mothercare

09

Annual report and accounts 2009

www.mothercareplc.com

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

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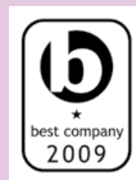
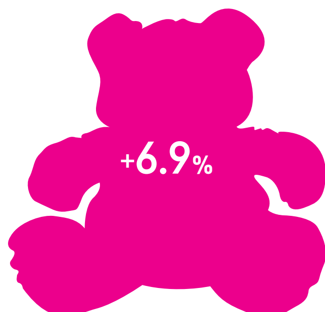


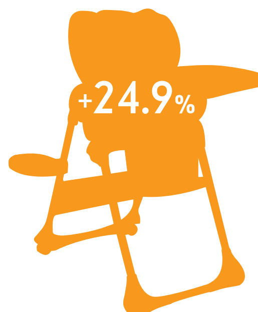
Mothercare believes that underlying profit before taxation and underlying earnings per share provide additional information on underlying trends to shareholders.

Group performance highlights



Group sales up 6.9% to £723.6m (2008: £676.8m)

International franchisee retail sales up 40.9% to £404.2m (2008: £286.8m)



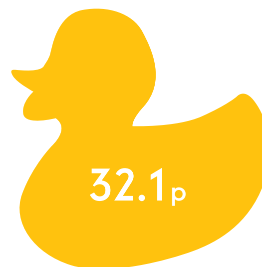
Direct in Home sales up 24.9%

Total stores worldwide

Group profit before taxation up to £42.2m (2008 proforma: loss of £2.6m)

Year end cash balance £24.8m (2008: £22.7m)

Total dividend 14.5p (2008: 12.0p)



Underlying basic earnings per share 32.1p (2008 proforma: 28.5p)

Mothercare group at a glance

UK product breakdown

Sales breakdown £m

Number of stores

Online

Our group

Mothercare plc is the proud owner of two iconic brands synonymous with parenting; Mothercare and the Early Learning Centre. It also owns 50 per cent of the internet social networking site, Gurgle.com.

The four levers for growth

- International franchise – globalisation of the two brands.
- Integration benefits – Early Learning Centre acquisition.
- Property portfolio – restructuring the UK property portfolio.
- Driving the multi-channel business.

Increase in UK sales per square foot

–15%

Reduction in fuel usage

+24.9%

Direct in Home sales
£62.2m

115

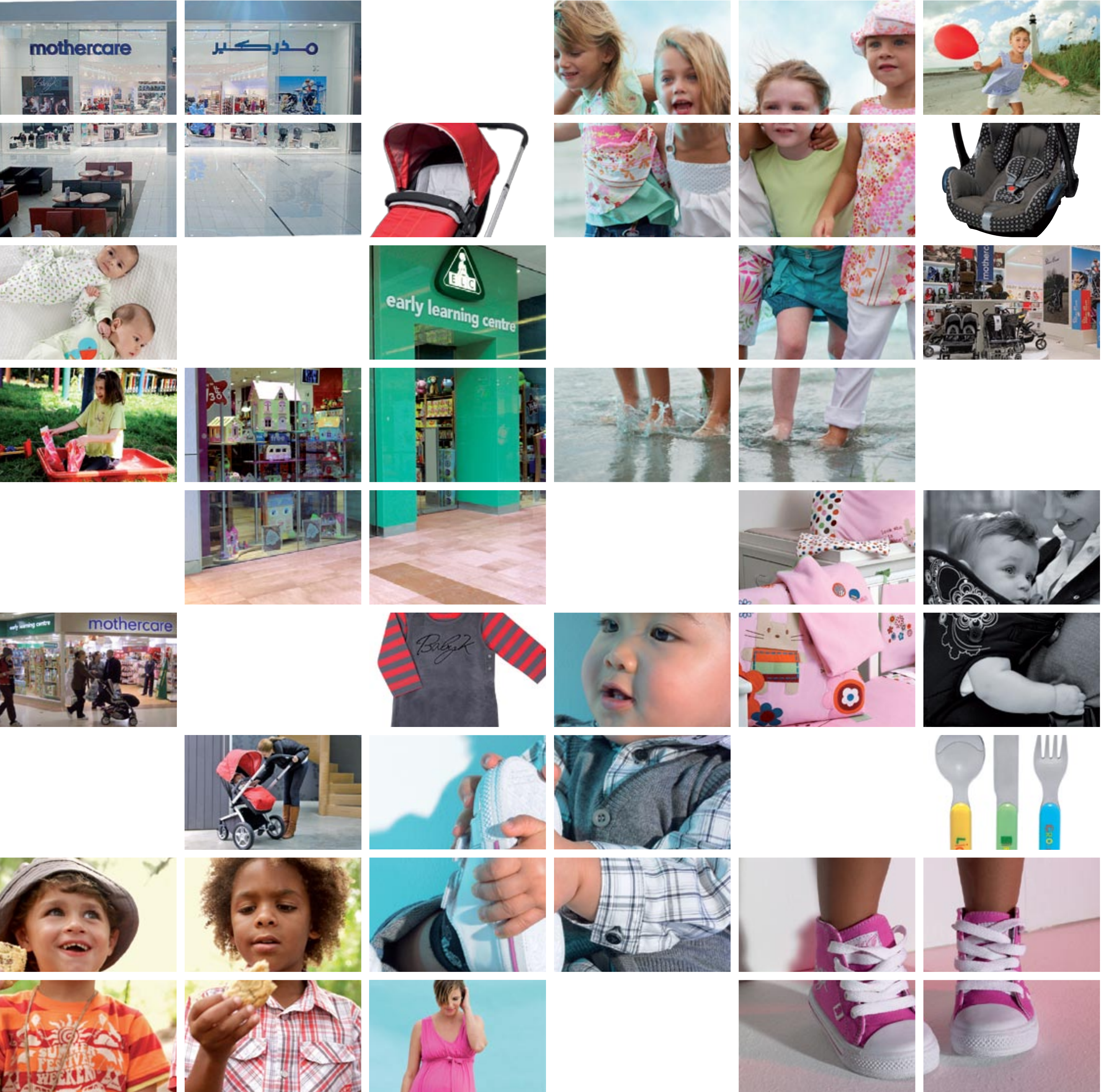
New International franchise stores

Mothercare

Mothercare is a specialist retailer of products for mothers-to-be, babies and children up to the age of eight. Mothercare offers a wide range of maternity and children's clothing, furniture and home furnishings, bedding, feeding, bathing, travel equipment and toys through its retail and internet operations in the United Kingdom, and also operates internationally through retail franchises in Europe, the Middle East, Africa and the Far East under the Mothercare brand name.

ELC

Early Learning Centre is a designer and retailer of toys and other children's products primarily from birth to six year age range. Approximately 80 per cent of its toys and games range is own brand, designed and sourced through a state-of-the-art sourcing centre in Hong Kong. It also has a direct internet and catalogue business and operates a wholesale business, providing products to domestic and international customers.


mothercare
مـذركير
early learning centre
ELC
mothercare

Chairman's statement

Ian R Peacock Chairman

Mothercare and, increasingly, Early Learning Centre are becoming established as genuinely global brands.

Dear Fellow Investor

Last year's chairman's statement dealt principally with the progress our Company has made since 2002, a period during which we have turned the business around and set it firmly on the path to growth. This year I want to look forward and concentrate on our aspirations for the future.

Mothercare and increasingly Early Learning Centre (ELC) are becoming established as genuinely global brands. We are now represented in over 50 countries and there are more than 600 Mothercare and ELC stores outside the UK, well above the number in the UK. The scope for expansion remains substantial. We have over 40 stores in Greece and over 50 in Saudi Arabia, both medium sized countries in terms of population where we have strong, long standing franchisee relationships. In time, many other countries should be capable of supporting similar numbers of Mothercare and ELC stores. Even before we opened in India, the Mothercare name was widely recognised by a large section of the Indian population, both from travel in the Gulf region as well as family and friends in the UK. If we replicate our success in our established markets elsewhere – and currently we see no bar to our doing so – our international sales, and the value of our international business, will eventually dwarf those in the UK.

So far we have grown in the UK by owning our business and overseas by franchising to local organisations who know their markets. Our entry this year into China represented a break with this pattern and we are pleased with the result. We have chosen to invest alongside our partner, Goodbaby, thereby benefiting from more of the value added from a successful operation whilst still being able to rely on our partner's local knowledge. We envisage that we may engage in more joint ventures in future, though we will remain mindful of political, cultural and economic risks which attend international investment.

The UK is a mature market for us and our progress here is likely to concentrate on doing things better rather than doing a great deal more. Within this approach we believe that there are exciting opportunities for us in the UK. We have invested in our internet business such that now our internet sales exceed £100 million and represent 18.5 per cent of UK sales; a strong business in its own right. There is clearly scope for us to roll out our Direct business internationally and we are looking at those options for 2009/10. We also have a joint venture in Gurgle.com, the social networking site that is growing fast. Its 91,000 or so registered users are based mainly in the UK and we also have a significant number of users in India and the USA.

As shopping habits change, so will the structure and look of our UK store estate. We have already put ELC inserts into 84 of our out of town stores; reduced the size of three of our largest stores to make them more profitable and consolidated 25 Mothercare and ELC sites into 'two for one' stores, closing 38 in town stores. As a result occupancy costs have reduced by 10.4 per cent from last year. We have a large number of leases terminating over the next few years which will enable us to further realign our UK property estate and to design stores which will delight our future customers.

We are aware of the risks associated with running our business during these challenging economic times and we are pleased that we have been able to generate operational cash flow and remain debt free, despite having acquired ELC in 2007. Our aim over the coming years is to exploit further the huge potential of the Mothercare and ELC brands, particularly internationally and to continue to do so in a controlled way.

We were pleased to welcome Richard Rivers to the board during the year. Richard brings a wealth of experience from his career in Unilever and has established himself as a valued colleague. The board and I should also like to thank Ben, his management team and all our staff for their support, dedication and hard work during what has been another successful year.

Ian R Peacock
Chairman

Our business

Ben Gordon Chief executive

The group is well placed as it enters the new financial year, benefiting from the growing International platform, resilient multi-channel UK business, strong cash flow and debt free balance sheet.

Mothercare plc is the proud owner of two iconic brands synonymous with parenting; Mothercare and the Early Learning Centre. It also owns 50 per cent of the internet social networking site for mothers, Gurgle.com.

The Mothercare brand is an indispensable part of the process of parenting. The Mothercare brand has global appeal and reach providing a 'one stop shop' shopping environment in-store in 51 countries which, allied to its worldwide internet and catalogue business, provides the widest range of products for mothers-to-be and children up to eight years old with maternity and children's clothing, accessories, furniture, home furnishings, feeding, bathing, travel equipment and toys.

Mothercare prides itself in being a specialist retailer, providing products that are safe, innovative and relevant to parents faced with the ever changing demands of bringing up children and helping them to meet the needs and aspirations of their children, worldwide.

The Early Learning Centre also has a strong brand heritage. Originally founded as a mail order business providing toys and books with educational content, it extended its reach into stores both in the United Kingdom and latterly overseas. It too has a multi-channel approach offering customers the choice to shop in-store, on the net or through the seasonal catalogues. Since acquisition by the group in June 2007, its international activities have been considerably extended. The Early Learning Centre brand provides eight major categories of toys and games primarily from birth to six years old.

Both Mothercare and the Early Learning Centre source products from around the world. The group co-ordinates the sourcing of its products through three principal sourcing offices, one each in Shanghai, Hong Kong and Bangalore. These offices are the conduit for innovative and exclusive product development. Product sourced from our key markets is then consolidated and shipped to our stores around the world via a dedicated supply chain designed to be both cost and environmentally efficient.

Finally, Gurgle.com is our social networking site providing support and a wealth of information to registered users on all aspects of parenting as well as giving new mothers the chance of sharing experiences.

Growing two world class brands

Our aim is to build the Mothercare group into the world's leading specialist retailer of parenting and children's products. We are nurturing our two world class brands.

Two world class brands in **51** countries

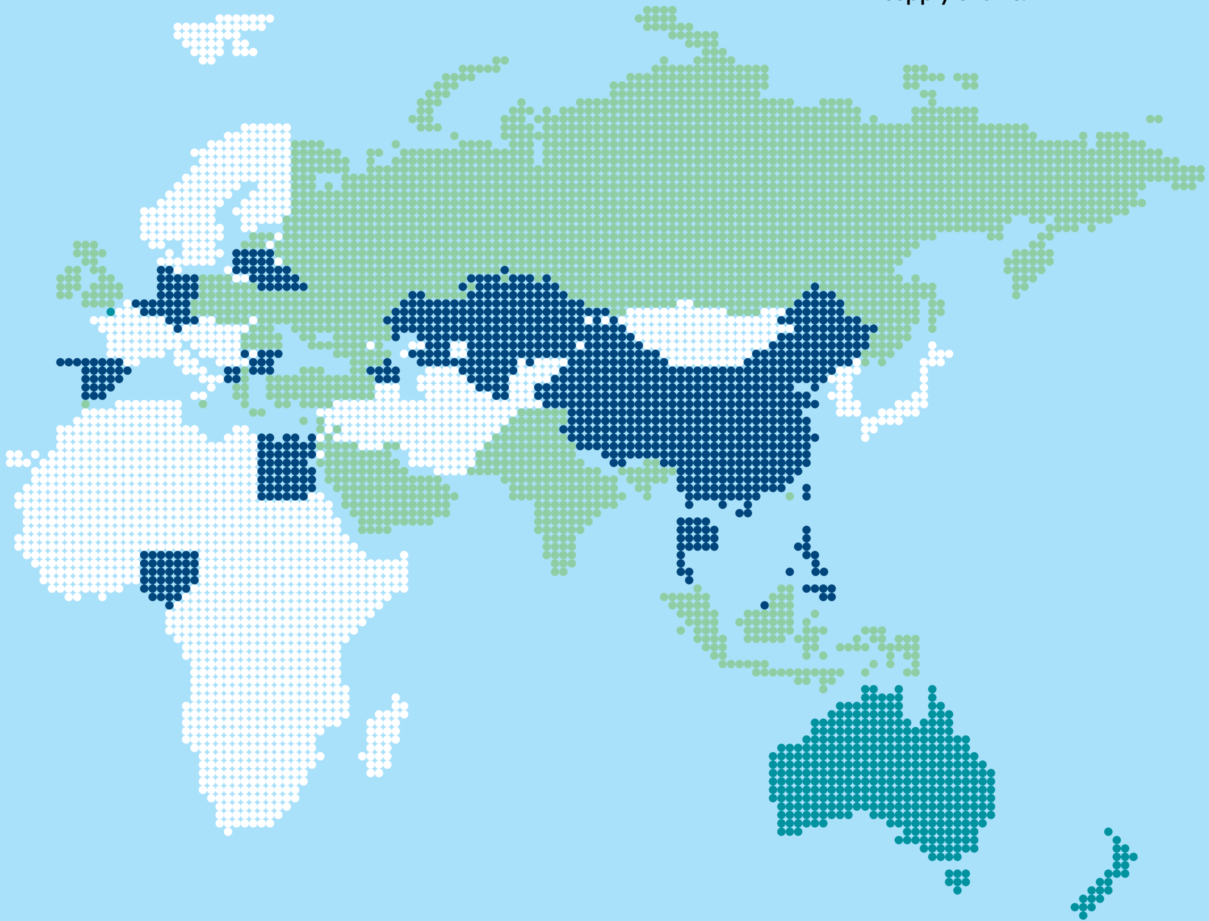
ELC plastic watering can £4.00

ELC spade and fork £5.00

ELC plant pots £10.00

Growing internationally

Our International growth has continued rapidly. We are truly a global branded group with extended family in 50 countries. During the year 115 franchise stores have opened. We have developed strong synergies within our international supply chains.



- **Mothercare & ELC**
- **ELC**
- **Mothercare**

Where we have International franchises

1. Albania
2. Armenia
3. Australia
4. Azerbaijan
5. Bahrain
6. Belarus
7. Belgium
8. Brunei
9. Bulgaria
10. China
11. Cyprus
12. Czech Republic
13. Egypt
14. Estonia
15. Germany
16. Gibraltar
17. Greece
18. Hong Kong
19. India
20. Indonesia
21. Ireland
22. Jordan
23. Kazakhstan
24. Kuwait
25. Latvia
26. Lebanon
27. Lithuania
28. Macedonia
29. Malaysia
30. Malta
31. New Zealand
32. Nigeria
33. Oman
34. Pakistan
35. Philippines
36. Poland
37. Qatar
38. Romania
39. Russia
40. Saudi Arabia
41. Serbia
42. Singapore
43. Slovakia
44. Spain
45. Taiwan
46. Thailand
47. Turkey
48. UAE
49. Ukraine
50. Uzbekistan

Results

The Mothercare group has grown sales, profit and dividend against the backdrop of a difficult global economic environment. The multi-channel UK business has again grown like-for-like sales, boosted by strong performances from Direct and the integration of the Early Learning Centre. Our International business had a record year with profits increasing by nearly 50 per cent.

Group sales for the year rose by 6.9 per cent to £723.6 million (2008: £676.8 million) and group profit before tax increased nearly ten-fold to £42.2 million (2008: £4.5 million). Like-for-like sales growth in the UK (up 1.4 per cent) and in International (up 6.0 per cent) contributed to this performance which was also boosted by the benefits of the integration of the Early Learning Centre and very tight control of costs. Our key underlying profit before tax measure calculated on the more comparable proforma basis (see below), increased by 12.4 per cent to £37.1 million (2008: £33.0 million). On the statutory basis (which is not comparable as the Early Learning Centre first quarter losses are included this year but excluded last year), underlying profit before tax decreased by 3.9 per cent to £37.1 million (2008: £38.6 million).

The group remains cash-generative and debt free. The acquisition facility was not drawn down at any point in the year and the net cash balance at the year end was £24.8 million (2008: £22.7 million). As a result of the strong underlying performance of the group and the positive cash generation, we are pleased to propose a final dividend of 9.9 pence giving a total dividend for the year of 14.5 pence, an increase of 20.8 per cent.

The remainder of this review and the financial review is prepared on the more comparable proforma basis. It assumes that the Early Learning Centre, which was acquired in the previous financial year on 19 June 2007, had been owned for all of last year.

Two world class brands

Our strategy is centred on the development of our two world class brands, Mothercare and the Early Learning Centre. Specialism and innovation are central to our brand positioning as we continue to build the Mothercare group as a leading global parenting retailer.

One of our exciting innovations this year was the launch of our exclusive Baby K range, designed in conjunction with celebrity mother Myleene Klass. The range has been successful in the UK and around the world and as a result we plan to extend Baby K into Home and Travel. We reached an exclusive licensing agreement with the BBC to produce 'In the Night Garden' Home and Travel products, which are selling ahead of our expectations. We also continue to have great success with the MyChoice buggy system which is a real innovation in allowing customisation of products by our customers. With its series of interchangeable options, the MyChoice has become one of our best selling pushchairs ever.

At the Early Learning Centre we have been working on our own brand toys. The best selling development toys this year included our own brand 'Making Music' range, 'Snow Queen Palace' and the 'Tower of Doom'.

The best in class expertise and specialism of our staff differentiates us from the competition and continues to be a key focus for us. We were again included in the top '20 Best Big Companies to Work For' in the 2009 Sunday Times awards progressing to 13th place overall.

(Top) Mothercare Dubai
Mall of Dubai

(Middle) ELC Bahrain

(Below) Mothercare China
Shanghai

Operating margin

Underlying profit before tax as a percentage of sales.

5.1%

Integrated stores

Franchisee retail sales

Franchisee retail sales for the year up by 40.9 per cent to £404.2 million and underlying Mothercare group profits up by 47.9 per cent to £13.9 million on a proforma basis.

Mothercare strategy

The Mothercare group four-lever growth strategy is providing significant benefits:

1. International franchise – globalisation of the two brands;
2. Integration benefits – Early Learning Centre acquisition;
3. Restructuring the UK property portfolio; and
4. Driving the multi-channel business.

1. International franchise – globalisation of the two brands

International represents the biggest single growth opportunity for the Mothercare group and we now have 609 overseas stores in 50 countries outside the UK. International continues to develop rapidly with overall franchisee retail sales for the year up by 40.9 per cent to £404.2 million and underlying profits up by 47.9 per cent to £13.9 million.

In the same way that the Mothercare brand has been so readily received around the world, the Early Learning Centre brand is proving to be just as popular. We have also invested in our global supply chain and we now have five distribution centres at the core of our state-of-the-art logistics network.

In Europe, we saw positive like-for-like growth, particularly in Russia, which contributes the highest international sales numbers for us worldwide. We plan to open a further ten new Mothercare and Early Learning Centre stores this year, which will bring our total stores number in Russia to 47.

The Middle East is a very important region for us where we see huge potential and we currently have 196 stores in the region, across nine countries. A key part of our development strategy in the Middle East is to open larger stores with the complete range of Home and Travel.

