Mothercare plc

Annual report and accounts 2010

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Group performance highlights

+5.9%

Group sales up 5.9% to £766.4m (2009: £723.6m)

£1.1bn

Worldwide network sales £1.1bn +10%

+18.2%

Total Direct sales £126.8m +18.2%

1,115

Total stores worldwide

£52.0m

Underlying profit from operations before share-based payments, +16.6% (2009 restated: £44.6m)

£38.5m

Year end cash balance £38.5m (2009: £24.8m)

16.8p

Total dividend 16.8p (2009: 14.5p)

31.5p

Underlying basic earnings per share 31.5p (2009 restated: 32.0p)

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

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

The Mothercare group is comprised principally of two iconic retail brands with international appeal; Mothercare and Early Learning Centre.

Our group

At the core of our strategy remain our two world class brands, which are at the centre of value creation at Mothercare and reflect our multi-channel offer.

The four levers for growth

- UK retailing
- Direct
- Wholesale
- International franchise

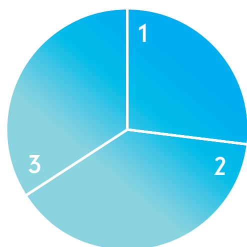
At a glance

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.

Early Learning Centre is a designer and retailer of toys and other children's products primarily from birth to six years. The majority 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 operates internationally through franchised retail stores, a direct internet and catalogue business and a wholesale operation, providing products to domestic and international customers.

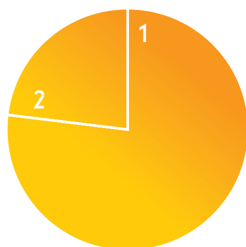
Gurgle.com is a social networking site targeted at new parents and leverages the expertise and authority of the Mothercare brand via the provision of specialist information.

Overview



UK product breakdown %

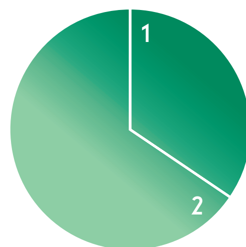
1. Clothing **27**
2. Home and travel **39**
3. Toys and gifts **34**



Sales breakdown £m

1. UK **590.3**
2. International **176.1**

Total 766.4



Number of stores

1. UK **387**
2. International **728**

Total 1,115

Online

mothercare.com
elc.co.uk
gurgle.com
mothercareplc.com

+3.0%
UK like-for-like sales

+16.3%
Direct in Home sales
£72.4m

+20.6%
Direct in Store sales
£54.4m

119
New International franchise stores

+18.8%
International retail space
1.5m sq ft
+18.8%

52
Total countries

+21.4%
Total International sales
£490.9m
+21.4%

Chairman's statement

Selim Zilkha, who founded Mothercare in 1961, said that Mothercare aimed to provide 'Everything for mother and her baby under one roof'.

Ian Peacock
Chairman

That vision remains intact, though the roof in question is now as likely to be in Mumbai or Moscow as in Manchester. Indeed our stores now contain a greater range of products than ever before. Most of our Parenting Centres include both Mothercare and Early Learning Centre outlets and many also contain Clarks' shoe and baby photography concessions. Furthermore if we do not happen to carry a product in a particular store, our online service provides access to an even greater range. For example, our largest stores stock up to 70 pushchairs, strollers, buggies and prams and our website contains 475.

This year we began three initiatives, all in alternative routes to market, which in the longer term we anticipate may have major implications for the development of the Mothercare group. The first two initiatives, both within our wholesale route to market, indicate the opportunities that we now have to build on our successes to date. The Mothercare brand is known and trusted amongst consumers in many countries. We have therefore begun to test the sales of Mothercare branded toiletries in the UK, India and elsewhere sold through third-party retailers as well as in our own stores. So far, the consumer response has been very positive and we anticipate that the growth of Mothercare branded goods sold through third parties will grow rapidly.

We also have skills in sourcing, buying and merchandising products for mothers and babies which can be invaluable for retailers whose core business is in other product areas but who wish to offer these goods. For example, this year we signed an exclusive agreement with Boots to offer children's clothing within their stores.

The third initiative is to develop an online capability in each of our overseas markets. We will trial new facilities and, depending on the results, expand an online offer throughout our international business. We will learn a great deal about our global customer as a result of this exercise.

Growth in our international business continues to be very healthy and the initiatives described above should further enhance that growth. The initiatives may also provide some growth for the UK business, though we accept that this is a mature market and that the UK economy may be a sluggish performer for some time. We have gradually been reducing the group's relative exposure to the UK economy over the past eight years and we intend that this process will continue.

I should like to thank Ben and his team for their skill and dedication in guiding us through a very difficult period for the domestic and international economies and the board for their insight and unfailing help. Later this year, our group company secretary Clive Revett will retire after 23 years with the group. On behalf of the board I should like to thank Clive for the great contribution he has made to the success of Mothercare. We wish him a happy and fulfilled retirement.

Mothercare has been transformed over the last eight years. Nevertheless we are conscious both of the huge opportunities which remain and also of the attendant risks. In Mothercare's 50th year we intend to remain true to Selim Zilkha's original inspiration, as adapted to the needs and aspirations of the twenty-first century consumer – wherever they happen to live.

Ian Peacock
Chairman

Business review

Our business

The Mothercare group is comprised principally of two iconic retail brands with international appeal; Mothercare and Early Learning Centre. It also owns the internet social networking site for parents, Gurgle.com.

Ben Gordon
Chief Executive

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 52 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 overseas. It too has a multi-channel approach offering customers the choice to shop in-store, on the net or through the seasonal catalogues. The Early Learning Centre brand provides eight major categories of toys and games primarily from birth to six years old.

Both Mothercare and 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.

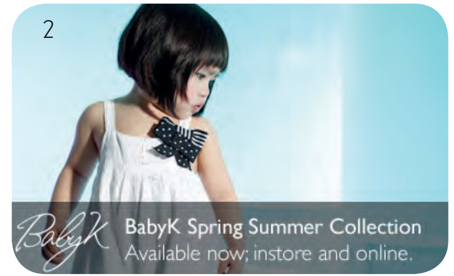
Finally, Gurgle.com is our social networking site providing support and a wealth of information to registered users on all aspects of parenting as well as giving new mothers the chance of sharing experiences.

Mothercare strategy

We have four key growth channels through which we develop our two brands:

1. UK retailing
2. Direct
3. Wholesale
4. International franchise

'Mothercare worldwide network sales exceed £1bn.'



Results

The Mothercare group delivered a strong performance in 2009/10 with underlying growth in sales and profits in both our UK and International businesses (for segmental analysis see note 5).

Group sales for the year rose by 5.9 per cent to £766.4 million (2008/09: £723.6 million). Underlying profit from operations, excluding the share-based payments charge, increased by 16.6 per cent to £52.0 million (2008/09: £44.6 million) and underlying profit before tax increased by 0.8 per cent to £37.2 million (2008/09: £36.9 million).

Group profit before tax decreased from £42.0 million last year to £32.5 million this year. However this is after charging £4.7 million of non-underlying items (credit of £5.1 million last year) mostly relating to the volatile non-cash adjustments where we revalue stock and commercial currency hedges to spot rate. These do not affect the cash flows or ongoing profitability of the group.

The group generated £57.8 million of cash flow from operations and ended the year with a net cash balance of £38.5 million (2008/09: £24.8 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 11.3p per share giving a total dividend for the year of 16.8p per share, an increase of 15.9 per cent.

Two world class brands

Over the last five years we have grown Mothercare from a predominantly UK retailer into a global multi-channel company through our two world class brands, Mothercare and Early Learning Centre. This transformation has been achieved through excellent product innovation and design together with a focus on specialism. We will continue to build the Mothercare group as the world's leading parenting retailer.

An excellent example of creative innovation in the year is the Mothercare SPIN pushchair. Working with experts to address new child development research, Mothercare's in-house design team developed this unique pushchair which allows babies to benefit from both facing their parents and also looking out to the world. The Mothercare SPIN launched with great success around the world, becoming an immediate bestseller in its first year. Mothercare is now the leading pushchair retailer in a number of markets around the world, including the UK. Design and innovation at Early Learning Centre continues, and one of our recent developments was the launch of our interactive Retro Robot which proved to be a bestseller over the Christmas period.

1. Mothercare 'all we know' toiletries range
2. BabyK
3. Mirdif Mall, Dubai

MyChoice three-wheeler pushchair

Business review
continued

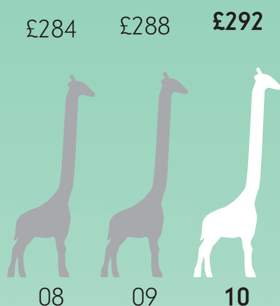
1. UK retailing

In November we announced that phase 1 of our property strategy, which we started in May 2008, was complete and that the £5.0 million of benefits highlighted at that time had been achieved with £5.0 million less capital expenditure than anticipated.

At the same time we announced phase 2 of our property strategy. Whilst phase 1 was all about the rightsizing of Mothercare stores, reducing space and increasing sales per square foot, phase 2 will deliver a significant shift in footprint from in-town to the more profitable out-of-town parenting centre format – driving profit per square foot but leaving the overall retail space in the UK broadly the same.

Even after closing 63 stores in phase 1 of our property strategy, we are still left with a very favourable lease expiry profile where almost 50 per cent of the group's leases are due to expire by March 2012. This, together with the weak property market, has given us an excellent opportunity to embark on a new phase of our property strategy, closing more lower profit in-town stores, opening more out-of-town parenting centres in key catchments with strong property deals and renegotiating rents downwards at lease expiry.

Growing our proposition
UK retail sales per square foot (full year UK retail sales compared to year end UK store square footage)



Phase 2 can be split into three distinct elements, each with separate targets.

i) New out-of-town parenting centres

Our out-of-town parenting centres are true destination stores with the full range of Mothercare and Early Learning Centre product together with key concessions. Our target is to increase the number of parenting centres in the UK to 120. In November we announced that we would open 10 new parenting centres per annum and in 2009/10 we met this target. The new stores are performing well and we have attracted £10.2 million of lease incentive payments from landlords in the year. Our plans to open 10 further out-of-town parenting centres in 2010/11 are on track.

ii) Rationalise high street chain

We announced in November our plans to close or renegotiate the leases on 90 lower profit in-town stores, dealing with 30 stores each year over three years. In 2009/10 we exceeded our target with 29 store closures and 14 lease renegotiations.

iii) In-town opportunities

We also identified a number of key towns where we targeted eight of our new landmark format stores. One of these was opened during 2009/10 and another after year end taking the total to six.

We now expect our property strategy to deliver £16.1 million of annual benefits each year by the end of 2012 from phase 1 and phase 2 combined (an increase to our previous estimate of £15.0 million).

Our channels for growth

1. UK retailing – reshaping our portfolio; parenting centres and landmark stores

10

Parenting centres opened this year

Business review
continued

Our channels for growth

2. Direct – continued rapid growth

Direct has continued its rapid growth with total sales of £126.8 million in the year, an increase of 18.2 per cent.

2. Direct
Direct has continued its rapid growth with total sales of £126.8 million in the year, an increase of 18.2 per cent.

The development of e-commerce in the UK over the last ten years has transformed the face of UK retail and Mothercare has been in the vanguard of that transformation. Mothercare UK's Direct business is now over 20 per cent of our UK business split between orders placed online at home and online in store. The growth of Direct reflects the transformation of retailing with stores increasingly acting more as showrooms. This is particularly true for our extensive range of nursery furniture, pushchairs and car seats. We continue to expand our product ranges online and our full Clothing range is now available on the Mothercare website in addition to our full range of Home & Travel and Toys. We are now rolling out our Widest Choice programme for Early Learning Centre with a much larger range of lines now available online only. Also, in September we acquired the remaining 50 per cent of Gurgle.com, our social networking website for parents and parents-to-be, which continues to grow rapidly.

£72.4m
Direct in Home sales

£54.4m
Direct in Store sales

gurgle.com
Our social networking site for parents

Our channels for growth

3. Wholesale – realising our potential

Wholesale is currently small, but represents a significant growth opportunity for us both in the UK and globally. In the UK, wholesale sales were £4.8 million, up 78 per cent, and this will be boosted in 2010/11 by the autumn launch of our clothing partnership with Boots announced in February. We will supply childrenswear to Boots UK on a wholesale basis, replacing their existing childrenswear offer in circa 400 UK stores from September 2010.

£4.8m

UK wholesale sales

Our new toiletries range 'all we know'

Business review
continued

Our channels for growth

4. International franchise – developing our brands overseas

Our fourth distribution channel is International franchising which is how we operate our overseas stores and this includes our two joint venture agreements in India and China. International franchising remains the single largest growth opportunity for the group offering huge potential in developed and emerging markets, driven by the strength of our two brands, our unique network of strong franchise partners and our state-of-the-art logistics network.

4. International franchise

Our fourth distribution channel is International franchising which is how we operate our overseas stores. International franchising remains the single largest growth opportunity for the group offering huge potential in developed and emerging markets, driven by the strength of our two brands, our unique network of strong franchise partners and our state-of-the-art logistics network.

Our International franchise model has allowed rapid growth with no capital investment for Mothercare. We earn profits from our royalties, as a fixed percentage of International retail sales. Total International sales, which include International retail sales and International wholesale sales, increased by 21.4 per cent to £490.9 million.

International underlying profit from operations increased by over 40 per cent to £23.2 million on top of growth of over 50 per cent last year. Over the last two years growth in our International business has been rapid with store numbers up 47.4 per cent to 728 stores in 51 countries, and average retail selling space up 47.9 per cent to 1.5 million square feet. Total International sales have increased by more than 70 per cent over the last two years and underlying profit from operations increased by nearly 120 per cent over the same period. The International segment as reported also includes our small overseas wholesale business.

In our key growth markets of India and China, our strategy is to form joint ventures with our franchise partners so that Mothercare can share in more of the upside in markets where we expect to generate substantial growth.

In October we announced our newest joint venture with Delhi Land & Finance in India. This new joint venture, along with our existing partner in the region, Shopper's Stop, gives us an excellent opportunity to accelerate our expansion in India. At the year end we had 32 successful stores in India and we expect to have 70 stores open by the end of the current financial year, well on the way to our medium term target of 200 stores.

Mothercare owns 30 per cent of the franchise companies in India and China. We charge a royalty on retail sales as with the franchise model, but we also earn a 30 per cent share of the net joint venture profits. We contribute 30 per cent of the capital expenditure in these markets and with the rapid growth that we predict, we are expecting to invest in the region of £5 million of total capital expenditure in India and China over the next three years.

In Europe we have 327 stores with strong growth in Eastern European countries with higher birth rates, including Poland, Russia and Ukraine.

Across the Middle East and Africa we have 225 stores and we are now opening larger format parenting centre stores with two stores opened in Dubai in the year exceeding 10,000 square feet. During the year we launched Early Learning Centre in South Africa.

Asia Pacific is currently our smallest region with 176 stores, but it has the greatest long term growth potential, including both India and China. During the year we also launched Mothercare in Australia.

We are growing the International business around the world by continuing to open new stores in existing countries, entering new countries and also opening larger format stores that can accommodate our entire product ranges. We plan to open at least 100 additional overseas stores per year for the foreseeable future.

Summary and outlook

Mothercare has had another strong year with our worldwide network sales exceeding £1 billion for the first time. International had a record year and we ended the year with a total of 1,115 stores worldwide in 52 countries. UK performance was robust with positive like-for-like sales growth for the fourth consecutive year, and our property restructure is on track. As a result of the excellent performance of the group, we have again recommended a significant increase in the dividend.

The year finished with a more challenging consumer environment in the UK and strong growth in International. We expect this pattern to continue into 2010/11 and we are planning cautiously. However, overall we are well placed going forward, with our rapidly growing International platform, strong cash flow and debt free balance sheet.

Ben Gordon

Ben Gordon
Chief executive

Financial review

Results summary

Group underlying profit before tax increased by £0.3 million to £37.2 million (2008/09: £36.9 million as restated – see below). Underlying profit excludes exceptional items and other non-underlying items which are analysed below. After these non-underlying items, the group recorded a pre-tax profit of £32.5 million (2008/09: £42.0 million as restated). Underlying profit from operations before the IFRS 2 share-based payments charge increased by £7.4 million, or 16.6 per cent, to £52.0 million.

Income statement

£ million	2009/10	2008/09 restated[1]
Revenue	766.4	723.6
Profit from operations before share-based payments	**52.0**	**44.6**
Share-based payments	(14.4)	(7.6)
Financing	(0.4)	(0.1)
Underlying profit before tax	**37.2**	**36.9**
Exceptional items and unwind of discount on exceptional provisions	(1.3)	(4.6)
Non-cash foreign currency adjustments	(1.3)	11.8
Amortisation of intangible assets	(2.1)	(2.1)
Profit before tax	**32.5**	**42.0**
Underlying EPS – basic	31.5p	32.0p
EPS – basic	28.0p	36.2p

Profit from operations before share-based payments includes all of the group's trading activities, but excludes the volatile share-based payment costs charged to the income statement in accordance with IFRS 2 (see below).

Prior year restatement

Historically, in line with many similar companies, the group has charged the costs of preparing catalogues in line with the sales benefits. Amendments to IAS 38 require associated costs for such catalogues to be recognised up front as the group has access to and receives the catalogues. This has resulted in restatement due to timing differences of additional costs of £0.2 million for the full year 2008/09 together with associated restatements of the tax charge.

