Mothercare plc
Annual report and accounts 2011

mothercare

celebrating

50

years of parenting

mothercare
celebrating 50 years of parenting

Did you know that Mothercare opened its first store in Kingston in 1961?

Our business

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

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Front cover photos:
Early Learning Centre, Kingston store, UK
Mothercare, Othaim Mall, Saudi Arabia

Back cover photo:
An early Mothercare store, Letchworth, UK

Group performance highlights

+3.6%
Group sales up 3.6% to £793.6m (2010: £766.4m)

£1.2bn
Worldwide network sales £1.2bn up 7.1%

+9.9%
Total direct sales £129.0m

1,267
Total stores worldwide

£28.5m
Underlying profit from operations -23.4% (2010: £37.2m)

£15.3m
Year end cash balance £15.3m (2010: £38.5m)

18.3p
Total dividend 18.3p (2010: 16.8p)

24.7p
Underlying basic earnings per share 24.7p (2010: 31.5p)

Our brands

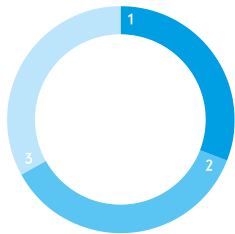
Mothercare is a specialist retailer of products for mothers-to-be, babies and children up to the age of eight. Mothercare offers a wide range of maternity and children's clothing, furniture and home furnishings, bedding, feeding, bathing, travel equipment and toys through its retail and internet operations 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.

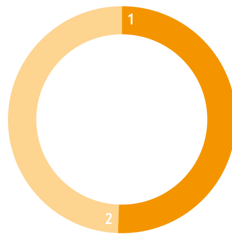
Operational highlights

UK product breakdown



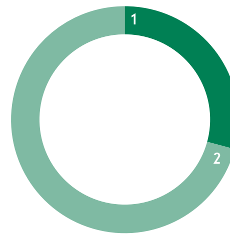
1 Clothing **31%**
2 Home and travel **36%**
3 Toys and gifts **33%**

Sales breakdown £m

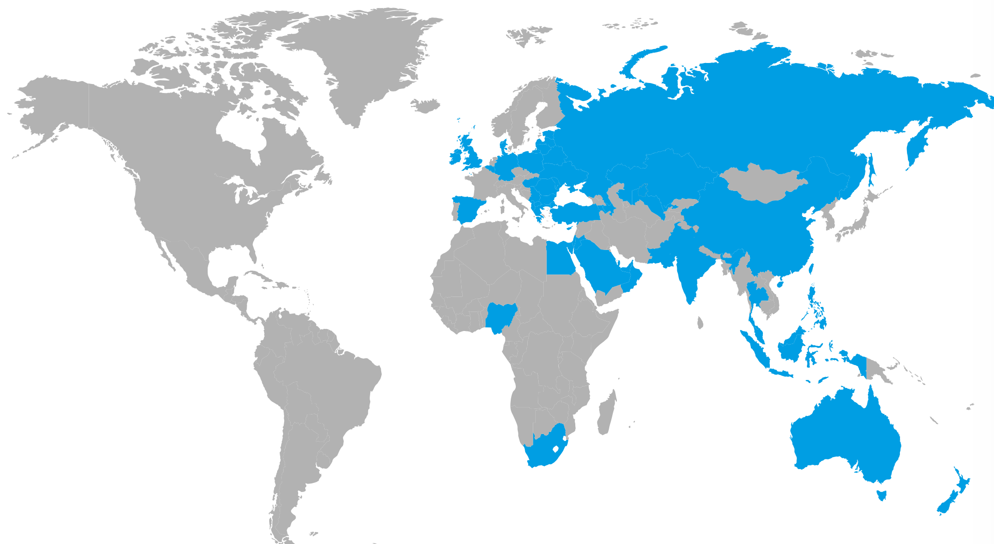


1 UK **587.2**
2 International **570.9**
Total network sales 1,158.1

Number of stores



1 UK **373**
2 International **894**
Total 1,267



55
Total countries

+20.0%
International retail space 1,845m sq ft

166
New International franchise stores

International

Our International business continues to go from strength to strength, with total sales increasing by 16.3 per cent and retail space by 20 per cent.

International now represents around 50 per cent of total network sales and, for the first time this year, was the major profit generator for the group.

We added 166 new stores in the year taking our total number of stores to 894 in 54 countries outside the UK, with 39 franchise partners.

- Europe – our largest region, with 389 stores in 29 countries.
- Middle East and Africa – 263 stores in 12 countries and the home of our largest franchisee.
- Asia-Pacific – 242 stores in 13 countries (including our joint ventures in China and India and our partnership in Australia). This is currently our smallest region but the one with the greatest potential.

894
International stores

+16.3%
Total sales growth year on year

Clothing represents more than half of total sales.

