each of our key product categories and also across each channel to market. Sales from UK stores were up 2.7 per cent, International stores up 21.4 per cent and Direct in Home up 18.8 per cent.

Like-for-like sales are defined as sales growth on the previous year for stores that have been trading continuously from the same selling space for at least a year. UK like-for-like sales were down 0.3 per cent in the year in a difficult retail market, but were up an encouraging 0.4 per cent in the second half and an estimated 1.2 per cent in the final quarter. International franchisee like-for-like sales were up 7.0 per cent in the year. Our Direct business, which is wholly within the UK, is growing rapidly. It comprises Direct in Home (home shopping by catalogue or internet) and Direct in Store (orders placed in store with the product delivered directly to the customer's home). In total, sales from the Direct business increased by 26.1 per cent to £41.1 million.

Business review continued



Embroidered t-shirt £8/£9



Dungarees £10



Girls' dresses £18/£19



Polo shirt £5/£6

Profit from operations before exceptional items

Profit from operations increased by 7.2 per cent to £17.9 million in the year. The key drivers of profit were the increase in UK store sales and margin percentage together with the smaller, but more rapidly growing, International and Direct businesses, which together more than offset rises in the cost base.

The UK gross margin improved by 0.4 percentage points as a result of better buying, an increase in direct sourcing (particularly in clothing) and greater volumes. The overall gross margin was 0.1 percentage point lower however, due to the rapid growth of the International business which, although profit enhancing, is dilutive at the gross margin level.

In line with other retailers, Mothercare is experiencing an increase in store operating costs in the UK – particularly occupancy, staff and energy costs. As a percentage of UK sales, store costs were up by 1.2 per cent in the year; however, the total UK cost increase was reduced to 0.5 per cent of sales through tighter management of controllable costs.

We would expect the upward pressure on occupancy, staff and energy costs to continue in the current year. However, we expect this to be mitigated by a further focus on controllable costs. In addition, we will continue to work on reducing operational gearing in the UK through optimising the store portfolio (rightsizing and relocating stores to reduce rent and increase sales densities), growing the gross margin through more direct sourcing and better buying, expanding the Direct business, improving store productivity and focusing closely on all other costs.

Exceptional items

The operating exceptional profit of £2.9 million in the current year relates to the net gain associated with the disposal of stores at Aberdeen, Swansea, Durham and Windsor.

Investment income, finance costs and taxation

Net investment income and finance costs increased to £3.4 million from £2.9 million last year largely as a result of the net investment income on retirement benefit schemes.

The tax charge of £6.7 million, representing an effective tax rate of 31.5 per cent, mainly reflects utilisation of tax losses. The group still has unused tax losses of £17.7 million (2005: £22.6 million) available for offset against future profits.

Pensions

We continue to operate defined benefit pension schemes for our staff. The total net cost of the pension schemes in the year was £2.8 million (2005: £2.7 million).

The valuation of the schemes under IAS 19 at 1 April 2006 gave rise to a reduction in the net pension deficit of £4.9 million to £17.5 million (2005: deficit of £22.4 million) or £12.3 million (2005: £15.7 million) after deferred taxation. IFRS requires that we value pension scheme liabilities using a high quality corporate bond yield, and this has proven to be an extremely volatile measure. For example, if all other assumptions were equal, we estimate that the change in bond yields between 18 January 2006 and 26 April 2006 would have led to a movement in the deficit of approximately £30 million before deferred taxation, had the schemes been valued on these dates. The overall downward trend in the deficit over time, however, reflects the actions we have taken, including £15.3 million of special contributions to the scheme over the last two years, and we are comfortable with the current level of funding in the schemes. We will continue to keep the structure and level of benefits of the group's pension schemes under active review.

Balance sheet and cash flow

The group had a net cash inflow of £4.2 million before the special pension contribution of £5.3 million, leading to a cash balance at the end of the year of £35.9 million (2005: £37.0 million).

The working capital outflow in the year was £10.7 million. £4.0 million of this is due to increased inventory levels resulting from the growth of International and Direct, together with the increase in direct sourcing (stock ownership is taken earlier in the supply chain). Receivables growth of £3.0 million arises mostly from the growth of International. The total overseas receivables balance at 1 April 2006 was £14.3 million. Bank guarantees and/or insurance is in place to mitigate risk.



Gold sparkle dress £28/£30



Velour all-in-one £10



The Sunday Times award – ninth



Wellies £8

Capital expenditure

Capital expenditure in the year was £16.7 million. £8.9 million was invested in UK stores, including upgrades to the existing high street stores and ten new stores. £3.1 million was invested in systems infrastructure including new EPOS tills in all stores, and £2.9 million was invested in the distribution network.

Earnings per share and dividend

Basic earnings per share were 25.5p for the period (2005: 16.6p). Adjusted earnings per share before exceptional items and after taxation were 21.3p (2005: 19.9p).

The directors are pleased to recommend a 16.0 per cent increase in final dividend for the year to 6.15p (2005: 5.3p). The total dividend for the year is 9.0p compared with 8.0p last year, an increase of 12.5 per cent.

The final dividend will be payable on 27 July 2006 to shareholders registered on 16 June 2006. The latest date for election to join the dividend reinvestment plan is 7 July 2006.

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 risks to which the group is exposed relate to movements in exchange rates and interest rates. Where appropriate, cost effective and practicable the group uses financial instruments and derivatives to manage these risks. No speculative use of derivatives, currency or other instruments is permitted.

Foreign currency risk

All export sales to franchise operations are invoiced in sterling. Export sales represent approximately 14 per cent of group sales. The group therefore has no currency exposure on these sales.

The group purchases product in foreign currency, representing some 13 per cent of purchases. The group policy is that all material exposures are hedged by using forward currency contracts.

Interest rate risk

The group does not anticipate incurring substantial sustained levels of debt in the short term. Consequently, interest rate hedging is not considered necessary.

The board will keep this situation under review.

Shareholders' funds

Shareholders' funds amount to £131.7 million, an increase of £12.7 million in the year. This is equivalent to £1.81 per share compared to £1.66 per share at the previous year end.

Accounting policies and standards

The principal accounting policies used by the group are shown on page 41.

For the 53 weeks ended 1 April 2006, the group adopted International Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and endorsed by the European Union. Consequently the date of transition to IFRS for the group was 28 March 2004.

The group elected to apply the exemption to the general principle of retrospective application in relation to financial instruments and therefore there was no impact on accounting for financial instruments on the results for the 52 weeks ended 26 March 2005. In the preparation of the financial statements for the 53 weeks ended 1 April 2006, the group implemented the financial instruments requirements under IAS 32 and IAS 39 in full.

The group published its results for the 52 weeks ended 26 March 2005 restated for IFRS, with a reconciliation between its financial statements under UK GAAP and IFRS, with the Annual General Meeting statement in July 2005. The disclosures required by IAS 1 'first time adoption' concerning the transition from UK GAAP to IFRS are given in note 34.

Neil Harrington
Finance director



Blossom duvet cover £24.99



Nursery furniture display



Prairie shirt £28



Bibs £ various

Corporate responsibility

The Company recognises that corporate social responsibility is an integral part of its ongoing daily operations. Mothercare is committed to the welfare of its customers, employees, suppliers and the communities in which it operates.

People

Reward and benefits

The Mothercare website (www.mothercare.com) includes details of the benefits of working for the Company. These include extensive training and development programmes, bonus and pension schemes, other flexible benefits, work/life balance schemes, job share, career breaks and retirement policies.

All Mothercare employees have access to an independent and free helpline offering support on financial, legal and personal issues. A confidential hotline has been established so that employees can report concerns about fraud, theft and breaches of security.

We are proud to have been awarded ninth place in the Sunday Times' survey of the 20 Best Big Companies to work for in the UK 2006, based on the opinions of a cross section of our UK employees. This is the second year in succession that we have appeared on the list.

During 2006 we also won a special award for 'Best for Well Being' in the same survey. This award is presented to the organisation which provides the most supportive working environment, with an emphasis on relieving stress and improving the work/life balance. We were also nominated for the special award of Best for Work and Home Balance.

Communication

Employees continue to be fully engaged in the Company's growth strategy and the key strategic priorities of Specialism, Efficiency and Reach. The Company's short and long term goals have been communicated and discussed through conferences, roadshows, quarterly updates, workshops and newsletters.

Our two employee forums providing the framework for consultation in the retail and central support functions continue to take place with four meetings held since its formation in June 2005. Each forum is comprised of elected employee and management representatives.

Customer service

The Career Development Framework was introduced in 2005 to provide a structured career path for all store employees. The framework is supported by customer-focused training programmes and provides progressive pay bands, rewarding people for reaching agreed levels of competence in product knowledge, customer service and leadership.

Disability

The Company has progressed with its work on the new provisions of the Disability Discrimination Act 2004. Store and website accessibility audits are continuing. Employees have now been trained on identifying and dealing with potential barriers to disabled customers and colleagues.

Suppliers

Ethics

The ongoing appraisal of all our suppliers' factory standards, manufacturing capabilities and overall quality performance has continued. We aim to ensure that our products are made to a consistently high standard and in full compliance with Mothercare's Ethical Code of Practice. To this end we continue to be an active member of the Ethical Trading Initiative (ETI). The ETI is an alliance of businesses, non-governmental organisations and trade unions committed to working together to promote Ethical Trade.



Business review continued



Texan check shirt £8/£9



Infant carrier £49.99



Green tea print dress £16/£17



Mumbai store interior

Quality

We continue to focus on the safety, quality and legality of all our products. Our ongoing programme to evaluate, update and implement new quality initiatives includes the audit of all factories used to manufacture our Mothercare branded products. We have established an independent supplier welfare committee. This committee will oversee an extensive quality audit programme covering manufacturing controls and processes and the implementation of management systems.

During the year, we have won awards for our products including the Mother & Baby Gold Award for the Urban Detour range of pushchairs.

Use of chemicals and harmful substances

In keeping with the environmental policy, first published in February 2003, we have continued to pursue our pledge to phase out the use of materials that 'may pose an unacceptable risk to our customers, the people making our products, or the environment', worldwide.

Environment

The Company manages the impact of its business activities on the environment by making efficient use of raw materials, optimising energy consumption and by encouraging recycling and sustainability.

Raw materials/logistics initiatives

We maintain an active interest in the environmental impact and performance activities and efficiencies of our logistics partners.

All delivery drivers are trained in the Government-sponsored safe and efficient driving scheme. Since last year, the combined logistic initiatives have so far saved 1,311,000 miles, 440,000 litres of fuel, 3,392 journeys and reduced the number of our vehicles on the road by 12.

This was achieved through:

- redirecting all inbound import containers into the rail head adjacent to our warehouse;
- transferring all Scottish store deliveries from road to rail; and
- using a dynamic transport scheduling tool for our combined collection and delivery fleet.

We are currently trialling the use of double-deck trailers on deliveries and collection within the UK mainland and Northern Ireland and are aiming to save a further 350 vehicle movements and 100,000 miles next year.

Energy consumption

Energy management systems are installed in all our stores to control the time switching of lighting and heating, ventilation and air conditioning plant to reduce wastage.

A contract for greener electricity supply was retendered in September 2005 based on 100 per cent green energy. In conjunction with our energy consultants, the electricity provider is compiling regular monitoring and targeting reports on metered sites which is allowing us to benchmark and keep a close control of energy usage.

The Carbon Trust have been appointed to carry out energy audits at a number of our sites to establish if there are any further areas where we can reduce consumption.

Recycling

Packaging from our warehouses is recycled and 50 per cent of cardboard and other waste is recycled where we are responsible for collecting trade waste. We participate in recycling schemes operated by the shopping centres in which we are represented.



Noddy £6.99



Stripe jumper £14/£15



Canvas £24.99



Swim set £8/£9

All delivery vehicle oils, batteries and tyres are sent for reprocessing and/or reclamation of materials.

At our Watford office, paper and cardboard are being recycled.

We are registered under the Hazardous Waste Regulations 2005 to ensure we can dispose of materials such as fluorescent tubes, computer monitors, NiCad batteries and any plant containing CFCs or HCFCs in a specific way.

Together all these actions will help reduce our general waste volume, which in turn will save costs associated with Landfill Tax.

Community

The Mothercare Charitable Foundation was founded in March 2004 and gained charitable status in June the same year. It receives funding from Mothercare plc and other staff fund-raising activities. During 2005/06 we took steps to improve our community programmes, as set out below.

Charitable donations

The Foundation's aim is to help parents in the UK and worldwide meet the needs and aspirations for their children and to give their children the very best chance of good health, education, well-being and a secure start in life.

The Foundation welcomes applications from charities and research organisations that are focused on:

- ensuring the good health and well-being of mums-to-be, new mums and their children;
- special baby-care needs and premature births; and
- other parenting initiatives related to family well-being.

The four Foundation trustees, chaired by Karren Brady, meet quarterly to review requests from charities and community groups for funding. It is also the route through which funds raised from employees' charitable activities are channelled to appropriate causes. A Foundation working party oversees the applications presented to the trustees and ensures they are appropriate to our aims and objectives.

The Foundation is funded by donations from group profit and interest on cash balances retained in the Fund account. During the year the Company gave £100,000 to the Foundation.

A number of donations were made in the financial year 2005/06, with the focus primarily on medical research, information resources and education. Following an initial donation of £35,000 made in 2004/05, the decision was taken to fund the second year of Action Medical Research's 'Touching Tiny Lives' campaign, with a donation of £40,700 to further their research into the causes of pre-term labour.

A second donation of £30,000 was made to BLISS, to sponsor the third edition of its Parent Information Guide, an invaluable resource for the parents of premature babies, and their extended families. Feedback on the Guide to date has been very positive.

In addition, the Trustees have also approved the following donations:

- £5,000 to the charity WellBeing of Women, which will fund five 'Mothercare Student Elective Bursaries'. These will be awarded in June 2006 to students going on a formal elective as part of their training, whose projects are within the areas of obstetrics, gynaecology or midwifery;





Action For Kids: Recipient of a donation from the Mothercare Charitable Foundation

- £10,000 to the Meningitis Research Foundation, to fund their 'Baby Watch' leaflets. The leaflets will help to raise awareness of the early warning signs/symptoms of both meningitis and septicaemia in babies, and are inserted into 95 per cent of all Primary Care Trust Child Health Record books, which are given to every new mum in the UK; and
- £2,174 to Action For Kids, to fund a specialist car seat and petite-style trike for disabled children. The charity aims to provide relief for children and young people with physical disabilities and/or learning difficulties, by assisting them to lead full and independent lives.

The annual Chairman's Fund of £10,000 was awarded in the run up to Christmas and was split equally between two charities nominated by Mothercare employees. As such, £5,000 was donated to the Foundation for the Study of Infant Deaths (FSID) to help fund their 'Care of Next Infant' scheme – which supports bereaved parents when they go on to have another baby – and a research project into anaphylaxis in infants. A further £5,000 was given to the DAYA School for the Differently Abled in Kerala, India, enabling the purchase of a minibus to transport the children to and from school.

Having identified the need to support charities on a local level, as well as nationally, for this financial year each area was allocated an Area Manager's Fund of £2,000 in gift vouchers. As such, stores receiving requests from local registered charities for small donations can direct these to the relevant Area Manager for consideration, provided the charity's objectives match those of the Foundation.

The Foundation is also focusing its attention on the area of Tirupur in India, with which Mothercare has strong direct sourcing links. A proposal is being put together to improve conditions at the local hospital's maternity wing, and further funds are expected to be raised from employee-led activities this summer.

Community activities

To promote the Company's practical involvement in the community, where possible we provide activities in some of our stores for local groups to carry out parenting, baby and childcare advisory sessions. For example, we offer, in a few stores, coffee mornings on sleep, feeding and weaning, expectant parents advisory evenings and music sessions for babies and toddlers.

Mothercare provides professional training days for our buyers, technologists and customer care advisers to continually increase our specialist and expert knowledge across our business. We work with doctors, paediatricians, psychologists, midwives and health visitors to obtain the latest information about pregnancy, baby and childcare.

Mothercare annually supports the Department of Health's National Breastfeeding Awareness Week when store managers invite local professionals into their stores to discuss all aspects of breastfeeding with expectant parents.

We support midwives and health visitors nationally by taking stands at their annual conference promoting Mothercare products and services. Mothercare buyers and technologists gather the latest information and advice about pregnancy and baby care from these professionals to develop even better products.