The International roll-out of the Early Learning Centre continues to do well, having almost doubled the number of Early Learning Centre stores outside the UK since acquisition to 164, and taken the brand for the first time to ten new countries this year including India, Bahrain and Kuwait. The Early Learning Centre is now present in 29 countries, up from 15 when we acquired it.

Side by side retail

We continue to work together to push forward and grow our two world class brands. We are achieving this by maximising the synergies from the integration of the Early Learning Centre, through ELC inserts, International roll-out, combined sourcing, the development of multi-channel and extensive cost synergies.

84
ELC inserts in Mothercare stores.

Mothercare m.p.v
double stroller
£130.00

MyChoice
four-wheeler
pushchair
£350.00

MyChoice
three-wheeler
pushchair
£350.00

Two into one

As our family grows we need to constantly assess and restructure our combined property portfolio. Some of the initiatives we have actioned this year are rightsizing, 2 into 1s and out of town format.

£5.0m profit

The property restructure is on track to deliver a total £5.0 million of profit before tax by the end of the financial year 2009/10.

Rosebud house
£25.00

ELC wonder cubes
£10.00

ELC wooden shape sorter
£10.00

2. Integration benefits – Early Learning Centre acquisition
Good progress has been made in realising the synergies from the Early Learning Centre acquisition. Total synergies for the financial year for 2008/09 enabled us to drive benefits ahead of the original business case and we now consider the integration of the Early Learning Centre to be substantially complete.

The largest single synergy from the acquisition of the Early Learning Centre has been through building Early Learning Centre inserts within Mothercare stores. Our 84 Early Learning Centre inserts performed at the top end of our expectations through Christmas and have continued to perform well since. The success of the inserts is due to the increased footfall each brand brings to the other.

Other significant cost savings have been achieved by combining the two businesses, including moving to a single management team and fully integrating the back office functions whilst maintaining the key talent and expertise of the Early Learning Centre team. During the year we successfully relocated the Early Learning Centre warehouse to a new site adjacent to the existing Mothercare warehouse in Daventry, resulting in further transport savings.

3. Restructuring the UK property portfolio
The Early Learning Centre acquisition gave us a unique opportunity to accelerate our property strategy, allowing us to integrate and optimise the combined UK property portfolio, taking the best sites from both brands. At the end of last year we announced a major restructure of our portfolio which included store rightsizing, consolidating two stores into one and store closures. In total, including the stores that received an Early Learning Centre insert or a new out of town refit, we announced that 145 stores would be affected by property restructure activity.

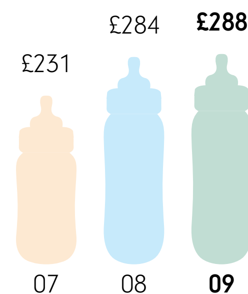
This restructure is now largely complete and the beneficial effects on the business can be seen with costs in the year £10.4 million lower than last year. The property restructure delivered £2.4 million of additional profit in 2008/09 and is on track to add £2.6 million of profit before tax in the financial year 2009/10, taking the total profit increase to our £5.0 million target.

With recent structural changes in the property market, we are well placed to rationalise further and as a result will move into the next phase of our property transformation. Almost 50 per cent of the group's property leases are coming up for renewal in the next three years enabling us to seek better lease terms, or move out of lower profit stores. This phase will also see us open new out of town 'Parenting Centres' in key catchments and open new stores in higher traffic locations such as malls and city centres where we do not currently have a presence, taking further advantage of the beneficial property deals currently available.

Integrated stores
Luton 2 into 1

Out of town
Stoke-on-Trent

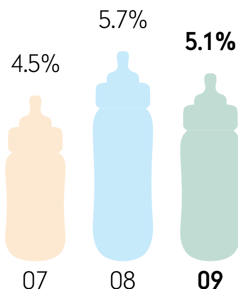
Growing our proposition
UK sales per square foot on a statutory basis (Full year UK sales compared to year end UK store square footage)



Direct
Catalogues.

Social networking success
Gurgle.com – online advice for parents.

Operating margin
Underlying profit before tax as a percentage of sales on a statutory basis.



4. Driving the multi-channel business

The Direct business has continued its rapid growth with total sales through the Direct channel now amounting to £107.3 million, an increase of 25.5 per cent. This is made up of Direct in Home sales up 24.9 per cent to £62.2 million and Direct in Store sales up 26.3 per cent to £45.1 million.

Mothercare has been a pioneer in multi-channel retailing in the UK. The proportion of UK sales now delivered through our Direct channel has grown to 18.5 per cent. Our online range and web offering continues to improve and Web in Store in particular continues to be a great success with customers.

The Mothercare website offers customers a much wider choice of Home and Travel than is available in any store and two-thirds of our Clothing range is now available online. Our Early Learning Centre website also has more products available online than in-store including larger home and garden items that require home delivery.

We are also announcing today that we plan to launch Mothercare websites overseas with our franchisees. We are working with our partners to open two trial sites in the next year. The model will be based on a centralised site and support structure which share the look and feel of Mothercare.com, but with local language and fulfilment. Based on the performance of these trials, we may roll out further sites in other countries.

Gurgle.com, our social networking and information site for parents has proved a success with mothers around the world and now has 91,000 registered users. It is fast becoming a brand in its own right and our latest development for Gurgle has been the launch of three parenting advice books with Harper Collins.

Summary and outlook

This has been a strong performance for the Mothercare group. Our International business has enjoyed a record year, increasing profits by nearly 50 per cent. We now have 1,014 stores worldwide including 609 Mothercare and Early Learning Centre stores outside the UK in 50 countries. The multi-channel UK business has again grown like-for-like sales in a challenging market, boosted by strong performances from Direct and the integration of the Early Learning Centre.

Given the uncertain consumer environment we are planning cautiously for 2009/10 and, as previously announced, we expect that gross margins will come under further pressure from the weakness of sterling.

Overall, we are well placed as we enter the new financial year, benefiting from our growing International platform, resilient multi-channel UK business, strong cash flow and debt free balance sheet.

Ben Gordon

Ben Gordon
Chief executive

Clicking with Direct

We continue to grow our Direct business through Direct in Home and Direct in Store. Progress has been rapid over the past year, with growth increasing over 25 per cent. We aim to provide the widest choice, use the best technology and leverage the success of online.

25.5% increase in Direct in Home and Direct in Store sales

91,000 registered users on Gurgle.com

VTech my laptop
Orange
£20.00

Till point
Blue
£20.00

Shopping trolley
£16.00

Financial review

Results summary

Following the acquisition of the Early Learning Centre on 19 June 2007, the results summary that follows is again prepared on the more comparable proforma basis which assumes that the Early Learning Centre had been owned for all of last year.

On this basis, group underlying profit before tax increased by 12.4 per cent to £37.1 million (2008: £33.0 million). Underlying profit excludes exceptional items, amortisation of intangible assets (excluding software) and the volatile non-cash foreign currency adjustments (note 7).

Income statement – proforma basis

£ million	2008/09	2007/08
Revenue	723.6	703.6
Profit from operations	**37.2**	**34.4**
Financing	(0.1)	(1.4)
Underlying profit before tax	**37.1**	**33.0**
Loss on disposal/termination of property interests	(3.1)	(16.9)
Integration costs	(1.5)	(18.8)
Other reorganisation costs	–	(0.4)
Non-cash foreign currency adjustments	11.8	2.5
Amortisation of intangible assets	(2.1)	(2.0)
Profit/(loss) before tax	**42.2**	**(2.6)**
Underlying EPS – basic	32.1p	28.5p

Non-underlying items

Underlying profit before taxation on a proforma basis excludes the following non-underlying items:

- Exceptional losses on disposal or termination of property interests and integration costs of £4.6 million;
- Non-cash adjustments relating to the revaluation of monetary assets, liabilities and stock, and marking to market of foreign currency hedges at the year end. As the hedges are taken out to match future stock purchase commitments, these are theoretical adjustments which we are required to make under IAS 39 and IAS 21. They will reverse in 2009/10. The net adjustment is a particularly large gain this year due to the recent devaluation of sterling against the dollar; and
- Amortisation of intangible assets (excluding software) of £2.1 million.

Exceptional items in 2007/08 included £35.7 million of exceptional losses on disposal of property interests and integration costs relating to the integration of the Early Learning Centre and the resulting property restructure of both businesses.

Results by segment – proforma basis

The primary segments of Mothercare plc are the UK business (including Direct) and the International business.

£ million	Revenue 2008/09	Revenue 2007/08
UK	578.8	587.3
International	144.8	116.3
Total	**723.6**	**703.6**

£ million	Underlying profit before tax 2008/09	Underlying profit before tax 2007/08
UK	32.1	34.5
International	13.9	9.4
Corporate	(8.8)	(9.5)
Financing	(0.1)	(1.4)
Total	**37.1**	**33.0**

Corporate expenses represent head office costs, board and senior management costs, audit, insurance and professional fees. The 7.4 per cent reduction in corporate costs is a result of tight cost control and integration synergies.

International profits have increased by 47.9 per cent compared with last year, boosted by the weakness of sterling against the US dollar. UK profits have declined by 7.0 per cent, however the UK bears the cost of the increase in the pension charge (see below) and in the group bonus and IFRS 2 share-based payment charge. If these are excluded, UK profits improved by £1.3 million compared with last year.

Like-for-like sales

Like-for-like sales are defined as sales for stores that have been trading continuously from the same selling space for at least a year and include Direct in Home and Direct in Store. Sales from Early Learning Centre inserts in Mothercare stores are included where they are trading in existing Mothercare space. Like-for-like sales are presented on a proforma basis. International retail sales are the estimated retail sales of franchisees and joint ventures. International like-for-like sales are calculated at constant rates of exchange.

Financing and taxation

Financing represents interest receivable on bank deposits and costs relating to bank facility fees, and the unwinding of discounts on provisions.

The underlying tax charge is comprised of current and deferred tax and is calculated at 28.0 per cent (2008: 30.0 per cent) of the estimated taxable profits for the year. A total tax charge of £11.9 million (2008: £4.4 million) has been included.

Pensions

With the triennial valuation of our defined benefit schemes now complete, we have concluded our discussions with the Trustees on future funding and the following changes are being made to the defined benefit schemes:

- schemes now closed to new members (new defined contribution scheme opened instead);
- cap on the revaluation of future pension benefits lowered to 2.5 per cent;
- increase in member contributions of up to 3.0 per cent of pensionable salary;
- one-off cash contribution by the Company of £3.0 million in 2009/10; and
- increase in regular contributions by the Company of approximately £1.0 million per annum.

As a result of the above, it is expected that the deficit in the fund will be eliminated within the next ten years.

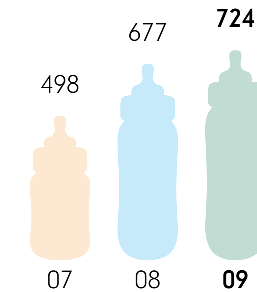
Details of the income statement net charge, total cash funding and net assets and liabilities under IAS 19 are as follows:

£ million	2009/10*	2008/09	2007/08
Income statement			
Current service cost	(3.0)	(2.5)	(3.8)
Return on assets/ interest on liabilities	(1.2)	1.6	3.7
Net charge	**(4.2)**	**(0.9)**	**(0.1)**
Cash funding			
Company contributions	**(5.0)****	**(4.7)**	**(3.7)**
Balance sheet			
Fair value of schemes' assets		150.2	181.1
Present value of defined benefit obligations		(175.6)	(167.3)
Unrecognised surplus		–	(11.8)
Net (liability)/asset	**N/A**	**(25.4)**	**2.0**

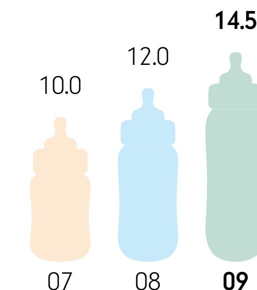
* Estimate
** Excludes one-off contribution of £3.0 million

The effect of movements in the principal assumptions used to measure the scheme liabilities for every change in the relevant assumption are set out in note 33.

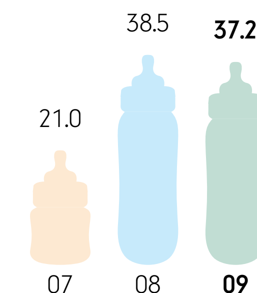
Group sales growth on a statutory basis
£ million



Total dividend
pence



Underlying profit from operations before interest on a statutory basis
£ million



Balance sheet and cash flow

The balance sheet includes identifiable intangible assets arising on the acquisition of £26.8 million and goodwill of £68.6 million.

The group continues to generate cash, with net cash flow from operating activities of £34.9 million. After investing £22.8 million of capital expenditure, £13.4 million of integration and property costs and paying £10.9 million dividends, the net cash position at the year end is positive, at £24.8 million (2008: £22.7 million).

Going concern

Our objective with respect to managing capital is to maintain a balance sheet structure that is both efficient in terms of providing long term returns to shareholders and safeguards the group's ability to continue as a going concern. As appropriate the group can choose to adjust its capital structure by varying the amount of dividends paid to shareholders, returns of capital to shareholders, issuing new shares or varying the level of capital expenditure.

The group has a committed secured bank facility of £55.0 million at an interest rate of 1.0 per cent above LIBOR which expires on 31 May 2010. It also has an uncommitted unsecured bank overdraft of £10.0 million at an interest rate of 1.0 per cent above the bank base rate.

The group's committed borrowing facility contains certain financial covenants which have been met throughout the year. The covenants are tested half-yearly and are based around gearing, fixed charge cover and guarantor cover.

The committed bank facility was unused throughout the year and at year end the group had a cash balance of £24.8 million in addition to the £65.0 million of available facilities. The group's latest forecasts and projections have been sensitivity-tested for adverse variations in trading performance and show that the group is expected to operate within the terms of its current borrowing facility and covenants for the foreseeable future.

Capital expenditure

Total capital expenditure was £22.8 million (2008: £20.4 million), of which £15.9 million was invested in UK stores. This is broadly in line with depreciation of £19.9 million in the year, however the net capital expenditure spent after deducting £6.6 million of landlords' contributions to store fit-outs is £16.2 million, significantly below the ongoing level of depreciation. Capital expenditure for 2009/10 is expected to be £15.0 million (net of landlords' contributions to store fit-outs).

Earnings per share and dividend

Basic underlying earnings per share on a proforma basis were 32.1 pence (2008: 28.5 pence). Total basic earnings per share increased to 36.3 pence (2008: 0.1 pence). The directors recommend a 19.3 per cent increase in the final dividend to 9.9 pence (2008: 8.3 pence) giving a total dividend for the year of 14.5 pence (2008: 12.0 pence), an increase of 20.8 per cent, in line with the Company's progressive dividend policy.

The final dividend will be payable on 7 August 2009 to shareholders registered on 5 June 2009. The latest date for election to join the dividend reinvestment plan is 17 July 2009.

Treasury policy and financial risk management

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

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

Foreign currency risk

All international sales to franchisees are invoiced in pounds sterling or US dollars.

International sales represent approximately 20 per cent of group sales. Of these sales, 16 per cent were invoiced in foreign currency. The group therefore has some currency exposure on these sales, but it is used to offset or hedge in part the group's dollar denominated product purchases. The group purchases product in foreign currency, representing some 32 per cent of purchases. The group policy is that all material exposures are hedged by using forward currency contracts.

Interest rate risk

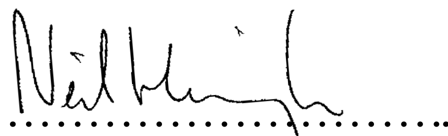
At 28 March 2009, the group had positive cash balances. Given the cash generative nature of the group, interest rate hedging was not considered necessary. The board will keep this matter under review as the group develops.

Shareholders' funds

Shareholders' funds amounts to £198.6 million, an increase of £0.6 million in the year. This is equivalent to £2.27 per share compared to £2.27 per share at the previous year end.

Accounting policies and standards

The principal accounting policies and standards used by the group are shown in note 2.



Neil Harrington
Finance director

Corporate responsibility

Last year we reported for the first time on our developing corporate responsibility programme; what the term means to us, how we manage it and what we had achieved. Since then we have made good progress across all four areas; cutting fuel use, expanding our ethical trade work, giving more through the Mothercare Group Foundation and rising up the list of the Sunday Times' '20 Best Big Companies to Work For'. We believe that good financial performance goes hand in hand with responsible business practices.

Defining and managing corporate responsibility

For us, corporate responsibility (CR) has four linked elements:

Responsible sourcing: Ensuring that our suppliers and partners – particularly those we buy from directly – respect human rights, offer decent working conditions and pay attention to environmental issues. Ensuring we are a fair and honest company to do business with and providing safe, good quality products.

Environment: Understanding and managing our impact on the environment – the carbon footprint of our stores, warehouses and vehicles, the waste we dispose of and the packaging on our products. Providing a choice of products that have environmental credentials for our customers.

Community: Playing our part as a corporate citizen, supporting charities and community activities that affect our staff, customers and people in our supply chain.

Good employer: Treating our staff fairly and equally, investing in them and making sure everyone can develop and contribute.

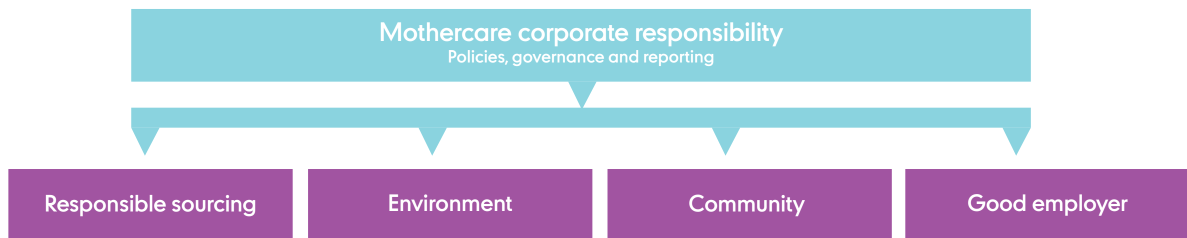
The board has delegated this important activity: a steering committee of representatives from both brands under the co-chairmanship of Clive Revett (group company secretary) and Gillian Berkmen (group brand and commercial director) meets approximately bi-monthly. This committee makes the essential decisions, recommends all key policies for approval by the board and monitors progress towards the group's CR targets.

Much of the day-to-day work is done by four management groups which address issues relating to waste and energy, responsible sourcing, new product development and packaging reduction. Mothercare has a small central CR team to provide expertise and resource.

Our CR targets

We have chosen to drive our CR programme through six long term targets focused on the year 2013 (five years from our start in 2008). These are as follows:

- To cut the absolute carbon emissions from both our UK buildings and our UK fleet by 15 per cent (compared to the 2007 baseline);
- To cut the packaging associated with every £100 of products that we sell by 20 per cent (compared to the 2007 baseline);
- To cut the number of single-use carrier bags by 50 per cent (compared to the 2007 baseline);
- We will ensure that over 50 per cent of the wooden products we sell are made from wood that is either recycled or certified by the FSC (Forest Stewardship Council)*;



- Pushing up recycling, ensuring that at least 75 per cent of our waste is recycled; and
- For the group's community programme to be raising £1 million for charity.

* We are considering amending our target on wood sourcing slightly to recognise the improvements made in other forest certification schemes and also to take an explicit stance against unsustainable and illegal logging practices. The revised target will be reported upon next year.

2008/09 in more detail

Responsible sourcing

The Mothercare group has a robust and sustainable ethical trade programme which we continue to review and improve as we learn and understand more about the issues that affect our global supply base. In the last 12 months we have continued in our pursuit of factory compliance with our Responsible Sourcing Code of Practice; detailing the standards we expect suppliers to achieve across ten areas including health and safety, working hours and minimum wages.

In 2007 we joined SEDEX (Supplier Ethical Data Exchange) which is the world's largest database of labour standards. It provides a platform for suppliers to share their ethical and environmental information confidentially. A condition of our business is that all own brand suppliers and factories used to manufacture our products must join SEDEX, complete an online self assessment and present an independent third party audit together with a corrective action plan where required. We are currently able to access social audit information on 383 sites.

'Full service' suppliers (suppliers who manage the relationship with factories on our behalf) are expected to engage with and monitor the factories they use against the standards in our Code. Our Technology team monitors full service suppliers and their supply base using SEDEX to ensure continuous progress is made.

We also have a dedicated Responsible Sourcing team that works closely with the factories that we have a direct relationship with – providing support and training. Last year we reported our intention to strengthen our resource in this area. The team has expanded from a head count of four to six, with the addition of a Responsible Sourcing Manager and a Code Compliance Executive based in Hong Kong and China.

A series of supplier conferences were held in the UK, Hong Kong, China and India. Presentations and question and answer sessions were used to facilitate learning and suppliers were asked to share both best practice and challenges that they had faced in implementing the Code. The conferences were well attended, reaching approximately 200 suppliers and feedback was positive. We will build on this in 2009.