UK retailing

During the year the UK retail environment remained challenging with lower consumer spending and poor economic growth leading to a weaker trading performance in the UK.

Total UK sales in the year were down 0.5 per cent to £587.2 million with UK like-for-like retail sales down 4.0 per cent. We continue to focus on reducing the operational gearing of our UK business and have announced plans to accelerate our UK property strategy, reshaping our portfolio whilst trialling the implementation of new formats.

- Over the last three years through our UK property strategy we have reduced our in-town estate by a quarter and opened 21 larger and more profitable out-of-town Parenting Centres.
- We now look to accelerate our property strategy over the next two years with around one-third of our store leases up for expiry.
- We will continue to drive sales across our Direct and Wholesale channels whilst maintaining tight cost control.

£587.2m
Total UK sales

98
Parenting Centres

We opened 11 out-of-town Parenting Centres during the year, taking our total to 98. This represents over a quarter of our store base.

Direct

Our Direct business benefits from the strong growth in e-commerce as retail sales continue to transition online.

+9.0%
Direct in Store

+10.5%
Direct in Home

We continue to grow our online ranges and expanded our clothing category by 20 per cent over the year.

To harness this opportunity, we continue to invest in new technology, increased services and wider online ranges to enhance the customer experience.

Our total Direct sales rose 9.9 per cent over the year to £129.0 million and now account for 22 per cent of total UK sales.

- In June last year we launched our new Early Learning Centre website to improve our customer offering.
- More recently we extended our services through the launch of transactional mobile sites for both Mothercare and the Early Learning Centre to reflect the growth in m-commerce.
- Next year we will relaunch the Mothercare website on a new, world-class platform with much greater capacity for innovation.

Wholesale

Wholesale is a relatively new but exciting channel for the Mothercare group and we see strong growth on a global basis.

+216%
Total Wholesale £31.0m

+350%
UK Wholesale £21.6m

The Early Learning Centre is moving away from a traditional high street retailer into a recognisable toy brand in its own right, with learning at its core.

Wholesale provides us with the opportunity to maximise the revenue and profit potential of the Mothercare brand and in particular the Early Learning Centre brand.

Total Wholesale revenue increased by 216 per cent to £31.0 million. In the UK, Wholesale revenue increased by 350 per cent during the year to £21.6 million as this incorporated the launch of a new clothing range, mini club, through a strategic partnership with Boots UK.

- Early Learning Centre toys are currently sold in Boots and Debenhams in the UK.
- Internationally, Early Learning Centre toys are sold through key retail partners including Eveil & Jeux in France, Top Toys in Scandinavia and Kidoh in Germany.
- mini club, launched in September 2010, is currently available in around 380 Boots stores in the UK and proving to be popular with customers.

Chairman's statement

'To meet the needs and aspirations of parents for their children, worldwide.'

Ian Peacock
Chairman

This year marks the fiftieth anniversary of the founding of Mothercare by Selim Zilkha in September 1961. Since 2002, when Ben Gordon and I joined the Group, your board and management have made considerable progress in transforming Mothercare from a UK business into a globally recognised parenting company with brands that resonate with the consumer.

We have acquired and integrated the Early Learning Centre as a complementary brand, we have taken steps to adapt the UK business to the changing needs and preferences of our customers, and we have transformed our supply chain capability. Our online offer, which is so successful in the UK, is now being rolled out internationally. All of these changes are consistent with our founder's vision of 'Everything for mother and her baby under one roof.'

Our heritage is in the UK, and we are developing new and exciting store and online formats to meet the needs of our customers. We see the UK market as a whole, and continue to amend the size and shape of our UK retail business to reflect changes in customer behaviour and the retail environment – a multi-channel approach. We believe we are well placed to provide distinctive products and services to our customers through the current retail trading environment. Our brand recognition scores are impressive with a very high percentage of mothers considering Mothercare for their parenting and baby needs. We began to reduce our exposure to the UK retail property market some time ago and were, we believe, correct to do so.

The International business continues to grow apace – franchisee sales rose by over 15% last year and, for the first time in its history, the Company had a first half in which retail sales in its international business exceeded retail sales in its UK business. Coupled with 166 new store openings in the international business, it is clear that there has been a seismic shift in the Company's outlook since 2002.

We will continue to expand our International business with our excellent existing franchise partners and with new franchisees joining the system. However, we want the Company to have an ownership interest in some of our overseas markets and, to this end, we have entered into joint ventures in India and China, and have acquired a strategic shareholding in the Mothercare business in Australia. We envisage more such relationships in the future.

We have a world-class sourcing and supply team in China, Hong Kong and India which underpin all of our global retail operations, and no longer design products only for the UK market but also design specifically for our overseas customers. Most of our product now goes from manufacturer to a warehouse overseas and does not physically visit the UK; in 2002 virtually all our product was routed via the UK.