Board of directors



Neil Harrington



Ian Peacock



Ben Gordon



Karren Brady



Bernard Cragg



David Williams

Neil Harrington

Finance director

Appointed finance director in January 2006. Formerly finance director of George Clothing UK, a division of Asda Stores Limited, chief financial and admin officer of Global George, a division of Wal-Mart Stores Inc. Prior to joining Wal-Mart, Neil was finance director of Barclaycard International, a division of Barclays Bank plc and group financial controller of French Connection Group plc. Chartered accountant. Aged 42.

Ian Peacock ●

Non-executive chairman

Appointed chairman on 1 November 2002 having joined the board as chairman elect on 1 August 2002. Chairman of MFI Furniture Group plc, deputy chairman of Lombard Risk Management plc and a Trustee of the WRVS. Formerly held senior management positions in the banking industry in London, New York and Asia, including BZW and Kleinwort Benson. From 1998–2000 was a special adviser to the Bank of England. Aged 58.

Ben Gordon

Chief executive

Appointed chief executive in December 2002. Formerly senior vice president and managing director, Disney Store, Europe and Asia Pacific. Has also held senior management positions with the WH Smith Group in Europe and the USA and L'Oreal S.A., Paris. Aged 46.

Karren Brady ●●●

Non-executive director

Appointed in July 2003. Managing director of Birmingham City Football Club plc. Chairman and non-executive director of Kerrang! Radio (West Midlands), a non-executive director of Channel 4 and of Sport England. Aged 37.

Bernard Cragg ●●●

Senior non-executive director. Appointed in March 2003. Chairman of Datamonitor, chairman of Imate plc and a non-executive director of Bank of Ireland UK Financial Services, Bristol & West plc, Workspace Group Plc and of Astro All Asia Networks Plc. Formerly group finance director and chief financial officer of Carlton Communications plc and a non-executive director of Arcadia plc. Chartered accountant. Aged 51.

David Williams ●●●

Non-executive director

Appointed in August 2004. Chairman of Accantia Limited. Non-executive director of DX Services plc, Avebury Group Limited, Avanti Screen Media Group plc and The Royal London Group. Is also an operating partner of Duke Street Capital. He has also held a number of senior management roles in Diageo plc, PepsiCo Restaurants International and Whitbread plc. Aged 59.

Key

- Audit committee
- Remuneration committee
- Nomination committee

Directors' report

The directors present their report on the affairs of the group, together with the financial statements and auditors' report for the 53 weeks ended 1 April 2006.

Business review

The principal companies within the Mothercare group for the period under review were Mothercare plc (the Company) and Mothercare UK Limited. The Companies Act 1985 requires the directors' report to contain a fair review of the business and a description of the principal risks and uncertainties facing the group. A review of the business strategy and a commentary on the performance of the Mothercare business is set out in the performance highlights, the company performance overview, the chairman's and chief executive's statement and the business review on pages 1, 2 and 3, 4 and 5 to 19 respectively. In addition, the principal risks facing the business are detailed in the governance report at page 24. These disclosures form part of this report.

The directors' report is prepared for the members of the Company and should not be relied upon by any other party or for any other purpose. Where the directors' report (including the performance highlights, the company performance overview, the business review and the corporate governance report) contain forward-looking statements these are made by the directors in good faith based on the information available to them at the time of their approval of this report. Consequently such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements or information.

Dividend

The directors recommend a final dividend of 6.15p per share. An interim dividend of 2.85p was paid in February 2006 (2005: 2.7p per share) making a total of 9.0p per share, (2005: total of 8.0p per share).

Substantial shareholdings

As at 24 May 2006, the Company has been advised by the following companies of notifiable interests in its ordinary share capital:

Holder	Number of shares	Percentage of issued capital
Fidelity Management & Research Co.	10,106,195	13.91%
M&G Investment Management	8,836,948	12.12%
Aberdeen Asset Management PLC	7,325,944	10.08%
Aegon Asset Management UK	4,409,713	6.07%

Directors

The following directors served during the 53 weeks ended 1 April 2006.

Name	Appointment
Ian Peacock	Chairman and independent non-executive director, chairman of the nomination committee
Karren Brady	Independent non-executive director
Bernard Cragg	Independent non-executive director and chairman of the audit committee

Name	Appointment
Steven Glew	Executive director (resigned 29 December 2005)
Ben Gordon	Executive director
Neil Harrington	Executive director (appointed 30 January 2006)
David Williams	Independent non-executive director and chairman of the remuneration committee

Having been appointed since the last Annual General Meeting, Neil Harrington, offers himself for election in accordance with the Company's articles of association. Ian Peacock, Karren Brady and Bernard Cragg retire by rotation from the board following the conclusion of the Annual General Meeting (AGM) on 20 July 2006 and stand for re-election at the AGM. Biographical details of the directors, indicating their experience and qualifications, are set out on page 20.

Details of directors' service arrangements are set out in the remuneration report on page 28.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 28 to 35.

Employees

The group communicates, and reviews with all its employees, its corporate objectives, performance and economic activity relevant to its business. This is achieved through the company magazine, briefings, bulletins, e-mail and video presentations.

The capabilities of the group's employees are measured, their development needs ascertained and programmes designed to ensure that the critical skills required for the development of both the individual and the group are attained. The group's remuneration strategy is set out in the remuneration report. That report includes details of the various incentive schemes and share plans operated by the group.

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

Pensions

The group operates defined benefit pension schemes for those of its employees that wish to participate. The introduction of International Accounting Standard 19, coupled with the changing demographic assumptions used in calculating pension liabilities has had the effect of increasing the cost of pensions to companies. Further details of the pension charge are set out in note 32 to the consolidated financial statements. The group made a further special contribution of £5.3 million to the Mothercare Staff Pension Scheme on 24 March 2006 and has agreed to make additional ongoing contributions to further address the deficit in the scheme of £1.5 million per annum over the next ten years. These contributions, allied with the expected

Directors' report continued

investment returns in the scheme, are anticipated to remove the deficit within the next ten years although this cannot be guaranteed. This issue will be regularly reviewed by the board with the independent trustees of the pension scheme.

Payment of suppliers

Payments to merchandise suppliers are made in accordance with the general conditions of purchase, which are communicated to suppliers at the beginning of the trading relationship. It is the group's policy to make payments to non-merchandise suppliers, unless otherwise agreed, within the period set out in the supplier's invoice or within 45 days from the date of invoice.

The amount owed to trade creditors at the end of the financial year represented nil days (2005: nil days) of average daily purchases during the year for the Company.

Property, plant and equipment

Changes in property, plant and equipment are shown in note 14 to the accounts. A valuation of the group's freehold and long leasehold properties, excluding rack rented properties, was carried out by external valuers, primarily Messrs Cushman & Wakefield as at 1 April 2006. The basis of the valuation is existing use value in respect of properties primarily occupied by the group and on the basis of market value in respect of investment properties, both bases being in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Manual. This adjusted valuation of the properties resulted in a surplus over their net book value of £14.7 million.

Corporate citizenship

The board recognises that corporate citizenship, or social responsibility, is an important factor in managing the reputation of a business such as Mothercare.

Further details are set out on pages 14 to 19.

Disclosure of information to auditors

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Re-election of auditors

In accordance with section 385 of the Companies Act 1985 a resolution proposing the re-election of Deloitte & Touche LLP as auditors to the Company will be put to the AGM.

Charitable and political donations

The Company made a further donation to the Mothercare Charitable Foundation during the year of £100,000. Total charitable donations for the 53 weeks ended 1 April 2006 were £100,000 (2005: £250,000). During the year, £20,000 was donated to the British Red Cross Asian Earthquake appeal.

It is the Company's policy not to make political donations and none were made during the year.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. The financial statements are therefore prepared on a going concern basis.

Annual General Meeting

The 2006 Annual General Meeting will be held on Thursday 20 July 2006 at 10.30am at the Hilton National Hotel, Elton Way, Watford WD25 8HA.

The notice of the meeting and a pre-paid form of proxy for the use of shareholders unable to come to the AGM but who may wish to vote or to put any questions to the board of directors are enclosed with this annual report. Shareholders may also submit questions via the Company's website at www.mothercare.com/investorinfo. The chairman will respond in writing to questions received.

As in previous years a copy of the chairman's opening statement to the meeting, together with a resumé of questions and answers given at the meeting, will be prepared following the AGM. This will be made available to shareholders on request to the company secretary at the Company's head office.

The following paragraphs give explanatory notes on the business to be proposed at the meeting:

Resolution 1: To receive the Company's annual accounts together with the directors' report, the directors' remuneration report and the auditors' report upon the accounts for the 53 weeks ended 1 April 2006. The directors will present the report and accounts and shareholders may raise any questions on them at the meeting.

Resolution 2: To declare a final dividend of 6.15p per ordinary share payable 28 July 2006 to those shareholders on the register on 16 June 2006.

Resolution 3: To approve the directors' remuneration report.

Resolutions 4 to 7: Reappointment of directors. The Company's articles of association require that (a) one third of the directors that are required to retire by rotation must retire and (b) that directors who have been appointed since the last AGM must offer themselves for re-election. Separate resolutions will be proposed on each of these appointments.

Resolution 8: Reappointment of auditors. Deloitte & Touche LLP has indicated its willingness to act as auditors to the Company and accordingly an ordinary resolution to reappoint them will be proposed.

The meeting will also be asked to consider the following matters of Special Business:

As Special Business

Resolution 9: New articles of association. The members will be asked to approve the adoption of new articles of association for the Company in substitution for the existing articles. Details of the principal changes are set out in the circular sent with the report and accounts. A copy of the proposed new articles of association will be available for inspection at the Company's registered office and are set out on the Company's website at www.mothercare.com/investorinfo.

Resolution 10: Purchase of own shares. The Company was authorised at the 2005 AGM to purchase up to 10 per cent of its shares in the market. This authority has not been used and expires at the conclusion of this year's AGM. This resolution seeks to renew the authority for a further year. Shares purchased (if any) will be cancelled or where appropriate held in Treasury pursuant to the Companies (Acquisition

of Own Shares) (Treasury Shares) Regulations 2003. The directors have no present intention of using this authority, but wish to be in a position to act quickly in the interests of the Company and shareholders generally if circumstances so warrant.

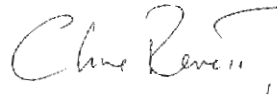
Resolution 11: Increase in the shares held by the Mothercare Employee Trust. This resolution seeks authority to increase the number of shares that the employee trust may hold from 5 per cent to a maximum of 10 per cent of the issued share capital.

Resolution 12: Approval of the Mothercare 2006 Performance Share Plan. The main features of the plan are set out in the circular sent with the report and accounts.

Resolution 13: Approval of the Mothercare 2006 Executive Incentive Plan. The main features of the plan are set out in the circular sent with the report and accounts.

Resolution 14: Extension of share plans to overseas employees. This resolution seeks authority to establish future share plans for overseas employees.

By order of the board



Clive E Revett
Company secretary
24 May 2006

Corporate governance

The Company aspires to achieve high standards of corporate governance in order to promote the interests of investors, customers, staff and other stakeholders. The Company considers that it has complied during the 53 weeks ended 1 April 2006 with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003, 'the Code'.

The board

The board provides the leadership of the Mothercare plc business. It operates on a unitary basis and comprises the chairman, three independent non-executive directors, and two full time executive directors, being the chief executive and the finance director. The board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Company has maintained a system of internal control within an executive management structure with defined lines of responsibility and delegation of authority within prescribed financial and operational limits. The Company's system of internal control is based on financial, operational, compliance and risk control policies and procedures together with regular reporting of financial performance. Planning, budgeting and forecasting procedures are also in place together with formal capital investment and appraisal arrangements.

Risk management

This section covers the principal risks and uncertainties which forms part of the business review requirements.

The board recognises that the management of risk in accordance with both the Turnbull Guidance and the Code is key to ensuring that a robust system of internal control is monitored by the business.

The annual review sets out progress made during the year against the challenges that the board has set for the business as it has transitioned into the growth phase. The retail market environment within which the Company operates remains challenging with continued strong competitive pressures, volatility and price deflation. Against this background, the system of internal control is designed to manage rather than eliminate risks. It also recognises that there are inherent risks in the failure to deliver the expected benefits of the programmes set out below:

- completion of the internal fit out, systems, commissioning and phased transfer of operations to the National Distribution Centre in Daventry;
- obtaining the planned further supply chain improvements thereby delivering greater efficiencies, product availability and a lower cost base;
- promoting the quality and value of our merchandise to our customers by highlighting the benefits of sourcing, particularly in India and Asia, design and innovation, quality and value;
- reshaping and resizing the store portfolio and achieving greater efficiency and productivity from investments made in store systems, staff training and space optimisation;

- successfully addressing the operational gearing characteristics of the business;
- continuing the growth of the International division and the Direct mail order and internet businesses; and
- pension scheme funding requirements and investment returns volatility.

Other risk management activity involves the executive committee having overall responsibility for ensuring that a rolling programme of structured risk assessments of those areas having a significant effect on the future of the business is carried out. The programme ensures so far as practicably possible, that the appropriate risk management processes are identified, appropriate controls established, residual risks evaluated and that the necessary action and risk avoidance measures taken or monitoring undertaken. Elements of the programme are reviewed by the internal audit function during the year. The board also considers and reviews at each board meeting key business performance indicators.

In addition to the evaluation of business risk referred to above, the programme of specific risk management activity continued during the year with individual stores being tested against a risk assessment model that emphasises health and safety, disability discrimination, fire safety and internal process compliance. The internal audit function (a combination of internal resources and external resource provided by PricewaterhouseCoopers LLP) supplements the risk-based approach set out above. Furthermore, the Company has adopted procedures to ensure auditor independence, the details of which are set out in the section below detailing the work of the audit committee.

The board believes that the system of internal control described can provide only reasonable and not absolute assurance against material misstatement or loss. The audit committee periodically reviews the system of internal control on behalf of the board.

The principles of good governance are briefly commented on below:

The board and directors

The board of Mothercare plc meets regularly and maintains overall control of the group's affairs through a schedule of matters reserved for its decision. These include setting the group strategy, the approval of the annual budget and financial statements, major acquisitions and disposals, authority limits for capital and other expenditure and material treasury matters. Details of the terms of reference of the board's committees are also set out in the corporate governance section of the Company's website at www.mothercare.com/investorinfo.

The non-executive directors are independent and free from any business or other relationship that could interfere materially with their judgement. The non-executive directors do not participate in any bonus, share option or pension scheme of the Company. Ian Peacock's equity based incentive (details of which are set out on page 30 of the remuneration report) finished in November 2005.

This incentive scheme was designed to ensure that in the total remuneration of the chairman, an element was deferred and payable in shares so as to ally fully the chairman's and shareholders' interests. To enable this to be effective, a contract of employment was required. Given that Ian Peacock fulfilled all remaining requirements of independence under Code provision A.3.1, he is considered by the board to be independent. The chairman's other commitments are set out in the biographical details on page 20 and there have been no significant changes during the period relating to these commitments.

The board considers that the balance achieved between executive and non-executive directors during the period was appropriate and effective for the control and direction of the business.

The board is assisted by committees that it has established with written terms of reference. The roles of the remuneration, audit and nomination committees are set out below. The audit, remuneration and nomination committees are comprised of the three non-executive directors. A record of the meetings held during the year of the board, its committees and the attendance by individual directors is set out at page 27.

The board has delegated day-to-day and business management control of the Mothercare business to the executive committee. The executive committee consists of the directors of Mothercare UK Limited and the company secretary.

Throughout the period the board has been supplied with information and papers submitted at each board meeting which ensures that the major aspects of the group's affairs are reviewed regularly in accordance with a rolling agenda and programme of work. All directors, whether executive or non-executive, have unrestricted access to the company secretary and executives within the businesses on any matter of concern to them in respect of their duties. In addition new directors are given appropriate training on appointment to the board. Appropriate time is made during the year for continuing training on relevant topics concerning the functioning of the board and the obligations of directors. The Company has undertaken to reimburse legal fees to the directors if circumstances should arise in which it is necessary for them to seek separate, independent, legal advice in furtherance of their duties. In accordance with the Articles of Association, one third of the directors are required to offer themselves for re-election every year.

The remuneration committee, chaired during the year by David Williams, establishes the remuneration policy generally, approves specific arrangements for the executive directors and reviews and comments upon the proposed arrangements for senior executives so as to ensure consistency within the overall remuneration policy. Full disclosure of the Company's remuneration policy and details of the remuneration of each director are set out in the remuneration report on pages 28 to 35. During the period no director was, and procedures are in place to ensure that no director is, involved in deciding or determining his or her own remuneration.