Non-underlying items

Underlying profit before tax excludes the following non-underlying items:

- Non-cash adjustments principally relating to marking to market of commercial foreign currency hedges at the period end. As 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. These standards require us to revalue stock and our commercial foreign currency hedges to spot. This volatile adjustment does not affect the cash flows or ongoing profitability of the group and reverses at the start of the next accounting period.
- Amortisation of intangible assets (excluding software).
- Exceptional integration costs of £2.0 million being final integration costs of Early Learning Centre (see note 6).
- Net profits on disposal or termination of property interests of £1.0 million (see note 6).
- Unwind of discount on exceptional property provisions £0.3 million (see note 6).

Exceptional items in 2008/09 included £2.1 million of losses on disposal or termination of property interests, £1.5 million of integration costs and £1.0 million of unwind of discount on exceptional provisions.

Results by segment

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

£ million Revenue	2009/10	2008/09
UK	590.3	578.8
International	176.1	144.8
Total	**766.4**	**723.6**

£ million Underlying profit	2009/10	2008/09 restated[1]
UK	36.1	34.7
International	23.2	16.5
Corporate	(7.3)	(6.6)
Profit from operations before share-based payments	**52.0**	**44.6**
Share-based payments	(14.4)	(7.6)
Financing	(0.4)	(0.1)
Underlying profit before tax	**37.2**	**36.9**

1 Restated for Amendments to IAS 38 regarding treatment of catalogue costs. See note 28.

In the year, like-for-like UK retail sales growth has largely been offset by the impact of currency movements on net margin. However, profit has benefited from the property strategy, with lower occupancy costs, lower central costs as well as tight cost control and growth in the wholesale channel.

International has benefited from the 21.4 per cent growth in total International sales driving growth in royalty income and shipments, and central costs growing at a slower rate.

Corporate expenses represent board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property. This year they include a £0.5 million one-off cost of restructuring and reorganising certain operations.

Share-based payments

Underlying profit before tax also includes a share-based payments charge of £14.4 million (2008/09: £7.6 million) in relation to the Company's long term incentive schemes. There are three main types of long term share-based incentive scheme, being the Executive Incentive Plan, the Performance Share Plan and the Save As You Earn schemes. Full details can be found in the remuneration report.

The Executive Incentive Plan is based on Mothercare's Total Shareholder Return (TSR) over three years compared with the TSR of the FTSE General Retailers' Index. The scheme only vests if Mothercare's TSR outperforms the General Retailers'. The Performance Share Plan is based on cumulative underlying profit before tax growth over a three-year period and the Save As You Earn schemes give individuals the opportunity to subscribe to options at a discounted price over three years. These schemes therefore target both enterprise value creation and profit growth and we believe that they directly reflect the interests of our shareholders.

Over the three years to 27 March 2010:

- Mothercare's market capitalisation increased 107 per cent from £274.1 million[1] to £566.4 million[1];
- Mothercare's TSR outperformed the FTSE General Retailers' TSR by 120 per cent[1] (Mothercare +88 per cent; General Retailers -33 per cent); and
- Underlying profit before tax increased 64.6 per cent to £37.2 million.

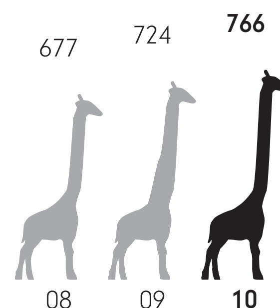
As a result of this strong performance the share-based payments charge calculated under IFRS 2 has increased.

The charges as calculated under IFRS 2 are theoretical calculations based on a number of market-based factors and estimates about the future including estimates of Mothercare's future share price and TSR in relation to the General Retailers'. As a result it is difficult to estimate or predict reliably future charges.

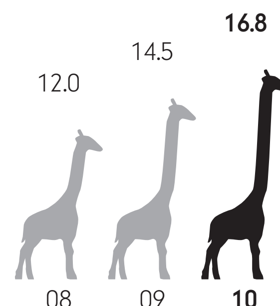
However, we estimate with the information currently available, the share-based payments charge in 2010/11 will reduce from £14.4 million to approximately £9 million.

1 Three-month average to 27 March in line with the scheme rules.

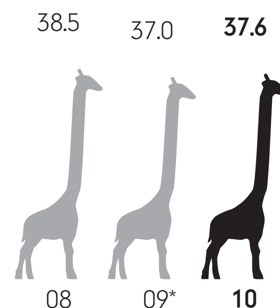
Group sales growth
£ million



Total dividend
pence



Underlying profit from operations before interest
£ million



* Restated

Financial review
continued

Like-for-like sales, total International sales and network 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.

'International franchisee retail sales' are the estimated retail sales of franchisees and joint ventures. 'Total International sales' are International franchisee retail sales plus International wholesale sales. Total 'network sales', which include the retail sales made by our franchise partners overseas to customers (rather than Mothercare sales to franchisees as published) and wholesale sales were £1.1 billion, up 10.0 per cent as follows:

£ million – Network sales	2009/10	2008/09
UK retail (inc. Direct)	585.5	576.1
UK wholesale	4.8	2.7
Total UK	590.3	578.8
Total International	490.9	404.2
Group network sales	**1,081.2**	**983.0**

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 28.5 per cent (2008/09: 27.6 per cent). An underlying tax charge of £10.6 million (2008/09: £10.2 million as restated) has been included for the period; the total tax charge was £8.9 million (2008/09: £11.8 million as restated).

Pensions

We continue to operate defined benefit pension schemes for our staff, although the schemes are now closed to new members. Details of the income statement net charge, total cash funding and net assets and liabilities are as follows:

£ million	2010/11*	2009/10	2008/09
Income statement			
Service cost	(3.1)	(2.1)	(2.5)
Return on assets/interest on liabilities	(0.6)	(1.2)	1.6
Net charge	**(3.7)**	**(3.3)**	**(0.9)**
Cash funding			
Regular contributions	(2.7)	(2.7)	(2.1)
Deficit contributions	(2.3)	(2.3)**	(2.6)
Total cash funding	**(5.0)**	**(5.0)**	**(4.7)**
Balance sheet			
Fair value of schemes' assets		197.0	150.2
Present value of defined benefit obligations		(252.1)	(175.6)
Net liability	**N/A**	**(55.1)**	**(25.4)**

*Estimate.
**Excludes one-off contribution of £3.0 million paid in 2009/10. The £2.3 million deficit contribution was paid at the beginning of 2010/11.

In consultation with the independent actuaries to the schemes, the key market rate assumptions used in the valuation are as follows:

	2009/10 %	2008/09 %	Sensitivity %	Sensitivity £ million
Discount rate	5.6	6.5	0.1	(5.6)
			0.5	(30.2)
Inflation	3.7	3.2	0.1	5.3

The pension fund deficit has increased because under IAS the liability is calculated based on corporate bond rates, which have reduced compared with last year.

The sensitivity of the IAS 19 valuation to a 0.1 per cent and 0.5 per cent reduction in the discount rate and a 0.1 per cent reduction in inflation are set out in the table above.

Balance sheet and cash flow

The balance sheet includes identifiable intangible assets arising on the acquisition of Early Learning Centre of £24.7 million and goodwill of £68.6 million.

The group continues to generate operating cash, with cash generated from operations of £57.8 million after £3.0 million of one-off pension payments. We have managed the business very tightly this year and as a result we have generated a working capital inflow of £3.4 million. In future years however, we would expect an underlying working capital outflow of approximately £10 million per annum as a result of the rapid growth of International and Direct and the increase in our own direct sourcing operations, where we have achieved better margins but take ownership of stock earlier in the supply chain. After investing £24.2 million of capital expenditure (£14.0 million net of lease incentives received) and paying £13.2 million of dividends and £7.7 million of tax, the net cash position at the year end is positive, at £38.5 million (2008/09: £24.8 million).

Going concern

The group's 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 the level of capital expenditure.

At the year end, the group had facilities of £65 million, being £55 million committed secured bank facilities and a £10 million uncommitted unsecured bank overdraft.

As of 26 April 2010, the group refinanced, with committed secured bank facilities of £40 million at an interest rate of 1.7 per cent above LIBOR, which expire on 31 October 2013. It also has an uncommitted unsecured bank overdraft of £10 million.

The group's previous and current committed borrowing facilities contain certain financial covenants which have been met throughout the period. The covenants are tested half-yearly and are based around gearing, fixed charge cover and guarantor cover.

The committed bank facility was drawn down by a maximum of £20 million during the period to fund seasonal working capital and at the year end the group had a cash balance of £38.5 million in addition to the £65 million of available facilities at the time (which has now been reduced to £50 million as noted above).

The current economic conditions create uncertainty around the level of demand for the group's products. However, the group 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 latest forecasts and projections have been sensitivity-tested for reasonable possible adverse variations in trading performance and show that the group will operate within the terms of its borrowing facilities and covenants for the 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.

Capital expenditure

Total capital expenditure in the year was £24.2 million (2008/09: £22.8 million), of which £5.5 million was for software intangibles and £14.6 million was invested in UK stores. Landlord contributions of £10.2 million (2008/09: £6.6 million) were received, partially offsetting the outflow. Net capital expenditure after landlord contributions was £14.0 million (2008/09: £16.2 million). Net capital expenditure for 2010/11, after landlord contributions, is expected to be £20 million.

Earnings per share and dividend

Basic underlying earnings per share were 31.5p compared to 32.0p last year (as restated). The directors recommend a 14.1 per cent increase in the final dividend to 11.3p (2008/09: 9.9p) giving a total dividend for the year of 16.8p (2008/09: 14.5p), an increase of 15.9 per cent.

The final dividend will be payable on 6 August 2010 to shareholders registered on 4 June 2010. The latest date for election to join the dividend reinvestment plan is 16 July 2010.

Financial review
continued

Treasury policy and financial risk management

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

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

Foreign currency risk

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

International published sales represent approximately 23 per cent of group sales. Total International sales represent approximately 45 per cent of group network sales. The group therefore has some currency exposure on these sales, but it is used to offset or hedge in part the group's US dollar and euro denominated product purchases. The group policy is that all material exposures are hedged by using forward currency contracts.

Interest rate risk

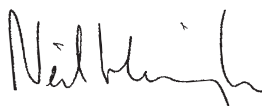
At 27 March 2010, the group has positive cash balances. Given the cash generative nature of the group, interest rate hedging was not considered necessary. The board will keep this under review as the group develops.

Shareholders' funds

Shareholders' funds amount to £188.4 million, a decrease of £9.1 million in the year driven largely by the increase in the retirement benefits liability. This represents £2.14 per share compared to £2.25 per share at the previous year end (as restated).

Accounting policies and standards

The principal accounting policies and standards used by the group are shown in note 2. This year the group has adopted International Financial Reporting Standard 8 'Operating Segments', International Accounting Standard 1 'Presentation of Financial Statements' (revised 2007) and Amendments to International Accounting Standard 38 'Intangible Assets'. Prior period results have been restated accordingly (see notes 2 and 28).



Neil Harrington
Finance director

For the next generation

Setting standards – driving our CR programme

How can we use less packaging on our products?

We have been working with our suppliers to reduce transit packaging – as a result our distribution centre reduced its waste by 9 per cent.

What can we do to help parents and families?

Our stores are often a meeting place for parents in the community and the Mothercare Group Foundation makes grants to charities helping families and babies.

What is it like to work here?

Mothercare was voted the 5th 'Best Big Companies to Work For' by our employees in 2010, rising eight places from 2009. We continually strive to recognise effort and achievement amongst all our staff.

Can we find ways to use less energy?

Recent innovations include automatic meter reading equipment to monitor in-store energy consumption; lighting systems controlled by movement sensors; and CR Champions to encourage recycling.

Can we reduce the waste we throw away?

Reducing packaging helps reduce our waste but we are also increasing our efforts to recycle more of the waste we produce.

Who made this and how were they treated?

As members of the Ethical Trading Initiative, we monitor the actions and treatment of all our suppliers. We also support projects that improve workers' lives such as crèche facilities in India.

Corporate responsibility
continued

For the next generation

The group has two well known brands, Mothercare and Early Learning Centre. Both evoke the future. Both focus on parents and children, children who will one day grow up to be parents themselves. Our aim is that, when they do, the group's businesses will be there to help them, just as we helped previous generations. In fact, next year sees the 50th anniversary of the Mothercare brand. Many of those first Mothercare babies are now proud parents and grandparents themselves.

We are serious about caring for that next generation of parents, so we need to think long term. We need to consider the environment and the world they will inherit. Our five-year targets represent a good start, focusing our own energies on some key issues. The other activities set out on these pages also show how we are supporting and working on other social needs.

Our challenge over the next year is to find ways to harness the energy, creativity and resources of the group behind a few larger initiatives that really make a difference. This has been the subject of two substantial discussions at the board this year, and a set of pilot projects is under way to define these initiatives. We intend to look further out, set ourselves some inspiring goals, and bring the resources of our two strong brands to bear to see what we can achieve. Our aim is to cement the group as a business for the long term, and the brands as enthusiastic leaders in their fields. We will report next year on our progress.

We believe that corporate responsibility should be at the core of what we do. With that in mind we aim to act responsibly towards:

- the environment;
- the people who work for us;
- our suppliers and the people making and distributing our products; and
- our customers, parents and families.

Our approach is to try to consider all these in our day-to-day running of the group. There is a small central team, supported by external experts, which asks questions that are important to the values of our brands. The responsibility to answer them lies with all who work in the business.

Clive Revett, the group company secretary, and Gillian Berkmen, our group brand and commercial director oversee all our work on these topics. A committee of directors meets bi-monthly and reviews our progress. The group board takes an active interest, receiving reports from this committee and debating targets and strategy.

We set five-year targets in 2007/08 so we are now two years into our programme. The targets are all compared to 2007/08 as the baseline year:

- To cut the absolute carbon emissions from our UK buildings by 15 per cent;
- To cut the absolute carbon emissions from our UK fleet by 20 per cent (original target was 15 per cent);
- To cut the packaging associated with every £100 of products that we sell by 40 per cent (original target was 15 per cent);
- To cut the number of single-use carrier bags by at least 50 per cent (original target was 30 per cent);
- We will ensure that over 50 per cent of the solid* wooden products we sell are made from wood that is either recycled or certified by the Forest Stewardship Council (FSC)
- 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 a charity (by 2013).

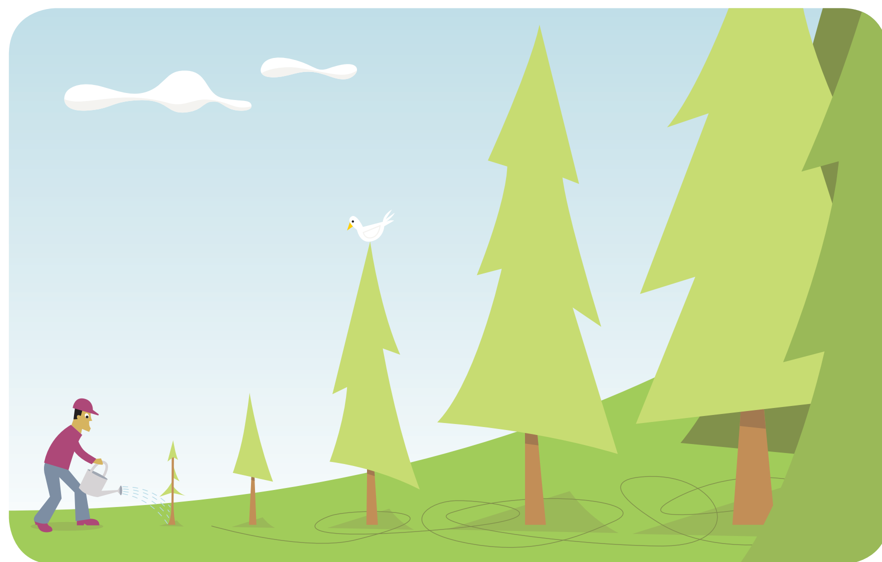
*We've added the word 'solid' to this target, to focus on products made from whole pieces of wood rather than MDF or plywood, over which we have found we have much less control.

This year we have strengthened three of them to reflect our rapid progress to date.

Our progress against five of them (shaded blue) is shown, along with other environmental data in the table opposite.

Impact	2007/08 baseline	2009/10 current	Variance to 07/08
Building energy use (m kWh)	71.2	60.6	-15%
Transport fuel used (m litres)	2.6	2.0	-23%
Transport mileage (m miles)	6.1	5.0	-18%
Carbon emissions (tonnes)	40,400	33,100	-18%
Of which:			
Buildings	33,500	27,900	-17%
Transport	6,900	5,200	-25%
Packaging used (tonnes)	11,500	9,000	-22%
Packaging per £100 (kg, UK only)	20	15	-25%
Carrier bags used (m, UK only)*	17.4	12.7	-27%
Direct charitable donation (£k)	100	414	+314%

*Mothercare stores only. It is estimated that Mothercare stores' usage is 70 per cent of the group total.



The environment

Our targets above concentrate on our biggest environmental impacts – energy and fuel/carbon emissions, waste and packaging. An important third aspect is the environmental impact of making our products.

Up to this point, all our environmental work has focused on the UK since it is where most of our directly controlled business lies. All the data in this section therefore relates to the UK. As our overseas operations grow, we will begin to manage their impacts more actively. We also plan to engage our franchise partners, encouraging them to consider environmental efficiency too.