Wholesale remains a big opportunity for future growth, and sales more than trebled this year. Our sourcing operation allows us to leverage our scale and expertise, and wholesale opportunities exist globally using the Mothercare, Early Learning Centre and own label brands. One example of this is the mini club clothing range which we have launched with Boots UK.

For the next year, we anticipate that cost pressures will demand attention and we do not foresee any significant decrease in input cost trends, particularly with the impressive growth in demand from countries such as China and India impacting raw material prices. In the UK consumer pressures remain and we will continue to innovate and meet our customers' demands. I do not expect 2011/12 to be easy, but we have laid the foundation for success, and, as a result of our strategy, are far stronger than we were to deal with the current business challenges in the UK and to capitalise on the enormous growth opportunities to come. The process is not complete but our mission 'to meet the needs and aspirations of parents for their children, worldwide' remains at the heart of what we do.

Finally, on behalf of the board, I should like to thank Karren Brady, who retired after seven years as a director, for her great contribution to Mothercare – her wisdom and advice have been enormously valuable to us – and to welcome Amanda Mackenzie who joined the board on 1 January 2011 and brings great experience to our group.

An international business for nearly 30 years

The International business now represents approximately 50 per cent of group network sales.

Mothercare, Carousel Store, Turkey

Mothercare and Early Learning Centre, BTC Store, Slovenia

Table top art centre by Early Learning Centre

Mothercare, Warsaw Sadyba Store, Poland

Light and sound farm tractor by Early Learning Centre

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. It has global appeal and reach providing a 'one-stop shop' shopping environment in-store in 55 countries which, allied to its 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 and services 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 UK and overseas. It too has a multi-channel approach offering customers the choice to shop in-store, online or through 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 using a dedicated supply chain designed to be both cost and environmentally efficient. The group also sources and supplies products on a wholesale basis, such as the mini club clothing range launched with Boots UK in September 2010.

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.

Results

The Mothercare group has had a challenging year, with International continuing to deliver strong sales and profit growth and the UK seeing flat sales in a difficult trading environment together with a decline in profitability.

Group sales in the year rose by 3.6 per cent to £793.6 million (2010: £766.4 million) and group profit before tax reduced from £32.5 million to £8.8 million. This is after charging £19.7 million of non-underlying items (2010: £4.7 million) again mostly relating to the volatile non-cash foreign exchange adjustments where we are required to revalue stock and commercial currency hedges to spot rate. Underlying profit before tax decreased from £37.2 million to £28.5 million after a £2.2 million share-based payments charge (2010: £14.4 million).

The group remains cash generative at the operating level and was debt free at year end with net cash of £15.3 million. In May 2011, the group refinanced, increasing committed bank facilities from £40 million to £80 million extended to May 2014 on improved terms, which includes a reduction in interest rate from 1.7% to 1.4% above LIBOR. The increased facility, which is in addition to an uncommitted £10 million overdraft, gives the group additional opportunities to fund the next phase of our growth strategy.

With regard to the overall performance of the group and the strong underlying operating cash flows generated from International in particular, we are proposing a final dividend of 11.9p, an increase of 5.3 per cent, resulting in a full-year dividend of 18.3p, an increase of 8.9 per cent.

International results

International reported sales in the year increased by 17.2 per cent to £206.4 million (2010: £176.1 million). Total International sales increased by 16.3 per cent to £570.9 million (2010: £490.9 million). This was mostly driven by a 15.6 per cent increase in International retail sales to £561.5 million (2010: £485.9 million). International underlying profit from operations was 18.5 per cent higher than last year at £27.5 million (2010: £23.2 million).

UK results

Total UK sales in the year were down 0.5 per cent at £587.2 million (2010: £590.3 million). UK like-for-like retail sales were down 4.0 per cent (down 2.7 per cent including VAT), Direct in Home sales were up 10.5 per cent (up 12.1 per cent including VAT) to £82.9 million and sales from our new rapidly growing Wholesale channel increased by 350.0 per cent to £21.6 million.

UK trading in the second half of the year was affected by adverse weather conditions in the key trading weeks before Christmas together with a general weakening in the consumer environment and increased competition, particularly in Toys and Home & Travel. This led to an increase in clearance activity of autumn/winter stocks in the fourth quarter resulting in gross margin for the year being 2.5 percentage points lower than in 2010. As a result, UK underlying profit from operations was significantly lower than last year at £11.1 million (2010: £36.1 million).

World-class brands

Specialism and innovation are central to the development of our two world-class global brands, Mothercare and the Early Learning Centre, as we continue to build the Mothercare group as the leading global parenting business. The Early Learning Centre brand has also been a success internationally and we have more Early Learning Centre outlets overseas than in the UK with 309 stores in 37 countries.