The nomination committee, chaired during the period by Ian Peacock, comprises all of the non-executive directors. The terms of reference of the committee is set out on the Company's website. The committee makes proposals on the size, structure, composition and appointments to the board. It carries out the selection process and agrees the terms of appointment of non-executive directors. It also reviews succession planning on an annual basis.

Neil Harrington was appointed as finance director during the year. An external search consultancy was used to identify candidates and Neil Harrington was selected from the candidates put forward. The nomination committee was, when appointing Neil Harrington and remains, of the opinion that his breadth of skills and experience in the retail environment will be of considerable benefit to the Company's future development as it seeks to grow the business for the benefit of all stakeholders. The board is of the opinion that the remaining directors seeking re-election at the AGM have continued to give effective counsel and commitment to the Company and accordingly should be reappointed.

During the period the board carried out a further evaluation of its effectiveness and operation. This evaluation was based upon the substantial exercise carried out in 2005/06. It was again carried out by an external facilitator and comprised principally the use of face to face interviews with individual directors and the company secretary. It was subsequently followed up by a review of the findings by the whole board. The review found that the balance within the board between executive and non-executive directors remained appropriate but recognised that as the business developed in complexity and challenge, it may be appropriate to appoint further directors in due course. The review further confirmed the need for the remuneration committee's review of the executive's incentive and retention packages details of which are set out in the remuneration report at page 28.

A review was also held of the effectiveness of the audit committee and the auditors during the year. It was considered that the work of the audit committee during the year was effective measured against its terms of reference and general audit committee practice. In respect of the auditor effectiveness review, it was considered that the auditors had carried out their obligations in an effective and appropriate manner.

The company secretary acts as secretary to the board and its committees.

Shareholder relations

The Company maintains regular dialogue with institutional shareholders following presentation of the financial performance of the business to the investing communities. This dialogue takes place at least four times a year following the announcement of the interim and full year results and trading statements at the AGM and post Christmas. During such meetings the board is able to put forward its objectives for the business and discuss performance against those objectives and develop an understanding of the views of major shareholders. Mindful always of its obligations to the investing community as a

whole, the Company reaches a wider audience by the use of its website (at www.mothercare.com/investorinfo) and, with a view to encouraging full participation of those unable to attend the AGM, provides an opportunity for shareholders to ask questions of their board by the provision of a reply-paid postal question service and web-mail facility to the chairman. Approximately 50 letters were received and responses sent last year.

The outcome of meetings with major shareholders is reported by the chief executive at board meetings on a periodic basis.

The audit committee

The audit committee was chaired during the year by Bernard Cragg, the senior non-executive director. The remit of the audit committee is to review the scope and issues arising from the audit and matters relating to financial control. It also assists the board in its review of corporate governance and in the presentation of the Company's financial results through its review of the interim and full year accounts before approval by the board, focusing in particular on compliance with accounting principles, changes in accounting practice and major areas of judgement. The full terms of reference are set out under the corporate governance section of the website at www.mothercare.com/investorinfo.

The audit committee comprises the three non-executive directors. The company secretary acts as secretary to the committee. Bernard Cragg is a chartered accountant with considerable technical financial experience and, in common with the remainder of the committee, wide and varied commercial experience.

The committee met five times during the period. No specific remuneration of the non-executive directors is ascribed to membership of the audit committee other than a supplement of £5,000 paid to Bernard Cragg in respect of his chairmanship of the committee.

Given the importance of good corporate governance, the board agreed last year to establish a corporate governance sub-committee of the audit committee under the chairmanship of Bernard Cragg, the senior non-executive director. This sub-committee, which is comprised of the independent non-executive directors, provides assistance to the board and its committees by reviewing corporate governance developments and implementing best practice. The sub-committee met during the year and amongst others reviewed the Company's compliance with the Code, corporate reporting and proposed changes to the Turnbull Guidance on Internal Control.

The main activities of the audit committee in the 53 weeks ended 1 April 2006

During the year the audit committee reviewed in detail the proposed approach of the Company to the first-time adoption principles for International Accounting Standards and those policies that would be adopted on an ongoing basis. Those policies are set out in note 2 to the consolidated financial statements.

In addition, the audit committee's review of the financial statements is structured to ensure, so far as is reasonably practicable, that the financial statements as published at the full year and interim results present a true and fair view of the Company's affairs and the results for the period.

In preparing the accounts, the continued appropriateness and consistent application of the accounting policies adopted by the Company are reviewed in both the interim and final accounts for the period. The committee also reviews the reasonableness of the judgements and estimates that have been used by management in the preparation of those accounts and the application of the relevant accounting standards.

Following the completion of the audit of the accounts, the committee reviews with the auditors the report of their findings and the contents of any management letter. An assessment of the effectiveness of the audit process and the auditors is also carried out.

Whilst the board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness, the audit committee addresses internal financial control on behalf of the board at least twice annually through reviewing the output of the internal audit function and risk management activities.

The audit committee reviews annually the independence of the external audit firm and the individuals carrying out the audit by receiving assurances from, and assessing, the audit firm against best practice principles. The committee seeks to balance the benefits of continuity of audit personnel and the need to assure independence through change of audit personnel by agreeing with the audit firm staff rotation policies. In addition, a policy in respect of non-audit work by the audit firm has also been implemented, the general principle being that the audit firm should not be requested to carry out non-audit services on any activity of the Company where they may, in the future, be required to give an audit opinion. The Company has, however, recognised that taxation advice is an acceptable derogation from this principle.

The audit committee has approved a work plan for the internal audit function and received during the year reports upon investigations carried out. The committee meets with the internal audit team leaders without management present at least once each year.

Director attendance statistics for the 53 week period ended 1 April 2006

Director	Committee				Corporate governance sub- committee
	Board	Audit	Nomination	Remuneration	
Maximum number of meetings	10	5	2	6	1
Ian Peacock	10	5	2	5	1
Karren Brady	5	4	1	4	1
Bernard Cragg	9	5	2	6	1
Steven Glew (resigned 29 December 2005)	6	4	–	3	1
Ben Gordon	10	5	–	5	1
David Williams	8	5	2	6	1
Neil Harrington (appointed 30 January 2006)	2	1	–	1	1

Notes:

Ian Peacock, Ben Gordon and Neil Harrington (and previously Steven Glew) attended meetings of the audit and remuneration committees and corporate governance sub-committee upon the invitation of the respective chairmen.

The board meetings above included both meetings and telephone conference meetings. There were also three ad hoc board meetings to approve the interim and full year report and accounts and approve the IFRS statements issued in July 2005. These meetings are constituted by the board from those members available at that time having considered the views of the whole board beforehand.

Directors' remuneration report

This report for the 53-week period ended 1 April 2006 has been prepared in accordance with Schedule 7A of the Companies Act 1985, the Directors' Remuneration Regulations 2002 (the 'Regulations'), the requirements of the Listing Rules of the UK Listing Authority and Schedule B to the Combined Code relating to directors' remuneration. At the AGM on 20 July 2006 shareholders will be asked to approve this report.

The Regulations require the auditors to report on the 'auditable part' of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with Schedule 7A of the Companies Act 1985 (as amended by the Regulations). The directors' share options, long term incentive plan and share matching scheme conditional awards (including the performance criteria set out in Appendix A), equity incentive awards, emoluments and compensation payments as set out in Table 1 and pension arrangements set out in Table 2 have therefore been audited.

The remuneration committee

Composition of the remuneration committee

The remuneration committee is comprised of the independent non-executive directors of the Mothercare plc board. David Williams is chairman of the committee and with Karren Brady and Bernard Cragg served throughout the year. Ian Peacock attended meetings at the invitation of the committee.

The committee, which determines the remuneration for the executive directors and approves the pay and benefits of the members of the executive committee, met six times during the year. Its terms of reference are available on the Mothercare website at www.mothercare.com/investorinfo.

Advisors to the remuneration committee

The organisations below, none of whom are connected to the group, have provided material assistance to and were appointed by the remuneration committee. The committee also consulted the chief executive, human resources director and company secretary as appropriate.

Person or organisation	Services provided
Kepler Associates	Executive remuneration and incentive design
Lane Clark & Peacock	Pensions advice
DLA Piper Rudnick Grey Cary LLP	Legal services principally in respect of employment contracts

Remuneration policy statement

The Company's policy is to provide competitive remuneration packages that will recruit, retain and motivate directors and individuals of the required calibre to meet the Company's objectives. The intent is to ensure, that the remuneration policy is in line with

market practice, appropriate to the Company's needs and rewards executives for enhancing shareholder value. The committee monitors the Company's compliance with the Revised Combined Code provisions for directors' and senior management remuneration and with best practice in applying performance-related remuneration.

The remuneration policy aims to appropriately balance the fixed salary and performance related elements of remuneration. The latter element is achieved through an annual bonus scheme and longer-term incentives. The bonus plan rewards primarily the achievement of group profit before tax, a measure which the board believes is a suitable measure of annual performance for a retail business. Other measures captured include free cash flow and personal/strategic performance objectives. Longer term performance remuneration is delivered through equity-based incentives including the Long Term Incentive Plan (LTIP) and the Share Matching Scheme (SMS). Subject to shareholder approval at the forthcoming AGM the committee intends to replace these schemes with sharper, more tailored incentives, details of which are set out below under the Performance Share Plan and the Executive Incentive Plan and in the circular that accompanies this annual report and accounts. The remuneration policy is structured such that variable, performance-related remuneration potentially represents more than half of total remuneration.

The committee normally reviews the executive directors' remuneration annually, against a policy that positions base salaries around the median of companies, similar in sector focus, size and complexity. Variable elements of the package, designed to attract and motivate outstanding performance and delivery, give executive directors the opportunity to earn an overall upper quartile total remuneration package, for top quartile performance. Details of the individual executive directors' remuneration, are described below.

In line with the previous year, participants in the LTIP and SMS have not received awards under the executive share option schemes during the year.

In last year's report the committee indicated its intention to conduct a full review of its executive remuneration policy during 2005/06 to ensure that it reflects the Company's needs, shareholder views and developments in market practice. Having carried out this review, the committee believes that the introduction of new plans linked to profit growth and TSR outperformance will help maintain the momentum of the development of the business and the achievement of strategic priorities. Full details of the proposals are set out in the circular that accompanies this annual report and accounts. The main aspects of the proposals are as follows:

The Performance Share Plan (PSP)

Under the PSP, conditional awards of shares may be made to approximately 40 executives each year. In 2006/07, the maximum PSP award would be 75 per cent of salary (chief executive 100 per cent).

Shares would vest on the group's three-year growth in PBT. 20 per cent of an award would vest if Mothercare's three-year PBT growth is 5 per cent pa. 100 per cent of an award would vest if Mothercare's three-year PBT growth is 15 per cent pa, with straight-line vesting in between. If a threshold is not met the award would lapse. PBT was chosen as the remuneration committee believes that PBT is a good measure of Mothercare's financial performance, as it is highly visible internally, and is regularly monitored and reported.

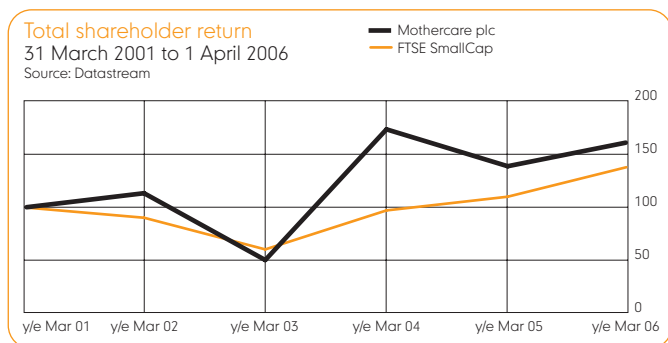
The Executive Incentive Plan (EIP)

Under the EIP, approximately ten executives would receive a percentage of surplus value created over a three-year performance period. Surplus value created would be defined as an increase in market capitalisation plus net equity cash flows to shareholders over and above median performance in line with the FTSE All-Share General Retailers Index. The remuneration committee believes this performance condition provides very strong alignment with shareholders and will help retain a high performing management team.

Performance graph

The performance graph below shows the Company's total shareholder return against the return achieved by the FTSE Small Cap Index. The graph shows the five financial years to 1 April 2006.

The index was chosen on the basis that Mothercare is a constituent of the FTSE Small Cap Index.



Directors' remuneration

The executive directors' fixed annual remuneration comprises a base salary, which is normally reviewed in April each year, and benefits. The variable remuneration element is achieved through an annual bonus scheme, participation in the long term incentive plan and share matching scheme and (prior to 2003) executive share option scheme. With the exception of the Save As You Earn share option scheme, which is open to all employees including executive directors, and the share incentive awards made to Ian Peacock and Ben Gordon, the Company operated no other long term incentive schemes.

The remuneration of the non-executive directors comprises fixed annual fees. Expenses incurred on Company business are reimbursed when claimed.

Salary

Each executive director's salary is considered individually by the remuneration committee following advice from the independent remuneration consultants. Base salary is the only element of remuneration used in determining pensionable earnings under the Mothercare Executive Pension Scheme.

Annual bonus

The annual bonus scheme for executive directors is paid upon the achievement of Company financial targets set annually by the remuneration committee. In addition, personal targets linked to key business objectives must also be met if an executive director is to achieve the maximum bonus. The maximum annual bonus that may ordinarily be paid to an executive director is 85 per cent of base salary (100 per cent for the CEO), although the maximum bonus would be payable only in the event of exceptional performance. For the financial year 2005/06 only however, the remuneration committee felt it appropriate to increase the annual bonus opportunity for executive directors by up to 50 per cent subject to the executives deferring any bonus over 25 per cent of salary into Mothercare shares for one to two years. The purpose of this was to maintain the momentum of the turnaround and to support retention. The long term incentive awards made in July 2005 were adjusted so that the total fair value of incentives remained unchanged from 2004/05.

For the 53 weeks ended 1 April 2006 Ben Gordon received a performance related bonus of £302,344 of which £208,594 is deferred in shares, half payable in May 2007 and half payable in May 2008 subject to his continued employment. Neil Harrington received a performance related bonus of £21,771 of which £13,694 is deferred in shares and is payable on the same basis as for Ben Gordon. Steven Glew did not receive a performance related bonus for the same period.

Profit share scheme

In addition to the annual bonus scheme, the Company operates a profit share scheme. All Company employees (other than participants in the annual bonus scheme) with at least six months' service are eligible to participate in this scheme.

The LTIP and SMS

Subject to AGM approval of the new long term incentive proposals no further conditional awards under the LTIP, SMS, or Executive Share Option Scheme will be made to EIP or PSP participants.

The LTIP

Under the LTIP, conditional awards of shares may be made to executives each year. In 2005/06, the maximum anticipated LTIP award was 67 per cent of salary.

Directors' remuneration report continued

The extent to which LTIP awards will vest will depend partly upon the Company's TSR performance relative to all general retailers in the Mid 250 and SmallCap indices, and partly upon the achievement of EPS targets shown in the table at Appendix A. The targets are measured over a three-year period. If the performance criteria are not met over the three-year period the award lapses. The performance targets for the awards made to date are shown in Appendix A. No part of the award subject to EPS will vest unless the Company's TSR performance is above median relative to general retailers in the Mid 250 and SmallCap indices.

During the transition to International Financial Reporting Standards, EPS growth figures will be calculated on a consistent basis.

The SMS

Under this scheme, executives who invest in the Company's shares and retain those shares for at least three years may receive matching shares if long term performance targets are achieved.

Executives may be invited to invest up to 100 per cent of pre-tax basic salary in any year. This could include up to 50 per cent of pre-tax salary via a payment under the long term incentive plan. Annual bonus shares deferred may be invested in the Share Matching Scheme.

Executives' investments will be matched on a 1:1 basis after three years, provided executives retain the shares they purchased for three years and performance targets (set out in Appendix A) are achieved over a three-year period. The performance targets for matching awards are the same as for the LTIP awards. If the performance criteria are not met over the three-year period the award lapses. The matching ratio is calculated using the pre-tax value of the purchased shares in the case of sums derived from the annual bonus deferred shares or the long term incentive plan, or the actual value of the shares already owned that were pledged in 2003.

The conditional awards made to date to executive directors under the LTIP, SMS and pledged shares are set out in Appendix A.

Executive Share Option Scheme

The Mothercare plc 2000 Share Option Plan

Options under the Mothercare 2000 Share Option Plan are granted at market value. Options may be exercised by participating executives if there is a significant improvement in the Company's underlying performance.

The performance criteria that must be met before an option can be exercised demand that EPS growth over a three-year performance period must equal or exceed the growth in the Retail Prices Index by 9 per cent. If the performance criteria are not met over the performance period, the option grant will lapse.