Energy and fuel/carbon emissions

Our **energy use in buildings** has continued to fall as we have consolidated stores and opened Early Learning Centres inside parenting centres and larger Mothercare stores. This underlying reduction has been supported by a range of actual and pilot projects to cut our energy use still further:

- 53 stores have voltage limiters installed, reducing the electricity consumption.
- Our Edmonton store trialled 'de-stratfication' fans to circulate warm air more efficiently around the store, cutting energy costs.
- We completed the installation of automatic meter reading equipment (AMRs) in all Mothercare stores, allowing each store to monitor its energy consumption constantly and spot waste as it happens.
- Our National Distribution Centre at Daventry continues to invest in energy efficient technology, this year installing a new fluorescent lighting system controlled by movement sensors, and also fitting individual temperature regulators to each heating unit. Together these initiatives have led to an annual energy saving of 35 per cent.

Corporate responsibility
continued

Early Learning Centre stores will have completed their installation of AMRs by this summer, and subsequently a staff awareness campaign is planned for 2010 which will coincide with the launch of a new Corporate Responsibility (CR) Champions scheme. CR Champions will encourage and support colleagues in cutting energy use, recycling more waste and promoting our hanger re-use project.

As a group we are included under the new Carbon Reduction Commitment energy efficiency scheme which launched on 1 April 2010. This compels large companies to report carbon emissions annually and purchase allowances for each tonne emitted. The group is currently registering its compliance and is considering how best to mitigate the cost of these new regulations.

Our **use of transport fuel** has also fallen, thanks to the consolidation of Mothercare and Early Learning Centre fleets. We have already met our initial savings target (15 per cent over five years) and have extended this further. The initial gains from removing duplicated routes have been secured and there will always be a need for more deliveries as we open more stores.

Nevertheless, we believe further emissions savings can be made from investing in our fleet: last year we fitted speed restrictors to our vehicles, implemented new delivery schedules to increase vehicle fill and conducted trials with double-deck trailers. Via the use of technology and continued attention to routing efficiency, we continue to pursue absolute reductions in our carbon emissions from vehicles.

Waste and packaging

Most of our waste comes from our stores, and most of that is the packaging which transports our products safely from the distribution centre to the shop. At the start of 2009 we appointed a new contractor with the specific task of helping us recycle more of this waste and in the first year we have significantly increased our overall recycling rate from approximately 40 per cent up to 75 per cent. We recycled around 2,000 tonnes of paper and cardboard last year, equivalent to the weight of four million Mothercare catalogues.

Our National Distribution Centre already has an established recycling system, and an aspiration to send zero waste to landfill. This year it cut its total waste by 9 per cent via a reduction in cardboard packaging on Mothercare products.

The packaging removed in our stores and distribution centres is only part of the story. Most of the products we sell are packaged in some way, and this material must either be thrown away or recycled by the consumer. Last year our total packaging handled (the amounts on our products, plus all the imported transit packaging we throw away in stores and distribution centres) was 9,000 tonnes, a decrease of 22 per cent versus 2007/08. Consumers and government expect us to minimise this, and we have both packaging technologists and a packaging waste group to support this.

We have taken a similar approach to cutting carrier bag use. By controlling waste and increased consumer awareness, we have reduced the number we gave away in our Mothercare stores by a further 9 per cent this year. We have therefore increased our five-year target, looking now for a 50 per cent cut in the number of bags we use. We have also changed our bags to include 40 per cent recycled content.

Products

We consider carefully the environmental impact of making products, including our use of chemicals and natural raw materials like wood. We have policies controlling the use of chemicals, focusing on those with known environmental or health risks.

A big focus this year has been the introduction of a new policy on the use of wood in products. The new version has been strengthened to prohibit wood from controversial and high conservation-value forests, to include an explicit support for the Forest Stewardship Council scheme, and is backed by a tracking system to help us understand the origins of all the wood we use in our products. Our aim is that all the wood we use must come from known and legal sources, and that an increasing amount (targeting 50 per cent of our solid wood) should be certified under the FSC scheme.

People working for us

The excellent team of people working at Mothercare is a key ingredient of our success. In return, we aim to provide an excellent working environment, and our success in doing so is illustrated by a number of external benchmarks.

Mothercare was voted the 5th '25 Best Big Companies to Work For' by our employees in The Sunday Times survey for 2010. We were the top retailer in the list which measures eight factors including Leadership, My Company, Giving Something Back and Personal Growth. This year we increased our scores in all eight factors which helped us improve our position from no. 13 in 2009 to no. 5 in 2010.

We also achieved Two Star status in the Best Company accreditation, established to recognise corporate excellence in the workplace. Two Stars is recognised as outstanding and we were one of only two retailers to be awarded this. We were also shortlisted for the Employer of the Year in the Oracle Retail Week Awards 2010.

Another important indicator is our staff turnover, which we believe to be among the lowest in the retail sector. Our long service records also demonstrate the commitment of our people. 267 people (3.6 per cent) in the business have 20 years or more service and six have over 35 years service. Our longest-serving employee has been with us for 43 years.

Our approach to motivating and rewarding staff is based on recognition for effort and achievement. Each employee has objectives set at the beginning of the financial year and these are revised and updated during the year at regular performance reviews, to ensure that they are realistic, challenging and achievable. At the end of the year each employee is rated against their performance, and training and development requirements are identified through a personal development plan. Fast Track is a store-based 12-week programme designed to promote retail employees through the management chain. Launched in October 2009, this has recently completed its first cycle with 18 employees taking part.

We have also introduced a number of employee benefits and initiatives this year which have proved very successful.

People making our products

We aim to ensure that our suppliers and partners respect human rights, offer decent working conditions and pay attention to environmental issues. Specifically we want to ensure that we are a fair and honest company to deal with and that we and our partners provide safe, good quality products to our customers.

Whilst we have achieved much in this challenging area we recognise that it is a continuing journey. We continue to learn and share best practice through our membership of the Ethical Trading Initiative (ETI), and share information with other retailers using the Sedex (Supplier Ethical Data Exchange) system. We have a dedicated responsible sourcing team working alongside our buyers in India and Hong Kong, which this year has been strengthened with the addition of a responsible sourcing manager for the UK and Europe.

Our suppliers are required to register on Sedex (if they are not already members), complete a self-assessment of their employment practice and upload a third-party audit and corrective action plan for us to review. In this way we gain a good overview of the general conditions and potential problems in our supply chain.

But this type of approach alone drives only limited improvements in working conditions. To be effective, it must be supported by dedicated staff with a deep understanding of local culture and practice.

Our teams based in India and China carry out in-depth investigations and, where necessary, offer support and training to factory management and workers to build local capacity. They spend a lot of time talking to suppliers; offering advice and guidance and helping them develop appropriate corrective action plans within a reasonable timetable. This approach has improved our supplier relationships, transparency and trust. We also have a number of projects that are focused on understanding the root causes of the most prevalent issues, which are usually long working hours and low wages. We reported last year on our project in India which has since expanded to become a collaborative project with another ETI member (see case study). A similar project in China is in its initial stages and we will report further on this initiative next year.

We have also begun to address issues that have not traditionally been covered by Ethical Codes of Conduct – including financial literacy in China and crèche facilities in India (see case studies) – these projects have directly helped improve the lives of workers; one of our key goals.

Whilst we continue to grow our expert team, we believe that it is vitally important that everyone at Mothercare understands their role in improving supplier standards. To this end we continue to provide training, particularly to our buying/sourcing team members and have developed a 'key issues checklist' which anyone from Mothercare can use to check on compliance with ethical standards when visiting a factory. It is important that buyers or anyone from the Mothercare group who visits a factory reinforces the principles of our ethical sourcing policy.

Case study
India Business Incentives Model Project

To effectively and sustainably improve the working conditions in the factory of a key Indian supplier, we have been engaged in a project focused on:

- production management and systems;
- human resources management; and
- worker welfare systems.

The project has attempted to solve problems in these systems (often called the 'root causes' of labour standards issues) thereby improving working conditions as a whole. For example, by understanding why workers are absent from work (in this case because the process for applying for leave was not easy or understood by the workers) it was possible to improve the relevant process, which resulted in improved attendance and provided workers with increased access to paid annual leave.

The project has been running for ten months and we have been able to see significant progress in management systems, especially in production. Our next challenge is to track the effect that these improvements have had on the working conditions and daily lives of the workers, and make sure that these improvements are built upon in the coming year.

Corporate responsibility
continued

Case study
China Financial Literacy Project

Mothercare has been working with an NGO in Hong Kong and China to develop training for workers on how to manage their money. The objective is to address some of the root causes of longer term migration and debt. The training covered:

- calculating gross and net income;
- developing and implementing budgets for outgoings;
- controlling expenses;
- avoiding debt;
- savings; and
- planning for the future and setting goals.

The NGO undertook the training session at one of our large pushchair suppliers, and attendance was very high. Feedback from workers was that it was extremely helpful and that they would use the information and knowledge that they had gained to budget and increase their savings. 97 per cent of the workers who attended said that they would recommend the training to their friends and colleagues. They also said that they would be keen to attend other training sessions on financial literacy, especially on subjects such as investing, wealth creation, insurance and purchasing property.

We are looking at developing a system whereby our own staff can do this training for other suppliers. We believe that the programme has assisted and will assist in improving the overall welfare of workers in our Chinese supply chain.

Case study
India Crèche Facilities

The responsible sourcing team in India has been working with several key suppliers and eight of their factories to improve the crèche facilities available to workers and their children. The presence of a crèche is a legal requirement in most factories in India, but there is little guidance on the quality of the space or the equipment that is made available.

The team undertook a risk assessment at the factories within the group and worked with the management to improve the facilities available. This included efforts to:

- increase the spaces provided for the crèches and equip them with proper facilities;
- develop timetables for activities to provide structure and ensure that all the children's requirements were met during the day;
- provide toys and other equipment for the crèches; and
- create storage areas so that mattresses, toys and study materials can be stored when not in use.

Since the project was concluded, the team has been working with more factories to increase the impact of the work. This programme fits perfectly into the brand values of Mothercare and allows us to positively affect the everyday lives of those engaged in producing our products. Our work in this area has been applauded by local NGOs.

Parents and families

One of the core strands of Mothercare's DNA is Care for Parents. In our stores every day our motivated and trained people advise thousands of parents on the best product for them, or the best for their child. In our parenting centres, families can get all they need under one roof in a child-friendly environment. Our Early Learning Centre stores offer hands-on testing for kids to help parents make the best choices.

But we aim also to consider parents more widely. Our stores are often a meeting place for parents in the community:

- Early Learning Centre runs Playtime Tuesday. We believe play is an important part of a child's development, so on Tuesdays at ten o'clock, parents can bring their children along and join in the activities which will help them learn about the importance of creative, imaginative and active play.
- We are planning to pilot Expectant Parents events in three of our Mothercare stores which will allow parents-to-be to gather information about essential products related to the first stages of parenthood. There will also be an opportunity for parents to obtain health advice from a health professional in a relaxed environment.

The Mothercare group has established and supports the Mothercare Group Foundation – an independent grant-making body focused on projects and charities helping families and babies. Its Trustees are drawn from the Mothercare board (Karren Brady, Ian Peacock, Ben Gordon and Clive Revett). In 2009/10, the group gave £186,000 to the Foundation, which in turn made £134,000 in grants.

The principal donations were:

Wellbeing of Women (WoW): £35,846 to fund the salary of a research midwife for their Baby Bio Bank project. This is a five-year research project investigating the most common complications of pregnancy including pre-eclampsia, miscarriage and foetal growth restriction.

The Cambridge Foundation: £15,000 was donated towards the Baby Growth Study, taking place at the University of Cambridge in conjunction with Addenbrookes Hospital in Cambridge, looking into the effect on environmental chemicals on the unborn foetus. This follows an initial £35,000 donation from the Foundation towards this study the previous year.

WellChild: £10,000 towards its Helping Hands project, which offers real and practical improvements and solutions to the home environments of terminally sick children, eg levelling of a garden to enable wheelchair access, improving the layout and decor of a sick child's bedroom.

Great Ormond Street Hospital Children's Charity (GOSHCC): £15,000 paid for half the costs of some of the advanced molecular tests to be used over the course of a two-year research project, looking into the causes of birth defects and unexplained pregnancy loss. The study uses state-of-the-art technology to try and find out the genetic basis of underlying problems, and then will find out what happens to these babies as they develop and grow after birth. The number of children that GOSH sees and the complexity of the conditions it treats, provide a unique opportunity to engage in ground-breaking research that could benefit children all over the UK and internationally.

Meningitis Research Foundation (MRF): £5,546 towards the publication of some of MRF's 'Baby Watch' materials, highlighting the main warning signs and symptoms of meningitis and septicaemia in babies. These leaflets are placed as inserts in 95 per cent of all red Child Health Record books given to new mums at birth. This is the second time the Foundation has funded this resource with MRF.

Watchdog (Hong Kong): £9,000 paid the salary for six months for a speech therapist at Watchdog charity, as proposed by the Mothercare charity committee recently set up in Hong Kong. Watchdog is a non-profit pre-school centre for children with special educational needs that provides intensive and well-rounded early intervention and therapeutic services, helping those children achieve their full potential at the earliest possible age.

Mothercare's total direct giving to charity last year was £414,070, as shown in the table. The largest donation was to the Foundation, other substantial gifts were to the Foundation for the Study of Infant Death and Cancer Research UK. Both of these last two were donations from 'cause related marketing' – a range of products sold in store supporting the charities' work.

This total giving represents 1 per cent of the group's profit before tax.

	Donation (£)
Mothercare Group Foundation	186,000
Foundation for the Study of Infant Death	92,600
Cancer Research UK	50,000
NSPCC	32,100
Bliss	10,000
Retail Trust	10,000
I Can Charity	7,500
Other charities and gifts	25,870
	414,070

This direct giving is just one part of a wider community programme: we involve colleagues as far as we can to help direct and raise funding, and the programme is becoming increasingly international as the group's international presence grows.

Involving staff: UK staff enjoy fundraising by various means. Surplus product samples are sold through a staff store, with proceeds given to the Foundation. Early Learning Centre staff held a draw, raising over £1,400 for charity. In Hong Kong, colleagues are planning to visit the Watchdog centre to assess progress and recommend future support. Our Indian sourcing office runs a staff Charity Committee which has raised over £3,000 via sample sales and similar activities. These funds are given to local charities, including a school for deaf and dumb children near our office in Tirupur. Mothercare staff visited the school to assess their needs, concentrating the donation on the purchases of hearing aids and a hearing loop system.

International projects: In Hong Kong we donated over 170 boxes of sample goods to various charities, along with a variety of surplus computer equipment. Colleagues raised almost £2,000 in charity sales for local causes. In India the Mothercare Valuable Trust (a separate legal Trust, with trustees from a number of garment businesses) acts as a major sponsor of the Tirupur Hospital.

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. Director 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 UK, a division of Asda Stores Limited, Chief Financial and Admin Officer of Global George, a division of Wal-Mart Stores Inc. Prior to joining Wal-Mart, 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. Senior non-executive director of Workspace Group Plc and non-executive director of Astro All Asia Networks plc, Progressive Digital Media Group 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. Chair of Operating Partners of Duke Street Capital LLP, chair of SandpiperCI Ltd, Adelie Food Holdings Ltd, Oasis Dental Healthcare Ltd and The Original Factory Shop Ltd. Non-executive Director of the Royal London Mutual Insurance Group Ltd. Formerly chairman of Simple Ltd, Avebury Taverns Ltd, Wyevale Garden Centres plc and Ideal Shopping Direct plc. Former Governor of London Business School.

Karren Brady
Non-executive Director

Appointed in July 2003. Vice-Chairman of West Ham United Football Club Limited and a director of WH Holding Limited. Formerly 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. Formerly Head of Strategy and Chief of Staff of Unilever and chaired Unilever's Corporate Ventures Group. A member of WPP Group Advisory Committee.

Directors' report

The directors present their report on the affairs of the group, together with the financial statements and auditors' report for the 52-week period ended 27 March 2010. The corporate governance statement set out on pages 30 to 35 forms part of this report. The chairman's statement at page 5 gives further information on the work of the board during the period. The principal activity of the group is as a specialist multi-channel retailer and wholesaler of products for mothers-to-be, babies and children under the Mothercare and Early Learning Centre brands. It also owns and operates Gurgle.com, the social networking site for parents.

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 group entered into a joint venture for the development of retail stores in India with DLF Retail Brands. The group holds 30 per cent of the share capital and DLF the remainder. The remaining 50 per cent of the share capital of Gurgle Limited was acquired during the year. The Companies Act 2006 requires the directors' report to contain a review of the business and a description of the principal risks and uncertainties facing the group. A review of the business strategy and a commentary on the performance of the group is set out in the performance highlights, our group overview, chairman's and chief executive's statements, the business review and financial review on pages 2 to 18. The principal risks facing the business are detailed in the corporate governance report at page 30. 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 overview, business review, financial review, corporate responsibility report, directors' remuneration report and 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 during the year. 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.

The use of financial instruments, the risk management objectives and exposures are set out in the notes to the financial statements and the corporate governance report on page 32.

Going concern

The accounts have been prepared under the going concern principle. For full details please see the governance report on page 30.

Dividend

The directors recommend a final dividend of 11.3p per share. An interim dividend of 5.5p was paid in February 2010 (2009: 4.6p per share) making a total of 16.8p per share (2009: total of 14.5p per share).

The Trustees of the Mothercare Employee Trust, who held 2,709,453 shares at the balance sheet date, have waived their entitlement to receive dividends in respect of 1,184,383 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 18 May 2010, 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
M&G Investment Management Ltd	9,710,469	11.02%
FIL Ltd/FMR LLC	8,957,774	10.17%
DC Thomson & Company Ltd	8,950,000	10.16%
Aberdeen Asset Management Group	7,432,929	8.44%

Acquisition of own shares

The Company was given a general approval at the AGM in July 2009 to purchase up to 10 per cent of its shares in the market. This authority expires after the AGM on 15 July 2010. The authority has not been used during the year.