We have been working hard on our clothing ranges, particularly the baby category where we have continued to grow market share in the newborn baby range despite increased competition. In Home & Travel our premium ranges are performing well as customers are choosing to spend more money on considered purchases when buying quality and style. In Toys, our wooden kitchens continue to be a popular choice with sales up 48% in the year. Our Diner kitchen won the Junior magazine best design award for children's toys aged 3–5 years.

Mothercare group strategy

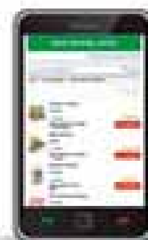
Over the last six years, the Mothercare group has been transformed from a predominantly UK retailer with £520 million of network sales into a multi-channel global business with £1,158 million of network sales in 55 countries worldwide. This transformation has been achieved through the strength of our two brands, Mothercare and Early Learning Centre, excellent product design and innovation together with our focus on parenting and specialism. Over this period we have also financially re-engineered the group, improving operating leverage and flexibility.

Whilst this has been a tough year for retailing in the UK, our strategy to grow International, Direct and Wholesale whilst rightsizing the UK portfolio has partly mitigated the impact on the group. As a result of the downturn in trading, we have reviewed our UK strategy and resolved to accelerate it.

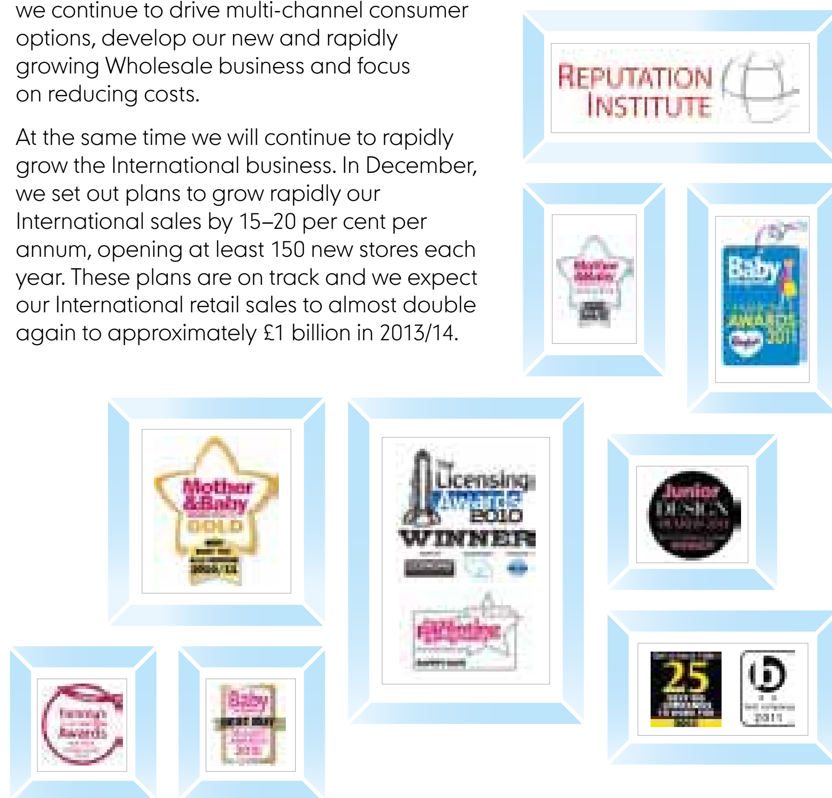
We have announced plans to transform our UK business through a radical restructure of our UK property portfolio. We have a unique opportunity with one-third of our leases expiring in the next two years. This will allow us to rightsize our UK high street portfolio whilst we continue to drive multi-channel consumer options, develop our new and rapidly growing Wholesale business and focus on reducing costs.

At the same time we will continue to rapidly grow the International business. In December, we set out plans to grow rapidly our International sales by 15–20 per cent per annum, opening at least 150 new stores each year. These plans are on track and we expect our International retail sales to almost double again to approximately £1 billion in 2013/14.

My dream kitchen by Early Learning Centre



The Early Learning Centre website has been resized so it can be viewed better on a smart phone



Growing with consumers across the world

The International business continues to grow from strength to strength with 166 new store openings in the year, with retail space increasing by 20% and a continued plan for expansion.

Valentina collection

Mothercare store, Huai Hai Road, China

Sunshine garden mobile

Mothercare store, Infinity Mall, Shanghai, China

Mothercare store, Huai Hai Road, China

Growing International

Developing our brands overseas

As part of our world-class sourcing and supply operation, last year we opened a new distribution centre in Shenzhen, China, allowing us to ship directly to our franchisees around the world.

International is going from strength to strength with total International sales up 16.3 per cent, and profits up 18.5 per cent. We opened 166 new stores in the year, increasing overseas retail space by 20 per cent. The International business now represents approximately 50 per cent of group network sales, and is our largest profit generator. There are now 894 stores in 54 countries outside the UK.