Our project work in India is ongoing. In attempting to improve supply chain standards we have spent significant resource to try to uncover the more complex issues that may not be picked up during an audit. Through worker interviews we are gaining an understanding of what could be done to make their lives easier.

We support our CR targets with year-by-year objectives. Last year's were:

Objective	Status
Cut store energy use including bringing ELC stores into Mothercare's energy management system and running a staff energy awareness campaign.	**Largely done:** Staff awareness campaign will follow completion of meter installation programme.
Consolidation of the business's delivery fleets to gain efficiencies and look for ways to increase our use of rail transport for goods.	**Done:** Fleets consolidated and fuel use cut by 15 per cent.
Commence a project to systematically review and reduce the amount of packaging on our products and investigate ways to cut carrier bag use.	**Under way:** Project under way.
Establish baseline data on our waste from stores and Distribution Centre by running a pilot project to investigate ways to reduce the amount of store waste being sent to landfill.	**Done:** New contractor appointed with this remit.
Development of a new group-wide policy on the purchase and use of wood and paper products, bringing the whole group up to the same high standards.	**Under way:** Existing policies remain pending development of group policy.
Review our approach to charitable giving with an aim to concentrate more of our activity through a single large-scale partnership that can apply to all of the group's worldwide business, including our franchise partners.	**Under way:** We have met with some possible partners but have not yet made a decision.

Although we had identified a project in China which we hoped to start during 2008 the factory was flooded and the supplier was unable to accommodate our plans. A new project partner has been identified and the project will be initiated during 2009.

Our membership of the Ethical Trading Initiative (ETI), which is a tri-partite membership group comprising unions, non-government organisations (NGOs) and businesses, continues to provide us with a platform for discussion with like-minded colleagues. In the last year we have joined two ETI committees: the China Forum and Homeworkers Group. This has directly led to the development of policies on homeworkers and child labour. By publishing and implementing our policies, we are encouraging our suppliers to engage in the process with honesty and transparency.

Some social and environmental issues are too deep rooted for us to resolve alone. In early 2009, Mothercare initiated a brand collaboration, working with Labour Behind the Label (an NGO that supports garment workers' efforts worldwide to improve their working conditions) to help resolve issues within a factory in our supply chain.

In the coming year we aim to further investigate the potential for collaboration with other brands at the factory level.

The final aspect of our strategy involves internal communication and training on ethical issues. A number of related articles have been published in 'Small Talk', Mothercare's employee magazine, and information is provided in the updated staff handbook. The buying teams received training in March 2008 which will be updated during 2009. Ongoing dialogue with the buying teams is fostered through the responsible sourcing committee meetings which are attended by representatives from across the buying and sourcing functions.

Environment

The group's most important environmental aspects are:

- Our stores, using energy and producing waste;
- Our warehouses, again using energy and producing waste;
- Our transport fleets, bringing products from the docks to the warehouses, from the warehouses to stores or customers' homes;
- Our products, and the materials used to make them; and
- The packaging and other bulk materials that we use.

	2007/08	2008/09	% change
Building energy use (m kWh)	71.2	63.5	(11%)
Transport fuel used (m litres)	2.6	2.2	(15%)
Transport mileage (m miles)	6.1	5.2	(15%)
Carbon emissions (tonnes)	39,500	36,000	(9%)
Of which:			
Buildings	32,600	30,200	(7%)
Transport	6,900	5,800	(16%)
Packaging used (tonnes)	11,500	8,600	(25%)
Mothercare carrier bags used (m)	17.4	13.9	(20%)

Certain of the figures reported in 2007/08 have been adjusted following an in-depth review after the acquisition of ELC.

All of the above pictures show the work of the Liverpool Centre for Better Births.

Energy management: During the year Mothercare and ELC energy contracts were consolidated to one supplier and we have begun installation of Automatic Meter Reading equipment in all stores to provide immediate information about energy usage, allowing us to promptly correct over-consumption and waste. Once the installation programme is complete a staff awareness campaign will help everyone understand how to benefit from this equipment.

All Mothercare stores (and a growing number of ELC stores) have energy management systems. Heating and lighting controls are all pre-set and managed centrally (with some degree of local flexibility to enable staff to maintain a comfortable environment). Throughout the year we started installing voltage stabilisers in both new and current stores which achieve a 15 per cent energy saving in each store they are fitted. We have also begun a programme of light reduction schemes in 10 stores to date, which are reducing energy usage by a further 10 per cent per store. Our warehouses are all modern and energy efficient buildings also benefiting from voltage trimmers, lighting controls and energy management systems.

Transport fleet: We have made big changes to our transport fleets, combining those from ELC and Mothercare, increasing efficiency, reducing the miles travelled and the carbon footprint. We have started to use double decker trailers, driver award schemes and upgraded a number of older vehicles in a bid to further reduce emissions. A further saving on diesel usage has been made by limiting our speed to 52mph and better driver standards.

Our route patterns have changed this year. We have implemented a programme to use our empty vehicles to collect stock direct from suppliers who previously delivered it into our warehouses for us. This has tended to increase our mileage, but has reduced the overall number of vehicles on the roads on group business. Unfortunately, we have had to reduce rail use to our depots in Scotland and Daventry as changes to rail pricing made these routes uneconomic.

Packaging: We have formed a working group to tackle packaging reduction. Early actions include simple steps to remove unnecessary filler and standardising box sizes allowing us to use them in our warehouse racks. A new packaging technologist has been employed and has started work on a Group Packaging Manual, designed to better specify the packaging we should use. We have much better data this year on the packaging on our imported products, which has resulted in a big drop from previous years. Our carrier bag usage in the UK has also dropped by 20 per cent as staff and customers become more sensitive to this form of waste: store staff are careful to only offer bags when necessary. During 2009 we plan to standardise our range of bags and re-launch these with 40 per cent recycled content.

Waste: Much of the waste from stores is the packaging removed from products needed to get the product safely onto display. The Packaging Working Group is tackling this at source to help reduce store waste. During the year we appointed a new waste contractor. They were chosen because of their environmental credentials and recycling expertise to support the achievement of our 75 per cent recycling target. Waste from all warehouses is separated and recycled where possible. The National Distribution Centre at Daventry recycled 1,100 tonnes of waste last year, sending only 130 tonnes to landfill.

Products: The Eco-Product Working Group was formed in 2008 and comprises representatives from both Mothercare and ELC to focus on increasing our range of eco-friendly products. A priority has been to look at the purchase of wood and paper materials for our products, and we commissioned an independent review during the year. The review showed that our current level of FSC certified product was well on the way to our 50 per cent target, but also highlighted the growing credibility of other certification schemes.

Community

The group invests significantly in community and charitable activities via its donations to the Mothercare Group Foundation. The Foundation is an independent charity chaired by Karren Brady with Ian Peacock, Ben Gordon and Clive Revett acting as additional trustees. It has the following objectives:

- 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 relating to family well-being.

In 2008/09 we donated £125,000 (2007/08: £100,000) directly to the Foundation. In the same year the Foundation made awards totalling £186,000 (2007/08: £95,000). The main projects supported were:

Wellbeing of Women	£40,000
The Centre for Better Births	£35,000
The University of Cambridge Foundation (Baby Growth Study)	£35,000
Richard House	£20,000
Kidsout	£22,000
The Chairman's Fund	£20,000

Wellbeing of Women: The Foundation has made a second significant donation to fund Wellbeing of Women's Eating for Pregnancy service, approving funding of a further £40,000 (taking our total to £80,000). Our initial funding last year enabled Wellbeing of Women to set up a new online resource to support pregnant women and new mums with advice on eating well with the new website (www.eatingforpregnancy.org.uk). Almost 32,000 people have been helped since the site was launched with a 20 per cent increase since August 2008.

The Centre for Better Births: The Centre for Better Births is a collaborative initiative between the University of Liverpool and the Liverpool Women's Hospital, which aims to make births better and safer for mothers and babies everywhere. The Centre aims to gain new insights into why labour can go

wrong, to improve pregnancy and labour outcomes for women and to significantly reduce the numbers of emergency caesarean sections and miscarriages. The Foundation's donation funded a research project into foetal distress in labour, paying for a research assistant for 12 months to investigate this special area.

The University of Cambridge Foundation: The Foundation is supporting the Cambridge Baby Growth Study, which looks into many issues surrounding baby growth, in particular the effect of environmental chemicals on the foetus. The study is ongoing and progressing well.

The Chairman's Fund: This is an annual allocation donated following a competition among staff to propose the most deserving or inspiring cause. This year the fund was doubled to £20,000 to mark the coming together of Mothercare and ELC. As a result 13 charities benefited from donations of between £5,000 and £1,000.

Our people

Mothercare group relies on the effort and performance of around 7,500 people, the vast majority of whom are in the front line serving customers. Everything we do in people management revolves round four core elements – our DNA – that define how we want to behave:

- Care for parents
- Make the business stronger
- Pull together
- Get it done

These elements are embedded in all our HR processes – the way we recruit, appraise and promote people – recognising and rewarding staff who display them. This activity has been led from the very top of the organisation, with our Executive team appraised equally against this framework. The DNA has had a profound effect on our culture.

This year we have recognised the increasingly international nature of the group and have been making the necessary changes to our approach. We have reviewed and re-launched 57 policies in a global format, simplifying them and testing each for cultural appropriateness with our non-UK colleagues.

The business is committed to providing equal opportunities for all staff regardless of race, gender, age, disability or religious background. We have investigated our gender diversity, and taken some steps to ensure that the business is representative in stores and head office.

Training and development has this year focussed on leadership, through an extensive programme delivered personally by our HR director and based on an independent and established framework. Feedback has been good and we plan to extend the programme.

There are two staff consultative bodies (our 'Sounding Boards') operating at head office and at store level, which gives us a great opportunity to hear and respond to the opinions of staff. We have made heavy use of these and other consultative approaches this year as we have prepared the business for the prevailing economic conditions and integrated the two brands.

In recognition of our status as a good employer, we have again been voted one of the '20 Best Big Companies to Work For' by our people; moving up to 13th place (from last year's position at 18th) and the highest ranked retailer in the survey.

The award is adjudicated by the Sunday Times and is based on anonymous survey responses from at least 40 per cent of a randomly selected group of staff. This is the first year we have entered as a group. When ranked on people's sense of 'belonging' Mothercare moves up to 3rd position. The Sunday Times said: 'There's a feelgood factor at Mothercare that makes employees feel part of one big happy family.'

(Top) ELC store team – some of our people.

(Middle) Myleene Klass at the launch of the Baby K range.

(Below) Tirupur hospital fundraising.

Board of directors

Ian Peacock
Non-executive chairman
Appointed chairman on 1 November 2002 having joined the board as chairman elect on 1 August 2002. Chairman of Family Mosaic plc, a London based Housing Association and Deputy Chairman of Lombard Risk Management plc. Consultant and Chair of audit and compliance committee of C. Hoare & Co. A City Fellow of Hughes Hall, Cambridge, a Trustee of the PHG Foundation and Chairman of the Financial Advisory Committee for Westminster Abbey. Previously a Trustee of WRVS and Chairman of Galiform PLC (formerly MFI Furniture Group) and has also held a number of senior positions in the banking industry in London, New York and Asia with Kleinwort Benson Group and with BZW. A special adviser to the Bank of England from 1998–2000, and a non-executive director of Norwich and Peterborough Building Society from 1997–2005.

Ben Gordon
Chief executive
Appointed in December 2002. Formerly Senior Vice President and Managing Director, Disney Store, Europe and Asia Pacific. Has also held senior management positions with the WHSmith Group in Europe and the USA and L'Oreal S.A., Paris. Non-executive director of Britvic plc.

Neil Harrington
Finance director
Appointed in January 2006. Formerly finance director of George Clothing, a division of Wal-Mart Stores Inc. Prior to joining Wal-Mart, was finance director of Barclaycard International, a division of Barclays Bank plc and group financial controller of French Connection group plc. Chartered Accountant.

Bernard Cragg
Senior non-executive director
Appointed in March 2003. Chairman of Workspace Group Plc and non-executive director of Astro All Asia Networks plc. Formerly group finance director and chief financial officer of Carlton Communications plc, chairman of I-mate plc and Datamonitor plc and a non-executive director of Bristol & West plc and Arcadia plc. Chartered Accountant.

David Williams
Non-executive director
Appointed in August 2004. Chairman of Accantia Limited, Sandpiper CI Limited, The Original Factory Shop Limited and chair of the operating partners at Duke Street Capital LLP. Non-executive director of the Royal London Group Limited. Formerly chairman of Wyevale Garden Centres plc, DX Services plc, Avanti Screen Media Group plc and Avebury Group Limited. A Governor of the London Business School. Has held a number of senior management roles in Diageo plc, PepsiCo Restaurants International and Whitbread plc.

Karren Brady
Non-executive director
Appointed in July 2003. Managing director of Birmingham City Football Club plc. A non-executive director of Channel 4 Television Corporation and of Sport England.

Richard Rivers
Non-executive director
Appointed in July 2008. Head of Strategy and Chief of Staff of Unilever and also chairs Unilever's Corporate Ventures Group.

Directors' report

The directors present their report on the affairs of the group, together with the financial statements and auditors' report for the 52 week period ended 28 March 2009. The chairman's statement at page 5 gives further information on the work of the board during the period.

Business review

The principal companies within the Mothercare group for the period under review were Mothercare plc (the 'Company'), Mothercare UK Limited and Chelsea Stores Holdings Ltd which owns the Early Learning Centre brand. 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 group is set out in the performance highlights, 'our group', chairman's and chief executive's statements, the business review and financial review on pages 1, 2 and 5 to 18 respectively. The principal risks facing the business are detailed in the corporate governance report at page 29. 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, 'our group', business review, financial review, corporate responsibility report and 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. These statements will not be updated or reported upon further. 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.

Going concern

The accounts have been prepared under the going concern principle. For full details please see the corporate governance report on page 29.

Dividend

The directors recommend a final dividend of 9.9p per share. An interim dividend of 4.6p was paid in February 2009 (2008: 3.7p per share) making a total of 14.5p per share, (2008: total of 12.0p per share).

The trustees of the Mothercare Employee Trust, who held 3,903,732 shares at the balance sheet date, have waived their entitlement to receive dividends in respect of 1,816,463 shares. The remaining shares held by the Trust are conditionally awarded to participants in certain of the group's employee share schemes where such schemes provide for dividends to accrue on such conditional awards. Consequently, the amount of the dividends waived by the Trust will change from year to year in accordance with conditional awards made.

Substantial shareholdings

As at 20 May 2009, the Company has been advised by or is aware of the following interests in the Company's ordinary share capital:

Holder	Number of shares	Percentage of issued share capital
Aberdeen Asset Management Group	10,092,961	11.52%
D C Thomson & Company Ltd	8,950,000	10.21%
M&G Asset Management Ltd	8,559,981	9.77%
Aegon Asset Management	4,987,561	5.69%
Legal & General Investment Management Ltd	4,487,780	5.12%

Acquisition of own shares

The Company was given a general approval at the AGM in July 2008 to purchase up to 10 per cent of its shares in the market. This authority expires after the AGM on 16 July 2009. The authority has not been used during the year.

As at 20 May 2009, the Company's issued share capital was 87,624,472 ordinary shares of 50p each all carrying voting rights. Details of the change in the Company's issued share capital during the year is set out in note 27. No shares were held in Treasury.

The Company has one class of ordinary shares. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding in the Company nor on the transfer of shares, which are both governed by the general provisions of the Company's articles of association and legislation. The directors are not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

Details of the Company's employee share schemes are set out in the remuneration report. The trustees of the Mothercare Employee Trust abstain from voting its shareholding in the Company.

Directors

The following directors served during the 52 week period ended 28 March 2009:

Name	Appointment
Ian Peacock	Chairman and independent non-executive director, chairman of the nomination committee
Karren Brady	Independent non-executive director
Bernard Cragg	Senior independent non-executive director and chairman of the audit committee
Ben Gordon	Executive director
Neil Harrington	Executive director
Richard Rivers	Independent non-executive director. Appointed 17 July 2008.
David Williams	Independent non-executive director and chairman of the remuneration committee

Having been appointed since the last annual general meeting, Richard Rivers retires from the board and offers himself for election. In accordance with the Company's Articles of Association Karren Brady and Ian Peacock retire by rotation from the board following the conclusion of the Annual General Meeting on 16 July 2009 and stand for re-election at the AGM. Biographical details of all of the directors, indicating their experience and qualifications, are set out on page 24.

Details of directors' service arrangements are set out in the remuneration report on page 36. There are no special contractual payments associated with a change of control.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 37 and 76 respectively. A statement of directors' interests in contracts and indemnity arrangements is set out on page 31.

Employees

The Company is committed to the involvement of all of its employees in the delivery of its strategy. Consequently it 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 'Small Talk', briefings, bulletins, email and video presentations.

The Company aspires to develop a loyal and high performing team through its DNA processes. As part of this development process it measures the capabilities of the group's employees, ascertains their development needs and develops and implements programmes designed to ensure that the critical skills required for the development of both the individual and the Company are attained. The Company is proud to have been included in the Sunday Times' '20 Best Big Companies to Work For' in 2008 and 2009.

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.

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

Pensions

The group operates pension schemes for those of its employees that wish to participate. Details of the pension charge is set out in note 33. During the year, the group held discussions with the trustees of the Mothercare staff and executive pension schemes on the long term future structure of the schemes. These discussions were undertaken against the background of increasing regulatory, legislative as well as demographic impacts on the schemes, the volatility of the interest rate and investment risks on the results of the Company. These discussions are now complete and the valuation assumptions agreed. During the year, the Mothercare staff and executive pension schemes were closed to new entrants and a new defined contribution scheme (consistent with that already offered to Early Learning Centre employees) opened to which all new employees will be offered membership.

The result of the triennial valuation carried out in 2008 and the changes to the schemes effected during the year will result in additional contributions from the members of the schemes, a cap on revaluation of future benefits of 2.5 per cent and additional Company contributions of approximately £1.0 million per annum together with a one-off lump sum contribution of £3.0 million in 2009/10 to the defined benefit schemes.

Payment of suppliers

Payments to merchandise suppliers are made in accordance with 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 60 days from the date of invoice.

The amount owed to trade creditors at the end of the financial year represented nil days (2008: nil days) of average daily purchases during the year for the Company and 57 days (2008: 41 days) for the group.

Fixed assets

Changes in fixed assets are shown in note 17 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 CBRE as at 1 March 2009. 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 £7,696,204.

Significant agreements

The group has entered into an agreement that is subject to change of control provisions. This agreement is a Supplemental Agreement and re-stated Agreement dated 27 April 2007 in respect of a £65,000,000 credit facility with HSBC Bank plc for general business purposes, which reduced to £55,000,000 on 27 April 2008. This agreement expires on 31 May 2010.

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 19 to 23.

Auditors

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

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

A resolution proposing the re-election of Deloitte 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 Group Foundation during the year of £125,000. Total charitable donations for the year ended 28 March 2009 were £156,386 (2008: £205,000).

It is the Company's policy not to make political donations.

Annual General Meeting

The 2009 Annual General Meeting will be held on Thursday, 16 July 2009 at 10.30am in the conference suite at the Company's head office at Cherry Tree Road, Watford, Hertfordshire, WD24 6SH.

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. The Company wishes to encourage as many shareholders as possible to vote electronically. Those shareholders who have elected to receive electronic communications may register their vote in respect of resolutions to be proposed to the AGM at www.sharevote.co.uk. Shareholders may also submit questions via email to investorrelations@mothercare.com. The chairman will respond in writing to questions received.

As in previous years a copy of the chairman's opening statement to the meeting, together with a 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 group 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 52 weeks ended 28 March 2009. The directors will present the report and accounts and shareholders may raise any questions on it at the meeting.

Resolution 2: To declare a final dividend of 9.9 pence per share payable on 7 August 2009 to those shareholders on the register on 5 June 2009.

Resolution 3: To approve the directors' remuneration report.

Resolution 4: To elect Richard Rivers. Richard Rivers was appointed following the conclusion of the AGM in 2008 and consequently retires from the board and offers himself for election.

Resolutions 5 and 6: Re-appointment of directors. The Company's articles of association require that one third of the directors that are required to retire by rotation must retire. Separate resolutions will be proposed on each of these appointments.

Resolution 7: Re-appointment of auditors. Deloitte LLP has indicated its willingness to act as auditors to the Company and accordingly an ordinary resolution to re-appoint them will be proposed.

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

As Ordinary Resolutions

Resolution 8: To increase the authorised share capital. This resolution proposes that the authorised share capital of the Company be increased from £52,500,000 to £60,000,000, representing a percentage increase of approximately 14 per cent. This increase is being sought in order to give the Company sufficient authorised share capital to take full advantage of the ability to allot ordinary shares under the authorities proposed in resolution 9.