As at 18 May 2010, the Company's issued share capital was 88,116,436 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 25. 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' report
continued

Directors

The following directors served during the 52-week period ended 27 March 2010:

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
David Williams	Independent non-executive director and chairman of the remuneration committee

In accordance with the Company's Articles of Association, Ben Gordon, David Williams and Bernard Cragg retire by rotation from the board following the conclusion of the AGM on 15 July 2010 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 26.

Details of directors' service arrangements are set out in the remuneration report on page 40. There are no special contractual payments associated with a change of control of the Company.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 41 and 86 respectively. A statement of directors' interests in contracts and indemnity arrangements is set out on page 33.

Employees

The Company involves all of its employees in the delivery of its strategy. It regularly discusses with all its employees its corporate objectives, performance as well as the economic environments in which the Company trades through its business sectors. This is achieved through the Company magazine 'Small Talk', briefings, bulletins, e-mail and video presentations.

The Company aspires to develop a loyal and high performing team through its 'DNA' development 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 once again to have been included in The Sunday Times '25 Best Big Companies to Work For' in 2010.

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 who wish to participate. Details of the pension charge is set out in note 30. The board is mindful that further change to elements of its pension provision will be inevitable given the proposed tax and auto-enrolment requirements to be introduced in 2011 and 2012. In the circumstances the Company has commenced a series of reviews to seek a practical solution to these challenges.

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 (2009: nil days) of average daily purchases during the year for the Company and 51 days (2009: 57 days) for the group.

Fixed assets

Changes in tangible fixed assets are shown in note 16 to the accounts. A valuation of the group's freehold and long leasehold properties, excluding rack rented properties, was carried out by external valuers, as at December 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 £8,551,204.

Significant agreements

The group has entered into two agreements that are subject to change of control provisions. These agreements are (i) a multi currency revolving facility dated 26 April 2010 in respect of a £20,000,000 credit facility with Barclays Bank PLC for general business purposes and (ii) a multi currency revolving facility dated 26 April 2010 in respect of a £20,000,000 credit facility with HSBC Bank PLC for general business purposes.

Corporate citizenship

The group's corporate social responsibility ethos and details of the programmes that it runs in its business relationships around the world is set out on pages 19 to 25.

Auditors

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

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

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

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 £186,000. Total charitable donations for the year ended 27 March 2010 were £414,070 (2009: £156,386).

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

Annual General Meeting

The 2010 Annual General Meeting will be held on Thursday, 15 July 2010 at 10.30am in the conference suite at the Company's head office at Cherry Tree Road, Watford, Hertfordshire WD24 6SH.

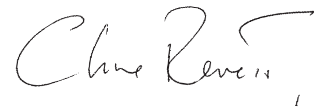
The notice of the meeting and a prepaid form of proxy for the use of shareholders unable to come to the AGM but who may wish to vote or to put any questions to the board of directors are enclosed with this annual report. The Company wishes to encourage as many shareholders as possible to vote electronically.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

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

As in previous years a copy of the chairman's opening statement to the meeting, together with a 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 notice of meeting gives explanatory notes on the business to be proposed at the meeting.

By order of the board



Clive E Revett
Group company secretary
20 May 2010

Corporate governance

The Company believes that by seeking to achieve a high standard of corporate governance in all of the activities undertaken by the group, the group's reputation and performance will be enhanced. In addition, it will also promote and benefit the interests of investors, customers, staff and other stakeholders. To this end, the Company considers that it has complied throughout the 52-week period ended on 27 March 2010 with the relevant provisions set out in Section 1 of the 2008 Combined Code on Corporate Governance published by the Financial Reporting Council (FRC) 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 continued to maintain 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 directors have reviewed the going concern principle in the light of the guidance provided by the FRC in 2009. 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, liquidity position and borrowing facilities are set out in the financial review on pages 14 to 18. In addition, notes 21 and 22 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.

The group's 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, return of capital to shareholders, issuing new shares or the level of capital expenditure.

At the year end, the group had facilities of £65 million, being £55 million committed secured bank facilities and £10 million uncommitted unsecured bank overdraft. As of 26 April 2010, the group refinanced, with committed secured bank facilities of £40 million at an interest rate of 1.7 per cent above LIBOR, which expire on 31 October 2013. It also has an uncommitted unsecured bank overdraft of £10 million.

The group's previous and current committed borrowing facilities contain certain financial covenants which have been met throughout the period. The covenants are tested half-yearly and are based around gearing, fixed charge cover and guarantor cover.

The committed bank facility was drawn down by a maximum of £20 million during the period to fund seasonal working capital and at the year end the group had a cash balance of £38.5 million in addition to the £65 million of available facilities at the time (which has now been reduced to £50 million as noted above).

The current economic conditions create uncertainty around the level of demand for the group's products. However, the group 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 latest forecasts and projections have been sensitivity-tested for reasonable possible adverse variations in trading performance and show that the group will operate within the terms of its borrowing facilities and covenants for the 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 some of 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 levels of unemployment or the reduction in real disposable incomes caused by, amongst other things, any contraction of the global economy, expected future increases in personal and indirect taxation, interest rate movements and the availability of consumer credit.
- The failure to identify or react appropriately to changes in consumer demand for the group's products or services; competitor activity or new entrants within the markets in which group companies operate.
- 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 own and additional territories. As at 27 March 2010 the group's largest franchisee represents approximately 9 per cent of group sales and receivables. 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. As the group grows its wholesale business a similar set of risks may, over time, become apparent.
- 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 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. Recent tax and legislative changes that are to be introduced in 2011 and 2012 may have implications for the funding and future operation of these and defined contribution schemes currently operated by the group.

Internal risks

- Both Early Learning Centre 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.

Corporate governance
continued

- Any failure of the group's logistics, distribution and information technology strategies or platforms may restrict the ability of the group to make product available in its worldwide stores network and Direct businesses thereby failing to meet customer expectations and adversely affect sales and profits.
- A failure in any 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.
- Financing. 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 be able to meet their obligations. The group has sought to widen its banking relationships through the recent renewal of its facilities.

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 (see page 33) 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.

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.

The internal audit function (a combination of internal resources and external resource led 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 26 and there have been no significant changes during the period relating to these commitments.

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

The board is assisted by committees that it has established with written terms of reference. The roles of the remuneration, audit and nomination committees are set out below. The audit, remuneration and nomination committees were comprised of the four 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 35.

The board has delegated day-to-day and business management control of the group to the executive committee. The executive committee consists of ten 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

The board has maintained 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 and group strategy. 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 36 to 41 and in Appendix A on pages 86 to 88. 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.

Corporate governance continued

The nomination committee, chaired during the year by Ian Peacock, comprises all of the non-executive directors. The terms of reference of the committee are 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 during January 2010 concluded that the board, its committees and individual directors contributed effectively to the overall operation and review of the Company's affairs. The senior independent director also carries out an annual performance review of the chairman, having first ascertained the views of all other directors.

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 takes 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 chief executive at board meetings on a periodic basis.

The Company seeks to reach a wider audience by the use of its website (www.mothercareplc.com) and, with a view to encouraging full participation of those unable to attend the AGM, provides an opportunity for shareholders to ask questions of their board through the internet at www.mothercareplc.com or by email to investorrelations@mothercare.com or by the provision of a reply-paid question service to the chairman. The Company provides electronic voting facilities through www.sharevote.co.uk. Those shareholders who wish to use this facility should review the notes and procedures set out in the Notice of Meeting.

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 27 March 2010

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;
- 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;
- considered the management letter from the external auditors on their review of the effectiveness of internal control;
- agreed the fees and terms of appointment of the external auditors;
- reviewed both the committee's and the external auditor's 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 any event, the external auditors are required to rotate the audit partner responsible for the audit every five years. The current lead audit partner has been in place for three years.

The audit committee has considered the likelihood of a withdrawal of the auditor from the market. There are no contractual obligations restricting the committee's choice of external auditors.

In addition, a policy in respect of non-audit work by the audit firm is also in effect. The general principal being that the audit firm should not be requested to carry out non-audit services on any activity of the Company where they may, in the future, be required to give an audit opinion. The committee has assisted the board in the assessment of the adequacy of the resourcing plan for the internal audit function. During the year the committee agreed proposals to restructure the provision of internal audit services to the group whereby PricewaterhouseCoopers took a lead role in the provision of such assurance services. 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 27 March 2010

		Committee		
Director	Board	Audit	Nomination	Remuneration
Maximum number of meetings	8	4	2	6
Ian Peacock	8	4	2	6
Karren Brady	6	3	2	6
Bernard Cragg	8	4	2	5
Ben Gordon	8	4	2	6
Neil Harrington	8	4	2	6
Richard Rivers	8	4	2	6
David Williams	8	4	2	6

Notes:
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 four ad hoc board meetings, two of 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

Remuneration committee chairman's statement

At the beginning of 2009, the remuneration committee reviewed the current executive remuneration arrangements to ensure they continued to be aligned with the Company's business strategy.

As a result of this review, the committee decided to add a cash flow measure to the annual bonus for 2009/10 and, for 2009/10 only, to replace Performance Share Plan (PSP) awards with a deferred share bonus opportunity based on a scorecard of key short term performance indicators. These changes were implemented on the basis of there being no increase in the expected value of executive total remuneration. Details of the changes are set out in the respective sections of the report.

The committee decided to freeze executive committee salaries in April 2009 and again in April 2010 and for the 2009/10 year exercised downward discretion on cash bonuses payable to maintain the emphasis on long term variable pay. The committee also made a change to the operation of the Executive Incentive Plan (EIP) to provide additional alignment with shareholders' interests. The 2009 and subsequent awards will now be settled wholly in shares rather than up to 100% in cash as is currently the case.

In 2010/11, the committee has commenced a comprehensive review of Mothercare's long term incentives and will subsequently consult with shareholders on any material changes proposed.

In this year's remuneration report we report on performance over the first cycle of the EIP and the PSP, approved by shareholders in 2006. The committee is pleased that the aims of those plans, namely to encourage profit growth of 15 per cent p.a. and the delivery of total shareholder return to shareholders have been achieved:

- Mothercare's market cap increased 107 per cent from £274.1 million to £566.4 million;
- TSR over the three-year period outperformed the FTSE All-Share General Retailers by 120 per cent (Mothercare +88.0 per cent; General Retailers -32.0 per cent); and
- Underlying profit before tax over three years increased by 64.6 per cent to £37.2 million.

The management team continues to work hard to deliver value to shareholders through continued improvement in the product offering and brand experience at Mothercare and Early Learning Centre for all of our customers around the world. Finally the retention of this experienced management team has been an important factor in the achievement of the results outlined above and the committee believe strongly that the incentives that exist at Mothercare have played an important part.

David Williams
Chairman, remuneration committee

Introduction and remuneration policy statement

The cornerstone of the group's long term incentive plans for directors and senior management are the EIP and the PSP. These two key long term incentive schemes, together with the annual bonus scheme, are designed to incentivise outstanding long term performance aligned with shareholders interests.

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

The policy seeks to form an appropriate balance between the fixed and performance-related elements of remuneration. The bonus plan rewards primarily the achievement of group profit before tax, a measure which the board believes is a highly relevant measure of annual performance for Mothercare, personal/strategic performance objectives, as well as the achievement of cash generation and business KPIs. 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 three-year growth in profit before tax (PBT).

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 and retain high-calibre individuals, motivate outstanding performance and provide executive directors and the senior management team with the opportunity to earn top quartile remuneration for top quartile performance. Details of the individual executive directors' remuneration are described later in this report.

The remuneration report

This report to shareholders has been prepared in accordance with the Companies Act 2006 (the Act), 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 15 July 2010 shareholders will be asked to approve this report.

The relevant section of the Act 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 the Act. The audited sections include directors' share options, the PSP and EIP awards (including that set out in Appendix A on page 86), emoluments and compensation payments as set out in Table 1 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 (who, in the view of the directors, was deemed to be independent upon appointment). David Williams is chairman of the committee with Karren Brady, Bernard Cragg, Ian Peacock and Richard Rivers serving throughout the year.

The committee's principal duty is the determination of the remuneration for the executive directors, approval of the pay and benefits of the members of the executive committee and oversight of remuneration policy for management below executive director and executive committee members to ensure that such remuneration is consistent with delivery of the business strategy and value creation for shareholders. The committee met six times during the year and each member's attendance at these meetings is set out on page 35 of the corporate governance report. The committee's detailed terms of reference are available on the Mothercare website at www.mothercareplc.com.

Advisers 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 chief executive, 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 LLP	Pensions advice
DLA Piper LLP	Legal services principally in respect of employment contracts

With the exception of DLA Piper LLP, the external advisers listed above have not provided any other services to the Company and do not have any other connections with the Company. DLA Piper LLP provides general legal advice to the group.

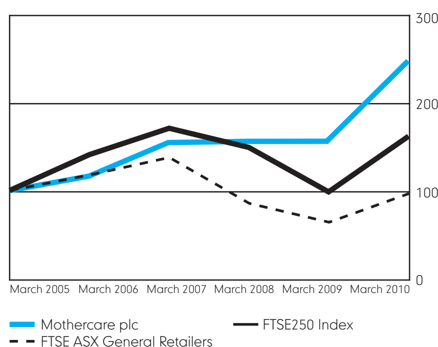
Remuneration report continued

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 Retailers Index. The graph shows the five financial years to 27 March 2010.

The indices were chosen on the basis that Mothercare is a constituent of both the FTSE250 (previously the FTSE SmallCap) 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 EIP and PSP. 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 non-executive directors. 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 maintained salary levels for 2009/10 at 2008/09 levels. Consequently, the salaries for Ben Gordon and Neil Harrington remained at £600,000 and £265,400 respectively. No changes in executive director salaries are proposed for the year 2010/11.

Annual bonus

The annual cash 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. For the year 2009/10 the committee decided that the annual bonus PBT measure should be complemented with operating cash flow. The committee believed that cash flow performance would be even more important given the general economic challenges expected. Consequently they decided that 80 per cent of the bonus opportunity would be linked to group PBT and the remaining 20 per cent to operating cash flow. The individual performance multipliers would apply to both elements.

For the reasons referred to below, the committee made no awards under the PSP during the year. Instead it introduced a one-time deferred share bonus opportunity based on a fair value exchange reflecting the normal PSP award sizes. The fair value exchange maintained the expected current value of executives' total remuneration.

The cash bonus opportunity remained unchanged from prior years at 115 per cent (135 per cent for the chief executive) with any deferred share bonus earned delivered in shares, vesting 50 per cent after two years and 50 per cent after three years to support retention and alignment with shareholders' interests.

In making this change, the committee's independent advisers calculated that the equivalent deferred bonus opportunity would be 55 per cent of salary for the chief executive and 40 per cent for the finance director. Eligibility for any payment under this deferred share bonus opportunity would be linked to a scorecard of short term financial KPIs and strategic milestones. The key milestones that are not commercially sensitive are set out in the table below. The remaining milestones target elements of store and distribution costs, financing and working capital. The committee believed that focusing management on a range of measures robustly calibrated to support the delivery of the strategic plan would provide a stronger foundation for continuing to deliver superior long term shareholder returns. The eight measures chosen were selected across the main business areas as well as at the overall group level, and included UK and International store efficiencies, supply chain, Direct growth and management of the group cost base.

Furthermore, the committee believed that over-achievement of the strategic plan would require achievement of most of the targets and therefore no additional bonus would be paid for delivery of half or fewer. The full deferred bonus would be earned only if management delivered on all eight targets, 25 per cent would be earned for delivery of five, 50 per cent for six and 75 per cent for seven. The maximum bonus for the year ended 27 March 2010 was 155 per cent of base salary (190 per cent for the chief executive), although the maximum bonus would be payable only on the delivery of exceptional group financial and personal performance, as set out below.

Key measures		Target	Achievement
UK stores	Like-for-like sales	+0.5%	+3%
Direct	Sales growth	+16%	+16.3%
International	New stores	80	119

The achievement against the performance criteria for the deferred bonus plan for the year under review was 75 per cent having exceeded target performance against seven of the eight measures.

Ben Gordon and Neil Harrington received performance-related bonuses of £224,100 (2009: £372,000) and £71,600 (2009: £139,000) respectively for the year ended 27 March 2010 (28 per cent and 23 per cent of maximum for Ben Gordon and Neil Harrington respectively).

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)

The committee made no awards under the PSP in 2009 due to the difficulty of setting robust performance targets for three years ahead in the economic conditions prevailing in March 2009.

Ordinarily under the PSP, conditional awards of shares of up to 100 per cent of salary (in exceptional circumstances, 200 per cent of salary) would have been made to selected executives, as determined by the remuneration committee, each year. Conditional awards would also have been made to the wider executive team through awards made in June and November as nil-cost options. Details of executive directors' historical awards are set out in Appendix A on page 88.

Vesting of shares to an individual is conditional upon the achievement of the cumulative three-year growth in group PBT. 20 per cent of an award vests if Mothercare's three-year PBT growth is 5 per cent p.a. 100 per cent of an award will vest if Mothercare's three-year PBT per share growth is at least 15 per cent each year, 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 per share growth is not met the award lapses. PBT per share 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.

The first cycle of awards granted following shareholder approval in 2006 vested in full on 27 July 2009. During the three-year performance period to 31 March 2009, Mothercare's total shareholder return outperformed the FTSE General Retailers Index by 66 per cent, and its underlying profit before interest and tax increased by 91 per cent. Awards made in 2006 therefore vested in full. Details are set out in Appendix A, at page 86.

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 for overseas participants 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.