Annual option grants may be made to executive directors and senior employees. Under the plan rules the normal maximum award is two times salary with any award in excess of this subject to EPS growth exceeding RPI + 20 per cent over the performance period.

Equity incentive awards

Following the appointments of the chairman and the chief executive on 1 November and 2 December 2002 respectively, Ian Peacock and Ben Gordon were awarded equity-based incentives, as described below.

Ian Peacock was awarded 95,694 ordinary shares in the Company which, in aggregate, amounted to £100,000 at the time the award was made. The award vested in three tranches of 31,898 shares on 1 November in each year (or the nearest date following 1 November if the Company is in a close period). The third and final tranche vested and was transferred on 18 November 2005. No payment was required from Ian Peacock for the award.

Directors' share options

Director	26 March 2005	Granted/ (lapsed) during year	Grant/(lapse) date	Exercise price (pence)	First exercise date	Last exercise date	Gains on exercise 2006	1 April 2006
Ben Gordon	312,500	–	9 December 2002	104.00	9 December 2005	9 December 2012	–	312,500
	5,951 ¹	–					–	5,951
Total	318,451	–					–	318,451
Steven Glew	402,011	(33,501)	(31 December 2005)	99.5		31 March 2006	993,381	–
	5,951 ¹	(5,951)	(31 December 2005)				–	–
Total	407,962	(39,452)					993,381	–

Notes:

1. Options granted under the three-year SAYE option scheme.

The options set out above are granted without payment from a participant.

Share price details are shown on the inside back cover.

Performance conditions are set out in the narrative above.

No variations have been made to the terms and conditions of existing options in the current or previous years.

Steven Glew exercised options under the terms of his compromise agreement dated 28 December 2005.

Ben Gordon was awarded 500,000 ordinary shares in the Company, for which no payment is required from him. The award vests in respect of tranches of 100,000 shares, subject to the achievement of the performance conditions. The vesting performance conditions for three of the tranches of shares are share price growth. For each of the tranches of shares to vest, the Company's share price must have remained at levels of, (1) 200p, (2) 300p and (3) 400p (respectively) per share for at least three months. For the remaining two tranches of shares to vest the performance conditions are: profit before tax and exceptional items of, (4) £15 million and (5) £30 million achieved by the end of the Company's financial year in 2007.

Having vested on the achievement of a performance criterion, that element of the award will be released to Ben Gordon in tranches on the second, third, fourth and fifth anniversaries of 2 December (as appropriate) in proportions that release the entirety of any tranche of shares attached to a performance condition achieved by the fifth anniversary. Varying proportions of the award will vest and be released to the extent that performance conditions have been met, if there is a change in control of the Company before 2 December 2007. Ben Gordon will also be able to retain that proportion of the award that has vested, in the event that the Company terminate his employment (other than for cause) or the Company is in fundamental breach of his employment contract. Where any share price or share price performance condition is not met generally within four years, then that element of the award will lapse.

On the first vesting date (2 December 2004) Ben Gordon had met three of the five performance criteria. The table below sets out the shares transferred on 2 December 2004 and 2005 and transferable to Ben Gordon in the future (subject to, amongst others, his continued employment). As at 2 December 2005 the remaining two performance conditions had not been met.

Condition	Award		Number of shares released (on 2 December each year)			
	Met	No. of shares	2004	2005	2006	2007
1.	Yes	100,000	50,000 ¹	25,000 ¹	15,000 ¹	10,000 ¹
2.	Yes	100,000	50,000 ¹	25,000 ¹	15,000 ¹	10,000 ¹
3.	No	100,000	0	0	0	0
4.	Yes	100,000	25,000 ¹	25,000 ¹	25,000 ¹	25,000 ¹
5.	No	100,000	0	0	0	0
Total		500,000	125,000	75,000	55,000	45,000

1. For two performance conditions being met, 50 per cent vests on the second anniversary, 25 per cent on the third anniversary, 15 per cent on the fourth anniversary and 10 per cent on the fifth anniversary subject to continued employment at the relevant date. For any additional performance condition being met, 25 per cent vest at each anniversary, subject to continued employment at the relevant date.

Shareholding guidelines

Executive directors are expected to build up a shareholding equal to their basic salaries by retaining in shares at least half of the post-tax gains made under any long term incentive.

Service contracts

Executive directors

Executive directors' service contracts may be terminated by the Company giving 12 months' notice.

Ben Gordon's service contract included an extended notice period that has now expired. The current service contract provides for liquidated damages on termination by the Company for basic salary equivalent to the unexpired portion of the notice period and the fair value of the benefits to which he may be entitled, including pension credits but not bonus or share options. Separate provisions govern the entitlement to the equity incentive award and are described in the section above.

Neil Harrington commenced employment with the Company on 30 January 2006. His service contract may be terminated upon 12 months' notice. On joining, Neil Harrington was paid a bonus of £50,000 conditional upon him investing at least 60 per cent of the net of tax amount in shares in the Company. On 6 March 2006 this condition was met. Furthermore he is entitled to a guaranteed bonus of £25,000 payable in June 2006.

Steven Glew commenced employment with the Company on 4 March 2003. His service contract, dated 28 February 2003 was terminated by the Company on 31 December 2005. In consideration of his contribution to the successful turnaround of the business the principal terms of the compensation paid to Steven Glew (inclusive of the mitigation of his entitlements) are set out below:

- payment of 12 months' salary and benefits, six months of which was paid on the termination date with two further payments each equivalent to three months' salary and benefits payable in July and October 2006 in the event that he has not secured employment on the relevant dates;
- the retention of 368,510 of the 402,011 executive share options granted on 26 March 2003, such options to be exercised by 31 March 2006;
- subject to the achievement of the performance conditions, the transfer of up to a maximum of 96,492 of the 105,264 conditional awards made under the LTIP in July 2003, all other LTIP awards made in 2004 and 2005 lapsing on 31 December 2005; and
- subject to the achievement of the performance conditions, the transfer to him of up to a maximum 55,000 conditional awards under the SMS, all other conditional awards under the SMS made in 2004 and 2005 lapsing on 31 December 2005.

Non-executive directors

Ian Peacock is entitled to three months' salary on termination of his employment contract dated 31 October 2002 by the Company. Karren Brady, Bernard Cragg and David Williams have service arrangements with the Company that may be terminated upon one month's notice. Their service arrangements were entered into on 29 July, 31 March 2003 and 2 July 2004 respectively.

Directors' remuneration report continued

External appointments and other commitments of the directors

The other business commitments of the directors are set out within their biographical details on page 20. An executive director may take one external appointment as a non-executive director, subject to the approval of the board. The director may retain any fees from such a role. Neither of the executive directors currently has such an appointment.

Pension arrangements

Ben Gordon and Neil Harrington are members of the Mothercare Executive Pension Scheme. Ben Gordon's pension accrues at the rate of 1/45th of pensionable salary for each year of pensionable service up to Inland Revenue Limits. These limits are replaced by a corresponding scheme cap from 6 April 2006. The normal retirement age is 60 years. Contributions by Ben Gordon are 7 per cent of pensionable salary. Neil Harrington participates in the pension builder career average section of the Mothercare Executive Pension Scheme. Pension accrues at 1/45th of pensionable earnings in each fiscal year. The normal retirement age is 65 years. Contributions by Neil Harrington are at 5 per cent of pensionable salary.

Steven Glew was a member of the Mothercare Executive Pension Scheme until 31 December 2005 on the same basis as disclosed for Ben Gordon. Steven Glew's contributions were 7 per cent of pensionable salary.

In addition to membership of the Mothercare Executive Pension Scheme, pension benefits on earnings in excess of the Inland Revenue earnings cap for Ben Gordon and Steven Glew were provided during the period through an individual Funded Unapproved Retirement Benefit Scheme. The contribution rate for both Ben Gordon and Steven Glew was 33 per cent. Further pension detail is given in Table 2.

A new simplified tax regime for UK pensions came into force on 6 April 2006 ('A-day'). The committee has reviewed the impact of pension provision on key executives of the introduction of the lifetime allowance and the abolition of the earnings cap. In order to control the cost of pensions, the Company has agreed with the trustees of the Executive Pension Scheme the introduction of a scheme earnings cap, equivalent to the existing scheme earnings cap. In addition, given tax changes to future FURBS arrangements, the Trustees agreed to close the existing FURBS scheme from 31 March 2006. Those directors and executives who participated in the FURBS arrangements will in the future be awarded a cash salary supplement equivalent to the former FURBS payment for investment in an investment vehicle of their own choice.

For further details of the pension provision within the Company during the year, see the directors' report on page 21.

For further detail on the cost of pensions to the Company, including the statements required by IAS 19, see note 32 to the consolidated financial statements.

Emoluments and compensation payments

The emoluments (including pension contributions) in the year ended 1 April 2006 are shown in Table 1A. In addition, the salaries paid to the management level below the board are set out in Table 1B.

The fees of the non-executive directors are determined by the board, with the non-executive directors abstaining from discussions on their own arrangements. The non-executive directors do not participate in the Company pension, annual bonus plan, share option or other long term incentives. Fees are reviewed periodically and set at levels to reflect the time, commitment and responsibilities of the individual non-executive director.

Beneficial interests of the directors

The beneficial interests of the directors in the share capital of the Company are set out in the table below. This table does not show option or incentive awards. These are dealt with in the relevant section of this report.

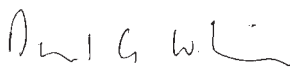
	Interest held at 1 April 2006 (number)	Interest held at 26 March 2005 (number)
Ian Peacock	169,860	120,462
Ben Gordon	269,362	231,862
Karren Brady	4,500	2,500
Bernard Cragg	20,000	20,000
David Williams	6,800	3,300
Neil Harrington	5,000	–

Ian Peacock and David Williams are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 13,151 (2005: 13,151) Mothercare shares in trust on 1 April 2006. A separate trust, The Mothercare Employee Trust, held 3,631,004 shares on 1 April 2006 (2005: 3,388,902).

The executive directors are technically deemed to be interested in all of the shares held by Mothercare Employees' Share Trustee Limited and the Mothercare Employee Trust as potential beneficiaries.

There have been no movements in directors' interests, beneficial or non-beneficial, between 1 April 2006 and 24 May 2006.

Approved by the board on 24 May 2006 and signed on its behalf by:



David Williams
Chairman, remuneration committee

Table 1A**Directors' emoluments**

Total emoluments (including pension contributions) in the year ended 1 April 2006 were £1,664,000 (2005: £1,348,000).

	Salary/fees £000		Incentive scheme vesting £000		Performance bonus £000		Benefits £000		Compensation for loss of office £000		Total remuneration (excl. pensions) £000		Pension scheme contributions £000	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Executive directors														
Ben Gordon	375	351	266	361	302	63	13	13	–	–	956	788	32	5
Steven Glew	158	206	–	–	–	26	11	11	100	–	269	243	22	5
Neil Harrington	35	–	–	–	22	–	2	–	–	–	59	–	5	–
Non-executive directors														
Ian Peacock	110	100	110	99	–	–	–	–	–	–	220	199	–	–
Karren Brady	32	30	–	–	–	–	–	–	–	–	32	30	–	–
Bernard Cragg	37	35	–	–	–	–	–	–	–	–	37	35	–	–
Angela Heylin	–	25	–	–	–	–	–	–	–	–	–	25	–	–
David Williams	32	18	–	–	–	–	–	–	–	–	32	18	–	–

Notes:

Benefits typically include a company car, medical and dental insurance and other similar benefits.

Performance bonus is the cash element only, the share element being deferred until 2007 and 2008.

The salary for Ben Gordon was reviewed with effect from 1 April 2006 and is now £475,000 per annum. In addition, the sum of £82,170 is paid as a salary supplement as referred to on page 32 following the discontinuance of the FURBS scheme for 2006/07.

The amounts shown as pension scheme contributions in 2006 reflect the scheme funding requirements following the actuarial valuation of the scheme in 2005/06.

The details required by paragraph 1 of Schedule 6 part 1 of the Companies Act 1985 are as follows:

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2006 £000	2005 £000
Emoluments	1,129	878
Compensation for loss of office	100	–
Gains on exercise of share options	993	–
Amounts receivable under long term incentive schemes	376	460
Money purchase pension contributions	82	109
Total	2,680	1,447

Table 1B

The following table sets out the number of individuals within the salary bands for the management level directly below the board.

Salary band	2006	2005
£200,001–250,000	–	1
£150,001–200,000	2	1
£100,000–150,000	6	4

Directors' remuneration report continued

Table 2

Pensions

The disclosure of the directors' benefits accrued in the Mothercare Executive Pension Scheme and money purchase benefits under the appropriate funded unapproved retirement benefits scheme are set out below:

	Accrued benefits in Mothercare Executive Pension Scheme					Defined benefits for Final Salary Scheme				Money purchase
						Transfer value as at* 1 April 2006				Company contributions
	At 26 March 2005	Change during year	At 1 April 2006	Change during year net of inflation	Transfer value of change in year net of inflation	26 March 2005	Change during year	Director contributions	1 April 2006	
Ben Gordon	8	4	12	4	45	74	47	11	132	82
Neil Harrington	–	1	1	1	4	–	4	2	6	–

*Calculation is consistent with applicable professional actuarial guidelines of accrued benefit.

Note: The transfer values represent a liability to the Company and not a sum paid or due to be paid to the individual.

Appendix A

The conditional awards made to directors under the LTIP are as follows:

Director	Conditional award date	LTIP conditional award number	Vested 2006	Lapsed 2006	Initial share price	Performance period
Ben Gordon	21 July 2003	402,477	–	–	161.5p	01.04.03 – 31.03.06
	1 June 2004	103,236	–	–	340.0p	27.03.04 – 26.03.07
	23 June 2005	86,193	–	–	291.5p	27.03.05 – 26.03.08
Total		591,906	–	–		
Steven Glew	21 July 2003	105,264	–	8,772	161.5p	01.04.03 – 31.03.06
	1 June 2004	51,500	–	51,500	340.0p	27.03.04 – 26.03.07
	23 June 2005	41,087	–	41,087	291.5p	27.03.05 – 26.03.08
Total		197,851	–	101,359		

Details of the directors' shares pledged and matched under the SMS are as follows:

Director	Conditional award date	Directors' pledged shares and SMS conditional award	Vested 2006	Lapsed 2006	Pledge period
Ben Gordon	21 July 2003	100,619	–	–	01.04.03 – 01.04.06
	1 June 2004	49,425	–	21,675	27.03.04 – 26.03.07
	23 June 2005	21,675	–	–	27.03.05 – 26.03.08
Total		171,719	–	21,675	
Steven Glew	21 July 2003	60,000	–	5,000	01.04.03 – 01.04.06
	1 June 2004	29,714	–	29,714	27.03.04 – 26.03.07
	23 June 2005	9,011	–	9,011	27.03.05 – 26.03.08
Total		98,725	–	43,725	

Performance criteria for the Long Term Incentive Plan and Share Matching Scheme

The performance targets for the LTIP and SMS schemes granted in 2003, 2004 and 2005 in respect of total shareholder return (TSR) are as follows:

LTIP

Total shareholder return ranking percentage	Percentage of award vesting
Top 20%	50%
Median	10%
Median to top 20%	10% to 50% (pro rata, on a straight-line basis)
Below median	Nil

Note:

No part of the awards subject to EPS will vest unless the Company's TSR performance has been above median relative to all general retailers in the FTSE Mid 250 and SmallCap indices.

SMS

Total shareholder return over three years ranking percentage (relative to general retailers in Mid 250 and SmallCap)	Ratio of free shares to purchased shares
Top 20%	5:10
Median	1:10
Median to top 20%	1:10 to 5:10 (pro rata on a straight-line basis)
Below median	Nil

Note:

No part of the awards subject to EPS will vest unless the Company's TSR performance has been above median relative to all general retailers in the FTSE Mid 250 and SmallCap indices.

The performance targets for the LTIP and SMS schemes in respect of Earnings Per Share (EPS) are as follows:

LTIP

Percentage of award vesting	EPS in 2005/06 for 2003 awards	EPS in 2006/07 for 2004 awards	EPS in 2007/08 for 2005 awards
50%	40p	42.1p	36.5p
10%	20p	32.3p	31.7p
10% to 50% (pro rata on a straight-line basis)	20p to 40p	32.3p to 42.1p	31.7p to 36.5p
Nil	Below 20p	Below 32.3p	Below 31.7p

Note:

EPS refers to pre-tax EPS.