Resolution 9: Authority to allot relevant securities. The effect of this resolution is to renew the authority of the directors, conferred by Article 4 (B) of the articles of association, to allot relevant securities up to an amount equal to approximately one-third of the issued ordinary share capital of the Company as at 31 March 2009. The authority will continue until 30 September 2010 or until the conclusion of the next AGM, whichever is the sooner. The directors have no present intention of using this authority.

The Company currently has no shares held in Treasury.

As Special Resolutions

Resolution 10: The Shareholder Rights Directive is intended to be implemented in the UK in August this year. One of the requirements of the Directive is that all general meetings must be held on at least 21 days' notice unless shareholders agree to a shorter notice period. We are currently able to call general meetings (other than annual general meetings) on 14 days' notice. We are proposing a resolution at the AGM so that we can continue to be able to do so after the Directive is implemented.

The approval will be effective until the Company's next AGM. It is intended that a similar resolution will then be proposed on an annual basis, in accordance with the requirements of the Directive.

Resolution 11: Authority to allot securities for cash other than on a pro-rata basis to shareholders. The effect of this resolution is to renew the power conferred on the directors by Article 4(C) of the articles of association to allot equity securities for cash (or sell treasury shares) up to an amount representing approximately 5 per cent of the issued ordinary share capital of the Company as at 31 March 2009, without the need first to offer such shares to existing shareholders. The authority will continue until 30 September 2010 or until the conclusion of the next AGM, whichever is the sooner.

Resolution 12: Purchase of own shares. The Company was authorised at the 2008 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.

By order of the board

Clive E Revett
Group company secretary
20 May 2009

Corporate governance

The Company believes that the promotion of the interests of investors, customers, staff and other stakeholders will be achieved through striving for high standards of corporate governance. To this end, the Company considers that it has complied throughout the 52 week period ending on 28 March 2009 with the provisions set out in Section 1 of the 2006 Combined Code on Corporate Governance published by the Financial Reporting Council having applied the main and supporting principles set out in Section 1 of the Code.

The board

The leadership of the Mothercare plc business is provided by the Mothercare plc board. It operates on a unitary basis and comprises the chairman, four independent non-executive directors, and two full-time executive directors, being the group chief executive and the group finance director. A key element of the board's responsibility is monitoring and reviewing the effectiveness of the Company's system of internal control. The non-executive directors play a pivotal role in challenging and scrutinising its effectiveness and integrity. 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 system of internal control is based on financial, operational, compliance and risk control policies and procedures together with regular reporting of financial performance and measurement of key performance indicators. Risk management, planning, budgeting and forecasting procedures are also in place together with formal capital investment and appraisal arrangements.

Going concern

The group's business activities, and the factors likely to affect its future development are set out in the business review. The financial position of the group, its cash flows and liquidity position are set out in the financial review on pages 16 to 18. In addition, notes 22 and 23 to the financial statements include the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its hedging arrangements and its exposure to credit and liquidity risks.

As at 28 March 2009, the group was debt free, with a positive cash balance of £24.8 million. Furthermore, it has long term contracts with its franchisees around the world and long standing relationships with many of its suppliers. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the uncertain economic outlook.

The group's banking facility expires on 31 May 2010, so at this stage the group has not sought written commitment from its relationship bank that the facility will be renewed. Formal renewal discussions will be opened during the course of the coming year.

The current economic conditions may create uncertainty around the group's trading position and particularly over the level of demand for the group's products. The group's latest forecasts and projections have been sensitivity tested for reasonably possible adverse variations in trading performance and show that the group is expected to operate within the terms of its current borrowing facility and covenants for the reasonably foreseeable future.

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 the going concern basis.

Risk management

The business review sets out progress made during the year against the challenges that the board has set for the business. In this section the principal risks and uncertainties that face the business are set out. This section also forms part of the business review requirements.

The board recognises that the management of risk through the application of a consistent process during the year, as required by Code provision C2 (Internal Control), is key to ensuring that a robust system of internal control is monitored by the business.

The principal risks and uncertainties facing the Company may include some of those set out below. It should be borne in mind that this is not an exhaustive list and that there may be other risks that have not been considered or risks that the board consider now are insignificant or immaterial in nature, but that may arise and/or have a larger effect than originally expected.

External risks

- The group is reliant upon manufacturers in other countries, particularly China, India and the Far East. Global economic conditions (including global demand for goods and services affecting sales levels and the availability of credit lines for business to its key suppliers affecting product supply) will continue to affect the performance of the group's businesses as will the effect of exchange rate movements, principally the US dollar; cost price movements (including raw materials) and the difficulty of passing on input cost price increases, governmental and supra-national regulation affecting imports; taxation; duties and levies.
- The failure to react appropriately to changes in the economic environment generally or consumer confidence issues affecting the group's core customers in the UK and in overseas markets, particularly from the reduction in real disposable incomes caused by, amongst other things, the contraction of the global economy, expected future increases in personal and indirect taxation, interest rate movements and the availability of consumer credit.
- The group is potentially vulnerable to adverse movements in exchange rates as it pays for a large proportion of its goods in foreign currency, principally the US dollar. Whilst the group effects transactions, the effect of which seeks to hedge the exposure to adverse exchange rates, there is no guarantee that the transactions will be sufficient to cover all likely exposure.

- With the continued expansion of the group's international franchise operations, the group may be exposed to sales concentration risk as certain franchise partners extend their activities in their existing and additional territories. As at 28 March 2009, the group's largest franchisee represents approximately 8.8 per cent of group sales. The group's brands are potentially exposed to firstly the commercial risk in the default by franchisees of payment for amounts due on royalties and goods supplied, and secondly (whilst the group seeks to insure the receivables from franchisees) the group may be exposed to the liquidity of the credit insurance market and/or credit quality of the insurers or potential default of banks or insurance companies in providing security for franchisee primary default. International operations are also exposed to the possibility in some markets of political restrictions on remittance of funds to the UK or refusal to enforce the relevant brand's intellectual property rights against infringers.
- The group continues to operate defined benefit pension schemes (albeit that they are now closed to new members). The volatility in movement of real asset and liability values together with, amongst others, those of the discount rate used for the accounting assumptions under IAS 19 directly affect the net surplus or deficit in the schemes and the variability of the charge contained within the financial statements.

Internal risks

- Both ELC and Mothercare have a reputation for quality, safety and integrity. This may be seriously undermined by adverse press or regulatory comment on aspects of its business both in the UK and overseas, whether justified or not. To this end, the group takes all reasonable care to safeguard the reputation of its brands, particularly in product manufacture and supply areas, by engaging independent third parties to validate critical areas of its manufacturing and supply chain for compliance with its ethical code.
- Any disruption to the relationship with, or failure of, key suppliers could adversely affect the group's ability to meet its sales and profit plans if suitable alternatives could not be found quickly.
- Any failure of the group's logistics, distribution and information technology platforms may restrict the ability of the Company to make product available in its stores, Direct and International businesses thereby failing to meet customer expectations adversely affecting sales and profits.
- A failure in the current economic climate to invest appropriately in the group's infrastructure, people, tangible and intangible assets as it seeks to balance short and long term profitability drivers.
- The Company and the group may be exposed to counterparty risk in respect of its hedging, banking, insurance or other finance based contracts and particularly in the ability of the relevant counterparties being able to continue to meet their obligations. Currently the group is primarily dependent upon one banking relationship and, whilst this relationship has been supportive in the past, there is no guarantee that in the current economic climate this will continue on the same terms. The group will be seeking to renew its facilities during the coming year.

Against this background, the system of internal control is designed to manage rather than eliminate risks.

In order to effectively manage risk, the executive committee has 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, 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 process outlined above has been in effect during the period and up to the date of the approval of the accounts by the board. The audit committee regularly reviews the process and output of the programme of risk management on behalf of the board.

In addition to the evaluation of business risk referred to above, the programme of specific risk management activity continued during the year across the activities of both brands in the United Kingdom. Under this programme, individual stores are tested against a risk assessment model that emphasises health and safety, disability discrimination, fire safety and internal process compliance. It is intended that as the group's overseas operations develop, appropriate aspects of the risk management review activity will be implemented or refined as appropriate.

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 mis-statement or loss. The audit committee periodically reviews the system of internal control on behalf of the board.

During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

The group aspires to achieve high standards in corporate governance and the principles adopted by the group are commented on briefly 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.mothercareplc.com.

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.

The chairman's other business commitments are set out in the biographical details on page 24 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. Prior to 17 July 2008, when Richard Rivers joined the board and its committees, the audit, remuneration and nomination committees were comprised of the three non-executive directors with the chairman additionally serving on the remuneration and nomination committees. 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 33.

The board has delegated day-to-day and business management control of the group to the executive committee. The executive committee consists of nine executives, being the group chief executive, group finance director, the operational directors within the group and the group 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 group company secretary and executives within the group on any matter of concern to them in respect of their duties. In addition new directors are given appropriate training on appointment to the board. 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.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than a third-party indemnity provision between each director and the Company and service contracts between each executive director and the Company. The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provision contained in the Company's Articles of Association. These provisions, which are qualifying third-party indemnity provisions as defined by Section 236 of the Companies Act 2006, were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts and interests in the shares of the Company are set out in the directors' remuneration report.

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

Directors' conflicts of interest

With effect from 1 October 2008, the board has implemented revised procedures whereby potential conflicts of interests are reviewed regularly. These procedures have been designed so that the board may be reasonably assured that any potential situation where a director may have a direct or indirect interest which may conflict or may possibly conflict with the interests of the Company are identified and where appropriate dealt with in accordance with the Companies Act 2006 and the Company's Articles of Association. The board has not had to deal with any conflict during the period.

The remuneration committee, chaired during the year by David Williams, establishes the remuneration policy generally, approves specific arrangements for the chairman and 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 is set out in the remuneration report on pages 34 to 37 and in Appendix A on pages 76 to 79. 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 year 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. An external search agency is ordinarily used to assist in the identification of suitable candidates for board appointments. The nomination committee also reviews succession planning on an annual basis.

The board is of the opinion that the directors seeking re-election at the AGM have continued to give effective counsel and commitment to the Company and accordingly should be re-appointed.

During the period the board carried out a further evaluation of its effectiveness and operation. The review was carried out by the group company secretary, using an in-depth questionnaire approach. The chairman also interviewed each non-executive director drawing upon the themes and issues disclosed by the questionnaire. The review which took place between December 2008 and January 2009 concluded that the board, its committees and individual directors contributed effectively to the overall operation and review of the Company's affairs. Karren Brady and Bernard Cragg have or will complete six years as non-executive directors with the Company on 23 July and 25 March 2009 respectively. As good governance requires, the board considered carefully and concluded that it would be appropriate for each non-executive director to be offered the opportunity to serve for a further period of three years.

Shareholder relations The Company maintains regular dialogue with institutional shareholders following presentation of the financial performance of the business to the investing communities. Opportunities for dialogue take place at least four times a year following the announcement of the half and full year results 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. The outcome of meetings with major shareholders is reported by the group chief executive at board meetings on a periodic basis.

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.mothercareplc.com) and, with a view to encouraging full participation of those unable to attend the AGM, provides an opportunity for shareholders to ask questions of their board by email to investorrelations@mothercare.com or by the provision of a reply-paid question service to the chairman.

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.mothercareplc.com.

The audit committee comprises the four non-executive directors. The group company secretary acts as secretary to the committee. Bernard Cragg is a chartered accountant with considerable financial and varied commercial experience.

The committee met four 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.

The main activities of the audit committee in the 52 weeks ended 28 March 2009

During the period the audit committee has:

- reviewed the financial statements both in the interim report and full year report and accounts, having in both cases received a report from the external auditors on their review and audit of the respective reports and accounts;
- assisted the board in its detailed review of the going concern principle underpinning the results of the group for the period in the light of the Financial Reporting Council's additional guidance on going concern and liquidity risk published in November 2008;
- reviewed the preliminary and interim statements prior to them being issued to the markets;
- considered the output of the procedures used to evaluate and mitigate risk within the group;
- reviewed the effectiveness of the group's internal controls and disclosures made in the annual report;
- agreed the fees and terms of appointment of the external auditors;
- reviewed both the committee's and the external auditors' effectiveness;
- agreed the work plan of the internal audit function and reviewed the resultant output from that plan; and
- reviewed and assessed the group's compliance with corporate governance principles.

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 is also in effect, the general principle being that the audit firm should not be requested to carry out non-audit services on any activity of the group where they may, in the future, be required to give an audit opinion. The group has, however, recognised

that taxation advice is an acceptable derogation from this principle.

The committee has assisted the board in the assessment of the adequacy of the resourcing plan for the internal audit function. In respect of the activities of the function, the committee has received reports upon the work carried out and the results of the investigations including management responses, their adequacy and timeliness.

A review was also held of the effectiveness of the audit committee and the external 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 external auditors had carried out their obligations in an effective and appropriate manner.

As a result of its work during the year, the committee has concluded that it has acted in accordance with its terms of reference and has ensured (as far as possible by enquiry of them) the independence of the external auditors. The chairman of the committee will be available at the AGM to answer any questions on the work of the committee.

Director attendance statistics for the 52 week period ended 28 March 2009

		Committee		
Director	Board	Audit	Nomination	Remuneration
Maximum number of meetings	7	4	1	5
Ian Peacock	7	4	1	5
Karren Brady	7	4	1	5
Bernard Cragg	7	4	1	5
Ben Gordon	7	4	1	5
Neil Harrington	7	4	1	5
Richard Rivers	4(6)	1(3)	1(1)	2(3)
David Williams	7	3	–	5

Notes:
Richard Rivers was appointed on 17 July 2008. Figures in parentheses indicate the maximum number of meetings since Mr Rivers' appointment.
Ben Gordon and Neil Harrington attend meetings of the audit and remuneration committees upon the invitation of the respective chairmen. Ian Peacock attends meetings of the audit committee on the same basis.
In addition to the board meetings above there were two ad hoc board meetings, which approved the interim and full year report and accounts respectively. These meetings are constituted by the board from those members available at that time having considered the views of the whole board beforehand.

Remuneration report

Introduction

In July 2006, shareholders approved two long term incentive schemes, the Mothercare 2006 Performance Share Plan (PSP) and the Mothercare Executive Incentive Plan (EIP). These two long term incentive schemes and the annual bonus scheme have been the cornerstone of the Company's incentive-based remuneration strategy for the group. The long term incentive schemes were specifically designed to help drive a high performance culture in the group and align the interests of the executive and senior team with those of shareholders. In the period since implementation at the 2006 Annual General Meeting, Mothercare total shareholder return has out-performed the FTSE General Retailers Index by 66 per cent to 31 March 2009, and grown underlying profits before interest and tax by 91 per cent.

Whilst the remuneration committee believes the long term incentive plans have been successful in incentivising the delivery of the group's results, it feels the prevailing global economic climate in which the Company operates necessitates a review of executive remuneration policy in 2009 to ensure it continues to support delivery of group strategy. The committee will consult with major shareholders on any proposed changes in due course.

The remuneration report

As in prior years, this report to shareholders has been prepared in accordance with the Companies Act 1985, and the relevant regulations relating to directors' remuneration, the requirements of the Listing Rules of the UK Listing Authority and the Combined Code ('the Code'). At the Annual General Meeting on 16 July 2009 shareholders will be asked to approve this report.

The relevant section of the Companies Act 1985 and regulations require the auditors to report on certain elements of this report and to state whether in their opinion these elements have been properly prepared in accordance with Schedule 7A of the Companies Act 1985 (as amended by the Regulations). The audited sections include directors' share options, long term incentive plan and share matching scheme awards, performance share plan and executive incentive plan awards (including that set out in Appendix A on pages 77 and 78), emoluments and compensation payments as set out in table 1 A-C and pension arrangements set out in table 2 of Appendix A.

The remuneration committee

Composition of the remuneration committee

The remuneration committee is comprised of the independent non-executive directors and the chairman of the Mothercare plc board. David Williams is chairman of the committee with Karren Brady, Bernard Cragg and Ian Peacock serving throughout the year. Richard Rivers joined the committee upon his appointment on 17 July 2008.

The committee's principal duty is the determination of the remuneration for the executive directors and approval of the pay and benefits of the members of the executive committee. It met five times during the year and each member's attendance at these meetings is set out on page 33 of the corporate governance report. The committee's detailed terms of reference is available on the Mothercare website at www.mothercareplc.com.

Advisors to the remuneration committee

The committee retained the organisations listed below to assist them in their work during the year. The committee has also consulted the group chief executive, group human resources director and group company secretary as appropriate. No executive was present for discussions of their own remuneration.

Person or organisation	Services provided
Kepler Associates Ltd	Executive remuneration, remuneration benchmarking and evaluation of share scheme performance criteria
Lane Clark & Peacock	Pensions advice
DLA Piper LLP	Legal services principally in respect of employment contracts

DLA Piper LLP and Lane Clark & Peacock have provided other services to the Company. DLA Piper LLP provides general legal advice and Lane Clark & Peacock provide pension advice to the group.

Remuneration policy statement

Our remuneration policy is to provide competitive remuneration packages that will recruit, retain and motivate directors and individuals of the required calibre to meet the group's strategic objectives. The objective is to ensure the policy is appropriate to the group's needs and rewards executives directly for creating shareholder value. The committee monitors the group's compliance with the Combined Code provisions and institutional investor guidelines for directors' remuneration.

The policy aims to balance appropriately the fixed 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 remuneration committee and the board believes is a highly relevant measure of annual performance for a retail business, and personal/strategic performance objectives. Longer term performance remuneration is delivered through equity-based incentives including the EIP and PSP, which reward three-year relative total shareholder return ('TSR') and profit before tax ('PBT') performance. The remuneration policy is structured such that variable, performance-related remuneration potentially represents significantly more than half of total remuneration in the event of exceptional performance and that variable pay rewards primarily long term performance.

The committee normally reviews the executive directors' remuneration annually, against a policy that positions base salaries at competitive levels. Comparisons are made to companies that are similar to the group in sector focus, size and complexity. The variable elements of the package are designed to attract high calibre individuals, motivate outstanding performance and provide executive directors and the senior

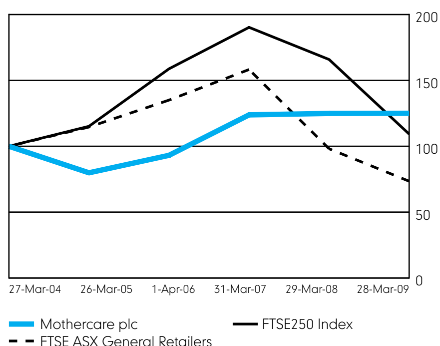
management team with the opportunity to earn an overall upper quartile total remuneration package for top quartile performance. Details of the individual executive directors' remuneration are described below.

Performance graph

The performance graph below shows the group's TSR against the return achieved by the FTSE250 index. Mothercare plc entered the FTSE250 on 30 June 2008. Prior to that date it was a constituent member of the FTSE SmallCap Index. The performance graph also shows performance against the FTSE General Retailer Index. The graph shows the five financial years to 28 March 2009.

The indices were chosen on the basis that Mothercare is a constituent of both the FTSE250 (previously the FTSE Small Cap) and FTSE General Retailers indices. The group's performance against the FTSE General Retailers Index determines the level of vesting of awards under the Executive Incentive Plan.

Total shareholder return



Directors' remuneration

The executive directors' fixed annual remuneration comprises a base salary, which is normally reviewed in April each year, and benefits. The variable elements of remuneration are delivered through an annual bonus scheme, the Executive Incentive Plan and Performance Share Plan. The Executive Incentive Plan and Performance Share Plan replaced the Long Term Incentive Plan, Share Matching Scheme and Executive Share Option Scheme in 2006. With the exception of the Save As You Earn share option scheme, which is open to all employees including executive directors (but excluding non-executive directors), the group made no awards under any other long term incentive scheme during the year.

The remuneration of the non-executive directors comprises fixed annual fees. Expenses incurred on group business are reimbursed when claimed. Non-executive director fees are reviewed periodically and set at levels to reflect the time, commitment and responsibilities of the individual non-executive director. The fees of the non-executive directors are determined by the chairman and executive directors on behalf of the board. The non-executive directors do not participate in the group pension, annual bonus plan or any long term incentive scheme.

The chairman's remuneration is determined by the remuneration committee without the chairman present.

Salary

Each executive director's salary is considered individually by the remuneration committee, taking account of individual performance and potential; pay positioning relative to comparable roles at other retailers and companies of similar size; and 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. With the exception of increases in salary to reflect market conditions or the assumption of increased responsibilities, the group has determined to maintain existing salary levels for 2009/10 at 2008/09 levels. Consequently, the salaries for Ben Gordon and Neil Harrington remain at £600,000 and £265,400 respectively.