Remuneration report continued

The Executive Incentive Plan (EIP)

Under the EIP, selected senior executives are eligible to receive a percentage of 'surplus value created' over a three-year performance period. 'Surplus value created' is defined as group TSR outperformance of the FTSE All-Share General Retailers Index (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 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.

During the year the committee considered the operation of the EIP and felt that there was merit in making minor refinements to the EIP to provide additional alignment with shareholders' interests. 2009 and subsequent awards will be settled wholly in shares rather than up to 100 per cent in cash as is currently the case. At the vesting date, the committee retains discretion to defer up to 50 per cent of an award into shares for a further year. The EIP was also amended to allow an executive to extend the period of deferral by awarding the deferred element as nil-cost options.

EIP awards have been made in each year since inception in 2006. The award criteria made to executive directors is set out in EIP Table 1 in Appendix A (page 88). As previously explained 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 million (50 per cent more than the pre-tax synergies of £8 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 initial awards under the EIP vested on 27 July 2009. During the three-year performance period to 31 March 2009, Mothercare's total shareholder return outperformed the FTSE General Retailers Index by 120 per cent (Mothercare +88 per cent, General Retailers -32 per cent) and its underlying profit before interest and tax increased by 64.6 per cent.

The remuneration committee decided to exercise its discretion to defer the maximum 50 per cent of the vested amount into shares until 1 March 2010. Details are set out in Appendix A on page 88.

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. During the year, the chief executive, Ben Gordon, exercised his award originally made in 2002. Details are set out in Appendix A on page 87.

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 on 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, 26 March 2003, 27 May 2008 and 2 July 2004 respectively.

During the year, and with the assistance of the independent remuneration consultants, the remuneration committee and the board reviewed the compensation arrangements of the chairman and non-executive directors which included a benchmarking against companies of comparable size and complexity. Compensation had not been reviewed for two years. The review concluded that given the size, scale, complexity and international reach of the Mothercare businesses, as well as the increased responsibility and commitment required generally by the chairman and non-executive directors, that an increase in salary/fees would be appropriate. Accordingly with effect from 1 April 2010, the annual salary/fees payable to the chairman should increase to £180,000, the senior non-executive director to £55,000 and the non-executive directors to £50,000.

In addition it was agreed that, in line with current practice, the chair of the remuneration and audit committees should receive a supplement of £5,000 per annum.

External appointments and other commitments of the directors

The other business commitments of the directors are set out within their biographical details on page 26. 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 receives a fee of £45,000.

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 salary (subject to a notional earnings cap of £185,400 in 2009/10) 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 set at 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 salary (subject to a notional earnings cap of £185,400 in 2009/10). The normal retirement age is 65 years. Contributions by Neil Harrington are set at 5 per cent of pensionable salary.

The committee regularly reviews the financial impact to the Company of pension provision. Given the regulatory changes expected in April 2012 in respect of automatic enrolment and the effect of tax changes on pension contributions for higher-earning employees in April 2011 a further review of the effect of these changes on the Company pension schemes was under way at the year end. Discussions will take place with the Trustees of the pension schemes and next year's report will give details of the actions agreed and implemented. In the meantime in order to control the cost of pensions for key executives, the group has agreed with the Trustees of the executive pension scheme the introduction of a notional earnings cap (£185,400 in 2009/10) which will be adjusted annually in line with inflation. In addition, as there are no longer benefits for either the group or individual of maintaining FURBS arrangements, the group has closed the 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 87.

For further details of the pension provision within the group during the year, see the directors' report on page 28.

For further details on the cost of pensions to the group, including the statements required by IAS 19, see note 30.

Emoluments and compensation payments

The emoluments (including pension contributions) for executive directors for the year ended 27 March 2010 and the salaries paid to the management level below the board are set out in Tables 1A and 1B of Appendix A on page 86.

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.

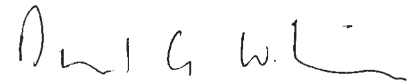
	Interest held at 27 March 2010 (number)	Interest held at 28 March 2009 or appointment if later (number)
Ian Peacock	210,709	210,709
Ben Gordon	421,949	421,949
Karren Brady	16,738	16,738
Bernard Cragg	20,000	20,000
Neil Harrington	59,642	22,839
Richard Rivers	5,000	5,000
David Williams	30,375	30,375

Ian Peacock and David Williams are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 3,151 Mothercare shares in trust on 27 March 2010 (13,151 on 28 March 2009). A separate trust, The Mothercare Employee Trust, held 2,709,453 shares on 27 March 2010 (3,903,732 on 28 March 2009).

The executive directors are also deemed to have an interest in shares held by Mothercare Employees' Share Trustee Limited and the Mothercare Employee Trust as potential beneficiaries.

There have been no movements in directors' interests, beneficial or non-beneficial, between 27 March 2010 and 20 May 2010.

Approved by the board on 20 May 2010 and signed on its behalf by:



David Williams
Chairman, remuneration committee

Directors' responsibilities statement

The directors are responsible for preparing the annual report, 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. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

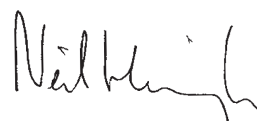
Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; 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 2010 and signed on its behalf by:

Ben Gordon
Chief executive



Neil Harrington
Finance director

Independent auditors' report on the consolidated group financial statements

To the shareholders of Mothercare plc

We have audited the group financial statements of Mothercare plc for the 52 weeks ended 27 March 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 27 March 2010 and of its profit for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the corporate governance statement in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matters

We have reported separately on the parent Company financial statements of Mothercare plc for the 52 weeks ended 27 March 2010 and on the information in the directors' remuneration report that is described as having been audited.

Nicola Mitchell (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditors
London, United Kingdom
20 May 2010

Consolidated income statement

For the 52 weeks ended 27 March 2010

	Note	**52 weeks ended 27 March 2010**			52 weeks ended 28 March 2009 restated[3]		
		Underlying[1] £ million	**Non-underlying[2] £ million**	**Total £ million**	Underlying[1] £ million	Non-underlying[2] £ million	Total £ million
Revenue	4	**766.4**	**–**	**766.4**	723.6	–	723.6
Cost of sales		**(676.0)**	**(3.4)**	**(679.4)**	(645.0)	8.2	(636.8)
Gross profit		**90.4**	**(3.4)**	**87.0**	78.6	8.2	86.8
Administrative expenses before share-based payments		**(37.9)**	**(0.8)**	**(38.7)**	(33.6)	–	(33.6)
Share-based payments	29	**(14.4)**	**(1.2)**	**(15.6)**	(7.6)	–	(7.6)
Administrative expenses		**(52.3)**	**(2.0)**	**(54.3)**	(41.2)	–	(41.2)
Profit from retail operations before share-based payments		**52.5**	**(4.2)**	**48.3**	45.0	8.2	53.2
Profit from retail operations	7	**38.1**	**(5.4)**	**32.7**	37.4	8.2	45.6
Profit/(loss) on disposal/termination of property interests		**–**	**1.0**	**1.0**	–	(2.1)	(2.1)
Share of results of joint ventures	14	**(0.5)**	**–**	**(0.5)**	(0.4)	–	(0.4)
Profit from operations before share-based payments		**52.0**	**(3.2)**	**48.8**	44.6	6.1	50.7
Profit from operations		**37.6**	**(4.4)**	**33.2**	37.0	6.1	43.1
Investment income	8	**–**	**–**	**–**	0.4	–	0.4
Finance costs	9	**(0.4)**	**(0.3)**	**(0.7)**	(0.5)	(1.0)	(1.5)
Profit before taxation		**37.2**	**(4.7)**	**32.5**	36.9	5.1	42.0
Taxation	10	**(10.6)**	**1.7**	**(8.9)**	(10.2)	(1.6)	(11.8)
Profit for the period attributable to equity holders of the parent		**26.6**	**(3.0)**	**23.6**	26.7	3.5	30.2
Earnings per share							
Basic	12	**31.5p**		**28.0p**	32.0p		36.2p
Diluted	12	**30.7p**		**27.3p**	31.0p		35.0p

1 Before items described in note 2 below.
2 Includes exceptional items (profit/loss on disposal/termination of property interests and integration 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 6 to the consolidated financial statements.
3 Restated for Amendments to IAS 38 as described in note 28.

All results relate to continuing operations.

Consolidated statement of comprehensive income

For the 52 weeks ended 27 March 2010

	Note	**52 weeks ended 27 March 2010 £ million**	52 weeks ended 28 March 2009 restated[1] £ million
Other comprehensive income – actuarial loss on defined benefit pension schemes	30	**(32.1)**	(31.2)
Tax relating to components of other comprehensive income	10	**9.0**	8.7
Net loss recognised in other comprehensive income		**(23.1)**	(22.5)
Profit for the period		**23.6**	30.2
Total comprehensive income for the period attributable to equity holders of the parent		**0.5**	7.7

1 Restated for Amendments to IAS 38 as described in note 28.

Consolidated balance sheet

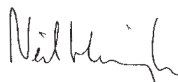
As at 27 March 2010

	Note	27 March 2010 £ million	28 March 2009 restated[1] £ million	29 March 2008 restated[1] £ million
Non-current assets				
Goodwill	15	**68.6**	68.6	68.6
Intangible assets	15	**36.3**	35.9	35.6
Property, plant and equipment	16	**93.9**	92.4	95.8
Investments in joint ventures	14	**1.7**	0.7	0.8
Retirement benefit obligations	30	**–**	–	2.0
Deferred tax asset	17	**7.9**	0.8	–
		208.4	198.4	202.8
Current assets				
Inventories	18	**91.3**	94.1	70.8
Trade and other receivables	19	**57.7**	54.4	51.1
Current tax assets		**–**	–	1.0
Cash and cash equivalents	20	**38.5**	24.8	22.7
Currency derivative assets	22	**14.1**	7.3	0.7
		201.6	180.6	146.3
Total assets		**410.0**	379.0	349.1
Current liabilities				
Trade and other payables	23	**(120.6)**	(108.7)	(95.6)
Current tax liabilities		**(1.4)**	(2.1)	–
Obligations under finance leases		**–**	–	(0.4)
Short term provisions	24	**(9.0)**	(11.9)	(24.0)
		(131.0)	(122.7)	(120.0)
Non-current liabilities				
Trade and other payables	23	**(26.2)**	(19.6)	(15.5)
Obligations under finance leases		**–**	(0.1)	(0.1)
Retirement benefit obligations	30	**(55.1)**	(25.4)	–
Deferred tax liability	17	**–**	–	(4.4)
Long term provisions	24	**(9.3)**	(13.7)	(12.1)
		(90.6)	(58.8)	(32.1)
Total liabilities		**(221.6)**	(181.5)	(152.1)
Net assets		**188.4**	197.5	197.0
Equity attributable to equity holders of the parent				
Called up share capital	25	**44.1**	43.8	43.6
Share premium account		**4.9**	4.3	3.4
Other reserve		**50.8**	50.8	50.8
Own shares	25	**(8.9)**	(10.6)	(9.8)
Translation reserves		**1.3**	1.2	–
Retained earnings		**96.2**	108.0	109.0
Total equity		**188.4**	197.5	197.0

1 Restated for Amendments to IAS 38 as described in note 28.

Approved by the board and authorised for issue on 20 May 2010 and signed on its behalf by:

Ben Gordon



Neil Harrington

Financial statements

Consolidated statement of changes in equity

For the 52 weeks ended 27 March 2010

	Equity attributable to equity holders of the parent						
	Share capital £ million	Share premium account £ million	Other reserve[1] £ million	Own shares £ million	Translation reserve £ million	Retained earnings £ million	**Total equity £ million**
Balance at 29 March 2009 as previously reported	43.8	4.3	50.8	(10.6)	1.2	109.1	198.6
Change in accounting policy (note 28)	–	–	–	–	–	(1.1)	(1.1)
Balance at 29 March 2009 (as restated)[2]	43.8	4.3	50.8	(10.6)	1.2	108.0	197.5
Total comprehensive income for the period	–	–	–	–	–	0.5	0.5
Issue of equity shares	0.3	0.6	–	–	–	–	0.9
Credit to equity for equity-settled share-based payments	–	–	–	–	–	2.6	2.6
Shares transferred to employees on vesting	–	–	–	1.7	–	(1.7)	–
Exchange differences arising on translation of overseas operations	–	–	–	–	0.1	–	0.1
Dividends paid	–	–	–	–	–	(13.2)	(13.2)
Balance at 27 March 2010	**44.1**	**4.9**	**50.8**	**(8.9)**	**1.3**	**96.2**	**188.4**

For the 52 weeks ended 28 March 2009

	Equity attributable to equity holders of the parent						
	Share capital £ million	Share premium account £ million	Other reserve[1] £ million	Own shares £ million	Translation reserve £ million	Retained earnings £ million	**Total equity £ million**
Balance at 30 March 2008 as previously reported	43.6	3.4	50.8	(9.8)	–	110.0	198.0
Change in accounting policy (note 28)	–	–	–	–	–	(1.0)	(1.0)
Balance at 30 March 2008 (as restated)[2]	43.6	3.4	50.8	(9.8)	–	109.0	197.0
Total comprehensive income for the period	–	–	–	–	–	7.7	7.7
Issue of equity shares	0.2	0.9	–	–	–	–	1.1
Credit to equity for equity-settled share-based payments	–	–	–	–	–	2.5	2.5
Purchase of own shares	–	–	–	(1.1)	–	–	(1.1)
Shares transferred to employees on vesting	–	–	–	0.3	–	(0.3)	–
Exchange differences arising on translation of overseas operations	–	–	–	–	1.2	–	1.2
Dividends paid	–	–	–	–	–	(10.9)	(10.9)
Balance at 28 March 2009	43.8	4.3	50.8	(10.6)	1.2	108.0	197.5

1 The other reserve relates to shares issued as consideration for the acquisition of Early Learning Centre on 19 June 2007.
2 Restated for Amendments to IAS 38 as described in note 28.

Consolidated cash flow statement

For the 52 weeks ended 27 March 2010

	Note	**52 weeks ended 27 March 2010 £ million**	52 weeks ended 28 March 2009 £ million
Net cash flow from operating activities	26	**50.1**	34.9
Cash flows from investing activities			
Interest received		**–**	0.4
Purchase of property, plant and equipment		**(18.7)**	(17.5)
Purchase of intangibles – software		**(5.5)**	(5.3)
Proceeds from sale of property, plant and equipment		**2.4**	–
Investments in joint ventures and acquisition of subsidiary		**(1.9)**	(0.3)
Net cash used in investing activities		**(23.7)**	(22.7)
Cash flows from financing activities			
Interest paid		**(0.5)**	(0.4)
Repayment of obligations under finance leases		**(0.1)**	(0.4)
Equity dividends paid		**(13.2)**	(10.9)
Issue of ordinary share capital		**0.9**	1.1
Purchase of own shares		**–**	(1.1)
Net cash used in financing activities		**(12.9)**	(11.7)
Net increase in cash and cash equivalents		**13.5**	0.5
Cash and cash equivalents at beginning of period		**24.8**	22.7
Effect of foreign exchange rate changes		**0.2**	1.6
Cash and cash equivalents at end of period		**38.5**	24.8

Notes to the consolidated financial statements

1. General information

Mothercare plc is a company incorporated in Great Britain under the Companies Act 2006. The address of the registered office is given in the shareholder information on page 96. The nature of the group's operations and its principal activities are set out in note 5 and in the business review on pages 6 to 13.

These financial statements are 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 27 March 2010. The comparative period covered the 52 weeks ended 28 March 2009.

Basis of accounting

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union, International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. They therefore comply with Article 4 of the EU IAS Regulation.

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

New standards affecting presentation and disclosure

IAS 1 (revised 2007) 'Presentation of Financial Statements': IAS 1 (2007) has introduced a number of changes in the format and content of the financial statements. In addition, the revised Standard has required the presentation of a third balance sheet at 29 March 2008 because the Company has applied changes in accounting policies retrospectively. The group has disclosed comparatives at 29 March 2008 only for those notes affected by any restatement.

IFRS 8 'Operating Segments': IFRS 8 is a disclosure standard that has resulted in a redesignation of the group's reportable segments. The Standard requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief executive to allocate resources to the segments and to assess their performance. In contrast, the predecessor standard (IAS 14 'Segment Reporting') required the group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, the segmental information included in note 5 is presented in accordance with IFRS 8 and the comparatives have been restated accordingly.

New standards affecting the reported results and financial position

Amendments to IAS 38 'Intangible Assets': Amendments to IAS 38 require that when an entity has a right to access or has taken delivery of mail order catalogues or advertisement, any associated expenditure must be recognised as an expense. Historically, and in line with a number of similar companies, the group had prepaid the costs of preparing catalogues until the catalogue had been distributed and the benefits of sales associated with the costs of the catalogue were earned. This change in accounting policy had been applied retrospectively, the effect of which is disclosed in note 28.

New standards not affecting the reported results nor the financial positions

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements.