The Asia-Pacific region had a particularly strong year with retail sales up 47.0 per cent. This region is currently our smallest region but one with the biggest growth potential as it includes our joint ventures in Australia, China and India. The region is benefiting from buoyant economic growth in China and India.

Our newest joint venture, Mothercare Australia, continues to make rapid progress in integrating and converting its recent acquisitions and opening new Mothercare stores. Mothercare Australia currently operates 47 stores: 13 Mothercare and 34 Early Learning Centre. We have accelerated the store conversion programme and this has resulted in an increase in our share of start-up costs this year. Within the next 12 months Mothercare Australia plans to create a chain of at least 60 Mothercare and Early Learning Centre stores, establishing the only mother and baby chain with a national footprint across Australia.

China remains a key growth market for Mothercare and our stores continue to trade well. We opened a further three Mothercare stores this year, two in Beijing and one in Shanghai, bringing total store numbers in China to 11. We plan to increase the number of stores in China over the next year opening more stores in Shanghai and Beijing as well as trialling second tier cities.

It has also been a very strong year for our India business with 30 new stores opened during the year taking our total number of stores to 62. We now have 35 franchise stores and 27 with our joint venture. The potential for growth in India is tremendous with high brand awareness across the middle classes and we remain on track to have 200 stores by 2015.

We have also commenced the roll-out of our overseas e-commerce platform with our franchise partners. Earlier this year we launched transactional websites for Mothercare in both Australia and Ireland which are performing well. Following this, we recently launched our first, non-English site, for the Early Learning Centre in Russia. E-commerce is an area of tremendous growth internationally and we have plans to introduce e-commerce platforms across much of the International estate over time.

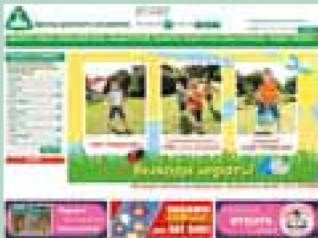
Finally, we announced our plans to open franchise stores in Latin America for the first time. We expect to open trial stores during 2011 in Colombia and Panama.

The Mothercare Spin is our number one selling own brand pushchair worldwide, currently sold in 30 countries.

Making learning fun from Kingston to Kutuzovskiy

The Early Learning Centre brand provides eight major categories of toys and games for children primarily from birth to six-year-olds, with 309 international outlets.

Early Learning Centre, Kutuzovskiy, Russia



Early Learning Centre transactional website, Russia

Early Learning Centre, Peterborough store, UK

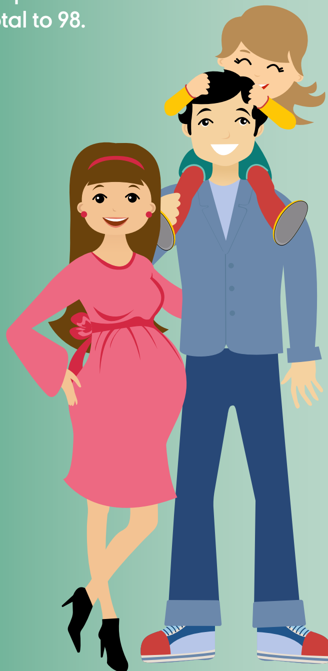
Mothercare and Early Learning Centre, Chalkida store, Greece

Early Learning Centre, Kingston store, UK

Reshaping the UK

Reshaping our portfolio; parenting centres and landmark stores.

Over the last three years we have opened 21 Parenting Centres, taking the total to 98.



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Parenting Centres

For more information refer to corporate responsibility page 21

i) Rightsizing the store portfolio

Over the last three years our UK property strategy has been a key element in our overall strategy. We have reduced the cost base and operational gearing in the store portfolio whilst focusing on the growth of Direct and the new Wholesale channel. During this time we have reduced the in-town estate by a quarter, benefiting from a high level of lease expiries to close high street stores.

At the same time we have taken advantage of the weak property market to open 21 larger and more profitable out-of-town Parenting Centres on favourable terms. We have also transformed the Early Learning Centre estate, reducing the in-town store numbers by 50 whilst creating 109 new concessions within existing Mothercare Parenting Centres and larger out-of-town stores and opening 309 stores overseas.

Our property strategy has to date created a much more flexible estate with a significantly shorter average lease length, lower costs and improved operational gearing. However this has only partially mitigated the effects of the recent downturn in UK trading which has highlighted that operational gearing and high rents in town remain an issue. We have announced a significant acceleration of the UK property strategy over the next two years.