Annual bonus

The annual bonus scheme for executive directors is based on the achievement of group financial targets and the delivery of stretching personal targets tied to key business objectives. Financial and personal targets are set annually by the remuneration committee. The maximum bonus for the year ended 28 March 2009 was 115 per cent of base salary (135 per cent for the CEO), although the maximum bonus would only be payable on the delivery of exceptional group financial and personal performance.

Ben Gordon and Neil Harrington received performance-related bonuses of £372,000 (2008: £950,000) and £139,900 (2008: £311,549) respectively for the year ended 28 March 2009 (46 per cent of maximum for Ben Gordon and Neil Harrington).

Profit Share Scheme

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

The Performance Share Plan (PSP)

Under the PSP, conditional awards of shares of up to 100 per cent of salary (in exceptional circumstances, 200 per cent of salary) may be made to selected executives, as determined by the remuneration committee, each year. Conditional awards were made to a total of 40 executives through awards made in June and November 2008 as nil-cost options. Details of the awards to executive directors are set out in Appendix A on page 77.

Vesting of shares to an individual is conditional upon the achievement of the performance condition of three-year growth in group PBT per share (PBT). 20 per cent of an award will vest if Mothercare's cumulative three-year PBT growth is 5 per cent p.a. One hundred per cent of an award will vest if Mothercare's three-year PBT growth is at least 15 per cent p.a., with straight line vesting in between. Dividends accrue and are paid on shares that vest. If the performance threshold of 5 per cent p.a. PBT growth is not met the award will lapse. PBT was chosen as the remuneration committee believes that PBT is a good measure of Mothercare's financial performance; it is highly visible internally, and is regularly monitored and reported.

In 2008, the committee considered the three-year performance targets on the PSP for a new award to be significantly more stretching relative to previous PSP awards given the backdrop of a strong decline in the

retail sector as a whole. To be commensurate with delivering such performance, rather than reduce the targets the committee decided to apply a one-off increase to the normal level of PSP awards being made in 2008 only. The awards for Ben Gordon and Neil Harrington were 150.0 per cent and 112.5 per cent of salary respectively.

In September 2008, the remuneration committee and the board approved an extension of the PSP to key executives in the overseas markets in which it operates, principally China, Hong Kong and India. The nature of the securities laws in certain countries makes it impractical for individuals to receive shares in the Company upon vesting of conditional awards as envisaged by the PSP scheme. Consequently, the scheme approved in September grants conditional awards over 'notional shares' in the Company. These notional shares are hedged within the employee trust such that individual participants may receive a cash award equivalent to the growth in value of the notional shares under the award. In all other respects (including maximum award limits, performance conditions etc) the overseas scheme is equivalent to that operated for UK based executives. Some 40 overseas executives below executive committee level received conditional awards in November 2008.

The Executive Incentive Plan (EIP)

Under the EIP, nine executives are eligible to receive a percentage of 'surplus value created' over a three-year performance period. 'Surplus value created' is defined as the increase in market capitalisation plus net equity cash flows to shareholders (dividends plus share buybacks less shares issued) over and above performance in line with the FTSE All-Share General Retailers index ('Index'). If the group's TSR is equal to or less than the increase in the Index, participants will not receive any value from the EIP. If the group's TSR performance exceeds the increase in the Index, participants will be entitled to receive an element of the surplus value. In these circumstances, the committee will calculate a surplus value figure being the positive difference between the group's TSR and the increase in the Index, multiplied by the average market capitalisation of the group over the three-month period immediately prior to the start of the financial year in which the grant date falls. The bonus to which the participant will be entitled will be a percentage of this surplus value figure. The committee believes this relative TSR performance condition has, and continues to provide, very strong alignment with shareholders' long term interests, as well as supporting the motivation and retention of a high performing management team.

EIP awards were made in July 2006, June 2007 and June 2008. Awards made to executive directors are set out in EIP Table 1 in Appendix A (page 76). As explained in last year's report, for EIP awards made in June 2007 only, if during the performance period ending June 2010, the annualised pre-tax profit synergies from the combination of the Mothercare and Chelsea Stores Holdings Limited businesses (acquired in June 2007) were to be at least £12.0 million (50 per cent more than the pre-tax synergies of £8.0 million identified in the circular and prospectus, as issued by the group dated 25 May 2007) then the percentage of Surplus Value in EIP Table 2 will apply.

The Long Term Incentive Plan (LTIP) and Share Matching Scheme (SMS)

Following the introduction of the EIP and PSP, no further conditional awards under the LTIP or SMS have been made to EIP or PSP participants. The final conditional awards vested on 23 June 2008, further details are provided in Appendix A.

The LTIP

The extent to which outstanding LTIP awards vested during the year was dependent partly upon the group's TSR performance relative to all general retailers in the FTSE Mid 250 and FTSE SmallCap indices, and partly upon the achievement of EPS targets as shown in the table in Appendix A, including actual performance achieved.

The SMS

Under this scheme, executives who invested in the group's shares and retained those shares for at least three years received matching shares if the long term performance targets were achieved. Executives were invited to invest up to 100 per cent of pre-tax basic salary in previous years into the Share Matching Scheme.

Executives' investments were matched on a 1:1 basis after three years, provided the executive remained in employment, retained the shares they purchased for three years and the performance targets (set out in Appendix A) were achieved over a three year period. The performance targets and level achieved for matching awards are the same as for the LTIP awards and are shown in Appendix A.

The Executive Share Option Scheme (ESOS)

The Mothercare plc 2000 Share Option Plan

Following approval of the PSP, no options have been granted under the Mothercare 2000 Share Option Plan to PSP participants during the year. Options under this plan may be exercised by participating executives if EPS growth over a three-year performance period equals or exceeds the growth in the Retail Prices Index by nine per cent. If the performance criteria are not met over the performance period, options lapse.

Details of historical option grants to executive directors are set out in Appendix A on page 77.

Shareholding guidelines

Executive directors are expected to build up a shareholding equal to 100 per cent of their basic salaries by retaining at least half of the post-tax gains made under any long term incentive in Mothercare shares.

Service contracts

Executive directors

Executive directors' service contracts are rolling contracts that require 12 months' notice by either the Company or executive to terminate the contract.

Ben Gordon commenced employment with the group on 2 December 2002. His service agreement provides for liquidated damages on termination by the group 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 long term incentives. Neil Harrington commenced employment with the group on

30 January 2006. His service contract may be terminated upon 12 months' notice.

Non-executive directors

Ian Peacock is entitled to three months' salary on termination of his employment contract dated 31 October 2002 by the group. Karren Brady, Bernard Cragg, Richard Rivers and David Williams have service agreements with the group that may be terminated upon one month's notice. Their service agreements were entered into on 24 July and 26 March 2003, 27 May 2008 and 2 July 2004 respectively.

External appointments and other commitments of the directors

The other business commitments of the directors are set out within their biographical details on page 24. 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. Ben Gordon is a non-executive director of Britvic plc from whom he received a fee of £44,600.

Pension arrangements

Ben Gordon and Neil Harrington are members of the Mothercare executive pension scheme. Ben Gordon's pension accrues at the rate of one forty-fifth of final salary (capped at £176,400 in 2008/09) for each year of pensionable service. The normal retirement age is 60 years, increasing to 65 years for service accruing post 1 April 2007. 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 one forty-fifth of pensionable average salary (subject to a notional earnings cap of £176,400 in 2008/09). The normal retirement age is 65 years. Contributions by Neil Harrington are at 5 per cent of pensionable salary.

The committee regularly reviews the financial impact to the Company of pension provisions for key executives. In order to control the cost of pensions, the group has agreed with the trustees of the executive pension scheme the introduction of a notional earnings cap of £176,400 in 2008/09 which will be adjusted annually in line with inflation. In addition, given that there are no longer benefits for either the group or individual of maintaining FURBS arrangements, the group has closed the existing FURBS arrangements. Those directors and senior executives subject to the earnings cap and who participated in the FURBS arrangements now receive a cash salary supplement equivalent to the former FURBS payment, for investment in an investment vehicle of their own choice. Further pension detail is given in table 2 of Appendix A on page 77.

For further details of the pension provision within the group during the year, see the directors' report on page 26.

For further details on the cost of pensions to the group, including the statements required by IAS 19, see note 33.

Emoluments and compensation payments

The emoluments (including pension contributions) for executive directors for the year ended 28 March 2009 and the salaries paid to the management level below the board are set out in tables 1A and 1B of Appendix A on page 76.

Beneficial interests of the directors

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

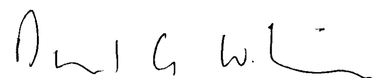
	Interest held at 28 March 2009 (number)	Interest held at 29 March 2008 or appointment if later (number)
Ian Peacock	210,709	206,109
Ben Gordon	421,949	406,949
Karren Brady	16,738	14,063
Bernard Cragg	20,000	20,000
Neil Harrington	22,839	20,500
Richard Rivers	5,000	–
David Williams	30,375	25,375

Ian Peacock and David Williams are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 13,151 Mothercare shares in trust on 28 March 2009 (2008: 13,151). A separate trust, the Mothercare Employee Trust, held 3,903,732 shares on 28 March 2009 (2008: 3,863,923).

The executive directors are technically deemed to have an interest in 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 28 March 2009 and 20 May 2009.

Approved by the board on 20 May 2009 and signed on its behalf by:



David Williams
Chairman, remuneration committee

Governance

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards ('IFRS') as adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS 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. However, 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the parent Company 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board on 20 May 2009 and signed on its behalf by:

Ben Gordon
Neil Harrington

Independent auditors' report

To the shareholders of Mothercare plc
We have audited the group financial statements of Mothercare plc for the 52 weeks ended 28 March 2009 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement 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 parent Company financial statements of Mothercare plc for the 52 weeks ended 28 March 2009.

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 by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant 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, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you, whether in our opinion, the information given in the directors' report is consistent with the group financial statements. The information given in the directors' report includes that specific information presented elsewhere in the annual report that is cross referenced from the business review section of the directors' report.

In addition we report to you if, in our opinion, 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 review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2006 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 of the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the annual report.

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 to be 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 group'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 to be audited are free from material mis-statement, 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 to be audited.

Opinion
In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 28 March 2009 and of its profit for the 52 weeks then ended; and
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the group financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, UK
20 May 2009

Consolidated income statement

For the 52 weeks ended 28 March 2009

	Note	52 weeks ended 28 March 2009			52 weeks ended 29 March 2008		
		Underlying[1] £ million	Non-underlying[2] £ million	Total £ million	Underlying[1] £ million	Non-underlying[2] £ million	Total £ million
Revenue	4	**723.6**	**–**	**723.6**	676.8	–	676.8
Cost of sales		**(644.8)**	**8.2**	**(636.6)**	(602.1)	(10.4)	(612.5)
Gross profit		**78.8**	**8.2**	**87.0**	74.7	(10.4)	64.3
Administrative expenses		**(41.2)**	**–**	**(41.2)**	(36.1)	(7.3)	(43.4)
Profit from retail operations	8	**37.6**	**8.2**	**45.8**	38.6	(17.7)	20.9
Loss on disposal/termination of property interests		**–**	**(2.1)**	**(2.1)**	–	(16.3)	(16.3)
Share of results of joint ventures	15	**(0.4)**	**–**	**(0.4)**	(0.1)	(0.1)	(0.2)
Profit from operations		**37.2**	**6.1**	**43.3**	38.5	(34.1)	4.4
Investment income	9	**0.4**	**–**	**0.4**	1.6	–	1.6
Finance costs	10	**(0.5)**	**(1.0)**	**(1.5)**	(1.5)	–	(1.5)
Profit before taxation		**37.1**	**5.1**	**42.2**	38.6	(34.1)	4.5
Taxation	11	**(10.3)**	**(1.6)**	**(11.9)**	(10.8)	6.4	(4.4)
Profit for the period attributable to equity holders of the parent		**26.8**	**3.5**	**30.3**	27.8	(27.7)	0.1
Earnings per share							
Basic	13	**32.1p**	**4.2p**	**36.3p**	34.5p	(34.4)p	0.1p
Diluted	13	**31.1p**	**4.1p**	**35.2p**	33.7p	(33.6)p	0.1p

1. Before items described in note 2 below.
2. Includes exceptional items (loss on disposal/termination of property interests, integration costs and restructuring costs), amortisation of intangible assets (excluding software) and the impact of non-cash foreign currency adjustments under IAS 39 and IAS 21 as set out in note 7 to the financial statements.

All results relate to continuing operations.

Consolidated statement of recognised income and expense

For the 52 weeks ended 28 March 2009

	Note	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Actuarial loss on defined benefit pension schemes	33	**(31.2)**	(3.6)
Tax on items taken directly to equity	11	**8.7**	1.0
Net loss recognised directly in equity		**(22.5)**	(2.6)
Profit for the period		**30.3**	0.1
Total recognised income and expense for the period attributable to equity holders of the parent		**7.8**	(2.5)

Consolidated balance sheet

As at 28 March 2009

	Note	28 March 2009 £ million	29 March 2008 £ million
Non-current assets			
Goodwill	16	**68.6**	68.6
Intangible assets	16	**35.9**	35.6
Property, plant and equipment	17	**92.4**	95.8
Investments in joint ventures	15	**0.7**	0.8
Retirement benefit obligations	33	**–**	2.0
Deferred tax asset	18	**0.8**	–
		198.4	202.8
Current assets			
Inventories	19	**94.1**	70.8
Trade and other receivables	20	**55.7**	52.5
Current tax assets		**–**	0.6
Cash and cash equivalents	21, 30	**24.8**	22.7
Currency derivative assets	23	**7.3**	0.7
		181.9	147.3
Total assets		**380.3**	350.1
Current liabilities			
Trade and other payables	24	**(108.4)**	(95.6)
Current tax liabilities		**(2.6)**	–
Obligations under finance leases	25	**–**	(0.4)
Short term provisions	26	**(11.9)**	(24.0)
		(122.9)	(120.0)
Non-current liabilities			
Trade and other payables	24	**(19.6)**	(15.5)
Obligations under finance leases	25	**(0.1)**	(0.1)
Retirement benefit obligations	33	**(25.4)**	–
Deferred tax liability	18	**–**	(4.4)
Long term provisions	26	**(13.7)**	(12.1)
		(58.8)	(32.1)
Total liabilities		**(181.7)**	(152.1)
Net assets		**198.6**	198.0
Equity attributable to equity holders of the parent			
Called up share capital	27	**43.8**	43.6
Share premium account	28	**4.3**	3.4
Other reserve	28	**50.8**	50.8
Own shares	28	**(10.6)**	(9.8)
Translation reserves	28	**1.2**	–
Retained earnings	28	**109.1**	110.0
Total equity		**198.6**	198.0

Approved by the board and authorised for issue on 20 May 2009 and signed on its behalf by:

Ben Gordon
Neil Harrington

Consolidated cash flow statement

For the 52 weeks ended 28 March 2009

	Note	**52 weeks ended 28 March 2009 £ million**	52 weeks ended 29 March 2008 £ million
Net cash flow from operating activities	29	**34.9**	51.8
Cash flows from investing activities			
Interest received		**0.4**	1.6
Purchase of property, plant and equipment		**(17.5)**	(17.3)
Purchase of intangibles – software		**(5.3)**	(3.1)
Proceeds from sale of property, plant and equipment		**–**	4.5
Acquisition of subsidiary		**–**	(36.4)
Cost of acquisition		**–**	(5.6)
Investments in joint ventures		**(0.3)**	(1.0)
Net cash used in investing activities		**(22.7)**	(57.3)
Cash flows from financing activities			
Interest paid		**(0.4)**	(1.1)
Repayment of obligations under finance leases		**(0.4)**	(0.5)
Equity dividends paid		**(10.9)**	(7.9)
Issue of ordinary share capital		**1.1**	0.1
Purchase of own shares		**(1.1)**	(2.5)
Net cash used in financing activities		**(11.7)**	(11.9)
Net increase/(decrease) in cash and cash equivalents		**0.5**	(17.4)
Cash and cash equivalents at beginning of period		**22.7**	40.1
Effect of foreign exchange rate changes		**1.6**	–
Cash and cash equivalents at end of period	30	**24.8**	22.7

Notes to the consolidated financial statements

1. General information

Mothercare plc is a company incorporated in Great Britain under the Companies Act 1985. The address of the registered office is given in the shareholder information on page 87. 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 18.

These financial statements were presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

2. Significant accounting policies

Basis of presentation

The group's accounting period covers the 52 weeks ended 28 March 2009. The comparative period covered the 52 weeks ended 29 March 2008.

Basis of accounting

The group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. They 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 8 'Operating segments'
- IFRS 3 (revised January 2008) 'Business Combinations'
- IFRIC 11 'IFRS2 – Group and Treasury Share transactions'
- IFRIC 12 'Service commission agreements'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 15 'Agreements for the Construction of Real Estate'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
- Amendments to IFRS 1 and IAS 27 'Cost of an Investment in Subsidiary'
- Amendments to IAS 23 'Borrowing Costs'
- Amendments to IAS 27 'Consolidated and Separate Financial Statements'
- Amendments to IAS 1 'Presentation of Financial Statements: A revised presentation'
- Amendments to IFRS 2 'Share-based payment: vesting conditions and cancellations'
- Amendments to IAS 32 and IAS 1 'Puttable financial instruments and obligations arising on liquidation'
- Amendments to IFRS 7 'Financial Instruments: Disclosures'
- Amendments to IFRIC 9 and IAS 39 'Embedded Derivatives'
- Amendments to IAS 38 'Intangible Assets'
- Improvements to IFRSs
- IAS 39 'Financial Instruments Recognition and Measurement: Eligible Hedged Items'

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the group's financial statements when the relevant standards come into effect.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and on the going concern basis, as described in the going concern statement in the corporate governance report on page 29. 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 28 March 2009. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-Current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Goodwill

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

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

2. Significant accounting policies continued

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed. Sales to international franchise partners are recognised when the significant risks and rewards of ownership have transferred which is on dispatch.

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

Profit from retail operations

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

Underlying earnings

The Company believes that underlying profit before tax and underlying earnings provides additional useful information for shareholders. The term underlying earnings is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute for IFRS measures of profit.

As the Company has chosen to present an alternative earnings per share measure, a reconciliation of this alternative measure to the statutory measure required by IFRS is given in note 13.

To meet the needs of shareholders and other external users of the financial statements the presentation of the income statement has been formatted to show more clearly, through the use of columns, our underlying business performance which provides more useful information on underlying trends.

The adjustments made to reported results are as follows:

Exceptional items

Due to their significance and one-off nature, certain items have been classified as exceptional. The gains and losses on these discrete items, such as profits/losses on the disposal/termination of property interests, integration costs, restructuring costs, and other non-operating items can have a material impact on the absolute amount of and trend in the profit from operations and the result for the year. Therefore any gains and losses on such items are analysed as non-underlying on the face of the income statement. Further details of the exceptional items are provided in note 7.

Non-cash foreign currency adjustments

The Company has taken the decision not to adopt hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement'. The effect of not applying hedge accounting under IAS 39 means that the reported results reflect the actual rate of exchange ruling on the date of a transaction regardless of the cash flow paid by the group at the predetermined rate of exchange. In addition, any gain or loss accruing on open contracts at a reporting period end is recognised in the result for the period (regardless of the actual outcome of the contract on close-out). Whilst the impacts described above could be highly volatile depending on movements in exchange rates, this volatility will not be reflected in the cash flows of the group, which will be based on the hedged rate. In addition, foreign currency monetary assets and liabilities are revalued to the closing balance sheet rate under IAS 21 'The Effects of Changes in Foreign Exchange Rates'. The adjustment made by the group therefore is to report its underlying performance consistently with the cash flows, reflecting the hedging which is in place.

Amortisation of intangible assets

The balance sheet includes identifiable intangible assets which arose on the acquisition of the Early Learning Centre. The average estimated useful life of the assets is as follows:

Trade name – 20 years
Customer relationships – 5 to 10 years

The amortisation of these intangible assets does not reflect the underlying performance of the business.

Joint ventures

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

Leasing

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

The group as lessor

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

The group as lessee
Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

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

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

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

In preparing the financial statements of the individual companies, transactions in currencies other than 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement. Exchange differences arising on non-monetary items carried at fair value are included in the profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also 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).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified 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 scheme.

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

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

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 recognised 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 on a straight-line basis over their expected useful lives, which are reviewed annually.

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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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 the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

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

Financial liabilities and equity

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

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual 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 as the proceeds are received, net of direct issue costs.