SMS

Percentage of award vesting	EPS in 2005/06 for 2003 awards	EPS in 2006/07 for 2004 awards	EPS in 2007/08 for 2005 awards
5:10	40p	42.1p	36.5p
1:10	20p	32.3p	31.7p
1:10 to 5:10 (pro rata on a straight-line basis)	20p to 40p	32.3p to 42.1p	31.7p to 36.5p
Nil	Below 20p	Below 32.3p	Below 31.7p

Note:

EPS refers to pre-tax EPS.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards (IFRS). Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. The directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Independent auditors' report

To the shareholders of Mothercare plc

We have audited the group financial statements of Mothercare plc for the 53 weeks ended 1 April 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 34. These group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the individual Company financial statements of Mothercare plc for the 53 weeks ended 1 April 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the directors' report is

not consistent with the group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the Company and other members of the group is not disclosed.

We report to you if, in our opinion, the Company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the group's affairs as at 1 April 2006 and of its profit for the 53 weeks then ended; and
- the group financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

As explained in note 2, the group, in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the group's affairs as at 1 April 2006 and of its profit for the 53 weeks then ended.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

24 May 2006

Consolidated income statement

For the 53 weeks ended 1 April 2006

	Note	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Revenue	4	482.7	457.2
Cost of sales		(431.8)	(408.1)
Reorganisation of distribution network (exceptional)	6	–	(6.5)
Gross profit		50.9	42.6
Administrative expenses		(33.0)	(32.4)
Profit from retail operations	7	17.9	10.2
Profit on disposal of property interests (exceptional)	6	2.9	–
Profit from operations		20.8	10.2
Profit on disposal of subsidiary undertaking (exceptional)	6	–	2.4
Profit before financing and taxation		20.8	12.6
Investment income	8	12.7	10.9
Finance costs	9	(9.3)	(8.0)
Profit before taxation		24.2	15.5
Analysed between:			
Exceptional items	6	2.9	(4.1)
Profit before exceptional items and taxation		21.3	19.6
Taxation	10	(6.7)	(4.2)
Profit for the period attributable to equity holders of the parent		17.5	11.3
Earnings per share			
Basic	12	25.5p	16.6p
Diluted	12	25.0p	16.3p

All results relate to continuing operations.

Consolidated statement of recognised income and expense

For the 53 weeks ended 1 April 2006

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Actuarial losses on defined benefit pension schemes	(0.8)	(9.3)
IAS 39 transfers to income statement	0.1	–
Tax on items taken directly to equity	0.7	3.1
Net expense recognised directly in equity	–	(6.2)
Profit for the period	17.5	11.3
Total recognised income and expense for the period attributable to equity holders of the parent	17.5	5.1
Changes in accounting policy to adopt IAS 32 and 39: Attributable to equity holders of the parent	(0.1)	–

Consolidated balance sheet

As at 1 April 2006

	Note	1 April 2006 £ million	26 March 2005 £ million
Non-current assets			
Property, plant and equipment	14	83.7	84.3
Intangible assets – software	15	4.0	2.7
Deferred tax asset	16	8.5	13.6
		96.2	100.6
Current assets			
Inventories	17	50.8	46.8
Trade and other receivables	18	32.0	28.8
Cash and cash equivalents	19	35.9	37.0
		118.7	112.6
Total assets		214.9	213.2
Current liabilities			
Trade and other payables	24	(51.3)	(55.9)
Current tax liabilities		(0.9)	–
Short term provisions	25	(3.7)	(5.1)
		(55.9)	(61.0)
Non-current liabilities			
Trade and other payables	24	(8.9)	(7.8)
Retirement benefit obligations	32	(17.5)	(22.4)
Long term provisions	25	(0.9)	(3.0)
		(27.3)	(33.2)
Total liabilities		(83.2)	(94.2)
Net assets		131.7	119.0
Equity attributable to equity holders of the parent			
Called up share capital	26	36.3	35.8
Share premium account	27	2.2	1.3
Own shares	27	(6.5)	(5.5)
Retained earnings	27	99.7	87.4
Total equity		131.7	119.0

Approved by the board on 24 May 2006 and signed on its behalf by:

Ben Gordon
Neil Harrington

Consolidated cash flow statement

For the 53 weeks ended 1 April 2006

	Note	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Net cash flow from operating activities	28	13.3	12.5
Cash flows from investing activities			
Interest received		1.8	1.8
Interest paid		(0.3)	(0.1)
Purchase of property, plant and equipment		(16.7)	(18.4)
Proceeds from sale of property, plant and equipment		6.0	1.1
Proceeds from sale of subsidiary undertaking		–	3.4
Net cash used in investing activities		(9.2)	(12.2)
Cash flows from financing activities			
Equity dividends paid		(5.5)	(4.6)
Issue of ordinary share capital		1.4	1.0
Purchase of own shares		(1.1)	–
Net cash used in financing activities		(5.2)	(3.6)
Net decrease in cash and cash equivalents		(1.1)	(3.3)
Cash and cash equivalents at beginning of period		37.0	40.3
Cash and cash equivalents at end of period	29	35.9	37.0

Notes to the consolidated financial statements

1. General information

Mothercare plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given in the shareholder information on the inside back cover. The nature of the group's operations and its principal activities are set out in note 5 and in the business review on pages 5 to 19.

2. Significant accounting policies

Basis of presentation

The Company's accounting period covers the 53 weeks ended 1 April 2006. The comparative period covered the 52 weeks ended 26 March 2005.

Basis of accounting

The financial statements have been prepared, for the first time, in accordance with International Financial Reporting Standards (IFRS), IFRIC interpretations and those parts of the Companies Act 1985 that are applicable to companies reporting under IFRS. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 6 'Exploration for and Evaluation of Mineral Resources';

IFRS 7 'Financial Instruments: Disclosures'; and the related amendment to IAS 1 on capital disclosures;

IFRIC 4 'Determining whether an Arrangement contains a Lease';

IFRIC 5 'Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds';

IFRIC 6 'Liabilities arising from Participating in a specific market – Waste Electrical and Electronic Equipment';

IFRIC 7 'Applying the Restatement Approach under IAS 29 Financial reporting in Hyperinflationary Economies';

IFRIC 8 'Scope of IFRS 2'; and

IFRIC 9 'Reassessment of Embedded Derivatives'.

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the group except for the additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS are provided in note 34.

The Company has elected to apply the exemption available within IFRS 1 that permits the hedge accounting applied under the previous Generally Accepted Accounting Principles (GAAP) to be used as a comparative for IAS 39 'Financial Instruments: Recognition and Measurement'. Hence the change in accounting policy has had no impact on the results or financial position of the prior period. The impact on the opening balance sheet is set out in note 23.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 1 April 2006. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

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

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

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

2. Significant accounting policies continued

Exceptional items

Certain items do not reflect the group's underlying trading performance and due to their significance and one-off nature, have been classified as exceptional. The gains and losses on these discrete items, such as profits on the disposal of property interests, reorganisation costs and other non-operating items, including the prior year disposal of a subsidiary undertaking with capital tax losses attached, can have a material impact on the absolute amount of and trend in the profit from operations and the result for the year. Therefore any gains and losses on such items are analysed as exceptional on the face of the income statement.

Goodwill

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

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

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

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 29 March 1997 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

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

Leasing

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

The group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The group as lessee

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

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

Foreign currencies

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

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

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

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation

differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefit costs

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

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

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

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

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other

than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

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

Property, plant and equipment

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

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

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

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

Intangible assets – software

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

2. Significant accounting policies continued

Impairment of tangible and intangible assets

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

Inventories

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

Financial instruments

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

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the

effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

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

Trade payables

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

Equity instruments

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

Adoption of IAS 32 and IAS 39

As permitted by IFRS 1, the Company has elected to apply IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 27 March 2005. Consequently, the relevant comparative information for the 52 weeks ended 26 March 2005 does not reflect the impact of these standards.

Derivative financial instruments

The group uses derivative financial instruments, principally forward foreign currency contracts to reduce its exposure to exchange

rate movements. The group does not hold or issue derivatives for speculative or trading purposes. Under UK GAAP, as used for the 2005 comparatives, such derivative contracts are not recognised as assets and liabilities on the balance sheet and gains or losses arising on them are not recognised until the hedged item is itself recognised in the financial statements.

From 27 March 2005 onwards, derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in the income statement. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this income statement volatility.

The Company expects that hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions.

Where the hedging relationship is classified as a cash flow hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged item results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Embedded derivatives

Under UK GAAP, as used for the 2005 comparatives, embedded derivatives are not recognised in the financial statements. From 27 March 2005 onwards, derivatives embedded in non-derivative host contracts are recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

Provisions

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

Share-based payments

The group has applied the requirements of IFRS 2 'Share-based Payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

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

The group also provides employees with the ability to purchase the group's ordinary shares at 80 per cent of the current market value. The group records an expense based on its estimate of the 20 per cent discount related to shares expected to vest on a straight-line basis over the vesting period.

Profit from retail operations

Profit from retail operations represents the profit generated from normal retail trading, prior to any gains or losses on property transactions. It also includes the volatility arising from accounting for derivative financial instruments under IAS 39, as the Company has not adopted hedge accounting.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Inventory provisions

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

Retirement benefits

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

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

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

Pension and other post-retirement benefits are inherently long term, and future experience may differ from the actuarial assumptions used to determine the net charge for 'pension and other post-retirement charges'. Note 32 to the consolidated financial statements describes the principal discount rate, earnings increase, and pension retirement benefit obligation assumptions that have been used to determine the pension and post-retirement charges in accordance with IAS 19. The calculation of any charge relating to 'retirement benefits' is clearly dependent on the assumptions used, which reflects the exercise of judgement. The assumptions adopted are based on prior experience, market conditions and the advice of plan actuaries.

At 1 April 2006, the group's pension liability before deferred tax was £17.5 million, compared with £22.4 million as at 26 March 2005.

Further details of the accounting policy on retirement benefits are provided in note 2.

Impairment of stores' property, plant and equipment

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

Further details of the accounting policy on the impairment of stores' property, plant and equipment are provided in note 2.

4. Revenue

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

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Revenue – sales of goods	482.7	457.2
Investment income	12.7	10.9
Total revenue	495.4	468.1

5. Segmental information

For management purposes, the group is currently organised into two primary operating segments: Mothercare UK and International. Mothercare UK comprises the UK store operations, catalogue and web sales. The International business comprises the group's franchise operations outside of the UK. These two segments are distinguished by the different nature of their risks and returns. It is considered that there are no secondary segments as all business originates in the UK.

Segmental information about the Mothercare UK and International businesses is presented below.

	53 weeks ended 1 April 2006			
	Mothercare UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	414.6	68.1	–	482.7
Result				
Segment result before exceptional items	19.3	5.3	(6.7)	17.9
Profit on disposal of property interests (exceptional)	2.9	–	–	2.9
Profit before financing and taxation	22.2	5.3	(6.7)	20.8
Investment income				12.7
Finance costs				(9.3)
Profit before taxation				24.2
Taxation				(6.7)
Profit for the period				17.5

Notes to the consolidated financial statements continued

5. Segmental information continued

	52 weeks ended 26 March 2005			
	Mothercare UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	401.1	56.1	–	457.2
Result				
Segment result before exceptional items	19.6	4.4	(7.3)	16.7
Reorganisation of distribution network (exceptional)	(6.5)	–	–	(6.5)
Profit on disposal of subsidiary undertaking (exceptional)	–	–	2.4	2.4
Profit before financing and taxation	13.1	4.4	(4.9)	12.6
Investment income				10.9
Finance costs				(8.0)
Profit before taxation				15.5
Taxation				(4.2)
Profit for the period				11.3

Corporate expenses not allocated to UK or International represent head office costs, board and senior management costs, insurance, annual and interim reporting costs and audit and professional fees.

	53 weeks ended 1 April 2006		
	Mothercare UK £ million	International £ million	Consolidated £ million
Other information			
Capital additions	16.7	–	16.7
Depreciation and amortisation	12.8	–	12.8
Balance sheet			
Assets			
Segment assets	159.1	19.9	179.0
Unallocated corporate assets			35.9
Consolidated total assets			214.9
Liabilities			
Segment liabilities	76.5	6.7	83.2
Unallocated corporate liabilities			–
Consolidated total liabilities			83.2

	52 weeks ended 26 March 2005		
	Mothercare UK £ million	International £ million	Consolidated £ million
Other information			
Capital additions	18.4	–	18.4
Depreciation and amortisation	12.0	–	12.0
Balance sheet			
Assets			
Segment assets	160.6	15.6	176.2
Unallocated corporate assets			37.0
Consolidated total assets			213.2
Liabilities			
Segment liabilities	88.6	5.6	94.2
Unallocated corporate liabilities			–
Consolidated total liabilities			94.2

Corporate assets not allocated to UK or International represent cash at bank and in hand.

6. Exceptional items

Due to their significance and one-off nature, certain items have been classified as exceptional, such as profits on the disposal of property interests and subsidiary undertakings and reorganisation costs.

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Reorganisation of distribution network	–	(6.5)
Profit on disposal of property interests	2.9	–
Profit on disposal of subsidiary undertaking	–	2.4
Exceptional items	2.9	(4.1)

Reorganisation of distribution network

During the 52 weeks ended 26 March 2005, costs of £6.5 million were charged to gross profit to provide for the direct revenue costs associated with the reorganisation of the distribution network as a result of the move to the new national distribution centre. The tax effect of this charge to gross profit was a credit of £1.9 million.

Profit on disposal of property interests

During the 53 weeks ended 1 April 2006, a credit of £2.9 million has been recognised in profit from operations relating to the disposal of freehold and leasehold property interests in closed stores. There was no tax effect as a result of the profit on disposal of property interests, due to the availability of capital losses brought forward from earlier periods.

Profit on disposal of subsidiary undertaking

During the 52 weeks ended 26 March 2005, income of £2.4 million was credited to profit before taxation relating to the sale of a subsidiary undertaking. The group has capital tax losses significantly in excess of likely future requirements and one of the group's subsidiary undertakings with capital tax losses attached was sold to a third party for £2.4 million net of costs.

Notes to the consolidated financial statements continued

7. Profit from retail operations

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

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Cost of inventories recognised as an expense	245.3	231.7
Depreciation of property, plant and equipment	12.1	11.8
Amortisation of intangible assets – software	0.7	0.2
Net rent of properties	50.6	47.4
Hire of plant and equipment	1.5	1.9
Auditors' remuneration:		
Audit services	0.3	0.2
Further assurance services	0.1	0.1
Tax services	–	0.3
Staff costs (including directors):		
Wages and salaries (including bonuses)	54.7	52.6
Social security costs	3.4	3.2
Other pension costs (see note 32)	4.7	3.9

The policy for the approval of non-audit fees, together with an explanation of the services provided, is set out on page 26.

An analysis of the average monthly number of full and part-time employees throughout the group, all of whom are employed in the United Kingdom, including executive directors, is as follows:

	53 weeks ended 1 April 2006 number	52 weeks ended 26 March 2005 number
Number of employees	5,255	5,149
Full time equivalents	3,174	3,051

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 28 to 35.

For the 53 weeks ended 1 April 2006, profit from retail operations is stated after charging a net gain of £0.2 million to cost of sales as a result of the group's decision not to adopt hedge accounting under IAS 39. As this net gain results from the first time application of IAS 32 and IAS 39, as discussed in notes 2 and 25, there is no comparative figure for the prior period.

8. Investment income

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Interest on bank deposits	1.8	1.8
Retirement benefit schemes – return on assets	10.9	9.1
Investment income	12.7	10.9

9. Finance costs

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Interest on bank loans and overdrafts	0.3	0.1
Retirement benefit schemes – interest on liabilities	9.0	7.9
Finance costs	9.3	8.0

10. Taxation

The charge for taxation on profit for the period comprises:

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Current tax:		
Current year	0.5	–
Adjustment in respect of prior periods	0.4	–
	0.9	–
Deferred tax (see note 16):		
Current year	5.8	4.5
Adjustment in respect of prior periods	–	(0.3)
	5.8	4.2
Charge for taxation on profit for the period	6.7	4.2

UK corporation tax is calculated at 30 per cent (2005: 30 per cent) of the estimated assessable profit for the period.

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

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Profit for the period before taxation	24.2	15.5
Profit for the period before taxation multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	7.3	4.7
Effects of:		
Expenses not deductible for tax purposes	0.6	0.5
Utilisation of tax losses not previously recognised	(0.3)	–
Utilisation of tax losses not previously recognised against capital gains	(0.9)	(0.7)
Adjustment in respect of prior periods	–	(0.3)
Charge for taxation on profit for the period	6.7	4.2

In addition to the amount charged to the income statement, deferred tax relating to share-based payment arrangements amounting to £0.7 million (2005: £3.1 million relating to share-based payment arrangements and to the revaluation of retirement benefit obligations) has been credited directly to equity.