- Amendments to IFRIC 9 'Reassessment of embedded derivatives' and IAS 39 'Financial Instruments; Recognition & Measurement: Embedded Derivatives'
- IFRIC 16 'Hedges of a net investment in a foreign operation'
- IFRIC 15 'Agreements for the construction of real estate'
- IFRIC 13 'Customer Loyalty Programmes'
- Improvements to IFRS (2008 & 2009)
- Amendments to IFRS 7 'Financial Instruments: disclosures'
- Amendments to IAS 23 'Borrowing Costs'
- Amendments to IFRS 2 'Share-based payments, vesting conditions and cancellations'
- Amendments to IAS 32 'Financial Instruments (presentation)' and IAS 1 'Presentation of Financial Instruments; puttable financial instruments & obligations arising on liquidation'
- Amendments to IFRS 1 and IAS 27 'Cost of an investment in a subsidiary, jointly controlled entity or associate'
- Amendments to IAS 39 and IFRS 7 'Recognition, measurement and disclosure of financial assets'

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:

- Amendments to IFRS 1 'Additional Exemptions for First-time Adopters'
- Amendments to IAS 27 'Consolidated and Separate Financial Statements'
- Amendments to IFRS 2 'Group Cash-settled Share-based Payment Transactions'
- Amendments to IAS 39 'Eligible Hedged Items'
- Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement'
- IFRIC 18 'Transfers of Assets from Customers'
- IFRIC 17 'Distributions of Non-cash Assets to Owners'
- IAS 24 'Related Party Disclosures'
- Amendments to IAS 32 'Classification of Rights Issues'

- IFRS 3 revised (2008) 'Business Combinations'
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

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 30. 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 27 March 2010. 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.

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

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

Revenue recognition

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

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

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the group and the amount of revenue can be measured reliably). Royalty arrangements that are based on sales and other measures are recognised by reference to the underlying arrangement.

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

Profit from 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 group has not adopted hedge accounting.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Underlying earnings

The group 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 group has chosen to present an alternative earnings per share measure, a reconciliation of this alternative measure to the statutory measure required by IFRS is given in note 12.

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 or 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 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 6.

Non-cash foreign currency adjustments
The group 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 Early Learning Centre. The average estimated useful life of the assets is as follows:

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

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

Unwinding of discount on exceptional provisions
Where property provisions are charged to exceptional items, the associated unwinding of the discount on these provisions is classified as non-underlying.

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 within other comprehensive income, accumulated in 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 other comprehensive income.

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 also considering whether there have been any other events that would significantly affect the pension liabilities. The impact of these changes in assumptions and events has been estimated in arriving at the valuation of the retirement benefit obligations.

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and 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.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

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

Depreciation is charged so as to write off the cost or valuation of assets, other than land and assets in 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. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that an asset may be impaired.

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

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

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

Inventories

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

Financial instruments

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

Trade receivables

Trade receivables are 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 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, with any changes in fair value recognised in profit or loss for the year.

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.

Notes to the consolidated financial statements continued

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

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 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 30 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 27 March 2010, the group's pension liability was £55.1 million (2009: £25.4 million liability). 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 (2009: £68.6 million).

Property provisions

Descriptions of the provisions held at the balance sheet date are given at note 24. 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.

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.

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 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Revenue – sales of goods	**766.4**	723.6
Investment income	**–**	0.4
Total revenue	**766.4**	724.0

5. Segmental information

The group has adopted IFRS 8 'Operating Segments' with effect from 29 March 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reported to the group's board in order to allocate resources to the segments and assess their performance. The group's reporting segments under IFRS 8 are UK and International.

UK comprises the group's UK store and wholesale operations, catalogue and web sales. The International business comprises the group's franchise and wholesale revenues outside the UK. The unallocated corporate expenses represent board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property.

	52 weeks ended 27 March 2010			
	UK £ million	**International £ million**	**Unallocated corporate expenses £ million**	**Consolidated £ million**
Revenue				
External sales	**590.3**	**176.1**	**–**	**766.4**
Result				
Segment result (underlying)	**36.1**	**23.2**	**(7.3)**	**52.0**
Share-based payments				**(14.4)**
Non-cash foreign currency adjustments				**(1.3)**
Amortisation of intangible assets				**(2.1)**
Exceptional items				**(1.0)**
Profit from operations				**33.2**
Finance costs				**(0.7)**
Profit before taxation				**32.5**
Taxation				**(8.9)**
Profit for the period				**23.6**

Notes to the consolidated financial statements continued

5. Segmental information continued

	52 weeks ended 28 March 2009 restated[1]			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	578.8	144.8	–	723.6
Result				
Segment result (underlying)	34.7	16.5	(6.6)	44.6
Share-based payments				(7.6)
Non-cash foreign currency adjustments				11.8
Amortisation of intangible assets				(2.1)
Exceptional items				(3.6)
Profit from operations				43.1
Investment income				0.4
Finance costs				(1.5)
Profit before taxation				42.0
Taxation				(11.8)
Profit for the period				30.2

1 Restated for Amendments to IAS 38 as described in note 28.

Revenues are attributed to countries on the basis of the customer's location. The largest international customer represents approximately 9 per cent of group sales.

	52 weeks ended 27 March 2010		
	UK £ million	International £ million	Consolidated £ million
Other information			
Capital additions	23.9	–	23.9
Depreciation and amortisation	20.5	–	20.5
Balance sheet			
Assets			
Segment assets	265.3	84.2	349.5
Unallocated corporate assets			60.5
Consolidated total assets			410.0
Liabilities			
Segment liabilities	150.5	14.6	165.1
Unallocated corporate liabilities			56.5
Consolidated total liabilities			221.6

	52 weeks ended 28 March 2009 restated[1]		
	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	266.1	80.0	346.1
Unallocated corporate assets			32.9
Consolidated total assets			379.0
Liabilities			
Segment liabilities	140.8	13.2	154.0
Unallocated corporate liabilities			27.5
Consolidated total liabilities			181.5

1 Restated for Amendments to IAS 38 as described in note 28.

	52 weeks ended 29 March 2008 restated[1]		
	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	253.4	69.3	322.7
Unallocated corporate assets			26.4
Consolidated total assets			349.1
Liabilities			
Segment liabilities	133.6	14.1	147.7
Unallocated corporate liabilities			4.4
Consolidated total liabilities			152.1

1 Restated for Amendments to IAS 38 as described in note 28.

Corporate assets not allocated to UK or International represent current tax assets/liabilities, deferred tax assets/liabilities, cash at bank and in hand, currency derivative assets/liabilities and retirement benefit obligations.

Notes to the consolidated financial statements continued

6. Exceptional and other non-underlying items

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

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Exceptional items:		
Profit/(loss) on disposal/termination of property interests	**1.0**	(2.1)
Integration of ELC included in cost of sales[1]	**–**	(1.5)
Integration of ELC included in admin expenses	**(0.8)**	–
Share-based payments charge included in admin expenses	**(1.2)**	–
Other non-underlying items:		
Non-cash foreign currency adjustments under IAS 39 and IAS 21[1]	**(1.3)**	11.8
Amortisation of intangibles[1]	**(2.1)**	(2.1)
Unwinding of discount on exceptional property provisions included in finance costs	**(0.3)**	(1.0)
Exceptional and other non-underlying items	**(4.7)**	5.1

1 Included in non-underlying cost of sales is a charge of £3.4 million (2009: credit of £8.2 million).

Profit/(loss) on disposal/termination of property interests

During the 52 weeks ended 27 March 2010 ('current year') a net credit of £1.0 million has been recognised in profit from operations relating to profit on disposal/termination of property interests and provisions against subleases and vacant property.

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

Integration of Early Learning Centre

In the current year, costs of £0.8 million have been charged to administrative expenses relating to restructuring costs.

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

Share-based payments charge included in admin expenses

In the current year, a one-off share-based payments charge relating to the 2007 Executive Incentive Plan of £1.2 million (2009: £nil million) was recognised in administrative expenses relating to synergies achieved from the integration of Early Learning Centre.

7. Profit from retail operations

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

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Cost of inventories recognised as an expense	**413.1**	375.6
Write down of inventories to net realisable value recognised as an expense	**0.2**	(0.1)
Depreciation of property, plant and equipment	**15.1**	17.3
Amortisation of intangible assets – software	**3.3**	2.6
Amortisation of intangible assets – other included in non-underlying cost of sales	**2.1**	2.1
Net rent of properties	**69.1**	71.0
Amortisation of lease incentives	**(3.4)**	(2.2)
Hire of plant and equipment	**2.1**	1.5
Staff costs (including directors):		
Wages and salaries (including cash bonuses, excluding share-based payment charges)	**87.2**	85.4
Social security costs	**5.6**	5.2
Pension costs (see note 30)	**3.7**	1.2
Share-based payment charges (see note 29)	**14.4**	7.6
Integration of ELC included in non-underlying cost of sales	**–**	1.5
Integration of ELC included in non-underlying admin expenses	**0.8**	–

Exceptional costs include a further one-off share-based payment charge relating to the 2007 Executive Incentive Plan of £1.2 million (2009: £nil million) in relation to synergies achieved from the integration of Early Learning Centre (note 6).

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 27 March 2010 number	52 weeks ended 28 March 2009 number
Number of employees	**7,452**	7,715
Full-time equivalents	**4,486**	4,653

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 36 to 41 and 86 to 88.

Notes to the consolidated financial statements continued

7. Profit from retail operations continued

For the 52 weeks ended 27 March 2010, profit from retail operations is stated after a non-underlying net charge of £1.3 million (2009: net credit of £11.8 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 27 March 2010 £ million	52 weeks ended 28 March 2009 £ 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	**0.2**	0.3
Total audit fees	**0.3**	0.4
Tax services	**0.1**	0.2
Total non-audit fees	**0.1**	0.2

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

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 35.

8. Investment income

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Interest on bank deposits	**–**	0.4
Investment income	**–**	0.4

9. Finance costs

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Interest and bank fees on bank loans and overdrafts	**0.4**	0.4
Unwinding of discounts on provisions[1]	**0.3**	1.1
Finance costs	**0.7**	1.5

1 Includes a non-underlying charge of £0.3 million (2009: £1.0 million) of unwinding of discount on exceptional provisions. See note 6.

10. Taxation

The charge for taxation on profit for the period comprises:

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 restated[1] £ million
Current tax:		
Current year	**8.5**	8.3
Adjustment in respect of prior periods	**(1.5)**	–
	7.0	8.3
Deferred tax: (see note 17)		
Current year	**0.4**	4.5
Adjustment in respect of prior periods	**1.5**	(1.0)
	1.9	3.5
Charge for taxation on profit for the period	**8.9**	11.8

1 Restated for Amendments to IAS 38 as described in note 28.

UK corporation tax is calculated at 28 per cent (2009: 28 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 27 March 2010 £ million	52 weeks ended 28 March 2009 restated[1] £ million
Profit for the period before taxation	**32.5**	42.0
Profit for the period before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	**9.1**	11.7
Effects of:		
Expenses not deductible for tax purposes	**0.7**	1.0
Impact of overseas tax rates	**(0.4)**	0.1
Utilisation of tax losses not previously recognised against capital gains	**(0.5)**	–
Adjustment in respect of prior periods	**–**	(1.0)
Charge for taxation on profit for the period	**8.9**	11.8

1 Restated for Amendments to IAS 38 as described in note 28.

In addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations amounting to £9.0 million (2009: £8.7 million) has been credited directly to equity.

Notes to the consolidated financial statements continued

11. Dividends

	52 weeks ended 27 March 2010		52 weeks ended 28 March 2009	
	pence per share	£ million	pence per share	£ million
Amounts recognised as distributions to equity holders in the period				
Final dividend for the prior year	**9.9p**	**8.5**	8.3p	6.9
Interim dividend for the current year	**5.5p**	**4.7**	4.6p	4.0
		13.2		10.9

The proposed final dividend of 11.3p per share for the 52 weeks ended 27 March 2010 was approved by the board after 27 March 2010, on 20 May 2010, and so, in line with the requirements of IAS 10 'Events After the Balance Sheet Date', the related cost of £9.8 million has not been included as a liability as at 27 March 2010. This dividend will be paid on 6 August 2010 to shareholders on the register on 4 June 2010.

12. Earnings per share

	52 weeks ended 27 March 2010 million	52 weeks ended 28 March 2009 million
Weighted average number of shares in issue	**84.4**	83.5
Dilution – option schemes	**2.1**	2.7
Diluted weighted average number of shares in issue	**86.5**	86.2
	£ million	£ million restated[1]
Earnings for basic and diluted earnings per share	**23.6**	30.2
Non-cash foreign currency adjustments	**1.3**	(11.8)
Amortisation of intangibles arising on acquisition of Early Learning Centre	**2.1**	2.1
Unwinding of discount on exceptional property provisions	**0.3**	1.0
Exceptional items (note 6)	**1.0**	3.6
Tax effect of above items	**(1.7)**	1.6
Underlying earnings	**26.6**	26.7
	pence	pence restated[1]
Basic earnings per share	**28.0**	36.2
Basic underlying earnings per share	**31.5**	32.0
Diluted earnings per share	**27.3**	35.0
Diluted underlying earnings per share	**30.7**	31.0

1 Restated for Amendments to IAS 38 as described in note 28.

The impact of the restatement for Amendments to IAS 38 (as described in note 28) was to decrease basic earnings per share by 0.1p and diluted earnings per share by 0.2p for the 52 weeks ended 28 March 2009.

13. Subsidiaries

A list of the group's significant investments in subsidiaries, all of which are wholly owned, including the name and country of incorporation is given in note 3 to the Company financial statements. All subsidiaries are included in the consolidation.

14. Investments in joint ventures

Aggregated amounts relating to joint ventures:

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Investments at start of year	**0.7**	0.8
Additions	**1.6**	0.3
Disposals	**(0.1)**	–
Share of loss	**(0.5)**	(0.4)
Investments at end of year	**1.7**	0.7
Summary financial results and position of joint ventures:		
Total assets	**7.2**	3.5
Total liabilities	**(2.5)**	(0.7)
Total loss for the period	**(1.1)**	(1.3)

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
Rhea Retail Private Limited	India	30	50

On 8 September 2009, the group acquired the remaining 50 per cent of Gurgle Limited, a company registered in Great Britain. Prior to this transaction, the group held 50 per cent of the share capital and voting rights of this company and it was therefore accounted for as a joint venture. Following this transaction, Gurgle Limited is now a wholly owned subsidiary and is accounted for as such.

On 18 March 2010, the group established a joint venture, Rhea Retail Private Limited. The group holds 30 per cent of the share capital and 50 per cent of the voting rights of this company and has accounted for the company as a joint venture. Subsequent to the year end this will be renamed as Mothercare India (Pvt) Limited.

Notes to the consolidated financial statements continued

15. Goodwill and intangible assets

	Goodwill £ million	Intangible assets			
		Trade name £ million	Customer relationships £ million	Software £ million	Total £ million
Cost					
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
Additions	–	–	–	5.5	5.5
Disposals	–	–	–	(0.3)	(0.3)
Acquisition of subsidiary	–	0.2	0.2	–	0.4
As at 27 March 2010	**68.6**	**25.2**	**5.7**	**21.2**	**52.1**
Amortisation and impairment					
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
Amortisation	–	1.3	0.8	3.3	5.4
Disposals	–	–	–	(0.2)	(0.2)
As at 27 March 2010	**–**	**3.5**	**2.3**	**10.0**	**15.8**
Net book value					
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
As at 27 March 2010	**68.6**	**21.7**	**3.4**	**11.2**	**36.3**

Goodwill, trade name and customer relationships relate to the acquisition of Early Learning Centre on 19 June 2007 and Gurgle Limited on 8 September 2009. Trade name and customer relationships are amortised over a useful life of 10–20 and 5–10 years respectively.

Impairment of goodwill

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

Goodwill acquired through 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 (£41.8 million) and International (£26.8 million), 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 and expected changes to selling prices. Management estimates the discount rate using a pre-tax rate of 11.1 per cent (2009: 11.3 per cent) 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 one-year period. Cash flows beyond the one-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 CGUs. 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 £1.2 million (2009: £1.3 million) of internally generated intangible assets.

At 27 March 2010, the group had entered into contractual commitments for the acquisition of software amounting to £0.9 million (2009: £0.5 million).

16. 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 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
Acquisition of subsidiary	–	–	0.2	–	0.2
Disposals[1]	–	(2.6)	(5.8)	–	(8.4)
As at 28 March 2009	15.3	106.5	194.2	2.0	318.0
Transfers	–	–	2.0	(2.0)	–
Additions	0.1	8.7	7.9	1.7	18.4
Exchange differences	–	–	0.2	–	0.2
Disposals	(0.7)	(2.2)	(4.5)	–	(7.4)
As at 27 March 2010	**14.7**	**113.0**	**199.8**	**1.7**	**329.2**
Accumulated depreciation and impairment					
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]	–	(1.4)	(4.6)	–	(6.0)
As at 28 March 2009	2.5	79.2	143.9	–	225.6
Charge for year	0.1	4.9	10.1	–	15.1
Exchange differences	–	–	0.1	–	0.1
Disposals	–	(1.6)	(3.9)	–	(5.5)
As at 27 March 2010	**2.6**	**82.5**	**150.2**	**–**	**235.3**
Net book value					
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
As at 27 March 2010	**12.1**	**30.5**	**49.6**	**1.7**	**93.9**

1 Restated gross cost and depreciation of disposals since the acquisition of Early Learning Centre.

The net book value of leasehold properties includes £30.4 million (2009: £27.2 million) in respect of short leasehold properties.

At 27 March 2010, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £11.1 million (2009: £3.8 million).

Freehold land and buildings with a carrying amount of £12.1 million (2009: £12.8 million) have been pledged to secure the group's borrowing facility (see note 21). The group is not allowed to pledge these assets as security for other borrowings.