Derivative financial instruments
The group uses forward foreign currency contracts to mitigate the transactional impact of foreign currencies on the group's performance. The group's financial risk management policy prohibits the use of derivative financial instruments for speculative or trading purposes and the group does not therefore hold or issue any such instruments for such purposes. Derivative financial instruments that are economic hedges but that do not meet the strict IAS 39 'Financial Instruments: Recognition and Measurement' hedge accounting rules are accounted for as financial assets or liabilities at fair value through profit or loss and hedge accounting is not applied. Forward foreign currency contracts are recognised initially at fair value, which is updated at each balance sheet date. Changes in the fair values are recognised in the income statement.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Market risk
The group is exposed to market risk, primarily related to foreign exchange and interest rates. The group's objective is to reduce, where it deems appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and of the currency exposure of certain net investments in foreign subsidiaries. It is the group's policy and practice to use derivative financial instruments to manage exposures of fluctuations on exchange rates. The group only sells existing assets or enters into transactions and future transactions (in the case of anticipatory hedges) that it confidently expects it will have in the future, based on past experience. The group expects that any loss in value for these instruments generally would be offset by increases in the value of the underlying transactions.

Foreign exchange rate risk
Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The group uses UK pounds sterling as its reporting currency. As a result, the group is exposed to foreign exchange rate risk on financial assets and liabilities that are denominated in a currency other than UK sterling, primarily in US dollars and Hong Kong dollars.

Consequently, it enters into various contracts that reflect the changes in the value of foreign exchange rates to preserve the value of assets, commitments and anticipated transactions. The group also uses forward contracts, primarily in US dollars.

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

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

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

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

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

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

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

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

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

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

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

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 33 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 28 March 2009, the group's pension liability was £25.4 million (2008: £2.0 million asset). 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 fixed 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the group to estimate future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £68.6 million.

Property restructuring and integration provisions

Descriptions of the provisions held at the balance sheet date are given at note 26. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any differences between expectations and the actual future liability is accounted for in the period when such determination is made.

As a result of the purchase of Chelsea Stores Holdings Limited on 19 June 2007, the group has provided for certain costs relating to the integration of the business into the existing group and the resulting restructure of the combined property portfolio. The majority of the provision relates to property integration costs, comprising mainly of payments to be made to landlords on vacating premises, and to restructure of Early Learning Centre's head offices, stock write offs, vacant space costs and legal fees. Management have estimated the costs based on third party valuations and known costs.

Allowances against the carrying value of inventory

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

Allowances against the carrying value of trade receivables

Using information available at the balance sheet date, the group reviews its trade receivable balances and makes judgements based on an assessment of past experience, debt ageing and known customer circumstance in order to determine the appropriate level of allowance required to account for potential irrecoverable trade receivables.

4. Revenue

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

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Revenue – sales of goods	**723.6**	676.8
Investment income	**0.4**	1.6
Total revenue	**724.0**	678.4

5. Segmental information

For management purposes, the group is currently organised into two operating segments: UK and International. UK comprises the UK store and wholesale operations, catalogue and web sales. The International business comprises the group's franchise and wholesale 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 UK and International businesses is presented below.

	52 weeks ended 28 March 2009			
	UK £ million	**International £ million**	**Unallocated corporate expenses £ million**	**Consolidated £ million**
Revenue				
External sales	**578.8**	**144.8**	**–**	**723.6**
Result				
Segment result (underlying)	**32.1**	**13.9**	**(8.8)**	**37.2**
Non-cash foreign currency adjustments				**11.8**
Amortisation of intangibles				**(2.1)**
Exceptional items (note 7)				**(3.6)**
Profit from operations				**43.3**
Investment income				**0.4**
Finance costs				**(1.5)**
Profit before taxation				**42.2**
Taxation				**(11.9)**
Profit for the period				**30.3**

Notes to the consolidated financial statements continued

5. Segmental information continued

	52 weeks ended 29 March 2008			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	565.0	111.8	–	676.8
Result				
Segment result (underlying)	38.0	9.6	(9.1)	38.5
Non-cash foreign currency adjustments				2.7
Amortisation of intangibles				(1.6)
Exceptional items (note 7)				(35.2)
Profit from operations				4.4
Investment income				1.6
Finance costs				(1.5)
Profit before taxation				4.5
Taxation				(4.4)
Profit for the period				0.1

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.

	52 weeks ended 28 March 2009		
	UK £ million	**International £ million**	**Consolidated £ million**
Other information			
Capital additions	**21.3**	**–**	**21.3**
Depreciation and amortisation	**22.0**	**–**	**22.0**
Balance sheet			
Assets			
Segment assets	**207.5**	**42.0**	**249.5**
Unallocated corporate assets			**130.8**
Consolidated total assets			**380.3**
Liabilities			
Segment liabilities	**165.9**	**13.2**	**179.1**
Unallocated corporate liabilities			**2.6**
Consolidated total liabilities			**181.7**

	52 weeks ended 29 March 2008		
	UK £ million	International £ million	Consolidated £ million
Other information			
Capital additions	20.4	–	20.4
Depreciation and amortisation	19.7	–	19.7
Balance sheet			
Assets			
Segment assets	191.4	30.4	221.8
Unallocated corporate assets			128.3
Consolidated total assets			350.1
Liabilities			
Segment liabilities	133.6	14.1	147.7
Unallocated corporate liabilities			4.4
Consolidated total liabilities			152.1

Corporate assets not allocated to UK or International represent goodwill, intangible assets, interests in joint ventures, current tax assets/liabilities, deferred tax assets/liabilities and cash at bank and in hand.

6. Seasonality of the Early Learning Centre

Sales for the Early Learning Centre, which relate mainly to toys, are more heavily weighted towards the second half of the calendar year, with approximately 40 per cent of annual sales occurring in the third quarter (mid-October to early January).

7. Exceptional and other non-underlying items

Due to their significance and one-off nature, certain items have been classified as exceptional or non-underlying as follows:

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Exceptional items:		
Loss on disposal/termination of property interests	**(2.1)**	(16.3)
Integration of ELC included in cost of sales[1]	**(1.5)**	(11.5)
Integration of ELC included in admin expenses	**–**	(7.3)
UK central and sourcing restructure	**–**	(0.1)
Unwinding of discount on exceptional provisions included in finance costs	**(1.0)**	–
Other non-underlying items:		
Non-cash foreign currency adjustments[1]	**11.8**	2.7
Amortisation of intangibles[1]	**(2.1)**	(1.6)
Exceptional and other non-underlying items	**5.1**	(34.1)

1. Included in non-underlying cost of sales, a credit of £8.2 million (2008: a charge of £10.4 million)

Loss on disposal/termination of property interests

During the 52 weeks ended 28 March 2009 ('current year') a net charge of £2.1 million has been recognised in profit from operations relating to provisions against subleases and vacant property.

Notes to the consolidated financial statements
continued

7. Exceptional and other non-underlying items continued

During the 52 weeks ended 29 March 2008 ('prior year'), a net charge of £16.3 million was recognised in profit from operations relating to the optimisation of the UK portfolio which involves the closure and resiting of Mothercare and Early Learning Centre stores.

The tax effect of the loss on disposal of property interests in the current year was a credit of £0.6 million (2008: credit of £0.8 million).

Integration of the Early Learning Centre

In the current year, costs of £1.5 million (2008: £11.5 million) were charged to cost of sales relating to the restructure of the Early Learning Centre's supply chain and the opening of Early Learning Centre inserts in Mothercare stores.

In the current year, costs of £nil million (2008: £7.3 million) were charged to administrative expenses relating to the restructure of the Early Learning Centre's head offices in Swindon and London, the realignment of international franchise agreements and the integration programme.

The tax effect of the above costs in the current year was a credit of £0.4 million (2008: credit of £5.3 million).

Unwinding of discount on exceptional provisions

In the current year, a charge of £1.0 million was recognised in finance costs relating to the unwinding of the discount on exceptional property provisions.

Non-cash foreign currency adjustments

In the current year, a net profit of £11.8 million (2008: net profit of £2.7 million) was recognised in cost of sales as a result of non-cash foreign currency adjustments under IAS 39 and IAS 21.

Amortisation of intangibles

In the current year, amortisation of intangibles arising on the acquisition of the Early Learning Centre of £2.1 million (2008: £1.6 million) was charged to cost of sales.

8. Profit from retail operations

Profit from retail operations has been arrived at after charging (note that 2008 figures include ELC from the effective date of acquisition):

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Cost of inventories recognised as an expense	**375.6**	345.1
Write down of inventories to net realisable value recognised as an expense	**(0.1)**	(0.2)
Depreciation of property, plant and equipment	**17.3**	16.0
Amortisation of intangible assets – software	**2.6**	2.1
Amortisation of intangible assets – other included in non-underlying cost of sales	**2.1**	1.6
Net rent of properties	**71.0**	71.2
Hire of plant and equipment	**1.5**	1.1
Staff costs (including directors):		
Wages and salaries (including bonuses)	**91.2**	81.0
Social security costs	**7.0**	4.6
Pension costs (see note 33)	**1.2**	0.7
Integration of ELC included in non-underlying cost of sales	**1.5**	11.5
Integration of ELC included in non-underlying admin expenses	**–**	7.3

Staff costs include a total charge in respect of share-based payments of £7.6 million (2008: £3.8 million), analysed in detail in note 32.

An analysis of the average monthly number of full and part-time employees throughout the group, including executive directors, is as follows:

	52 weeks ended 28 March 2009 number	52 weeks ended 29 March 2008 number
Number of employees	**7,715**	7,626
Full time equivalents	**4,653**	4,244

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 34 to 37 and 76 to 79.

For the 52 weeks ended 28 March 2009, profit from retail operations is stated after a net credit of £11.8 million (2008: net credit of £2.7 million) to cost of sales as a result of non-cash foreign currency adjustments under IAS 39 and IAS 21.

The analysis of auditors' remuneration is as follows:

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditors for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**0.3**	0.3
Total audit fees	**0.4**	0.4
Tax services	**0.2**	0.1
Other services pursuant to legislation	**–**	0.2
Corporate finance services	**–**	0.5
Total non-audit fees	**0.2**	0.8

The nature of tax services comprises corporation tax advice and compliance services.

Other services pursuant to legislation relates to shareholder prospectus and circular work in connection with the acquisition of Chelsea Stores Holdings Limited ('CSHL').

Corporate finance services relates to work in connection with the acquisition of CSHL.

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

The policy for the approval of non-audit fees, together with an explanation of the services provided, is set out on page 32.

9. Investment income

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Interest on bank deposits	**0.4**	1.6
Investment income	**0.4**	1.6

Notes to the consolidated financial statements continued

10. Finance costs

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Interest and bank fees on bank loans and overdrafts	**0.4**	1.1
Unwinding of discounts on provisions[1]	**1.1**	0.4
Finance costs	**1.5**	1.5

1. Includes a non-underlying charge of £1.0 million (2008: £nil) of unwinding of discounts on exceptional provisions. See note 7.

11. Taxation

The charge for taxation on profit for the period comprises:

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Current tax:		
Current year	**8.4**	3.9
Adjustment in respect of prior periods	**–**	0.1
	8.4	4.0
Deferred tax: (see note 18)		
Current year	**4.5**	2.0
Adjustment in respect of prior periods	**(1.0)**	(1.6)
	3.5	0.4
Charge for taxation on profit for the period	**11.9**	4.4

UK corporation tax is calculated at 28 per cent (2008: 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:

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Profit for the period before taxation	**42.2**	4.5
Profit for the period before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2008: 30%)	**11.8**	1.4
Effects of:		
Expenses not deductible for tax purposes	**1.0**	5.8
Impact of overseas tax rates	**0.1**	(0.2)
Change in tax rate	**–**	(0.2)
Utilisation of tax losses not previously recognised against capital gains	**–**	(0.9)
Adjustment in respect of prior periods	**(1.0)**	(1.5)
Charge for taxation on profit for the period	**11.9**	4.4

In addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations amounting to £8.7 million (2008: £1.0 million) has been credited directly to equity.

12. Dividends

	52 weeks ended 28 March 2009		52 weeks ended 29 March 2008	
	pence per share	£ million	pence per share	£ million
Amounts recognised as distributions to equity holders in the period				
Final dividend for the prior year	**8.3p**	**6.9**	6.7p	4.7
Interim dividend for the current year	**4.6p**	**4.0**	3.7p	3.2
		10.9		7.9

The proposed final dividend of 9.9p per share for the 52 weeks ended 28 March 2009 was approved by the board after 28 March 2009, on 20 May 2009, and so, in line with the requirements of IAS 10 'Events After the Balance Sheet Date', the related cost of £8.5 million has not been included as a liability as at 28 March 2009. This dividend will be paid on 7 August 2009 to shareholders on the register on 5 June 2009.

13. Earnings per share

	52 weeks ended 28 March 2009 million	52 weeks ended 29 March 2008 million
Weighted average number of shares in issue	**83.5**	80.6
Dilution – option schemes	**2.7**	1.9
Diluted weighted average number of shares in issue	**86.2**	82.5
	£ million	£ million
Earnings for basic and diluted earnings per share	**30.3**	0.1
Non-cash foreign currency adjustments	**(11.8)**	(2.7)
Amortisation of intangibles arising on acquisition of ELC	**2.1**	1.6
Exceptional items (note 7)	**4.6**	35.2
Tax effect of above items	**1.6**	(6.4)
Underlying earnings	**26.8**	27.8
	pence	pence
Basic earnings per share	**36.3**	0.1
Basic underlying earnings per share	**32.1**	34.5
Diluted earnings per share	**35.2**	0.1
Diluted underlying earnings per share	**31.1**	33.7

14. 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.

15. Investments in joint ventures

Aggregated amounts relating to joint ventures:

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Investments at start of year	**0.8**	–
Additions	**0.3**	1.0
Share of loss	**(0.4)**	(0.2)
Investments at end of year	**0.7**	0.8
Summary financial results and position of joint ventures:		
Total assets	**3.5**	2.9
Total liabilities	**(0.7)**	(0.1)
Total loss for the period	**(1.3)**	(0.4)

Details of the joint ventures are as follows:

	Place of incorporation	Proportion of ownership interest per cent	Proportion of voting power held per cent
Mothercare-Goodbaby China Retail Limited	Hong Kong	30	50
Gurgle Limited	Great Britain	50	50

16. Goodwill and intangible assets

	Goodwill £ million	Trade name £ million	Customer relationships £ million	Software £ million	Total £ million
		Intangible assets			
Cost					
As at 31 March 2007	–	–	–	7.4	7.4
Additions	–	–	–	3.1	3.1
Acquisition of subsidiary	68.6	25.0	5.5	0.5	31.0
As at 29 March 2008	68.6	25.0	5.5	11.0	41.5
Additions	–	–	–	5.0	5.0
As at 28 March 2009	**68.6**	**25.0**	**5.5**	**16.0**	**46.5**
Amortisation and impairment					
As at 31 March 2007	–	–	–	2.2	2.2
Amortisation	–	1.0	0.6	2.1	3.7
As at 29 March 2008	–	1.0	0.6	4.3	5.9
Amortisation	–	1.2	0.9	2.6	4.7
As at 28 March 2009	**–**	**2.2**	**1.5**	**6.9**	**10.6**
Net book value					
As at 31 March 2007	–	–	–	5.2	5.2
As at 29 March 2008	68.6	24.0	4.9	6.7	35.6
As at 28 March 2009	**68.6**	**22.8**	**4.0**	**9.1**	**35.9**

Goodwill, trade name and customer relationships relate to the acquisition of the Early Learning Centre on 19 June 2007. Trade name and customer relationships are amortised over a useful life of 20 and five to ten years respectively.

The remaining amortisation periods for intangible assets are as follows:

Trade name – 18 years

Customer relationships – 6 years

Software – 3 years

Impairment of goodwill

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired through the business combination has been allocated to the two groups of cash-generating units ('CGUs') that are expected to benefit from that business combination, being UK and International, which are also reporting segments. These represent the lowest level within the group at which goodwill is monitored for internal management purposes.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates, the anticipated future operating synergies from the combination of Mothercare and Early Learning Centre businesses arising through optimising the enlarged UK store portfolio, sourcing benefits and cost efficiencies and expected changes to selling prices. Management estimates the discount rate using a pre tax rate of 11.3% (2008: 9.1%) which reflects the time value of money and risks related to the CGUs. The cash flow projections are based on financial budgets approved by the board covering a three-year period. Cash flows beyond the three-year period assume a nil growth rate, which does not exceed the long term growth rate for the market in which the group operates. The value in use calculations use this growth rate to perpetuity.

The group has conducted sensitivity analysis on the impairment test of the CGU. With reasonable possible changes in key assumptions, there is no indication that the carrying amount of the goodwill would be reduced to a lower amount.

Software

Software additions include £1.3 million (2008: £1.4 million) of internally generated intangible assets.

Notes to the consolidated financial statements continued

17. Property, plant and equipment

	Properties including fixed equipment				
	Freehold £ million	Leasehold £ million	Fixtures, fittings, equipment £ million	Assets in course of construction £ million	Total £ million
Cost					
As at 31 March 2007	15.8	107.4	167.9	2.0	293.1
Transfers	–	–	2.0	(2.0)	–
Additions	–	2.4	12.0	2.9	17.3
Acquisition of subsidiary	–	1.1	11.7	–	12.8
Disposals	(0.5)	(5.5)	(7.3)	–	(13.3)
As at 29 March 2008	15.3	105.4	186.3	2.9	309.9
Transfers	–	–	2.9	(2.9)	–
Additions	–	3.7	10.6	2.0	16.3
Exchange differences	–	–	0.2	–	0.2
Disposals	–	(2.9)	(11.2)	–	(14.1)
As at 28 March 2009	**15.3**	**106.2**	**188.8**	**2.0**	**312.3**
Accumulated depreciation and impairment					
As at 31 March 2007	2.2	75.1	130.4	–	207.7
Charge for year	0.1	4.9	11.0	–	16.0
Disposals	–	(4.1)	(5.5)	–	(9.6)
As at 29 March 2008	2.3	75.9	135.9	–	214.1
Charge for year	0.2	4.6	12.5	–	17.3
Exchange differences	–	0.1	0.1	–	0.2
Disposals	–	(1.7)	(10.0)	–	(11.7)
As at 28 March 2009	**2.5**	**78.9**	**138.5**	**–**	**219.9**
Net book value					
As at 31 March 2007	13.6	32.3	37.5	2.0	85.4
As at 29 March 2008	13.0	29.5	50.4	2.9	95.8
As at 28 March 2009	**12.8**	**27.3**	**50.3**	**2.0**	**92.4**

The net book value of leasehold properties includes £27.2 million (2008: £29.1 million) in respect of short leasehold properties.

At 28 March 2009, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.3 million (2008: £2.1 million).

Freehold land and buildings with a carrying amount of £12.8 million (2008: £13.0 million) have been pledged to secure the group's borrowing facility (see note 22). The group is not allowed to pledge these assets as security for other borrowings.

18. Deferred tax assets and liabilities

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

	Accelerated tax depreciation £ million	Short term timing differences £ million	Retirement benefit obligations £ million	Share-based payment £ million	Intangible assets £ million	Tax losses £ million	Total £ million
At 31 March 2007	(6.5)	1.3	0.9	0.6	–	3.9	0.2
Acquisition of subsidiary	2.1	1.2	–	–	(8.5)	–	(5.2)
Credit/(charge) to income	1.6	3.3	(2.1)	0.3	0.4	(3.9)	(0.4)
Credit to equity	–	–	1.0	–	–	–	1.0
At 29 March 2008	(2.8)	5.8	(0.2)	0.9	(8.1)	–	(4.4)
Credit/(charge) to income	0.4	(3.6)	(1.4)	0.5	0.6	–	(3.5)
Credit to equity	–	–	8.7	–	–	–	8.7
At 28 March 2009	**(2.4)**	**2.2**	**7.1**	**1.4**	**(7.5)**	**–**	**0.8**

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:

	28 March 2009 £ million	29 March 2008 £ million
Deferred tax assets	**15.6**	6.7
Deferred tax liabilities	**(14.8)**	(11.1)
	0.8	(4.4)

19. Inventories

	28 March 2009 £ million	29 March 2008 £ million
Underlying	**85.8**	70.8
Non-underlying foreign currency adjustments	**8.3**	–
Finished goods and goods for resale	**94.1**	70.8

Due to the significant impact of the movement in foreign exchange rates over the period, particularly the US dollar, we have separately disclosed the underlying stock value. This has been calculated on a basis consistent with the underlying performance, reflecting hedging in place, before non-underlying foreign currency adjustments made in accordance with IAS 21 (see note 2).

The amount of write down of inventories to net realisable value recognised as a net credit in the period is £0.1 million (2008: net credit of £0.2 million).

20. Trade and other receivables

	28 March 2009 £ million	29 March 2008 £ million
Trade receivables gross	**36.1**	26.9
Allowance for doubtful debts	**(2.0)**	(2.2)
Trade receivables net	**34.1**	24.7
Prepayments and accrued income	**16.4**	23.3
Other receivables	**3.3**	3.1
VAT receivable	**1.9**	1.4
	55.7	52.5

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

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Balance at beginning of year	**(2.2)**	(0.6)
Utilised in the period	**0.2**	–
Charged in the period	**–**	(0.2)
Acquisition of subsidiary	**–**	(1.4)
Balance at end of year	**(2.0)**	(2.2)

The group's exposure to credit risk inherent in its trade receivables is discussed in note 23. The group has no significant concentration of credit risk, with the customer base being unrelated. Before accepting any new credit customer, the group obtains a credit check from an external agency to assess the credit quality of the potential customer and then sets credit limits on a customer by customer basis.