In total, 150 stores will be affected with approximately 110 stores closed and rents renegotiated to a substantially lower level on a further 40 stores. We are in the fortunate position of having 120 lease expiries in the next two years, which is one-third of the entire estate, 90 in 2011/12 and 30 in 2012/13. The vast majority of these lease expiries fall within the lower profit in-town store estate. There are also 30 more stores which do not have a lease expiry and which we plan to exit with a cash cost. Total cash costs are expected to be less than £5 million, although this will depend on negotiations. The results of this activity will be to transform the UK estate by March 2013 reducing total store numbers from 373 to an estimated 266, 102 of which will be out-of-town Parenting Centres and 164 in-town.

By March 2013 we expect total rental costs to be reduced by approximately £12 million and total store occupancy costs, which comprise rent, rates and service charges, to be reduced by £18 million, both on an annualised basis. Average lease length in the estate will also be improved and operational gearing will be enhanced. In total we expect net annualised benefits of at least £4 million to £5 million per annum to March 2013. The reduction of the UK in-town property estate goes hand in hand with our plans to grow Wholesale and Direct in the UK, thereby retaining a significant portion of sales but without the associated rent and rates costs.

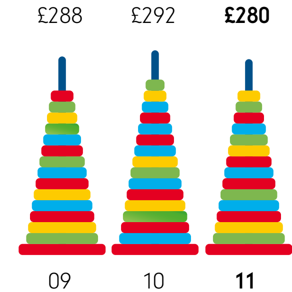
As we reduce our exposure to the high street, we will also be investing in the remaining core estate and we have developed new store formats, one for Mothercare and one for the Early Learning Centre which we are trialling over the next few months. The formats provide an improved shopping environment, enhanced displays, signage and store layouts and better Early Learning Centre positioning in Mothercare stores. We have already started the trial and we will be expanding this over the next few months.

ii) Reducing costs

We continue to focus on reducing the UK cost base and have initiated a cost reduction programme which will save £5 million per annum in addition to the property savings outlined above. These savings will be realised in the current financial year and within the UK operating segment.

UK retail sales

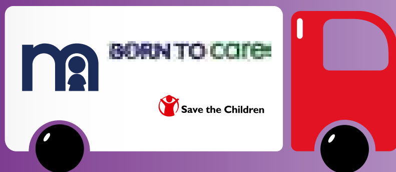
UK retail sales per square foot (full-year UK retail sales compared to year end UK store square footage)



Early Learning Centre's Happyland Royal Wedding set became one of the best-selling toys of the season.

Driving multi-channel

Continued growth



Customers have the choice: delivery to home; collect in-store; standard, next day or nominated day delivery.

£46.1m

Direct in Store sales

£82.9m

Direct in Home sales

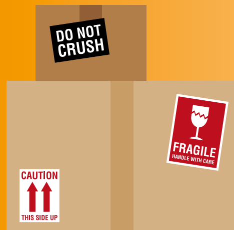
Gurgle.com, our social networking site for parents

Direct continues to be an important and fast-growing channel. In 2010/11 Direct in Home sales increased by 10.5 per cent in the year to £82.9 million and Direct in Store increased by 9.0 per cent to £46.1 million. Total Direct sales were up 9.9 per cent to £129.0 million, representing 22.0 per cent of our UK business. We remain the largest online specialist retailer in our space and continue to enhance our e-commerce offering through improved services and better website functionality. Last July we relaunched the Early Learning Centre online platform which has been a great success, and we plan to launch a new, world-class Mothercare online platform in 2012.

As the strength of online continues to grow, mobile is becoming an increasingly important access tool, with traffic from mobile devices increasing fourfold over the past 12 months. In response to this trend we have launched new transactional mobile sites for both Mothercare and the Early Learning Centre.

Developing Wholesale

Realising our potential



The Lift Off Rocket continues to be one of Early Learning Centre's best-selling products.

Wholesale is a rapidly growing channel for the Mothercare group

£31.0m

Wholesale sales

Wholesale is a relatively new but exciting channel for the Mothercare group. Sales increased by 350 per cent to £21.6 million in the year in the UK. This channel provides us with the opportunity to maximise the revenue and profit of our two brands while broadening the reach of our consumer offering. It also enables us to retain sales in towns where we are closing our own stores.

In conjunction with our strategic partner Boots UK, we successfully launched the mini club brand in September. The mini club range, which is now in its second season, is available in around 380 Boots stores. It is performing well and we are pleased with the positive response we have received for the new spring/summer range.

Group outlook

In the new financial year, we expect International to continue to grow retail sales at 15–20 per cent per annum with 150 new store openings. We expect the environment to remain challenging in the UK, although we will benefit from continued growth in Wholesale and Direct together with the acceleration of our property strategy.

Financial review

Results summary

Group underlying profit before tax reduced by £8.7 million to £28.5 million (2009/10: £37.2 million). 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 £8.8 million (2009/10: £32.5 million).