11. Dividends

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Amounts recognised as distributions to equity holders in the period		
Final dividend for the 52 weeks ended 26 March 2005 of 5.3p per share (2005: final dividend for the 52 weeks ended 27 March 2004 of 4.0p per share)	3.6	2.7
Interim dividend for the 53 weeks ended 1 April 2006 of 2.85p per share (2005: interim dividend for the 52 weeks ended 26 March 2005 of 2.7p per share)	1.9	1.9
	5.5	4.6

The proposed final dividend of 6.15p per share for the 53 weeks ended 1 April 2006 was approved by the board after 1 April 2006, on 24 May 2006, and so, in line with the requirements of IAS 10 'Events After the Balance Sheet Date', the related cost of £4.3 million has not been included as a liability as at 1 April 2006. This dividend will be paid on 27 July 2006 to shareholders on the register on 16 June 2006.

Notes to the consolidated financial statements continued

12. Earnings per share

	53 weeks ended 1 April 2006 million	52 weeks ended 26 March 2005 million
Weighted average number of shares in issue	68.5	68.0
Dilution – option schemes	1.5	1.2
Diluted weighted average number of shares in issue	70.0	69.2
	£ million	£ million
Earnings for basic and diluted earnings per share	17.5	11.3
Exceptional items:		
Costs of reorganisation of distribution network	–	6.5
Profit on disposal of property interests	(2.9)	–
Profit on disposal of subsidiary undertaking	–	(2.4)
Tax effect of exceptional items	–	(1.9)
Earnings before exceptional items	14.6	13.5
	pence	pence
Basic earnings per share	25.5	16.6
Basic earnings per share before exceptional items	21.3	19.9
Diluted earnings per share	25.0	16.3
Diluted earnings per share before exceptional items	20.9	19.5

13. Subsidiaries

A list of the group's significant investments in subsidiaries, all of which are wholly owned, including the name and country of incorporation is given in note 4 to the Company financial statements. All subsidiaries are included in the consolidation.

14. Property, plant and equipment

	Properties including fixed equipment		Fixtures, fittings, equipment £ million	Assets in course of construction £ million	Total £ million
	Freehold £ million	Leasehold £ million			
Cost					
As at 27 March 2004	18.3	103.2	136.1	2.1	259.7
Transfers	–	–	2.1	(2.1)	–
Additions	0.2	2.9	11.6	2.0	16.7
Disposals	–	(1.1)	(1.5)	–	(2.6)
As at 26 March 2005	18.5	105.0	148.3	2.0	273.8
Transfers	–	–	2.0	(2.0)	–
Additions	–	2.6	10.1	2.0	14.7
Disposals	(2.7)	(1.4)	(1.9)	–	(6.0)
As at 1 April 2006	15.8	106.2	158.5	2.0	282.5
Accumulated depreciation and impairment					
As at 27 March 2004	1.9	62.4	115.3	–	179.6
Charge for year	0.1	4.8	6.9	–	11.8
Disposals	–	(0.6)	(1.3)	–	(1.9)
As at 26 March 2005	2.0	66.6	120.9	–	189.5
Charge for year	0.1	4.8	7.2	–	12.1
Disposals	–	(0.2)	(2.6)	–	(2.8)
As at 1 April 2006	2.1	71.2	125.5	–	198.8
Net book value					
As at 27 March 2004	16.4	40.8	20.8	2.1	80.1
As at 26 March 2005	16.5	38.4	27.4	2.0	84.3
As at 1 April 2006	13.7	35.0	33.0	2.0	83.7

The net book value of leasehold properties includes £34.8 million (2005: £38.2 million) in respect of short leasehold properties.

At 1 April 2006, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £6.4 million (2005: £5.3 million).

Notes to the consolidated financial statements continued

15. Intangible assets – software

	Total £ million
Cost	
As at 27 March 2004	1.2
Additions	1.7
As at 26 March 2005	2.9
Additions	2.0
As at 1 April 2006	4.9
Accumulated depreciation	
As at 27 March 2004	–
Charge for year	0.2
As at 26 March 2005	0.2
Charge for year	0.7
As at 1 April 2006	0.9
Net book value	
As at 27 March 2004	1.2
As at 26 March 2005	2.7
As at 1 April 2006	4.0

16. Deferred tax asset

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon in the current and prior reporting period.

	Accelerated tax depreciation £ million	Short term timing differences £ million	Retirement benefit obligations £ million	Share based payment £ million	Tax losses £ million	Total £ million
As at 27 March 2004	(4.8)	4.3	3.8	0.7	10.7	14.7
Charge to income	0.1	(0.4)	–	–	(3.9)	(4.2)
Credit to equity	–	–	2.9	0.2	–	3.1
As at 26 March 2005	(4.7)	3.9	6.7	0.9	6.8	13.6
Charge to income	(1.6)	(0.9)	(1.5)	(0.3)	(1.5)	(5.8)
Credit to equity	–	–	–	0.7	–	0.7
As at 1 April 2006	(6.3)	3.0	5.2	1.3	5.3	8.5

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	1 April 2006 £ million	26 March 2005 £ million
Deferred tax assets	14.8	18.3
Deferred tax liabilities	(6.3)	(4.7)
	8.5	13.6

At the balance sheet date, the group has unused tax losses of £17.7 million (2005: £22.6 million) available for offset against future profits. A deferred tax asset of £5.3 million (2005: £6.8 million) has been recognised in respect of £17.7 million (2005: £22.6 million) of such losses.

17. Inventories

	1 April 2006 £ million	26 March 2005 £ million
Finished goods and goods for resale	50.8	46.8

18. Trade and other receivables

	1 April 2006 £ million	26 March 2005 £ million
Trade receivables	14.5	11.9
Prepayments and accrued income	14.3	13.8
Other receivables	3.0	3.1
Currency derivative assets	0.2	–
	32.0	28.8

The average credit period taken on sales of goods is 77 days. No interest is charged on trade receivables, however the right to charge interest on outstanding balances is retained. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £0.6 million (2005: £0.8 million).

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

19. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the group and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

20. Credit risk

The group's principal financial assets are cash and cash equivalents and trade and other receivables.

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowance for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

21. Borrowing facilities

The group had no outstanding borrowings as at 1 April 2006 and 26 March 2005.

Overdraft

The group has an overdraft facility of £10 million which bears interest at 1.00 per cent above bank base rates. None of this facility was drawn down at 1 April 2006.

Committed borrowing facilities

The group had £15 million of committed borrowing facilities available at 1 April 2006 in respect of which all conditions precedent have been met. The final maturity date of this facility is 30 November 2008. None of this facility was drawn down at 1 April 2006. If the facility were to be drawn upon it would bear interest at 0.65 per cent above LIBOR.

Notes to the consolidated financial statements continued

22. Derivative financial instruments

Adoption of IAS 32 and IAS 39

As permitted by IFRS 1, the Company has elected to apply IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 27 March 2005. The IAS 39 transition balance sheet is detailed in note 23 below.

Forward foreign exchange contracts

The group uses forward foreign currency contracts to reduce its exposure to exchange rate movements, primarily on the US dollar. The group does not hold derivatives for speculative or trading purposes, however, the group has not hedge accounted for its forward foreign currency contracts under the requirements of IAS 39. Therefore, from 27 March 2005 onwards, derivative financial instruments have been recognised as assets and liabilities measured at their fair values at the balance sheet date and changes in their fair values have been recognised in the income statement.

These arrangements are designed to address significant exchange exposures on forecast future purchases of goods for the following year and are renewed on a revolving basis as required.

Embedded derivatives

From 27 March 2005 onwards, derivatives embedded in non-derivative host contracts have been recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

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

	1 April 2006 £ million	26 March 2005 £ million
At notional value	22.3	11.1
At fair value	0.2	0.2
Fair value of forward foreign currency contracts: Included in trade and other receivables	0.2	–
Currency derivative assets	0.2	–

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 risks to which the group is exposed relate to movements in exchange rates and interest rates. Where appropriate, cost effective and practicable the group uses financial instruments and derivatives to manage these risks. No speculative use of derivatives, currency or other instruments is permitted.

Foreign currency risk

All export sales to franchise operations are invoiced in sterling. Export sales represent approximately 14 per cent of group sales. The group therefore has no currency exposure on these sales.

The group purchases product in foreign currency, representing approximately 13 per cent of purchases. The group policy is that all material exposures are hedged by using forward currency contracts.

Currency analysis of fixed assets

The group's net assets of £131.7 million (2005: £119.0 million) are all denominated in sterling except for £1.2 million (2005: £4.8 million) denominated in US dollars.

23. IAS 39 transition balance sheet

The group adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 27 March 2005. In the preparation of its financial statements in accordance with IFRS for the 52 weeks ended 26 March 2005, the group continued to apply the hedge accounting rules of UK GAAP, taking advantage of the exemption available within IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

The group is required to recognise transitional adjustments in accounting for its financial instruments in accordance with the measurement requirements of IAS 39 at 27 March 2005.

Although the group has taken the decision not to hedge account for its foreign exchange contracts, it is deemed to have hedge accounted under UK GAAP until 26 March 2005 and discontinued hedge accounting prospectively thereafter. IFRS 1 requires the group to recognise various transitional adjustments to account for those hedging relationships in place on 27 March 2005.

Foreign exchange contracts that were previously accounted for as cash flow hedges of forecasted transactions under UK GAAP were not previously measured at fair value. The difference between the derivative's fair value and its previously reported carrying value has been recognised directly in equity as at 27 March 2005.

Additionally the group has recognised the fair value of embedded derivatives found within certain of its supply contracts in opening retained earnings.

All derivative instruments will continue to be recognised on the balance sheet at fair value with future gains and losses being recognised immediately in earnings, except when the hedging requirements of IAS 39 are met.

Reconciliation between the IFRS restated balance sheet as at 26 March 2005 applying prior hedge accounting and the balance sheet after the adoption of both IAS 32 and IAS 39

	£ million
Net assets as at 26 March 2005 as per the IFRS restated balance sheet under prior hedge accounting	119.0
Adoption of IAS 32 and IAS 39:	
Currency derivative assets	0.1
Currency derivative liabilities	(0.2)
Net assets as at 27 March 2005 after the adoption of IAS 32 and IAS 39	118.9

24. Trade and other payables

	1 April 2006 £ million	26 March 2005 £ million
Current liabilities		
Trade payables	27.6	29.8
Payroll and other taxes including social security	1.7	1.2
Accruals and deferred income	21.1	24.2
Lease incentives	0.9	0.7
	51.3	55.9
Non-current liabilities		
Lease incentives	8.9	7.8

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 39 days.

The directors consider that the carrying amount of trade payables approximates to their fair value.

25. Provisions

	1 April 2006 £ million	26 March 2005 £ million
Current liabilities		
Property provisions	0.9	1.4
Distribution provisions	2.5	3.4
Other provisions	0.3	0.3
Short term provisions	3.7	5.1
Non-current liabilities		
Property provisions	0.1	0.1
Distribution provisions	0.5	2.2
Other provisions	0.3	0.7
Long term provisions	0.9	3.0
Property provisions	1.0	1.5
Distribution provisions	3.0	5.6
Other provisions	0.6	1.0
Total provisions	4.6	8.1

Notes to the consolidated financial statements continued

25. Provisions continued

The movement on total provisions is as follows:

	Property provisions £ million	Distribution provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 26 March 2005	1.5	5.6	1.0	8.1
Utilised in year	(0.5)	(2.6)	(0.7)	(3.8)
Charged in year	–	–	0.3	0.3
Balance at 1 April 2006	1.0	3.0	0.6	4.6

Property provisions principally represent the costs of store disposals. The timing of the utilisation of these provisions is variable dependent upon the lease expiry dates of the properties concerned.

Distribution provisions principally represent the costs of the reorganisation of distribution network, of which the main components relate to lease provisions on vacant property and start up costs. It is expected that substantially all of the distribution provisions will be utilised by March 2007.

Other provisions principally represent provisions for uninsured losses, hence the timing of the utilisation of these provisions is uncertain.

26. Called up share capital

	55 weeks ended 1 April 2006 number of shares	52 weeks ended 26 March 2005 number of shares	55 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Authorised				
Ordinary shares of 50p each:				
Balance at beginning and end of year	95,767,413	95,767,413	47.9	47.9
Allotted, called up and fully paid				
Ordinary shares of 50p each:				
Balance at beginning of year	71,615,737	71,062,086	35.8	35.5
Issued under the Mothercare 2000 Executive Share Option Plan	1,043,707	226,472	0.5	0.1
Issued under the Mothercare Sharesave Scheme	6,105	327,179	–	0.2
Balance at end of year	72,665,549	71,615,737	36.3	35.8

Further details of employee and executive share schemes are given in note 31.

27. Reserves

	Share premium account £ million	Own shares £ million	Retained earnings £ million
As at 27 March 2004	0.6	(5.5)	86.1
Premium arising on issue of equity shares	0.7	–	–
Actuarial losses on retirement benefit obligations	–	–	(9.3)
Credit to equity for share-based payments	–	–	0.8
Tax on items taken directly to equity	–	–	3.1
Dividends paid	–	–	(4.6)
Profit for the financial year	–	–	11.3
As at 26 March 2005	1.3	(5.5)	87.4
IAS 39 transition balance sheet adjustments	–	–	(0.1)
IAS 39 transfers to income statement	–	–	0.1
Premium arising on issue of equity shares	0.9	–	–
Actuarial losses on retirement benefit obligations	–	–	(0.8)
Credit to equity for share-based payments	–	–	0.5
Purchase of own shares	–	(1.1)	–
Shares transferred to employees on vesting	–	0.1	(0.1)
Tax on items taken directly to equity	–	–	0.7
Dividends paid	–	–	(5.5)
Net profit for the financial year	–	–	17.5
As at 1 April 2006	2.2	(6.5)	99.7

The own shares reserve represents the cost of shares in Mothercare plc purchased in the market and held by Mothercare Employee Trust to satisfy options under the group's share option schemes (see note 31). The total shareholding is 3,644,155 (2005: 3,402,053) with a market value at 1 April 2006 of £10,707,962.

28. Reconciliation of cash flow from operating activities

	55 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Profit from retail operations	17.9	10.2
Adjustments for:		
Depreciation of property, plant and equipment	12.1	11.8
Amortisation of intangible assets – software	0.7	0.2
Losses on disposal of property, plant and equipment	0.3	0.7
Gain on currency derivatives	(0.2)	–
Cost of employee share schemes	0.5	0.8
Charge to profit from operations in respect of costs of reorganisation of distribution network	–	6.5
Utilisation of provision for costs of reorganisation of distribution network	(2.6)	(0.9)
Utilisation of property provisions	(0.5)	(1.1)
Utilisation of other provisions	(0.4)	(0.3)
Payments to retirement benefit schemes	(8.5)	(12.4)
Charge to profit from operations in respect of service costs of retirement benefit schemes	4.7	3.9
Operating cash flow before movement in working capital	24.0	19.4
Increase in inventories	(4.0)	(1.8)
Increase in receivables	(3.0)	(3.3)
Decrease in payables	(3.7)	(1.8)
Net cash flow from operating activities	13.3	12.5

Notes to the consolidated financial statements continued

29. Analysis of cash and cash equivalents

	1 April 2006 £ million	26 March 2005 £ million
Cash at bank and in hand	35.9	37.0
Cash and cash equivalents	35.9	37.0

30. Operating lease arrangements

The group as lessee

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Amounts recognised in cost of sales for the period:		
Minimum lease payments paid	51.8	48.1
Contingent rents	1.0	1.9
Minimum sublease payments received	(0.7)	(0.7)
Net rent expense for the period	52.1	49.3

Contingent rents relates to store properties where an element of the rent payable is determined with reference to store turnover.

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	1 April 2006 £ million	26 March 2005 £ million
Within one year	56.0	54.7
In the second to fifth years inclusive	196.4	193.1
After five years	312.4	326.5
Total future minimum lease payments	564.8	574.3

At the balance sheet date, the group had total future minimum sublease payments expected to be received under non-cancellable operating subleases of £6.7 million (2005: £6.6 million).

31. Share-based payments

An expense is recognised for share-based payments based on the fair value of the awards at the date of grant, the estimated number of shares that will vest and the vesting period of each award.