The historical level of customer default is minimal and as a result the 'credit quality' of year end trade receivables is considered to be high.

The ageing of the group's current trade receivables is as follows:

	28 March 2009 £ million	29 March 2008 £ million
Trade receivables gross	**36.1**	26.9
Allowance for doubtful debts	**(2.0)**	(2.2)
Trade receivables net	**34.1**	24.7
Of which:		
Amounts neither impaired nor past due on the reporting date	**34.1**	23.2
Amounts past due:		
Less than one month	**0.6**	1.5
Between one and three months	**0.5**	1.3
Between three and six months	**0.5**	0.7
Greater than six months	**0.4**	0.2
Allowance for doubtful debts	**(2.0)**	(2.2)
Trade accounts receivable net carrying amount	**34.1**	24.7

Provisions for doubtful trade accounts receivable are established based upon the difference between the receivable value and the estimated net collectible amount. The group establishes its provision for doubtful trade accounts receivable based on its historical loss experiences.

The average credit period taken on sales of goods is disclosed in note 23. No interest is charged on trade receivables, however, the right to charge interest on outstanding balances is retained.

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

21. 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.

22. Borrowing facilities

The group had no outstanding borrowings as at 28 March 2009 and 29 March 2008.

Overdraft

The group has an unsecured overdraft facility of £10 million (2008: £10 million) which bears interest at 1.00 per cent above bank base rates. None of this facility was drawn down at 28 March 2009.

Committed borrowing facilities

The group had £55 million (2008: £65 million) of committed secured borrowing facilities available at 28 March 2009 in respect of which all conditions precedent have been met. The final maturity date of this facility is 31 May 2010. None of this facility was drawn down at 28 March 2009. If the facility were to be drawn upon it would bear interest at 1.00 per cent above LIBOR.

23. Risks arising from financial instruments

A. Terms, conditions and risk management policies

The board approves treasury policies and senior management directly controls day-to-day operations within these policies. The major financial risks to which the group is exposed relate to movements in foreign exchange rates and interest rates. Where appropriate, cost effective and practicable the group uses financial instruments and derivatives to manage these risks. No speculative use of derivatives, currency or other instruments is permitted. The group's financial risk management policy is described in note 2.

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

	28 March 2009 £ million	29 March 2008 £ million
Foreign currency forward exchange contracts		
Not later than one year	**49.9**	65.3
After one year but not more than five years	**–**	14.9
	49.9	80.2

The group manages its capital to ensure that entities in the group will be able to continue as going concerns while maximising the returns to stakeholders through the optimisation of the debt and equity balance. The capital structure of the group consists of cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in notes 27 and 28.

B. Foreign currency risk management

The group incurs foreign currency risk on sales and purchases whenever they are denominated in a currency other than the functional currency. This risk is managed through holding derivative financial instruments.

The group uses forward foreign currency contracts to reduce its cash flow exposure to exchange rate movements, primarily on the US dollar. The group has 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 foreign exchange exposures on forecast future purchases of goods for the following year and are renewed on a revolving basis as required.

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

International sales represent 20 per cent (2008: 17 per cent) of group sales. Of these sales, 16 per cent were invoiced in foreign currency. The group purchases product in foreign currency, representing approximately 32 per cent (2008: 27 per cent) of purchases.

23. Risks arising from financial instruments continued

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

	Liabilities		Assets	
	28 March 2009 £ million	29 March 2008 £ million	**28 March 2009 £ million**	29 March 2008 £ million
US dollar	**(18.6)**	(13.3)	**14.9**	9.7
Euro	**(0.5)**	(0.3)	**0.4**	1.3
Hong Kong dollar	**(2.5)**	(2.3)	**0.2**	–
Singapore dollar	**–**	–	**0.1**	–
	(21.6)	(15.9)	**15.6**	11.0

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

	28 March 2009 £ million	29 March 2008 £ million
At notional value	**49.9**	80.2
At fair value	**7.3**	0.5

In addition, the fair value of embedded derivatives is £nil million (2008: £0.2 million).

Currency sensitivity analysis

The group's foreign currency financial assets and liabilities are denominated mainly in US dollars. The following table details the impact of a 10 per cent change in the value of pounds sterling against the US dollar. A negative number indicates a net decrease in the carrying value of assets and liabilities and a corresponding loss in non-underlying profit where pounds sterling strengthens against the US dollar.

	28 March 2009 £ million	29 March 2008 £ million
US dollar impact	**(1.7)**	(6.7)

C. Credit risk

Credit risk is the risk that a counterparty may default on their obligation to the group in relation to lending, hedging, settlement and other financial activities. The group's credit risk is primarily attributable to its trade receivables. The Company has a credit policy in place and the exposure to counterparty credit risk is monitored. The group mitigates its exposure to counterparty credit risk through minimum counterparty credit guidelines, diversification of counterparties, working within agreed counterparty limits and trade insurance and bank guarantees where appropriate.

The carrying amount of the financial assets represents the maximum credit exposure of the group. The carrying amount is presented net of impairment losses recognised. The maximum exposure to credit risk comprises trade receivables as shown in note 20 and cash of £24.8 million.

The average credit period on trade receivables was 17 days (2008: 18 days) based on total group revenue.

D. Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 22 is a description of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

24. Trade and other payables

	28 March 2009 £ million	29 March 2008 £ million
Current liabilities		
Trade payables	**58.9**	45.3
Payroll and other taxes including social security	**2.2**	1.9
Accruals and deferred income	**45.1**	46.5
Lease incentives	**2.2**	1.9
	108.4	95.6
Non-current liabilities		
Lease incentives	**19.6**	15.5

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 57 days (2008: 41 days). The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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

25. Finance lease arrangements

The group as lessee:

It is the group's policy to lease certain of its cars under finance leases. Future minimum lease payments under finance leases and hire purchase contracts are as follows:

	28 March 2009 £ million	29 March 2008 £ million
Future minimum payments due:		
Within one year	**–**	0.4
After one year but not more than five years	**0.1**	0.1
Less finance charges allocated to future periods	**–**	–
Present value of minimum lease payments	**0.1**	0.5

The present value of minimum lease payments is analysed as follows:

	28 March 2009 £ million	29 March 2008 £ million
Not later than one year	**–**	0.4
After one year but not more than five years	**0.1**	0.1
	0.1	0.5

The average lease term is five years. For the year ended 28 March 2009, the average effective borrowing rate was 15 per cent (2008: 14 per cent). The fair value of the group's leased assets approximates their carrying amount. Obligations under finance leases are secured by the lessors' charges over the leased assets.

Notes to the consolidated financial statements
continued

26. Provisions

	28 March 2009 £ million	29 March 2008 £ million
Current liabilities		
Property provisions	**8.2**	10.6
Integration provisions	**3.3**	12.9
Other provisions	**0.4**	0.5
Short term provisions	**11.9**	24.0
Non-current liabilities		
Property provisions	**13.3**	10.8
Integration provisions	**–**	0.7
Other provisions	**0.4**	0.6
Long term provisions	**13.7**	12.1
Property provisions	**21.5**	21.4
Integration provisions	**3.3**	13.6
Other provisions	**0.8**	1.1
Total provisions	**25.6**	36.1

The movement on total provisions is as follows:

	Property provisions £ million	Integration provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 29 March 2008	21.4	13.6	1.1	36.1
Utilised in year	(3.7)	(10.3)	(0.5)	(14.5)
Charged in year	9.8	–	0.2	10.0
Released in year	(7.1)	–	–	(7.1)
Unwinding of discount	1.1	–	–	1.1
Balance at 28 March 2009	**21.5**	**3.3**	**0.8**	**25.6**

Property provisions principally represent the costs of store disposals or closures relating to the optimisation of the UK portfolio which involves the closure and resiting of Mothercare and Early Learning Centre stores and onerous lease costs relating to Early Learning Centre's supply chain. The provision was reviewed in the year and amounts no longer required were released. Additional provisions have been made in the period principally for onerous lease costs relating to Early Learning Centre's supply chain (see note 7). The timing of the utilisation of the above provisions is variable dependent upon the lease expiry dates of the properties concerned.

Integration provisions principally represent the restructure of the Early Learning Centre's head offices and supply chain, the opening of Early Learning Centre inserts in Mothercare stores, the realignment of international franchise agreements and the integration programme. The integration provisions are expected to be fully utilised by March 2010.

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

27. Called up share capital

	52 weeks ended 28 March 2009 Number of shares	52 weeks ended 29 March 2008 Number of shares	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Authorised				
Ordinary shares of 50 pence each:				
Balance at beginning and end of year	**105,000,000**	105,000,000	**52.5**	52.5
Allotted, called up and fully paid				
Ordinary shares of 50 pence each:				
Balance at beginning of year	**87,272,318**	73,317,905	**43.6**	36.6
Issued under the Mothercare 2000 Executive Share Option Plan	**188,976**	114,955	**0.1**	0.1
Issued under the Mothercare Sharesave Scheme	**141,338**	29,964	**0.1**	–
Issued on acquisition of subsidiary	**–**	13,809,494	**–**	6.9
Balance at end of year	**87,602,632**	87,272,318	**43.8**	43.6

Further details of employee and executive share schemes are given in note 32.

28. Reserves

	Note	Share premium account £ million	Other reserve £ million	Own shares £ million	Translation reserve £ million	Retained earnings £ million
As at 31 March 2007		3.1	–	(7.4)	–	118.7
Premium arising on issue of equity shares		0.3	50.8	–	–	–
Actuarial loss on retirement benefit obligations	33	–	–	–	–	(3.6)
Credit to equity for share-based payments	32	–	–	–	–	1.8
Purchase of own shares		–	–	(2.5)	–	–
Shares transferred to employees on vesting		–	–	0.1	–	(0.1)
Tax on items taken directly to equity	11	–	–	–	–	1.0
Dividends paid	12	–	–	–	–	(7.9)
Net profit for the financial year		–	–	–	–	0.1
As at 29 March 2008		3.4	50.8	(9.8)	–	110.0
Premium arising on issue of equity shares		0.9	–	–	–	–
Actuarial loss on retirement benefit obligations	33	–	–	–	–	(31.2)
Credit to equity for share-based payments	32	–	–	–	–	2.5
Purchase of own shares		–	–	(1.1)	–	–
Shares transferred to employees on vesting		–	–	0.3	–	(0.3)
Exchange differences on translation of overseas operations		–	–	–	1.2	–
Tax on items taken directly to equity	11	–	–	–	–	8.7
Dividends paid	12	–	–	–	–	(10.9)
Net profit for the financial year		–	–	–	–	30.3
As at 28 March 2009		**4.3**	**50.8**	**(10.6)**	**1.2**	**109.1**

The own shares reserve represents the cost of shares in Mothercare plc purchased in the market and held by the Mothercare Employee Trusts to satisfy options under the group's share option schemes (see note 32). The total shareholding is 3,916,883 (2008: 3,877,074) with a market value at 28 March 2009 of £15,138,753.

29. Reconciliation of cash flow from operating activities

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Profit from retail operations	**45.8**	20.9
Adjustments for:		
Depreciation of property, plant and equipment	**17.3**	16.0
Amortisation of intangible assets – software	**2.6**	2.1
Amortisation of intangible assets – other	**2.1**	1.6
Losses on disposal of property, plant and equipment	**2.4**	1.7
Gain on non-underlying non-cash foreign currency adjustments	**(11.8)**	(2.7)
Equity-settled share-based payments	**2.5**	1.8
Movement in provision for costs of reorganisation of distribution network	**–**	(0.7)
Movement in property provisions	**(3.1)**	(1.3)
Movement in integration provisions	**(10.3)**	13.6
Movement in restructuring provisions	**–**	(1.6)
Movement in other provisions	**(0.3)**	0.3
Amortisation of lease incentives	**(2.2)**	(2.8)
Lease incentives received	**6.6**	0.9
Payments to retirement benefit schemes	**(5.0)**	(4.3)
Charge to profit from operations in respect of service costs of retirement benefit schemes	**1.2**	0.7
Operating cash flow before movement in working capital	**47.8**	46.2
Increase in inventories	**(14.9)**	(2.4)
Increase in receivables	**(2.3)**	(3.8)
Increase in payables	**9.5**	14.7
Cash generated from operations	**40.1**	54.7
Income taxes paid	**(5.2)**	(2.9)
Net cash flow from operating activities	**34.9**	51.8

30. Analysis of cash and cash equivalents

	28 March 2009 £ million	29 March 2008 £ million
Cash at bank and in hand	**24.8**	22.7
Cash and cash equivalents	**24.8**	22.7

31. Operating lease arrangements

The group as lessee:

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Amounts recognised in cost of sales for the period:		
Minimum lease payments paid	**73.3**	72.7
Contingent rents	**0.5**	0.7
Minimum sublease payments received	**(1.3)**	(1.1)
Net rent expense for the period	**72.5**	72.3

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

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

	28 March 2009 £ million	29 March 2008 £ million
Not later than one year	**77.8**	80.1
After one year but not more than five years	**237.8**	255.5
After five years	**264.4**	305.9
Total future minimum lease payments	**580.0**	641.5

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

	28 March 2009 £ million	29 March 2008 £ million
Not later than one year	**1.2**	1.5
After one year but not more than five years	**2.1**	3.2
After five years	**4.2**	6.7
Total future minimum lease payments	**7.5**	11.4

32. 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 £7.6 million (2008: £3.8 million) of which £2.5 million (2008: £1.8 million) was equity settled 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
E: Executive Incentive Plan
F: Performance Share Plan

Details of the share schemes that the group operates are provided in the directors' remuneration report on pages 34 to 37.

For each scheme, expected volatility was determined with reference to the 90-day volatility of the group's share price over the previous three years. The expected life used in each model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The dates of exercise are not disclosed, as it is not deemed practicable to do so.

32. Share-based payments continued

A. Equity incentive awards

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

	52 weeks ended 28 March 2009 Number of shares	52 weeks ended 29 March 2008 Number of shares
Balance at beginning of year	–	45,000
Vested during year	–	(45,000)
Lapsed during year	–	–
Balance at end of year	–	–

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:

	52 weeks ended 28 March 2009 Number of shares	52 weeks ended 29 March 2008 Number of shares
Balance at beginning of year	**230,807**	539,043
Awarded during year	–	–
Lapsed during year	**(6,921)**	(308,236)
Vested during year	**(223,886)**	–
Balance at end of year	–	230,807

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
Number of shares awarded	362,067
Share price at award date	292p
Expected volatility	30.0%
Expected dividend yield	3.00%
Time to expiry	3.25 years
Correlation to comparators	15.0%
TSR element fair value	151p
EPS element fair value	186p

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:

	Weighted average option price	**52 weeks ended 28 March 2009 Number of shares**	52 weeks ended 29 March 2008 Number of shares
Balance at beginning of year	**225p**	**748,441**	868,396
Granted during year	**–**	**–**	–
Forfeited during year	**318p**	**(20,000)**	(17,500)
Exercised during year	**309p**	**(138,838)**	(102,455)
Expired during year	**–**	**–**	–
Balance at end of year	**202p**	**589,603**	748,441

The weighted average share price at the date of exercise for share options exercised during the period was 394p, ranging from 355p to 420p. The options outstanding at 28 March 2009 had a weighted average remaining contractual life of 4.1 years.

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

Grant date	June 2005	November 2004
Number of options granted	205,000	20,000
Share price at grant date	284p	299p
Exercise price	284p	299p
Expected volatility	25.0%	19.0%
Risk free rate	4.75%	4.75%
Expected dividend yield	2.60%	2.60%
Time to expiry	3.25 years	3.25 years
Fair value of option	54.3p	46.1p

32. Share-based payments continued

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:

	Weighted average exercise price	**52 weeks ended 28 March 2009 Number of shares**	52 weeks ended 29 March 2008 Number of shares
Balance at beginning of year	**283p**	**980,953**	342,620
Granted during year	**237p**	**635,038**	743,552
Forfeited during year	**281p**	**(197,933)**	(75,255)
Exercised during year	**282p**	**(188,976)**	(29,964)
Expired during year	**–**	**–**	–
Balance at end of year	**260p**	**1,229,082**	980,953

The shares outstanding at 28 March 2009 had a weighted average remaining contractual life of 2.7 years.

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

Grant date	December 2008	December 2007	November 2005
Number of options granted	635,038	743,552	373,584
Share price at grant date	237p	284p	282p
Exercise price	237p	284p	282p
Expected volatility	30.0%	25.0%	25.0%
Risk free rate	2.00%	5.00%	4.50%
Expected dividend yield	3.50%	3.00%	2.60%
Time to expiry	3.25 years	3.25 years	3.25 years
Fair value of option	41.1p	53.1p	53.0p

E. Executive Incentive Plan

The Executive Incentive Plan is a conditional award based on surplus value created over a three-year performance period. The surplus value is calculated as the difference between the total shareholder return of Mothercare and that of the FTSE All-Share General Retailers Index, multiplied by Mothercare's market capitalisation. The remuneration committee has the discretion to allow up to 50 per cent of the award to be paid in shares and deferred for one year. For accounting purposes it is assumed that the remuneration committee will exercise this discretion, so the cost of the equity-settled half of the award is now fixed at the grant date. The cash-settled half of the award will be fair valued each year and a true-up adjustment made.

The fair value of the plan award is calculated using a binomial model with the following assumptions at grant date:

Grant date	July 2008	July 2007	July 2006
Market capitalisation at award date	£337.2m	£274.0m	£261.8m
Expected Mothercare share price volatility	25.0%	25.0%	30.0%
Expected Index volatility	20.0%	15.0%	15.0%
Risk free rate	5.05%	5.83%	4.90%
Correlation between Mothercare and the Index	45.0%	35.0%	35.0%
Time to expiry	3 years	3 years	3 years
Fair value at grant date	£2.2m	£2.0m	£1.3m
Fair value at 28 March 2009	£4.6m	£6.8m	£6.6m

F. Performance Share Plan

The Performance Share Plan is a conditional award of shares based on the expected growth in Mothercare's profit before taxation over three years. The number of shares outstanding under the Performance Share Plan is as follows:

	52 weeks ended 28 March 2009 Number of shares	52 weeks ended 29 March 2008 Number of shares
Balance at beginning of year	**1,099,010**	627,173
Awarded during year	**1,006,482**	628,623
Lapsed during year	**(135,477)**	(156,786)
Vested during year	**–**	–
Balance at end of year	**1,970,015**	1,099,010

The fair value of the plan award is calculated based on Mothercare's estimate of future profit per share growth.

Grant date	November 2008	June 2008	November 2007	June 2007	December 2006	July 2006
Number of shares awarded	39,576	958,500	59,671	568,952	15,051	652,294
Share price at date of grant	284p	374p	368p	400p	374p	343p
Exercise price	nil	nil	nil	nil	nil	nil
Time to expiry	3 years	3 years	3 years	3 years	3 years	3 years
Fair value per share	nil	nil	280p	304p	314p	288p

33. Retirement benefit schemes

Defined contribution schemes

The group operates defined contribution retirement benefit schemes for all qualifying employees of Chelsea Stores Holdings Limited and its subsidiaries.

The total cost charged to income of £0.3 million (2008: £0.6 million) represents contributions due and paid to these schemes by the group at rates specified in the rules of the plan.

Defined benefit schemes

The group has operated two defined benefit pension schemes for employees of Mothercare UK Limited 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.

In 2008 the schemes were closed to new entrants.

The pension scheme assets are held in a separate trustee administered fund to meet long term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interest of the fund's beneficiaries.

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

The most recent full actuarial valuations, were carried out as at 31 March 2008 and the next full valuation will be carried out as at 31 March 2011 for both schemes. The most recent full actuarial valuations were updated as at 28 March 2009 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.

The IAS 19 valuation conducted for the period ending 29 March 2008 produced a net defined pension surplus of £13.8 million. However, in accordance with IAS 19 Paragraph 58, which states that surplus should only be recognised to the extent that economic benefit can be derived from such surplus, the recognised surplus was limited to £2.0 million. The IAS 19 valuation conducted for the period ending 28 March 2009 produced a net defined pension deficit of £25.4 million, which has been recognised in full.

33. Retirement benefit schemes continued

The major assumptions used in the updated actuarial valuations were:

	28 March 2009	29 March 2008
Discount rate	**6.5%**	6.9%
Future pension increases	**3.1%**	3.5%
Expected rate of salary increases	**4.2%**	5.0%
Expected return on schemes' assets	**7.2%**	7.7%
Analysed between:		
Equities	**8.3%**	8.5%
Bonds	**5.8%**	6.0%
Property	**7.2%**	7.4%
Alternative assets	**7.2%**	7.4%
Other assets	**5.8%**	6.0%

The overall expected rate of return on assets is calculated as the weighted average of the expected returns from each of the asset classes. The returns quoted above are net of investment management expenses but before adjustment to allow for the expected administrative and other expenses of running the Schemes.