Income statement

£ million	2010/11	2009/10
Revenue	793.6	766.4
Underlying profit from operations before share-based payments	**31.1**	**52.0**
Share-based payments	(2.2)	(14.4)
Financing	(0.4)	(0.4)
Underlying profit before tax	**28.5**	**37.2**
Exceptional items and unwind of discount on exceptional provisions	(3.6)	(1.3)
Non-cash foreign currency adjustments	(13.8)	(1.3)
Amortisation of intangible assets	(2.3)	(2.1)
Profit before tax	**8.8**	**32.5**
Underlying EPS – basic	24.7p	31.5p
EPS – basic	7.6p	28.0p

Underlying 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).

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 rate. This volatile adjustment does not affect the cash flows or ongoing profitability of the group and is likely to reverse at the start of the next accounting period.
- Amortisation of intangible assets (excluding software).
- Exceptional restructuring costs of the UK business of £3.6 million (see note 6).
- Net profits on disposal or termination of property interests of £0.2 million (see note 6).
- Unwind of discount on exceptional property provisions £0.2 million (see note 6).

Exceptional items in 2009/10 included £2.0 million of integration costs of the Early Learning Centre, £1.0 million net profits on disposal or termination of property interests and £0.3 million unwind of discount on exceptional property provisions.

Results by segment

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

£ million Revenue	2010/11	2009/10
UK	587.2	590.3
International	206.4	176.1
Total	**793.6**	**766.4**

£ million Underlying profit	2010/11	2009/10
UK	11.1	36.1
International	27.5	23.2
Corporate	(7.5)	(7.3)
Underlying profit from operations before share-based payments	**31.1**	**52.0**
Share-based payments	(2.2)	(14.4)
Financing	(0.4)	(0.4)
Underlying profit before tax	**28.5**	**37.2**

UK sales were 0.5 per cent lower than last year with growth in Direct and Wholesale offsetting lower store sales. However, we have benefited from the property strategy, with lower occupancy costs and tight cost control.

International has benefited from the 16.3 per cent growth in total International sales driving growth in royalty income and 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.

Share-based payments

Underlying profit before tax also includes a share-based payments charge of £2.2 million (2009/10: £14.4 million) in relation to the Company's long-term incentive schemes. There are four main types of long-term share-based incentive scheme, being the Executive Incentive Plan, the Performance Share Plan, the Deferred Shares Plan and the Save As You Earn schemes. Full details can be found in the remuneration report and in note 27.

The charges as calculated under IFRS 2 are based on a number of market-based factors and estimates about the future including estimates of Mothercare's future profits, share price and total shareholder return in relation to the General Retailers' Index. 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 2011/12 will increase to approximately £5 million.

Like-for-like sales, International retail sales, total International sales and group 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.

International retail sales are the estimated retail sales of overseas franchisees and joint ventures and associates to their customers (rather than Mothercare sales to franchisees as included in the statutory or reported sales numbers). Total International sales are International retail sales plus International Wholesale sales. Group network sales are total International sales plus total UK sales. Group network sales and reported sales are analysed as follows:

£ million – reported sales	2010/11	2009/10
UK retail sales	565.6	585.5
UK wholesale sales	21.6	4.8
Total UK sales	587.2	590.3
International retail sales	197.0	171.1
International wholesale sales	9.4	5.0
Total International sales	206.4	176.1
Group reported sales	**793.6**	**766.4**

£ million – network sales*	2010/11	2009/10
UK retail sales	565.6	585.5
UK wholesale sales	21.6	4.8
Total UK sales	587.2	590.3
International retail sales	561.5	485.9
International wholesale sales	9.4	5.0
Total International sales	570.9	490.9
Group network sales	**1,158.1**	**1,081.2**

* Estimated

Previously we have included in group network sales the retail sales from our partnership with Boots. We now include the wholesale sales to Boots only, consistent with other UK wholesale arrangements. This has reduced year-on-year group network sales growth for the full year from 8.6 per cent to 7.1 per cent.

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 the effective tax rate is 2.9 per cent lower than 2009/10 at 25.6 per cent (2009/10: 28.5 per cent). An underlying tax charge of £7.3 million (2009/10: £10.6 million) has been included for the period; the total tax charge was £2.3 million (2009/10: £8.9 million). In 2011/12 the effective tax rate is expected to reduce further to approximately 23 per cent.