The charge for share-based payments under IFRS is £0.5 million (2005: £0.8 million) across the following schemes:

- A: Equity incentive awards
- B: Long term incentive plan and share matching scheme
- C: Executive share option scheme
- D: Save As You Earn schemes

Details of the share schemes that the group operates are provided in the directors' remuneration report on pages 28 to 35.

For each scheme, expected volatility was determined with reference to the 90-day volatility of the group's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

A. Equity incentive awards

The number of shares outstanding under the chairman's equity incentive award is as follows:

	53 weeks ended 1 April 2006 Number of shares	52 weeks ended 26 March 2005 Number of shares
Balance at beginning of year	31,898	63,796
Vested during year	(31,898)	(31,898)
Balance at end of year	–	31,898

The number of shares outstanding under the chief executive's equity incentive award is as follows:

	53 weeks ended 1 April 2006 Number of shares	52 weeks ended 26 March 2005 Number of shares
Balance at beginning of year	375,000	500,000
Vested during year	(75,000)	(125,000)
Balance at end of year	300,000	375,000

The fair value of each market based condition of the chief executive's equity incentive award is calculated using a binomial model with the following assumptions:

Grant date			December 2002
Share price at award date			104p
Expected volatility			20.0%
Risk free rate			4.75%
Expected dividend yield			3.00%
Time to expiry			5 years
Number of shares awarded	100,000	100,000	100,000
Share price condition	200p	300p	400p
Fair value	261.6p	153.5p	50.9p

B. Equity awards under the long term incentive plan and the share matching scheme

The number of shares outstanding under the long term incentive plan and the share matching scheme is as follows:

	53 weeks ended 1 April 2006 Number of shares	52 weeks ended 26 March 2005 Number of shares
Balance at beginning of year	1,655,794	1,205,598
Awarded during year	362,067	512,156
Lapsed during year	(486,518)	(61,960)
Vested during year	–	–
Balance at end of year	1,531,343	1,655,794

Notes to the consolidated financial statements continued

31. Share-based payments continued

The fair value of the long term incentive plan and the share matching scheme awards is calculated using a Monte Carlo model to determine the present economic value, with the following assumptions:

Grant date	June 2005	June 2004	October 2003	July 2003
Number of shares awarded	362,067	512,156	108,736	1,137,915
Share price at award date	292p	340p	277p	162p
Expected volatility	30.0%	30.0%	40.0%	40.0%
Expected dividend yield	3.00%	3.00%	2.60%	2.60%
Time to expiry	3.25 years	3.25 years	3.25 years	3.25 years
Correlation to comparators	15.0%	15.0%	15.0%	15.0%
TSR element fair value	151p	185p	155p	90p
EPS element fair value	186p	232p	186p	108p

Under IFRS 2, the fair value of the EPS element of the award is calculated assuming that the TSR of the Company will be at least median within the comparator group.

C. Executive share option scheme

Share options may be granted to executives and senior managers at a price equal to the average quoted market price of the group's shares on the date of grant. The options vest after three years, conditional on the group's share price exceeding 3 per cent per annum compound growth over the vesting period. If the options remain unexercised after a period of ten years from the date of grant, they expire. Furthermore, options are forfeited if the employee leaves the group before the options vest.

The number of options outstanding under the executive share option scheme is as follows:

	53 weeks ended 1 April 2006 Number of shares	52 weeks ended 26 March 2005 Number of shares
Balance at beginning of year	2,003,493	1,892,077
Granted during year	205,000	485,000
Forfeited during year	(110,773)	(147,112)
Exercised during year	(1,043,707)	(226,472)
Expired during year	–	–
Balance at end of year	1,054,013	2,003,493

The weighted average share price at the date of exercise for share options exercised during the period was 361p. The options outstanding at 1 April 2006 had a weighted average exercise price of 245p and a weighted average remaining contractual life of 7.4 years.

The fair value of executive share options granted during the year is calculated based on a Black-Scholes model with the following assumptions:

Grant date	June 2005	November 2004	June 2004	March 2003	January 2003	December 2002
Number of options granted	205,000	20,000	465,000	402,011	275,863	312,500
Share price at grant date	284p	299p	335p	99p	87p	104p
Exercise price	284p	299p	335p	99p	87p	104p
Expected volatility	25.0%	19.0%	18.0%	41.0%	56.0%	67.0%
Risk free rate	4.75%	4.75%	4.25%	3.75%	4.00%	4.00%
Expected dividend yield	2.60%	2.60%	2.60%	1.90%	1.90%	1.90%
Time to expiry	3.25 years	3.25 years	3.25 years	3.25 years	3.25 years	3.25 years
Fair value of option	54.3p	46.1p	47.2p	29.0p	33.3p	46.2p

D. Save As You Earn schemes

The employee Save As You Earn schemes are open to all employees and provide for a purchase price equal to the daily average market price on the date of grant, less 20 per cent.

The shares can be purchased during a two-week period each year and are placed in the employee Save As You Earn trust for a three-year period.

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

	53 weeks ended 1 April 2006 Number of shares	52 weeks ended 26 March 2005 Number of shares
Balance at beginning of year	696,947	1,150,488
Granted during year	373,584	–
Forfeited during year	(125,961)	(126,362)
Exercised during year	(6,105)	(327,179)
Expired during year	–	–
Balance at end of year	938,465	696,947

The weighted average share price, less 20 per cent, of the shares awarded in August 2003 was 155p and November 2005 was 282p.

The fair value of Save As You Earn share options is calculated based on a Black-Scholes model with the following assumptions:

Grant date	November 2005	August 2003
Number of options granted	373,584	774,364
Share price at grant date	282p	155p
Exercise price	282p	155p
Expected volatility	25.0%	48.0%
Risk free rate	4.50%	3.50%
Expected dividend yield	2.60%	1.90%
Time to expiry	3.25 years	3.25 years
Fair value of option	53.0p	51.3p

32. Retirement benefit schemes

The group has operated two defined benefit pension schemes for its employees during the year.

On 28 March 2004, the final salary scheme was closed to new entrants and a 'career average' scheme was introduced to replace it. Existing members were asked to either increase their contributions from an average of 4.8 per cent to an average of 6.8 per cent or accrue future benefits on a 'career average' basis.

For the protection of members' interests, the group has appointed three trustees, two of whom are independent of the group. To maintain this independence, the trustees and not the group are responsible for appointing their own successors.

The most recent full actuarial valuations were carried out as at 31 March 2003 and 31 March 2005 and the next full actuarial valuation will be carried out as at 31 March 2008. The most recent full actuarial valuations were updated as at 26 March 2005 and 1 April 2006 for the purpose of these disclosures. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

Notes to the consolidated financial statements continued

32. Retirement benefit schemes continued

The major assumptions used in the updated actuarial valuations were:

	1 April 2006 per cent	26 March 2005 per cent
Discount rate	5.0	5.5
Future pension increases	2.8	2.8
Expected rate of salary increases	4.3	4.3
Expected return on schemes' assets:		
Equities	8.3	8.5
Bonds	5.0	5.5
Property	7.2	7.5
Alternative assets	6.5	–
Other assets	4.3	4.5
Special contributions	7.7	8.0

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

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Current service cost	4.7	3.9
Interest cost	9.0	7.9
Expected return on schemes' assets	(10.9)	(9.1)
Past service cost	–	–
	2.8	2.7

Current service cost has been included in administrative expenses. Actuarial gains and losses have been reported in the statement of recognised income and expense.

The actual return on scheme assets was £30.6 million (2005: £12.5 million).

The amount included in the balance sheet arising from the group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	1 April 2006 £ million	26 March 2005 £ million
Present value of defined benefit obligations	197.9	165.8
Fair value of schemes' assets	(180.4)	(143.4)
Deficit in schemes	17.5	22.4
Past service cost not yet recognised in balance sheet	–	–
Liability recognised in balance sheet	17.5	22.4

Movements in the fair value of scheme assets were as follows:

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
At beginning of year	143.4	119.6
Actual return on schemes' assets	30.5	13.1
Company contributions	8.5	12.4
Members' contributions	1.8	1.7
Benefits paid	(3.8)	(3.4)
At end of year	180.4	143.4

The analysis of the fair values of the schemes' assets and the expected rates of return at each balance sheet date were:

	1 April 2006 per cent	1 April 2006 £ million	26 March 2005 per cent	26 March 2005 £ million
Equities	8.3	112.5	8.5	88.4
Bonds	5.0	24.5	5.5	19.5
Property	7.2	31.3	7.5	25.0
Alternative assets	6.5	6.5	–	–
Other assets	4.3	0.3	4.5	0.5
Special contributions ¹	7.7	5.3	8.0	10.0
		180.4		143.4

1. The special contribution of £5.3 million (2005: £10.0 million) received from the Company was held in cash at the balance sheet date and subsequently invested in line with the scheme's investment asset allocation policy.

The history of experience adjustments is as follows:

	53 weeks ended 1 April 2006	52 weeks ended 26 March 2005
Present value of defined benefit obligations	£197.9m	£165.8m
Fair value of schemes' assets	(£180.4m)	(£143.4m)
Deficit in the schemes	£17.5m	£22.4m
Experience adjustments on scheme liabilities	£19.8m	£12.7m
Percentage of schemes' liabilities	10.0%	7.7%
Experience adjustments on scheme assets	£19.7m	£3.4m
Percentage of schemes' assets	10.9%	2.4%

In accordance with the transitional provisions for the amendments to IAS 19 issued in December 2004, the disclosures above are determined prospectively from the 52 weeks ended 26 March 2005.

The estimated amount of cash contributions expected to be paid to the schemes during the 52 weeks ending 31 March 2007 is £4.8 million.

33. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

The remuneration of the operating board (including directors), who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 28 to 35.

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 £ million
Short term employee benefits	2.4	2.0
Post employment benefits	0.4	0.2
Termination benefits	0.1	–
Share-based payments	0.4	0.6
	3.3	2.8

Notes to the consolidated financial statements continued

34. Explanation of transition to IFRS

This is the first year that the group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the 52 weeks ended 26 March 2005 and the date of transition to IFRS was 28 March 2004. Further details of the restatement and reconciliations of the UK GAAP financial information for the 52 weeks ended 26 March 2005 can be obtained from the group's website, download the document 'Adoption of International Financial Reporting Standards' in the 'news releases' section at www.mothercare.com/investorinfo

Reconciliation of equity at 28 March 2004 (the date of transition to IFRS)

	Note	UK GAAP £ million	Effect of transition £ million	IFRS £ million
Non-current assets				
Property, plant and equipment	1	81.3	(1.2)	80.1
Intangible assets – software	1	–	1.2	1.2
Deferred tax asset	2	6.4	8.3	14.7
		87.7	8.3	96.0
Current assets				
Inventories		45.0	–	45.0
Trade and other receivables	2	27.6	–	27.6
Cash and cash equivalents		40.3	–	40.3
		112.9	–	112.9
Total assets		200.6	8.3	208.9
Current liabilities				
Trade and other payables	3, 5	(60.1)	2.8	(57.3)
Short term provisions	4	(2.9)	–	(2.9)
		(63.0)	2.8	(60.2)
Non-current liabilities				
Trade and other payables	5	(1.2)	(7.3)	(8.5)
Retirement benefit obligations	6	–	(22.8)	(22.8)
Long term provisions	4	(0.7)	–	(0.7)
		(1.9)	(30.1)	(32.0)
Total liabilities		(64.9)	(27.3)	(92.2)
Net assets		135.7	(19.0)	116.7
Equity attributable to equity holders of the parent				
Called up share capital		35.5	–	35.5
Share premium account		0.6	–	0.6
Own shares	7	(4.2)	(1.3)	(5.5)
Retained earnings	8	103.8	(17.7)	86.1
Total equity		135.7	(19.0)	116.7

Notes to the reconciliation of equity at 28 March 2004 (the date of transition to IFRS)

1. Standalone computer software of £1.2 million has been reclassified from tangible assets under UK GAAP to intangible assets under IFRS.
2. The UK GAAP deferred tax asset of £6.4 million has been reclassified from current assets under UK GAAP to non-current assets under IFRS. The UK GAAP deferred tax asset of £6.4 million has increased by £8.3 million to £14.7 million as a result of the following transition adjustments. Firstly, the recognition of the retirement benefit obligation (see note 6 below) has increased the deferred tax asset by £6.8 million. Secondly, the reinstatement of lease incentives (see note 5 below) has increased the deferred tax asset by £0.9 million. Finally, changes in the accounting for share-based payments (see note 7 below) have increased the deferred tax asset by £0.6 million.
3. Under UK GAAP the dividend of £2.7 million was accrued in the period it was proposed, under IFRS it is accrued in the period when it is approved.
4. In the UK GAAP presentation format there is one separate balance sheet item line for provisions but under IFRS provisions are separated and presented as either current or non-current.
5. Under UK GAAP lease incentives were written off over the period to the first rent review, under IFRS they are written off over the whole of the lease term. This has resulted in a net £7.2 million write back of lease incentives, increasing non-current liabilities by £7.3 million and reducing current liabilities by £0.1 million.
6. The retirement benefit schemes' deficit of £22.8 million has been recognised in the balance sheet under IFRS.
7. The own shares reserve has been adjusted by £1.3 million under IFRS so it represents the cost of shares in Mothercare plc purchased in the market and held by the Mothercare Employee Trust to satisfy options under the group's share option schemes. The costs associated with the share schemes are now included in retained earnings.
8. The net effect of the transition to IFRS on brought forward retained earnings is £17.7 million, mainly due to the retirement benefit schemes and deferred tax.

Reconciliation of equity as at 26 March 2005 (the date of the last UK GAAP financial statements)

	Note	UK GAAP £ million	Effect of transition £ million	IFRS £ million
Non-current assets				
Property, plant and equipment	1	87.0	(2.7)	84.3
Intangible assets – software	1	–	2.7	2.7
Deferred tax asset	2	2.0	11.6	13.6
		89.0	11.6	100.6
Current assets				
Inventories		46.8	–	46.8
Trade and other receivables	2, 3	38.8	(10.0)	28.8
Cash and cash equivalents		37.0	–	37.0
		122.6	(10.0)	112.6
Total assets		211.6	1.6	213.2
Current liabilities				
Trade and other payables	4	(59.5)	3.6	(55.9)
Short term provisions	5	(5.1)	–	(5.1)
		(64.6)	3.6	(61.0)
Non-current liabilities				
Trade and other payables	6	(0.5)	(7.3)	(7.8)
Retirement benefit obligations	7	–	(22.4)	(22.4)
Long term provisions	5	(3.0)	–	(3.0)
		(3.5)	(29.7)	(33.2)
Total liabilities		(68.1)	(26.1)	(94.2)
Net assets		143.5	(24.5)	119.0
Equity attributable to equity holders of the parent				
Called up share capital		35.8	–	35.8
Share premium account		1.3	–	1.3
Own shares	8	(3.2)	(2.3)	(5.5)
Retained earnings	9	109.6	(22.2)	87.4
Total equity		143.5	(24.5)	119.0

Notes to the reconciliation of equity as at 26 March 2005 (the date of the last UK GAAP financial statements)

1. Standalone computer software of £2.7 million has been reclassified from tangible assets under UK GAAP to intangible assets under IFRS.
2. The UK GAAP deferred tax asset of £2.0 million has been reclassified from current assets under UK GAAP to non-current assets under IFRS. The UK GAAP deferred tax asset of £2.0 million has increased by £11.6 million to £13.6 million as a result of the following transition adjustments. Firstly, the recognition of the retirement benefit obligation (see note 7 below) has increased the deferred tax asset by £9.7 million. Secondly, the reinstatement of lease incentives (see note 6 below) has increased the deferred tax asset by £1.0 million. Finally, changes in the accounting for share-based payments (see note 8 below) have increased the deferred tax asset by £0.9 million.
3. Under UK GAAP SSAP 24 a prepayment of £10.0 million was recognised in relation to the special contribution paid to the pension scheme. Under IFRS this is written off against the pension deficit.
4. Under UK GAAP the dividend of £3.6 million was accrued in the period it was proposed, under IFRS it is accrued in the period when it is approved.
5. In the UK GAAP presentation format there is one separate balance sheet item line for provisions but under IFRS provisions are separated and presented as either current or non-current.
6. Under UK GAAP lease incentives were written off over the period to the first rent review, under IFRS they are written off over the whole of the lease term. This has resulted in a £7.3 million write back of lease incentives.
7. The retirement benefit schemes' deficit of £22.4 million has been recognised in the balance sheet under IFRS.
8. The own shares reserve has been adjusted by £2.3 million under IFRS so it represents the cost of shares in Mothercare plc purchased in the market and held by the Mothercare Employee Trust to satisfy options under the group's share option schemes. The costs associated with the share schemes are now included in retained earnings.
9. The net effect of the transition to IFRS on brought forward retained earnings is £22.2 million, mainly due to the retirement benefit schemes and deferred tax.