The mortality assumptions used are the SAPS tables published by the CMI allowing for future improvements in line with the medium cohort projection and a 1 per cent Floor.

The effect of movements in the principal assumptions used to measure the scheme liabilities for every change in the relevant assumption are set out below:

Assumption	Change in assumption	Impact on scheme liabilities £ million
Discount rate	+/- 0.1%	-/+ 3.8
Rate of salary growth	+/- 0.5%	+/- 1.6
Life expectancy	+1 year	+5.0

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

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Current service cost	**2.5**	3.8
Interest cost	**11.4**	10.2
Expected return on schemes' assets	**(13.0)**	(13.9)
Past service cost	**–**	–
	0.9	0.1

Current service cost, interest cost and expected return on schemes' assets have been included in administrative expenses.

The actual return on scheme assets was a loss of £31.9 million (2008: a loss of £13.0 million), resulting in an actuarial loss of £44.9 million (2008: loss of £26.9 million).

There was an actuarial gain of £1.9 million (2008: a gain of £35.1 million) relating to the defined benefit obligations.

As £11.8 million of the surplus as at 29 March 2008 was not recognised in the accounts, the amount recognised in the statement of recognised income and expense for the year ending 28 March 2009 is a loss of £31.2 million (2008: £3.6 million loss).

The total cumulative actuarial loss recognised in the statement of recognised income and expense is £16.5 million (2008: £14.7 million gain).

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

	28 March 2009 £ million	29 March 2008 £ million
Present value of defined benefit obligations	**175.6**	167.3
Fair value of schemes' assets	**(150.2)**	(181.1)
Deficit/(surplus) in schemes	**25.4**	(13.8)
Past service cost not yet recognised in balance sheet	**–**	–
Unrecognised surplus	**–**	11.8
Liability/(asset) recognised in balance sheet	**25.4**	(2.0)

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

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
At beginning of year	**167.3**	191.6
Service cost	**2.5**	3.8
Interest cost	**11.4**	10.2
Contribution from scheme members	**1.5**	1.3
Actuarial (gains)	**(1.9)**	(35.1)
Benefits paid	**(5.2)**	(4.5)
At end of year	**175.6**	167.3

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

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
At beginning of year	**181.1**	193.6
Actual return on schemes' assets	**(31.9)**	(13.0)
Company contributions	**4.7**	3.7
Members' contributions	**1.5**	1.3
Benefits paid	**(5.2)**	(4.5)
At end of year	**150.2**	181.1

33. Retirement benefit schemes continued

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

	28 March 2009 per cent	**28 March 2009 £ million**	29 March 2008 per cent	29 March 2008 £ million
Equities	**8.3**	**64.5**	8.5	88.1
Bonds	**5.8**	**48.5**	6.0	36.7
Property	**7.2**	**23.3**	7.4	31.3
Alternative assets	**7.2**	**11.3**	7.4	25.6
Other assets	**5.8**	**2.6**	6.0	(0.6)
		150.2		181.1

The history of experience adjustments is as follows:

	52 weeks ended 28 March 2009	52 weeks ended 29 March 2008	52 weeks ended 31 March 2007	52 weeks ended 1 April 2006	52 weeks ended 26 March 2005
Present value of defined benefit obligations	£175.6m	£167.3m	£191.6m	£197.9m	£165.8m
Fair value of schemes' assets	(£150.2m)	(£181.1m)	(£193.6m)	(£180.4m)	(£143.4m)
Deficit/(surplus) in the schemes	£25.4m	(£13.8m)	(£2.0m)	£17.5m	£22.4m
Experience adjustments on scheme liabilities	(£1.9m)	(£35.1m)	(£17.3m)	£19.8m	£12.7m
Percentage of schemes' liabilities	1.1%	21.0%	9.0%	10.0%	7.7%
Experience adjustments on scheme assets	(£44.9m)	(£26.9m)	(£1.2m)	£19.7m	£3.4m
Percentage of schemes' assets	29.9%	14.9%	0.6%	10.9%	2.4%

The estimated amount of cash contributions expected to be paid to the schemes during the 52 weeks ending 27 March 2010 is £8.0 million, including a one-off contribution of £3.0 million.

34. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the group and its joint ventures are disclosed below (2008: £nil).

Trading transactions

During the year, group companies entered into the following transactions with related parties who are not members of the group:

	52 weeks ended 28 March 2009			
	Sales of goods £ million	Purchase of goods £ million	Amounts owed by related parties £ million	Amounts owed to related parties £ million
Joint ventures	**1.5**	–	**0.8**	–

Sales of goods to related parties were made at the group's usual cost prices.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

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 34 to 37.

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Short term employee benefits	**3.8**	4.1
Post employment benefits	**0.5**	0.3
Termination benefits	–	0.1
Share-based payments	**0.9**	0.4
	5.2	4.9

Other transactions with key management personnel

There were no other transactions with key management personnel.

Appendix to the directors' remuneration report

APPENDIX A

Table 1A

Directors' emoluments

Total emoluments (including pension contributions) in the year ended 28 March 2009 were £2,182,000 (2008: £2,465,000).

	Salary/fees £000		Performance bonus £000		Benefits £000		Incentive scheme vesting £000		Total remuneration (excl. pensions) £000		Pension contributions £000	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Executive directors												
Ben Gordon	**600**	500	**372**	950	**13**	13	**397**	161	**1,382**	1,624	**36**	25
Neil Harrington	**265**	227	**140**	312	**11**	11	**–**	–	**416**	550	**32**	24
Non-executive directors												
Ian Peacock	**145**	125	**–**	–	**–**	1	**–**	–	**145**	126	**–**	–
Karren Brady	**45**	37	**–**	–	**–**	–	**–**	–	**45**	37	**–**	–
Bernard Cragg	**50**	42	**–**	–	**–**	–	**–**	–	**50**	42	**–**	–
Richard Rivers	**31**	–	**–**	–	**–**	–	**–**	–	**31**	–	**–**	–
David Williams	**45**	37	**–**	–	**–**	–	**–**	–	**45**	37	**–**	–

Note:
Benefits typically include a group car, medical and dental insurance and other similar benefits.
(i) In addition to the pension contributions set out above a sum of £82,170 per annum is paid to Ben Gordon as a salary supplement referred to in page 37 following the discontinuance of the FURBS scheme.
(ii) In addition to the pension contributions for Neil Harrington set out above, a sum of £27,000 is paid as an employer contribution directly to a SIPP.

Table 1B

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:

	2009 £000	2008 £000
Emoluments	**1,717**	2,255
Compensation for loss of office	**–**	–
Gains on exercise of share options	**–**	–
Amounts receivable under long term incentive schemes	**397**	161
Money purchase pension contributions	**177**	158
Total	**2,291**	2,574

Table 1C

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

Salary Band	**2009**	2008
200,001 – 250,000	**1**	1
150,001 – 200,000	**6**	2
100,001 – 150,000	**1**	3
75,001 – 100,000	**0**	0
50,001 – 75,000	**0**	3

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:

	Defined benefits for final salary scheme £000									Money purchase £000
	Accrued benefits in Mothercare executive pension scheme					Transfer value as at *:				Group contributions
	At 29 March 2008	Change during year	At 28 March 2009	Change during year net of inflation	Transfer value of change in year net of inflation	29 March 2008	Change during year	Director contributions	28 March 2009	
Ben Gordon	20	5	25	5	5	188	104	12	304	82
Neil Harrington	8	4	12	4	4	46	39	9	94	27

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

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

Directors' share options

Director	29 March 2008 (number)	Granted/ (lapsed) during year (number)	Grant/(lapse) date	Exercise price (pence)	First exercise date	Last exercise date	Exercise date	Gains on exercise 2009	28 March 2009 (number)
Ben Gordon	312,500	–	9 Dec 2002	104.00	9 Dec 2005	9 Dec 2012		–	312,500
	3,380[1]	–	28 Dec 2007				–	–	3,380
Total	315,880	–						–	315,880
Neil Harrington	3,380[1]	–	28 Dec 2007				–	–	3,380
Total	3,380	–						–	3,380

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 page 87.
Performance conditions are set out in the remuneration report.
No variations have been made to the terms and conditions of existing options in the current or previous years.
No options were exercised in the year.

For any unexpired share options, the market price at 27 March 2009 was 386.50p and the highest and lowest market prices during the current financial year were 417.75p and 259.00p respectively.

Performance Share Plan

Conditional awards made to the executive directors under the PSP are as follows:

Director	29 March 2008 (number)	Granted/ (lapsed) during year (number)	Grant/(lapse) date	Vesting date	Vested during year (number)	Gains on exercise 2009	28 March 2009 (number)
Ben Gordon	138,483	–	25 Jul 2006	25 Jul 2009	–	–	138,483
	125,000	–	25 Jun 2007	25 Jun 2010	–	–	125,000
	–	240,802	16 Jun 2008	16 Jun 2011	–	–	240,802
Total	263,483	240,802			–	–	504,285
Neil Harrington	45,918	–	25 Jul 2006	25 Jul 2009	–	–	45,918
	42,525	–	25 Jun 2007	25 Jun 2010	–	–	42,525
	–	79,886	16 Jun 2008	16 Jun 2011	–	–	79,886
Total	88,443	79,886			–	–	168,329

The above awards were made as nil-cost options.

Appendix to the directors' remuneration report continued

Executive Incentive Plan

Conditional award percentages of surplus value made to executive directors are as follows:

EIP Table 1

Surplus value	% of surplus value to which participant entitled: Ben Gordon	Neil Harrington
£0m to £50m	1.0%	0.4%
£50m to £75m[1]	1.5%	0.6%
Over £75m[2]	2.0%	0.8%

1. Percentage applies only on up to £25 million of surplus value created above £50 million.
2. Percentage applies only on surplus value created in excess of £75 million.

EIP Table 2

Surplus value	% of surplus value to which participant entitled: Ben Gordon	Neil Harrington
Total surplus value	2.0%	0.8%

Note:
Applies only to 2007 awards in limited circumstances – see remuneration report page 36.
Applies to total surplus value.

Long Term Incentive Plan

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

Director	Conditional award date	LTIP conditional award (number)	Vested 2009 (number)	Lapsed 2009 (number)	Initial share price	Market price on vesting	Performance period
Ben Gordon	23 June 2005	86,193	83,608	2,585	291.5p	379.0p	27.03.05 – 26.03.08
Total		86,193	83,609	2,585	291.5p	379.0p	

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 (number)	Vested 2009 (number)	Lapsed 2009 (number)	Market price on vesting	Pledge period
Ben Gordon	23 June 2005	21,675	21,025	650	379.0p	27.03.05 – 26.03.08
Total		21,675	21,025	650	379.0p	

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

The performance targets for the LTIP and SMS schemes 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 group's TSR performance has been above median relative to all general retailers in the FTSE Mid 250 and FTSE SmallCap indices.

SMS

Total shareholder return over three years ranking percentage (relative to general retailers in FTSE Mid 250 and FTSE SmallCap indices)	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 group's TSR performance has been above median relative to all general retailers in the FTSE Mid 250 and FTSE SmallCap indices.

The performance targets for the LTIP and SMS schemes in respect of earnings per share (EPS) are as follows:

The underlying basic EPS achieved in 2007/08 was 34.5p.

LTIP

% of award vesting	EPS in 2007/08 for 2005 awards
50%	36.5p
10%	31.7p
10% to 50% (pro rata on a straight-line basis)	31.7p to 36.5p
Nil	Below 31.7p

Note:
EPS refers to pre-tax EPS.

SMS

% of award vesting	EPS in 2007/08 for 2005 awards
5 : 10	36.5p
1 : 10	31.7p
1 : 10 to 5 : 10 (pro rata on a straight-line basis)	31.7p to 36.5p
Nil	Below 31.7p

Note:
EPS refers to pre-tax EPS.

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Independent auditors' report on the Company financial statements

To the shareholders of Mothercare plc

We have audited the parent Company financial statements of Mothercare plc for the 52 weeks ended 28 March 2009 which comprise the balance sheet and the related notes 1 to 9. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Mothercare plc for the 52 weeks ended 28 March 2009 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 parent 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 parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the parent Company financial statements. The information given in the directors' report includes that specific information presented elsewhere in the annual report that is cross referenced from the business review section of the directors' report.

In addition, we report to you if, in our opinion, 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 other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company financial statements. Our responsibilities do not extend to any further information outside the annual report.

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 parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent 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 parent Company financial statements are free from material mis-statement, 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 parent Company financial statements.

Opinion

In our opinion:

- the parent 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 28 March 2009;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, UK
20 May 2009

Company balance sheet

As at 28 March 2009

	Note	28 March 2009 £ million	29 March 2008 £ million
Fixed assets			
Investments in subsidiary undertakings	4	**204.9**	204.9
		204.9	204.9
Current assets			
Debtors	5	**5.4**	5.7
Cash at bank and in hand and time deposits		**(58.5)**	(43.1)
		(53.1)	(37.4)
Creditors – amounts falling due within one year	6	**(54.6)**	(59.3)
Net current liabilities		**(107.7)**	(96.7)
Total assets less current liabilities		**97.2**	108.2
Net assets		**97.2**	108.2
Capital and reserves attributable to equity interests			
Called up share capital	7	**43.8**	43.6
Share premium account	8	**4.3**	3.4
Other reserve	8	**50.8**	50.8
Own shares	8	**(10.6)**	(9.8)
Profit and loss account	8	**8.9**	20.2
Equity shareholders' funds	9	**97.2**	108.2

The notes to the Company financial statements on pages 83 to 85 and the accounting policies described therein form an integral part of this balance sheet.

Approved by the board on 20 May 2009 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 52 weeks ended 28 March 2009. The comparative period covered the 52 weeks ended 29 March 2008.

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 on the going concern basis as described in the going concern statement in the corporate governance report 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 52 weeks ended 28 March 2009 and the preceding 52 weeks ended 29 March 2008.

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 42.

Related parties

The Company has taken advantage of paragraph 3(c) of Financial Reporting Standard 8 ('Related Party Disclosures') not to disclose transactions with group entities or interests of the group qualifying as related parties.

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's loss for the 52 weeks ended 28 March 2009 was £0.1 million (2008: loss of £5.2 million). The auditors' remuneration for audit and other services is disclosed in note 8 to the consolidated financial statements. The Company did not 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 (2008: £nil) on which no deferred tax asset has been recognised.

Notes to the Company financial statements
continued

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:

	Principal activity	Country of incorporation
Mothercare UK Limited	Retailing company	United Kingdom
Chelsea Stores Holdings Limited*	Holding company	United Kingdom

*Direct subsidiary of Mothercare plc

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

	28 March 2009 £ million	29 March 2008 £ million
Cost of investments (less amounts written off £153.0 million (2008: £153.0 million))	**139.4**	139.4
Loans to subsidiary undertakings	**65.5**	65.5
	204.9	204.9

	£ million
Cost	
At 29 March 2008	204.9
Additions	–
At 28 March 2009	204.9
Provisions for impairment	
At 29 March 2008 and 28 March 2009	–
Net book value	**204.9**

5. Debtors

	28 March 2009 £ million	29 March 2008 £ million
Amounts due from subsidiary undertakings	**5.0**	5.0
Other debtors	**0.4**	0.7
	5.4	5.7

6. Creditors – amounts falling due within one year

	28 March 2009 £ million	29 March 2008 £ million
Amounts due to subsidiary undertakings	**54.3**	58.5
Accruals and deferred income	**0.3**	0.8
	54.6	59.3

7. Called up share capital

	Number of shares	£ million
Authorised		
Ordinary shares of 50p each:		
Balance at 28 March 2009	105,000,000	52.5
Balance at 29 March 2008	105,000,000	52.5
Allotted, called up and fully paid		
Ordinary shares of 50p each:		
Balance at 29 March 2008	87,272,318	43.6
Issued under the Mothercare 2000 Executive Share Option Plan	188,976	0.1
Issued under the Mothercare Sharesave Scheme	141,338	0.1
Issued on acquisition of subsidiary	–	–
Balance at 28 March 2009	**87,602,632**	**43.8**

Further details of employee and executive share schemes are provided in note 32 to the consolidated financial statements.

8. Reserves

	Share premium reserve £ million	Other reserve £ million	Own shares reserve £ million	Profit and loss reserve £ million
Balance at 29 March 2008	3.4	50.8	(9.8)	20.2
Net premium on shares issued	0.9	–	–	–
Purchase of own shares	–	–	(1.1)	–
Shares transferred to employees on vesting	–	–	0.3	(0.3)
Dividends	–	–	–	(10.9)
Loss for the financial year	–	–	–	(0.1)
Balance at 28 March 2009	**4.3**	**50.8**	**(10.6)**	**8.9**

9. Reconciliation of equity shareholders' funds

	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Equity shareholders' funds brought forward	**108.2**	65.7
Dividends	**(10.9)**	(7.9)
Shares issued	**1.1**	58.1
Purchase of own shares	**(1.1)**	(2.5)
Retained loss for the year	**(0.1)**	(5.2)
Equity shareholders' funds carried forward	**97.2**	108.2

Five year record

	2009 **£ million**	2008 £ million	2007 £ million	2006 £ million	2005 £ million
Summary of consolidated income statements					
Revenue	**723.6**	676.8	498.5	482.7	457.2
Underlying[1] profit from operations before interest	**37.2**	38.5	21.0	19.5	17.9
Non-underlying[2] items	**6.1**	(34.1)	(3.7)	3.2	(4.1)
Interest (net)	**(1.1)**	0.1	1.6	1.5	1.7
Profit before taxation	**42.2**	4.5	18.9	24.2	15.5
Taxation	**(11.9)**	(4.4)	(4.4)	(6.7)	(4.2)
Profit for the financial year	**30.3**	0.1	14.5	17.5	11.3
Basic earnings per share	**36.3p**	0.1p	20.9p	25.5p	16.6p
Basic underlying earnings per share	**32.1p**	34.5p	24.2p	21.2p	19.9p
Summary of consolidated balance sheets					
Deferred tax asset/(liability)	**0.8**	(4.4)	0.2	8.5	13.6
Other non-current assets	**197.6**	200.8	90.6	87.7	87.0
Net current assets	**59.0**	27.3	73.5	62.8	51.6
Retirement benefit obligations	**(25.4)**	2.0	2.0	(17.5)	(22.4)
Other non-current liabilities	**(33.4)**	(27.7)	(15.3)	(9.8)	(10.8)
Total net assets	**198.6**	198.0	151.0	131.7	119.0
Other key statistics					
Share price at year end	**386.50p**	400.00p	407.00p	314.75p	277.00p
Net cash/equity	**12.5%**	11.5%	26.5%	27.3%	31.1%
Capital expenditure	**22.8**	20.4	18.5	16.7	18.4
Depreciation and amortisation	**22.0**	19.7	13.9	12.8	12.0
Rents	**71.0**	71.2	51.6	50.6	47.4
Number of UK stores	**405**	425	225	231	231
Number of International stores[3]	**609**	494	328	266	220
UK selling space (000's sq ft)	**2,007**	2,070	1,791	1,857	1,858
Average number of employees	**7,715**	7,626	5,363	5,255	5,149
Average number of full time equivalents	**4,653**	4,244	3,149	3,174	3,051

1. Before items described in note 2 below.
2. Includes exceptional items (loss on disposal/termination of property interests, integration costs and restructuring costs), amortisation of intangible assets (excluding software) and the impact of non-cash foreign currency adjustments under IAS 39 and IAS 21 as set out in note 7 to the financial statements.
3. International stores are owned by franchise partners.

Shareholder information

Shareholder analysis

A summary of holdings as at 31 March 2009 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	0.3	8
Nominee companies	73.1	701
Other corporate holders	9.8	99
Individuals	4.4	24,177
	87.6	**24,985**

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 ten 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

	2009	2008
Share price at 27 March 2009 (28 March 2008)	**386.50p**	400.00p
Market capitalisation	**£338.6m**	£349.1m
Share price movement during the year:		
High	**417.75p**	434.00p
Low	**259.00p**	316.00p

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

Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

Financial calendar

	2009
Annual General Meeting	16 July
Announcement of interim results	18 November

	2010
Payment of interim dividend	February
Preliminary announcement of results for the 52 weeks ending 27 March 2010	end May
Issue of report and accounts	mid June
Annual General Meeting	mid July
Payment of final dividend	mid August

Registered office and head office

Cherry Tree Road, Watford,
Hertfordshire WD24 6SH
Telephone 01923 241000
www.mothercareplc.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:

Equiniti Limited
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA
Telephone 0870 600 3965
www.equiniti.com

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 & Co 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, Equiniti Limited.

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

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