Notes to the consolidated financial statements
continued

17. Deferred tax assets and liabilities

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

	Accelerated tax depreciation £ million	Short term timing differences £ million	Retirement benefit obligations £ million	Share-based payments £ million	Intangible assets £ million	Tax losses £ million	Total £ million
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 other comprehensive income	–	–	8.7	–	–	–	8.7
At 28 March 2009	(2.4)	2.2	7.1	1.4	(7.5)	–	0.8
(Charge)/credit to income	(1.6)	(0.6)	(0.7)	0.4	0.6	–	(1.9)
Credit to other comprehensive income	–	–	9.0	–	–	–	9.0
At 27 March 2010	**(4.0)**	**1.6**	**15.4**	**1.8**	**(6.9)**	**–**	**7.9**

Certain deferred tax assets and liabilities have been offset where the group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	27 March 2010 £ million	28 March 2009 £ million
Deferred tax assets	**21.7**	15.6
Deferred tax liabilities	**(13.8)**	(14.8)
	7.9	0.8

18. Inventories

	27 March 2010 £ million	28 March 2009 £ million
Underlying	**93.0**	85.8
Non-underlying foreign currency adjustments	**(1.7)**	8.3
Finished goods and goods for resale	**91.3**	94.1

Due to the significant impact of the movement in foreign exchange rates over the current and prior 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 cost in the period is £0.2 million (2009: net credit of £0.1 million).

19. Trade and other receivables

	27 March 2010 £ million	28 March 2009 restated[1] £ million	29 March 2008 restated[1] £ million
Trade receivables gross	**41.5**	36.1	26.9
Allowance for doubtful debts	**(1.7)**	(2.0)	(2.2)
Trade receivables net	**39.8**	34.1	24.7
Prepayments and accrued income	**13.4**	15.1	21.9
Other receivables	**4.5**	3.3	3.1
VAT receivable	**–**	1.9	1.4
	57.7	54.4	51.1

1 Restated for Amendments to IAS 38 as described in note 28.

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

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million	52 weeks ended 29 March 2008 £ million
Balance at beginning of year	**(2.0)**	(2.2)	(0.6)
Utilised in the period	**0.1**	0.2	–
Released in the period	**0.2**	–	–
Charged in the period	**–**	–	(0.2)
Acquisition of subsidiary	**–**	–	(1.4)
Balance at end of year	**(1.7)**	(2.0)	(2.2)

The group's exposure to credit risk inherent in its trade receivables is discussed in note 22. The group has no significant concentration of credit risk. 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.

Notes to the consolidated financial statements continued

19. Trade and other receivables continued

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

	27 March 2010 £ million	28 March 2009 £ million	29 March 2008 £ million
Trade receivables gross	**41.5**	36.1	26.9
Allowance for doubtful debts	**(1.7)**	(2.0)	(2.2)
Trade receivables net	**39.8**	34.1	24.7
Of which:			
Amounts neither impaired nor past due on the reporting date	**38.7**	34.1	23.2
Amounts past due:			
Less than one month	**1.3**	0.6	1.5
Between one and three months	**0.8**	0.5	1.3
Between three and six months	**0.3**	0.5	0.7
Greater than six months	**0.4**	0.4	0.2
Allowance for doubtful debts	**(1.7)**	(2.0)	(2.2)
Trade accounts receivable net carrying amount	**39.8**	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 and an analysis of the counterparty's current financial position.

The average credit period taken on sales of goods is disclosed in note 22. 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.

20. 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.

21. Borrowing facilities

The group had no outstanding borrowings as at 27 March 2010 and 28 March 2009.

Overdraft

The group has an unsecured overdraft facility of £10 million which bears interest at 1.00 per cent above bank base rates. None of this facility was drawn down at 27 March 2010.

Committed borrowing facilities

The group had £55 million of committed secured borrowing facilities available at 27 March 2010 in respect of which all conditions precedent have been met. The final maturity date of this facility was 31 May 2010. None of this facility was drawn down at 27 March 2010.

On 26 April 2010, new committed secured borrowing facilities were agreed for £40 million with an interest rate of 1.70 per cent above LIBOR. The final maturity date of these facilities is 31 October 2013.

22. 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:

	27 March 2010 £ million	28 March 2009 £ million
Foreign currency forward exchange contracts:		
Not later than one year	**142.7**	49.9
After one year but not more than five years	**37.3**	–
	180.0	49.9

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 the statement of changes in equity and note 25.

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, 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 23 per cent (2009: 20 per cent) of group sales. Of these sales, 18 per cent (2009: 16 per cent) were invoiced in foreign currency. The group purchases product in foreign currencies, representing approximately 42 per cent (2009: 32 per cent) of purchases.

Notes to the consolidated financial statements continued

22. 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	
	27 March 2010 £ million	28 March 2009 £ million	**27 March 2010 £ million**	28 March 2009 £ million
US dollar	**(10.3)**	(18.6)	**8.4**	14.9
Euro	**(0.6)**	(0.5)	**2.0**	0.4
Hong Kong dollar	**(2.5)**	(2.5)	**0.4**	0.2
Indian rupee	**(0.3)**	–	**0.8**	–
Chinese renminbi	**(0.1)**	–	**0.1**	–
Singapore dollar	**–**	–	**0.1**	0.1
	(13.8)	(21.6)	**11.8**	15.6

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

	27 March 2010 £ million	28 March 2009 £ million
At notional value	**180.0**	49.9
At fair value	**13.6**	7.3

At 27 March 2010, the average hedged rate for outstanding forward foreign currency contracts is 1.60 for US dollars and 1.17 for euros. These contracts mature between April 2010 and August 2011.

In addition, the fair value of embedded derivatives is £0.5 million (2009: £nil 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.

	27 March 2010 £ million	28 March 2009 £ million
US dollar impact	**(18.1)**	(1.7)

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 group has a credit policy in place and the exposure to counterparty credit risk is monitored. The group mitigates its exposure to counterparty credit risk through minimum counterparty credit guidelines, diversification of counterparties, working within agreed counterparty limits and 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 19 and cash and cash equivalents of £38.5 million.

The average credit period on trade receivables was 18 days (2009: 17 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 21 is a description of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

23. Trade and other payables

	27 March 2010 £ million	28 March 2009 restated[1] £ million	29 March 2008 restated[1] £ million
Current liabilities			
Trade payables	**59.1**	58.9	45.3
Payroll and other taxes including social security	**4.2**	2.2	1.9
Accruals and deferred income	**51.5**	45.4	46.5
VAT payable	**2.1**	–	–
Lease incentives	**3.7**	2.2	1.9
	120.6	108.7	95.6
Non-current liabilities			
Lease incentives	**26.2**	19.6	15.5

1 Restated for Amendments to IAS 38 as described in note 28.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 51 days (2009: 57 days; 2008: 41 days). The group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

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

Notes to the consolidated financial statements
continued

24. Provisions

	27 March 2010 £ million	28 March 2009 £ million
Current liabilities		
Property provisions	**8.5**	8.2
Integration provisions	**–**	3.3
Other provisions	**0.5**	0.4
Short term provisions	**9.0**	11.9
Non-current liabilities		
Property provisions	**8.9**	13.3
Other provisions	**0.4**	0.4
Long term provisions	**9.3**	13.7
Property provisions	**17.4**	21.5
Integration provisions	**–**	3.3
Other provisions	**0.9**	0.8
Total provisions	**18.3**	25.6

The movement on total provisions is as follows:

	Property provisions £ million	Integration provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 28 March 2009	21.5	3.3	0.8	25.6
Utilised in year	(6.5)	(1.8)	(0.3)	(8.6)
Charged in year	3.8	–	0.4	4.2
Released in year	(1.7)	(1.5)	–	(3.2)
Unwinding of discount	0.3	–	–	0.3
Balance at 27 March 2010	**17.4**	**–**	**0.9**	**18.3**

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, principally relating to Early Learning Centre's supply chain. The timing of the utilisation of the above provisions is variable dependent upon the lease expiry dates of the properties concerned.

Integration provisions principally represented the restructure of 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 have been fully utilised.

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

25. Called up share capital

	52 weeks ended 27 March 2010 number of shares	52 weeks ended 28 March 2009 number of shares	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Authorised				
Ordinary shares of 50 pence each:	**120,000,000**	105,000,000	**60.0**	52.5
Allotted, called up and fully paid				
Ordinary shares of 50 pence each:				
Balance at beginning of year	**87,602,632**	87,272,318	**43.8**	43.6
Issued under the Mothercare 2000 Executive Share Option Plan	**463,429**	188,976	**0.2**	0.1
Issued under the Mothercare Sharesave Scheme	**50,320**	141,338	**0.1**	0.1
Balance at end of year	**88,116,381**	87,602,632	**44.1**	43.8

Further details of employee and executive share schemes are given in note 29.

The own shares reserve of £8.9 million (2009: £10.6 million) represents the cost of shares in Mothercare plc purchased in the market and held by the Mothercare Employee Trusts to satisfy options under the group's share option schemes (see note 29). The total shareholding is 2,712,604 (2009: 3,916,883) with a market value at 27 March 2010 of £16,302,750.

Notes to the consolidated financial statements
continued

26. Reconciliation of cash flow from operating activities

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 restated[1] £ million
Profit from retail operations	**32.7**	45.6
Adjustments for:		
Depreciation of property, plant and equipment	**15.1**	17.3
Amortisation of intangible assets – software	**3.3**	2.6
Amortisation of intangible assets – other	**2.1**	2.1
Underlying losses on disposal of property, plant and equipment	**1.0**	2.4
Losses on disposal of intangible assets – software	**0.1**	–
Loss/(gain) on non-underlying non-cash foreign currency adjustments	**1.3**	(11.8)
Equity-settled share-based payments	**2.6**	2.5
Movement in property provisions	**(5.0)**	(3.1)
Movement in integration provisions	**(3.3)**	(10.3)
Movement in other provisions	**0.1**	(0.3)
Amortisation of lease incentives	**(3.4)**	(2.2)
Lease incentives received	**10.2**	6.6
Payments to retirement benefit schemes	**(6.1)**	(5.0)
Charge to profit from operations in respect of service costs of retirement benefit schemes	**3.7**	1.2
Operating cash flow before movement in working capital	**54.4**	47.6
Increase in inventories	**(7.2)**	(14.9)
Increase in receivables	**(2.9)**	(2.4)
Increase in payables	**13.5**	9.8
Cash generated from operations	**57.8**	40.1
Income taxes paid	**(7.7)**	(5.2)
Net cash flow from operating activities	**50.1**	34.9

1 Restated for Amendments to IAS 38 as described in note 28.

27. Operating lease arrangements

The group as lessee:

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Amounts recognised in cost of sales for the period:		
Minimum lease payments paid	**71.7**	73.3
Contingent rents	**0.4**	0.5
Minimum sublease payments received	**(0.9)**	(1.3)
Net rent expense for the period	**71.2**	72.5

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:

	27 March 2010 £ million	28 March 2009 £ million
Not later than one year	**74.5**	77.8
After one year but not more than five years	**229.3**	237.8
After five years	**240.0**	264.4
Total future minimum lease payments	**543.8**	580.0

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

	27 March 2010 £ million	28 March 2009 £ million
Not later than one year	**1.1**	1.2
After one year but not more than five years	**1.5**	2.1
After five years	**4.3**	4.2
Total future minimum lease payments	**6.9**	7.5

Notes to the consolidated financial statements continued

28. Prior period restatement

Amendments to IAS 38 require that when an entity has a right to access or has taken delivery of mail order catalogues or advertisement, any associated expenditure must be recognised as an expense. Historically, and in line with a number of similar companies, the group has prepaid the costs of preparing catalogues until the catalogue has been distributed and the benefits of sales associated with the costs of the catalogue are being earned.

As a result of this change in policy the amounts disclosed in the accounts have been changed, and the comparatives restated, as follows:

Balance sheet adjustments:

	28 March 2009 £ million	29 March 2008 £ million
Trade and other receivables (as previously reported)	55.7	52.5
Prior year adjustment	(1.4)	–
Current year adjustment	0.1	(1.4)
Trade and other receivables (restated)	54.4	51.1
Trade and other payables (as previously reported)	(108.4)	(95.6)
Prior year adjustment	–	–
Current year adjustment	(0.3)	–
Trade and other payables (restated)	(108.7)	(95.6)
Current tax liabilities (as previously reported)	(2.6)	0.6
Prior year adjustment	0.4	–
Current year adjustment	0.1	0.4
Current tax liabilities (restated)	(2.1)	1.0

Income statement adjustments:

	52 weeks ended 28 March 2009 £ million
Profit before tax (as previously reported)	42.2
Current year adjustment	(0.2)
Profit before tax (restated)	42.0
Taxation (as previously reported)	(11.9)
Current year adjustment	0.1
Taxation (restated)	(11.8)

As a result of this change in policy, there was a £0.1 million increase in profit after tax for the 52 weeks ended 27 March 2010.

29. 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 underlying charge for share-based payments under IFRS is £14.4 million (2009: £7.6 million), including national insurance, of which £2.3 million (2009: £2.5 million) was equity settled. In addition, there is an exceptional charge for share-based payments of £1.2 million (2009: £nil million) of which £0.3 million (2009: £nil million) was equity settled, relating to synergies achieved from the integration of Early Learning Centre. These charges relate to the following schemes:

A. Long term incentive plan and share matching scheme
B. Executive share option scheme
C. Save As You Earn schemes
D. Executive Incentive Plan
E. Performance Share Plan

Details of the share schemes that the group operates are provided in the directors' remuneration report on pages 39 to 40.

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.

A. 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 27 March 2010 number of shares	52 weeks ended 28 March 2009 number of shares
Balance at beginning of year	–	230,807
Awarded during year	–	–
Lapsed during year	–	(6,921)
Vested during year	–	(223,886)
Balance at end of year	–	–

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%
Total Shareholder Return (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 Total Shareholder Return (TSR) of the Company will be at least median within the comparator group.

Notes to the consolidated financial statements continued

29. Share-based payments continued

B. 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 27 March 2010 number of shares	52 weeks ended 28 March 2009 number of shares
Balance at beginning of year	202p	589,603	748,441
Granted during year	–	–	–
Forfeited during year	259p	(14,767)	(20,000)
Exercised during year	171p	(463,429)	(138,838)
Expired during year	–	–	–
Balance at end of year	319p	111,407	589,603

The weighted average share price at the date of exercise for share options exercised during the period was 525p, ranging from 440p to 645p. The options outstanding at 27 March 2010 had a weighted average remaining contractual life of 3.7 years.

C. 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 option price	**52 weeks ended 27 March 2010 number of shares**	52 weeks ended 28 March 2009 number of shares
Balance at beginning of year	**260p**	**1,229,082**	980,953
Granted during year	**497p**	**230,951**	635,038
Forfeited during year	**272p**	**(152,632)**	(197,933)
Exercised during year	**279p**	**(50,320)**	(188,976)
Expired during year	**282p**	**(13,949)**	–
Balance at end of year	**302p**	**1,243,132**	1,229,082

The shares outstanding at 27 March 2010 had a weighted average remaining contractual life of 2.1 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 2009	December 2008	December 2007	November 2005
Number of options granted	230,951	635,038	743,552	373,584
Share price at grant date	676p	237p	284p	282p
Exercise price	497p	237p	284p	282p
Expected volatility	30.0%	30.0%	25.0%	25.0%
Risk-free rate	3.00%	2.00%	5.00%	4.50%
Expected dividend yield	3.00%	3.50%	3.00%	2.60%
Time to expiry	3.25 years	3.25 years	3.25 years	3.25 years
Fair value of option	172.9p	41.1p	53.1p	53.0p

Notes to the consolidated financial statements continued

29. Share-based payments continued

D. 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 the 2007 and 2008 schemes. 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 2009 scheme is a wholly share-settled scheme where some of the shares can be delivered on vesting and the remainder deferred.

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

Grant date	May 2009	July 2008	July 2007
Market capitalisation at award date	£338.4m	£337.2m	£274.0m
Expected Mothercare share price volatility	30.0%	25.0%	25.0%
Expected Index volatility	30.0%	20.0%	15.0%
Risk-free rate	3.70%	5.05%	5.83%
Correlation between Mothercare and the Index	50.0%	45.0%	35.0%
Time to expiry	3 years	3 years	3 years
Fair value at grant date	£1.8m	£2.2m	£2.0m
Fair value at 27 March 2010	£3.5m	£7.8m	£18.8m

E. 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 27 March 2010 number of shares	52 weeks ended 28 March 2009 number of shares
Balance at beginning of year	**1,970,015**	1,099,010
Awarded during year	**–**	1,006,482
Lapsed during year	**(21,435)**	(135,477)
Vested during year	**(517,742)**	–
Balance at end of year	**1,430,838**	1,970,015

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
Number of shares awarded	39,576	958,500	59,671	568,952
Share price at date of grant	284p	374p	368p	400p
Exercise price	nil	nil	nil	nil
Time to expiry	3 years	3 years	3 years	3 years
Fair value per share	nil	nil	368p	400p

30. Retirement benefit schemes

Defined contribution schemes

The group operates defined contribution retirement benefit schemes for all qualifying employees of Early Learning Centre Limited and of Mothercare UK Limited.

The total cost charged to income of £0.4 million (2009: £0.3 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 27 March 2010 for the purpose of these disclosures with the advice of professionally qualified actuaries. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

The IAS 19 valuation conducted for the period ending 27 March 2010 disclosed a net defined pension deficit of £55.1 million (2009: £25.4 million).

The major assumptions used in the updated actuarial valuations were:

	27 March 2010	28 March 2009
Discount rate	**5.6%**	6.5%
Future pension increases	**3.6%**	3.1%
Expected rate of salary increases	**4.7%**	4.2%
Expected return on schemes' assets	**7.2%**	7.2%
Analysed between:		
Equities	**8.6%**	8.3%
Bonds	**5.4%**	5.8%
Property	**6.6%**	7.2%
Alternative assets	**7.5%**	7.2%
Other assets	**5.4%**	5.8%

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.