Notes to the consolidated financial statements continued

34. Explanation of transition to IFRS continued

Reconciliation of profit for the 52 weeks ended 26 March 2005

	Note	UK GAAP £ million	Effect of transition £ million	IFRS £ million
Revenue		457.2	–	457.2
Cost of sales	1	(408.0)	(0.1)	(408.1)
Reorganisation of distribution network		(6.5)	–	(6.5)
Gross profit		42.7	(0.1)	42.6
Administrative expenses	2, 3	(31.3)	(1.1)	(32.4)
Profit from retail operations		11.4	(1.2)	10.2
Profit from operations		11.4	(1.2)	10.2
Profit on disposal of subsidiary undertaking		2.4	–	2.4
Profit before financing and taxation		13.8	(1.2)	12.6
Investment income	2	1.8	9.1	10.9
Finance costs	2	(0.1)	(7.9)	(8.0)
Profit before taxation		15.5	–	15.5
Taxation	4	(4.4)	0.2	(4.2)
Profit for the period attributable to equity holders of the parent		11.1	0.2	11.3

Notes to the reconciliation of profit for the 52 weeks ended 26 March 2005 (date of last UK GAAP financial statements)

- Under UK GAAP lease incentives were written off over the period to the first rent review, under IFRS they are written off over the whole of the lease term. This has resulted in a £0.1 million increase in cost of sales.
- Under IFRS the service costs, investment income and finance costs of retirement benefit schemes are all recognised gross. This resulted in an increased charge to administrative expenses of £1.5 million in respect of current service costs, and recognition of investment income of £9.1 million and finance costs of £7.9 million.
- Changes in the calculation of charges in relation to share-based payments also resulted in a credit of £0.4 million to administrative expenses under IFRS.
- The net effect on the current year tax charge of the transition to IFRS is a reduction in the charge of £0.2 million.

Explanation of material adjustments to the cash flow statement for the 52 weeks ended 26 March 2005 (date of last UK GAAP financial statements)

The adoption of IFRS does not affect the group's cash flows. However, the IFRS presentation of cash flows differs from that required under UK GAAP. IFRS requires that the cash flows of the group be split between three categories – operating activities, investing activities and financing activities.

Under IFRS, liquid investments with maturities of less than three months at acquisition are classified with cash and cash equivalents. Under UK GAAP, these amounts were presented as time deposits within liquid resources.

To comply with IFRS, cash flows relating to retirement benefit obligations (including the prepayment of the special contribution of £10.0 million to the pension scheme which has been derecognised under IFRS) have been reclassified.

Company financial statements

- 70 Statement of directors' responsibilities for the Company financial statements
- 70 Independent auditors' report on the Company financial statements
- 72 Company balance sheet
- 73 Notes to the Company financial statements

Statement of directors' responsibilities for the Company financial statements

The directors are responsible for preparing the annual report and the financial statements. The directors have chosen to prepare the accounts for the Company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with UK GAAP of the state of affairs of the Company and of the profit or loss of the Company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report on the Company financial statements

To the shareholders of Mothercare plc

We have audited the individual Company financial statements of Mothercare plc for the 53 weeks ended 1 April 2006 which comprise the balance sheet and the related notes 1 to 10. These individual Company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors' remuneration report are included in the group annual report of Mothercare plc for the 53 weeks ended 1 April 2006. We have reported separately on the group financial statements of Mothercare plc for the 53 weeks ended 1 April 2006 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the directors' report is not consistent with the individual Company financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

Basis of audit opinion


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual Company financial statements.

Opinion

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 1 April 2006; and
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
24 May 2006

Company balance sheet

As at 1 April 2006

	Note	1 April 2006 £ million	26 March 2005 restated* £ million
Fixed assets			
Investments in subsidiary undertakings	4	108.8	108.8
		108.8	108.8
Current assets			
Debtors	5	5.1	4.9
Cash at bank and in hand and time deposits		44.7	50.0
		49.8	54.9
Creditors – amounts falling due within one year	6	(86.9)	(86.7)
Net current liabilities		(37.1)	(31.8)
Total assets less current liabilities		71.7	77.0
Net assets		71.7	77.0
Capital and reserves attributable to equity interests			
Called up share capital	7	36.3	35.8
Share premium account	8	2.2	1.3
Own shares	8	(6.5)	(5.5)
Profit and loss account	8	39.7	45.4
Equity shareholders' funds	10	71.7	77.0

*Comparative figures have been restated. Details are provided in note 9.

The notes to the Company financial statements on pages 73 to 75 and the accounting policies described therein form an integral part of this balance sheet.

Approved by the board on 24 May 2006 and signed on its behalf by:

Ben Gordon
Neil Harrington

Notes to the Company financial statements

1. Significant accounting policies

Basis of presentation

The Company's accounting period covers the 53 weeks ended 1 April 2006. The comparative period covered the 52 weeks ended 26 March 2005.

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom generally accepted accounting standards. The principal accounting policies are presented below and have been applied consistently throughout the 53 weeks ended 1 April 2006 and the preceding 52 weeks ended 26 March 2005, except where changes have been made to previous policies on the adoption of new accounting standards during the year.

The Company has adopted FRS 21 'Events After the Balance Sheet Date'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. The Company has also adopted FRS 20 'Share-based Payment' which supersedes UITF 17 'Employee Share Schemes' and the UITF 17 charge credited to the own shares reserve in prior years has also been restated. Details of the effect of the prior year adjustments are given in note 9 to the Company financial statements. There has been no impact of the adoption of FRS 20 in the current year as the Company has no employees. FRS 17 'Retirement Benefits', FRS 22 'Earnings per share', FRS 23 'The Effects of Changes in Foreign Exchange Rates', FRS 25 'Financial Instruments: Disclosure and Presentation', FRS 26 'Financial Instruments: Measurement' and FRS 28 'Corresponding Amounts' have also been adopted with no impact.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Cash flow statement

The Company is exempt from the requirement of FRS 1 (revised) to include a cash flow statement as part of its Company financial statements because it prepares a consolidated cash flow statement which is shown on page 40.

2. Profit and loss account

As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented for the Company. The Company loss for the 53 weeks ended 1 April 2006 was £0.1 million (2005: profit of £2.6 million as restated). The audit fees for the Company were borne by another group company. The Company did not incur any non-audit fees, have any employees or incur any directors' emoluments during the current or the preceding financial year.

3. Taxation

The Company has tax losses carried forward of £nil (2005: £1.5 million) on which no deferred tax asset has been recognised.

4. Investments in subsidiary undertakings

Investments in the Company's balance sheet consist of its investments in subsidiary undertakings.

The Company's significant subsidiaries, all of which are wholly owned, are as follows:

	Country of incorporation
Mothercare UK Limited	United Kingdom
Storehouse Finance plc*	United Kingdom

*Direct subsidiary of Mothercare plc

The Company's investment in its subsidiary undertakings is as follows:

	1 April 2006 £ million	26 March 2005 £ million
Cost of investments (less amounts written off £153.0 million (2005: £153.0 million))	43.3	43.3
Loans to subsidiary undertakings	65.5	65.5
	108.8	108.8

Notes to the Company financial statements continued

5. Debtors

	1 April 2006	26 March 2005 restated*
	£ million	£ million
Amounts due from subsidiary undertakings	5.1	4.8
Other debtors	–	0.1
	5.1	4.9

*Comparative figures have been restated for the adoption of FRS 20 'Share-based Payment'. Details are provided in note 9.

6. Creditors – amounts falling due within one year

	1 April 2006	26 March 2005 restated*
	£ million	£ million
Amounts due to subsidiary undertakings	86.4	86.3
Accruals and deferred income	0.5	0.4
	86.9	86.7

*Comparative figures have been restated for the adoption of FRS 21 'Events After the Balance Sheet Date'. Details are provided in note 9.

7. Called up share capital

	Number of shares	£ million
Authorised		
Ordinary shares of 50p each:		
Balance at 1 April 2006 and 26 March 2005	95,767,413	47.9
Allotted, called-up and fully paid		
Ordinary shares of 50p each:		
Balance at 26 March 2005	71,615,737	35.8
Issued under the Mothercare 2000 Executive Share Option Plan	1,043,707	0.5
Issued under the Mothercare Sharesave Scheme	6,105	–
Balance at 1 April 2006	72,665,549	36.3

Further details of employee and executive share schemes are provided in note 31 to the consolidated financial statements.

8. Reserves

	Share premium reserve £ million	Own shares reserve restated* £ million	Profit and loss reserve restated* £ million
Balance at 26 March 2005 (as previously stated)	1.3	(3.2)	41.8
Prior year adjustment – FRS 21	–	–	3.6
Prior year adjustment – FRS 20	–	(2.3)	–
Balance at 26 March 2005 (as restated)	1.3	(5.5)	45.4
Net premium on shares issued	0.9	–	–
Purchase of own shares	–	(1.1)	–
Shares transferred to employees on vesting	–	0.1	(0.1)
Dividends	–	–	(5.5)
Retained loss for the financial year	–	–	(0.1)
Balance at 1 April 2006	2.2	(6.5)	39.7

*Comparative figures have been restated for the adoption of FRS 21 'Events After the Balance Sheet Date' and FRS 20 'Share-based Payment'. Details are provided in note 9.

9. Prior year adjustments

Comparative figures have been restated for the adoption of FRS 21 'Events After the Balance Sheet Date' and FRS 20 'Share-based Payment'. Under FRS 21 it is no longer appropriate to recognise proposed dividends in creditors at the balance sheet date. Under FRS 20 no charge arises as the Company has no employees and accordingly the UITF 17 charge previously credited to the own shares reserve has been restated.

	Debtors £ million	Creditors £ million	ESOP reserve £ million	Profit and loss reserve £ million
Balance at 26 March 2005 as previously stated	(7.2)	90.3	(3.2)	41.8
Prior year adjustment – FRS 21:				
Proposed dividends	–	(3.6)	–	3.6
Prior year adjustment – FRS 20:				
Share-based payment charges	2.3	–	(2.3)	–
Balance at 26 March 2005 as restated	(4.9)	86.7	(5.5)	45.4

10. Reconciliation of equity shareholders' funds

	53 weeks ended 1 April 2006 £ million	52 weeks ended 26 March 2005 restated* £ million
Equity shareholders' funds brought forward as previously stated	75.7	76.4
Prior year adjustment – FRS 21	3.6	2.7
Prior year adjustment – FRS 20	(2.3)	(1.1)
Equity shareholders' funds brought forward as restated	77.0	78.0
Dividends	(5.5)	(4.6)
Shares issued	1.4	1.0
Purchase of own shares	(1.1)	–
Retained (loss)/profit for the year as restated	(0.1)	2.6
Equity shareholders' funds carried forward	71.7	77.0

*Comparative figures have been restated for the adoption of FRS 21 'Events After the Balance Sheet Date' and FRS 20 'Share-based Payment'. Details are provided in note 9.

Five year record

	Prepared under IFRS		Prepared under UK GAAP		
	2006 £ million	2005 £ million	2004 £ million	2003 £ million	2002 £ million
Summary of consolidated income statements					
Revenue	482.7	457.2	446.9	431.7	426.9
Profit/(loss) from retail operations before interest and exceptional items	17.9	16.7	15.8	(19.7)	3.0
Exceptional items	2.9	(4.1)	7.4	(5.2)	(4.1)
Interest (net)	3.4	2.9	0.7	0.1	1.2
Profit/(loss) before taxation	24.2	15.5	23.9	(24.8)	0.1
Taxation	(6.7)	(4.2)	7.3	10.0	–
Profit/(loss) for the financial year	17.5	11.3	31.2	(14.8)	0.1
Basic earnings/(loss) per share	25.5p	16.6p	46.5p	(22.0p)	0.2p
Summary of consolidated balance sheets					
Deferred tax asset	8.5	13.6	6.4	–	–
Other non-current assets	87.7	87.0	81.3	85.6	88.6
Net current assets	62.8	51.6	52.8	27.0	37.3
Retirement benefit obligations	(17.5)	(22.4)	–	–	–
Other non-current liabilities	(9.8)	(10.8)	(4.8)	(6.9)	(5.5)
Total net assets	131.7	119.0	135.7	105.7	120.4
Other key statistics					
Share price at year end	314.75p	277.0p	354.0p	101.5p	232.5p
Net cash/equity	27.3%	31.1%	29.7%	7.0%	9.8%
Capital expenditure	16.7	18.4	8.5	13.4	10.7
Depreciation and amortisation	12.8	12.0	13.0	11.6	11.6
Rents	50.6	47.4	46.0	45.7	44.1
Number of UK stores	231	231	233	241	245
UK selling space (000's sq ft)	1,857	1,858	1,863	1,922	1,927
Average number of employees	5,255	5,149	5,005	5,032	5,201
Average number of full time equivalents	3,174	3,051	3,033	3,109	3,111

The net assets for 2003 and 2002 have been restated where necessary in accordance with UITF 38 'Accounting for ESOP Trusts'.

An analysis of the adjustments that were made to restate the group's financial position as at 26 March 2005 and its results for the period then ended in accordance with IFRS is presented in note 34. If the financial information presented above for earlier periods was to be restated in accordance with IFRS, the adjustments that would be necessary would be similar in nature to, although may differ in magnitude from, those outlined in note 34.

Shareholder information

Shareholder analysis

A summary of holdings as at 16 May 2006 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	1.1	109
Nominee companies	67.0	654
Other corporate holders	0.2	12
Individuals	4.4	25,496
	72.7	26,271

As can be seen from the above analysis, many shares are registered in the name of a nominee company as the legal owner. The underlying holder of shares through a nominee account is the beneficial owner of these shares, being entitled to the capital value and the income arising from them. An analysis of these nominee holdings shows that the largest underlying holders are pension funds, with unit trusts and insurance companies the other major types of shareholder.

Individual shareholders owning 500 or more Mothercare shares are entitled to a 10 per cent discount in defined denominations on up to £500 of merchandise in Mothercare stores. If an individual shareholding of 500 or more shares is not on the share register but is held through a nominee or trustee, the book of vouchers can nevertheless be obtained by contacting the company secretary at the registered office.

Share price data

	2006	2005
Share price at 31 March 2006 (24 March 2005)	314.75p	277.0p
Market capitalisation	£228.7m	£198.4m
Share price movement during the year:		
High	383.0p	374.0p
Low	264.0p	277.0p

All share prices are quoted at the mid-market closing price. For capital gains tax purposes:

- the market value on 31 March 1982 of one ordinary share in British Home Stores PLC is 155p and of one ordinary share in Habitat Mothercare PLC is 133p; and
- the market value of each Mothercare plc 50p ordinary share immediately following the reduction of capital and consolidation for the purpose of allocating base cost between such shares and the shares disposed of as a result of the reduction is 135p.

Registrars and transfer office

Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA.

Financial calendar

	2006
Annual General Meeting	20 July
Announcement of interim results	mid November
	2007
Payment of interim dividend	February
Preliminary announcement of results for the 52 weeks ending 31 March 2007	end May
Issue of report and accounts	mid June
Annual General Meeting	mid July
Payment of final dividend	end July

Registered office and head office

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

Company secretary

Clive E Revett

Registrars

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

Lloyds TSB Registrars
The Causeway, Worthing, West Sussex BN99 6DA
Telephone 0870 600 3965
www.lloydstsb-registrars.co.uk

Low cost share dealing service

A postal share dealing service is available through the Company's stockbrokers for the purchase and sale of Mothercare plc shares. Further details can be obtained from:

JPMorgan Cazenove Limited
20 Moorgate, London EC2R 6DA
Telephone 020 7155 5155

ShareGift

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

Further information about ShareGift is available from www.sharegift.org or by telephone on 020 7337 0501.

Designed and produced by cgi-london.com. Photography supplied by Mothercare except board photography by Ric Gemmill.

Printed by The Colourhouse on Revive Matt which is made from 75% de-inked post-consumer waste. The balance of 25% is virgin wood fibre which is sourced from fully sustainable forests in Germany and Scandinavia. The manufacturing process uses Elemental Chlorine Free (ECF) bleaching and the manufacturing mill is accredited with the ISO 14001 standard for environmental management.



Mothercare plc
Cherry Tree Road
Watford
Hertfordshire
WD24 6SH

T 01923 241000
F 01923 240944
www.mothercare.com

Registered in England number 1950509