Notes to the consolidated financial statements continued

30. Retirement benefit schemes continued

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

Assumption	Change in assumption	Impact on scheme liabilities £ million
Discount rate	+/- 0.1%	-/+ 5.6
	+/- 0.5%	-/+ 30.2
Rate of salary growth	+/- 0.5%	+/- 2.6
Life expectancy	+ 1 year	+ 7.5

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

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Current service cost	**2.1**	2.5
Interest cost	**11.4**	11.4
Expected return on schemes' assets	**(10.2)**	(13.0)
	3.3	0.9

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 gain of £44.1 million (2009: a loss of £31.9 million), resulting in an actuarial gain of £33.9 million (2009: loss of £44.9 million).

There was an actuarial loss of £66.0 million (2009: a gain of £1.9 million) relating to the defined benefit obligations due to the decrease in the discount rate and increase in future expected price inflation.

The amount recognised in other comprehensive income for the year ending 27 March 2010 is a loss of £32.1 million (2009: £31.2 million loss).

The total cumulative actuarial loss recognised in other comprehensive income is £48.6 million (2009: £16.5 million loss).

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

	27 March 2010 £ million	28 March 2009 £ million
Present value of defined benefit obligations	**252.1**	175.6
Fair value of schemes' assets	**(197.0)**	(150.2)
Liability recognised in balance sheet	**55.1**	25.4

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

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
At beginning of year	**175.6**	167.3
Service cost	**2.1**	2.5
Interest cost	**11.4**	11.4
Contribution from scheme members	**1.8**	1.5
Actuarial losses/(gains)	**66.0**	(1.9)
Benefits paid	**(4.8)**	(5.2)
At end of year	**252.1**	175.6

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

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
At beginning of year	**150.2**	181.1
Actual return on schemes' assets	**44.1**	(31.9)
Company contributions	**5.7**	4.7
Members' contributions	**1.8**	1.5
Benefits paid	**(4.8)**	(5.2)
At end of year	**197.0**	150.2

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

	27 March 2010 per cent	27 March 2010 £ million	28 March 2009 per cent	28 March 2009 £ million
Equities	**8.6**	**97.2**	8.3	64.5
Bonds	**5.4**	**64.5**	5.8	48.5
Property	**6.6**	**24.9**	7.2	23.3
Alternative assets	**7.5**	**9.0**	7.2	11.3
Other assets	**5.4**	**1.4**	5.8	2.6
		197.0		150.2

Notes to the consolidated financial statements continued

30. Retirement benefit schemes continued

The history of experience adjustments is as follows:

	52 weeks ended 27 March 2010	52 weeks ended 28 March 2009	52 weeks ended 29 March 2008	52 weeks ended 31 March 2007	52 weeks ended 1 April 2006
Present value of defined benefit obligations	**£252.1m**	£175.6m	£167.3m	£191.6m	£197.9m
Fair value of schemes' assets	**(£197.0m)**	(£150.2m)	(£181.1m)	(£193.6m)	(£180.4m)
Deficit/(surplus) in the schemes	**£55.1m**	£25.4m	(£13.8m)	(£2.0m)	£17.5m
Experience adjustments on schemes' liabilities	**£66.0m**	(£1.9m)	(£35.1m)	(£17.3m)	£19.8m
Percentage of schemes' liabilities	**26.2%**	1.1%	21.0%	9.0%	10.0%
Experience adjustments on schemes' assets	**£33.9m**	(£44.9m)	(£26.9m)	(£1.2m)	£19.7m
Percentage of schemes' assets	**17.2%**	29.9%	14.9%	0.6%	10.9%

The estimated amount of cash contributions expected to be paid to the schemes during the 52 weeks ending 26 March 2011 is £5.0 million, which includes £2.3 million paid on 29 March 2010.

31. Related party transactions

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

Trading transactions

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

	52 weeks ended 27 March 2010			
	Sales of goods £ million	**Purchase of goods £ million**	**Amounts owed by related parties £ million**	**Amounts owed to related parties £ million**
Joint ventures	**1.3**	**–**	**1.7**	**–**

	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 remuneration report on pages 36 to 41.

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Short term employee benefits	**3.0**	3.8
Post-employment benefits	**0.4**	0.5
Share-based payments	**11.1**	0.9
	14.5	5.2

Other transactions with key management personnel

There were no other transactions with key management personnel.

Appendix to the remuneration report

APPENDIX A

Table 1A

Directors' emoluments

Total emoluments (including pension contributions) in the year ended 27 March 2010 were £8,874,000 (2009: £2,182,000).

	Salary/fees £000		Performance bonus £000		Benefits £000		Incentive scheme vesting £000		Total remuneration (excl. pensions) £000		Pension contributions £000	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Executive directors												
Ben Gordon	**600**	600	**224**	372	**13**	13	**5,631**	397	**6,468**	1,382	**37**	36
Neil Harrington	**265**	265	**72**	140	**11**	11	**1,654**	–	**2,002**	416	**37**	32
Non-executive directors												
Ian Peacock	**145**	145	**–**	–	**–**	–	**–**	–	**145**	145	**–**	–
Karren Brady	**45**	45	**–**	–	**–**	–	**–**	–	**45**	45	**–**	–
Bernard Cragg	**50**	50	**–**	–	**–**	–	**–**	–	**50**	50	**–**	–
Richard Rivers	**45**	31	**–**	–	**–**	–	**–**	–	**45**	31	**–**	–
David Williams	**45**	45	**–**	–	**–**	–	**–**	–	**45**	45	**–**	–

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 is paid to Ben Gordon as a salary supplement referred to on page 41 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 following the discontinuance of the FURBS scheme.

Table 1B

The details required by paragraph 1 of Schedule 5 of the Companies Act 2006 are as follows:

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2010 £000	2009 £000
Emoluments	**1,515**	1,717
Compensation for loss of office	**–**	–
Gains on exercise of share options	**1,369**	–
Amounts receivable under long term incentive schemes	**5,916**	397
Money purchase pension contributions	**183**	177
Total	**8,983**	2,291

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	**2010**	2009
200,001 – 250,000	**1**	1
150,001 – 200,000	**5**	6
100,001 – 150,000	**1**	1
75,001 – 100,000	**0**	0
50,001 – 75,000	**1**	0

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 28 March 2009	Change during year	At 27 March 2010	Change during year net of inflation	Transfer value of change in year net of inflation	28 March 2009	Change during year	Director contributions	27 March 2010	
Ben Gordon	25	5	30	4	86	304	98	19	421	82
Neil Harrington	12	4	16	4	43	94	46	15	155	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. The amounts shown as director contributions were made under salary sacrifice arrangements and are shown for reasons of transparency.

Directors' share options

Director	28 March 2009 (number)	Granted/ (lapsed) during year (number)	Grant/ (lapse) date	Exercise price (pence)	First exercise date	Last exercise date	Exercise date	Gains on exercise 2010 £	27 March 2010 (number)
Ben Gordon	312,500	–	9 Dec 2002	104.00	9 Dec 2005	9 Dec 2012	27 Jul 2009	1,368,757	–
	3,380[1]	–	28 Dec 2007	–	–	–	–	–	3,380
Total	315,880	–	–	–	–	–	27 Jul 2009	1,368,757	3,380
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 96.
No variations have been made to the terms and conditions of existing options in the current or previous years.
No options were granted in the year.

The market price on exercise of the options exercised on 27 July 2009 was 542.0023p.
For any unexpired share options, the market price at 27 March 2010 was 601.00p and the highest and lowest market prices during the current financial year were 690.00p and 372.25p respectively.

Appendix to the remuneration report continued

Performance Share Plan

Conditional awards held by executive directors under the PSP are as follows:

Director	28 March 2009 (number)	Granted/ (lapsed) during year (number)	Grant/(lapse) date	Vesting date	Vested during year (number)	Gains on exercise 2010 £	27 March 2010 (number)
Ben Gordon	138,483	–	25 Jul 2006	25 Jul 2009	(138,483)	750,581	–
	125,000	–	25 Jun 2007	25 Jun 2010	–	–	125,000
	240,802	–	16 Jun 2008	16 Jun 2011	–	–	240,802
Total	504,285	–	–	–	(138,483)	750,581	365,802
Neil Harrington	45,918	–	25 Jul 2006	25 Jul 2009	(45,918)	248,877	–
	42,525	–	25 Jun 2007	25 Jun 2010	–	–	42,525
	79,886	–	16 Jun 2008	16 Jun 2011	–	–	79,886
Total	168,329	–	–	–	(45,918)	248,877	122,411

The above awards were made as nil-cost options.
The actual vesting date for the awards made in 2006 was 27 July 2009.

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	1.5[1]	0.6[1]
Over £75m	2.0[2]	0.8[2]

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%

Applies only to 2007 awards in limited circumstances – see remuneration report on page 40.
Applies to total surplus value.

EIP cash and share determinations made under the EIP during the year

2006 cycle: total surplus value created £196.1 million.

Name	Vesting date	Cash amount paid £	Deferred into shares (number)	Reference share price
Ben Gordon	27 July 2009	1,648,191	295,639	557.5p
Neil Harrington	27 July 2009	659,276	118,255	557.5p

The deferred shares subsequently vested on 1 March 2010.

Name	Deferred shares (number)	Share price on vesting	Gain on sale £
Ben Gordon	295,639	630.3764p	1,863,638
Neil Harrington	118,255	630.3764p	745,452

Company financial statements

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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 27 March 2010 which comprise the parent company balance sheet and the related notes 1 to 8. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 27 March 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the group financial statements of Mothercare plc for the 52 weeks ended 27 March 2010.

Nicola Mitchell (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditors
London, United Kingdom
20 May 2010

Company balance sheet

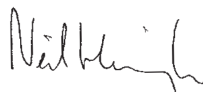
As at 27 March 2010

	Note	27 March 2010 £ million	28 March 2009 £ million
Fixed assets			
Investments in subsidiary undertakings	3	**211.8**	204.9
		211.8	204.9
Current assets			
Debtors	4	**5.0**	5.4
Cash at bank and in hand and time deposits		**(20.2)**	(58.5)
		(15.2)	(53.1)
Creditors – amounts falling due within one year	5	**(73.2)**	(54.6)
Net current liabilities		**(88.4)**	(107.7)
Total assets less current liabilities		**123.4**	97.2
Net assets		**123.4**	97.2
Capital and reserves attributable to equity interests			
Called up share capital	6	**44.1**	43.8
Share premium account	7	**4.9**	4.3
Other reserve	7	**50.8**	50.8
Own shares	7	**(8.9)**	(10.6)
Profit and loss account	7	**32.5**	8.9
Equity shareholders' funds	8	**123.4**	97.2

The notes to the Company financial statements on pages 92 and 94 and the accounting policies described therein form an integral part of this balance sheet.

Approved by the board on 20 May 2010 and signed on its behalf by:

Ben Gordon



Neil Harrington

Company Registration Number: 1950509

Notes to the Company financial statements

1. Significant accounting policies

Basis of presentation

The Company's accounting period covers the 52 weeks ended 27 March 2010. The comparative period covered the 52 weeks ended 28 March 2009.

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. 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 27 March 2010 and the preceding 52 weeks ended 28 March 2009.

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 47.

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 408 of the Companies Act 2006, no separate profit and loss account is presented for the Company. The Company's profit for the 52 weeks ended 27 March 2010 was £31.6 million (2009: loss of £0.1 million). The auditors' remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

3. 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
Early Learning Centre Limited	Retailing company	United Kingdom

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

	27 March 2010 £ million	28 March 2009 £ million
Cost of investments (less amounts written off £153.0 million (2009: £153.0 million))	**146.3**	139.4
Loans to subsidiary undertakings	**65.5**	65.5
	211.8	204.9

	£ million
Cost	
At 28 March 2009	204.9
Share-based payments to employees of subsidiaries	6.9
At 27 March 2010	211.8
Provisions for impairment	
At 28 March 2009 and 27 March 2010	–
Net book value	**211.8**

4. Debtors

	27 March 2010 £ million	28 March 2009 £ million
Amounts due from subsidiary undertakings	**5.0**	5.0
Other debtors	**–**	0.4
	5.0	5.4

5. Creditors – amounts falling due within one year

	27 March 2010 £ million	28 March 2009 £ million
Amounts due to subsidiary undertakings	**72.8**	54.3
Accruals and other creditors	**0.4**	0.3
	73.2	54.6

Notes to the Company financial statements
continued

6. Called up share capital

	Number of shares	£ million
Authorised		
Ordinary shares of 50 pence each:		
Balance at 27 March 2010	120,000,000	60.0
Balance at 28 March 2009	105,000,000	52.5
Allotted, called up and fully paid		
Ordinary shares of 50 pence each:		
Balance at 28 March 2009	87,602,632	43.8
Issued under the Mothercare 2000 Executive Share Option Plan	463,429	0.2
Issued under the Mothercare Sharesave Scheme	50,320	0.1
Balance at 27 March 2010	**88,116,381**	**44.1**

Further details of employee and executive share schemes are provided in note 29 to the consolidated financial statements.

The own shares reserve of £8.9 million (2009: £10.6 million) represents the cost of shares in Mothercare plc purchased in the market and held by the Mothercare Employee Trusts to satisfy options under the group's share option schemes (see note 29 to the consolidated financial statements). The total shareholding is 2,712,604 (2009: 3,916,883) with a market value at 27 March 2010 of £16,302,750.

7. Reserves

	Share premium reserve £ million	Other reserve £ million	Own shares reserve £ million	Profit and loss reserve £ million
Balance at 28 March 2009	4.3	50.8	(10.6)	8.9
Net premium on shares issued	0.6	–	–	–
Fair value of share-based payments	–	–	–	6.9
Purchase of own shares	–	–	–	–
Shares transferred to employees on vesting	–	–	1.7	(1.7)
Dividends	–	–	–	(13.2)
Profit for the financial year	–	–	–	31.6
Balance at 27 March 2010	**4.9**	**50.8**	**(8.9)**	**32.5**

8. Reconciliation of equity shareholders' funds

	52 weeks ended 27 March 2010 £ million	52 weeks ended 28 March 2009 £ million
Equity shareholders' funds brought forward	**97.2**	108.2
Dividends	**(13.2)**	(10.9)
Shares issued	**0.9**	1.1
Fair value of share-based payments	**6.9**	–
Purchase of own shares	**–**	(1.1)
Retained profit/(loss) for the year	**31.6**	(0.1)
Equity shareholders' funds carried forward	**123.4**	97.2

Five year record
(unaudited)

	2010 £ million	2009 restated[4] £ million	2008 restated[4] £ million	2007 £ million	2006 £ million
Summary of consolidated income statements					
Revenue	**766.4**	723.6	676.8	498.5	482.7
Underlying[1] profit from operations before interest	**37.6**	37.0	38.5	21.0	19.5
Non-underlying[2] items	**(4.4)**	6.1	(34.1)	(3.7)	3.2
Interest (net)	**(0.7)**	(1.1)	0.1	1.6	1.5
Profit before taxation	**32.5**	42.0	4.5	18.9	24.2
Taxation	**(8.9)**	(11.8)	(4.4)	(4.4)	(6.7)
Profit for the financial year	**23.6**	30.2	0.1	14.5	17.5
Basic earnings per share	**28.0p**	36.2p	0.1p	20.9p	25.5p
Basic underlying earnings per share	**31.5p**	32.0p	34.5p	24.2p	21.2p
Summary of consolidated balance sheets					
Deferred tax asset/(liability)	**7.9**	0.8	(4.4)	0.2	8.5
Other non-current assets	**200.5**	197.6	200.8	90.6	87.7
Net current assets	**70.6**	57.9	26.3	73.5	62.8
Retirement benefit obligations	**(55.1)**	(25.4)	2.0	2.0	(17.5)
Other non-current liabilities	**(35.5)**	(33.4)	(27.7)	(15.3)	(9.8)
Total net assets	**188.4**	197.5	197.0	151.0	131.7
Other key statistics					
Share price at year end	**601.00p**	386.50p	400.00p	407.00p	314.75p
Net cash/equity	**20.4%**	12.5%	11.5%	26.5%	27.3%
Capital expenditure	**24.2**	22.8	20.4	18.5	16.7
Depreciation and amortisation	**20.5**	22.0	19.7	13.9	12.8
Rents	**69.1**	71.0	71.2	51.6	50.6
Number of UK stores	**387**	405	425	225	231
Number of International stores[3]	**728**	609	494	328	266
UK selling space (000s sq ft)	**2,008**	2,007	2,070	1,791	1,857
International selling space (000s sq ft)[3]	**1,538**	1,294	1,040	n/a	n/a
Average number of employees	**7,452**	7,715	7,626	5,363	5,255
Average number of full-time equivalents	**4,486**	4,653	4,244	3,149	3,174

1 Before items described in note 2 below.
2 Includes exceptional items (profit/loss on disposal/termination of property interests and integration 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 6 to the consolidated financial statements.
3 International stores are owned by franchise partners.
4 Restated for Amendments to IAS 38 as described in note 28 (2008 balance sheet only).

Shareholder information

Shareholder analysis

A summary of holdings as at 31 March 2010 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	0.2	10
Nominee companies	73.7	815
Other corporate holders	10.0	110
Individuals	4.2	23,663
	88.1	**24,598**

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

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

Share price data

	2010	2009
Share price at 26 March 2010 (27 March 2009)	**601.00p**	386.50p
Market capitalisation	**£529.6m**	£338.6m
Share price movement during the year:		
High	**690.00p**	417.75p
Low	**372.25p**	259.00p

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

	2010
Annual General Meeting	15 July
Announcement of interim results	18 November

	2011
Payment of interim dividend	February
Preliminary announcement of results for the 52 weeks ending 26 March 2011	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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