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	2011/12*	2010/11	2009/10
Income statement			
Service cost	(2.5)	(2.9)	(2.1)
Return on assets/ interest on liabilities	0.2	(0.6)	(1.2)
Net charge	**(2.3)**	**(3.5)**	**(3.3)**
Cash funding			
Regular contributions	(2.1)	(2.2)	(2.7)
Deficit contributions**	(2.2)	(2.8)	(2.3)
Total cash funding	**(4.3)**	**(5.0)**	**(5.0)**
Balance sheet			
Fair value of schemes' assets		208.4	197.0
Present value of defined benefit obligations		(246.0)	(252.1)
Net liability	**N/A**	**(37.6)**	**(55.1)**

*Estimate
**Deficit contributions are paid at the beginning of the following financial year

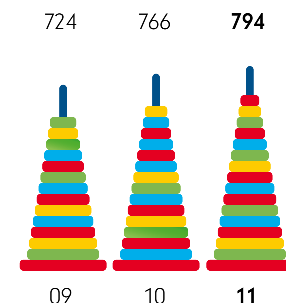
In consultation with the independent actuaries to the schemes, the key market rate assumptions used in the valuation are as follows:

	2010/11 %	2009/10 %	Sensitivity %	Sensitivity £ million
Discount rate	5.5	5.6	+/- 0.1	-/+ 5.6
			+/- 0.5	-/+ 28.0
Inflation RPI	3.5	3.7	+/- 0.1	+/- 5.0
Inflation CPI	2.8	n/a	+/- 0.1	+/- 5.0

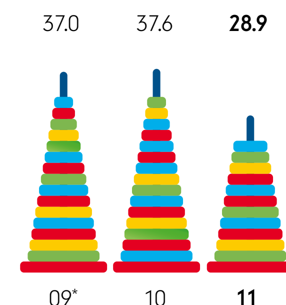
The pension valuation reflects the government's announcement that future statutory minimum pension indexation would be measured by reference to the Consumer Prices Index rather than the Retail Prices Index. This has contributed to an overall reduction in the pension deficit in 2010/11 of £17.5 million.

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

Group sales growth
£ million

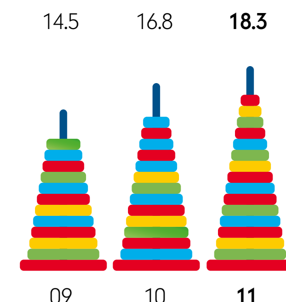


Underlying profit from operations before interest
£ million



* Restated

Total dividend
pence



Balance sheet and cash flow

The balance sheet includes identifiable intangible assets arising on the acquisition of The Early Learning Centre of £20.3 million and goodwill of £68.6 million.

The group continues to generate operating cash, with cash generated from operations of £27.1 million. Continued rapid growth in the International and Wholesale business and increased stock purchases through our sourcing division has resulted in an outflow of working capital in the year of £15.0 million.

We have made investments during the year in the Australia, India and China joint ventures and the purchase of the Blooming Marvellous trade mark totalling £13.6 million.

After investing £21.8 million of capital expenditure (£12.2 million net of lease incentives received) and paying £15.5 million of dividends and £6.0 million of tax, the net cash position at the year end is positive, at £15.3 million (2009/10: £38.5 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 £50 million, being £40 million committed secured bank facilities and a £10 million uncommitted unsecured bank overdraft at an interest rate of 1.7 per cent above LIBOR, which expire on 31 October 2013. After the year end the group refinanced on improved terms, increasing committed secured facilities to £80 million expiring in May 2014 at an interest rate of 1.4 per cent above LIBOR, in addition to the uncommitted 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 £30 million during the period to fund seasonal working capital and at the year end the group had a cash balance of £15.3 million in addition to the £50 million of available facilities.

The current economic conditions create uncertainty around the level of demand for the group's products. However, the group has significant opportunities to optimise the UK property portfolio, 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 £21.8 million (2009/10: £24.2 million), of which £5.2 million was for software intangibles and £16.6 million was invested in UK stores. Landlord contributions of £9.6 million (2009/10: £10.2 million) were received, partially offsetting the outflow. Net capital expenditure after landlord contributions was £12.2 million (2009/10: £14.0 million). Net capital expenditure for 2011/12, before landlord contributions, is expected to be approximately £20 million.

Earnings per share and dividend

Basic underlying earnings per share were 24.7p compared to 31.5p last year. The directors recommend a 5.3 per cent increase in the final dividend to 11.9p (2009/10: 11.3p) giving a total dividend for the year of 18.3p (2009/10: 16.8p), an increase of 8.9 per cent.

The final dividend will be payable on 5 August 2011 to shareholders registered on 3 June 2011. The latest date for election to join the dividend reinvestment plan is 15 July 2011.

Treasury policy and financial risk management

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

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

Foreign currency risk

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

International reported sales represent 26.0 per cent of group sales. Total International sales represent approximately 49.3 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 net exposures are hedged by using forward currency contracts.

Interest rate risk

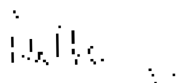
At 26 March 2011, the group has positive cash balances. Given the cash generative nature of the group, interest rate hedging was not considered necessary. The board will keep this under review as the group develops.

Shareholders' funds

Shareholders' funds amount to £192.8 million, an increase of £4.4 million in the year driven largely by the reduction in the retirement benefits liability. This represents £2.18 per share at year end (2010: £2.14 per share).

Accounting policies and standards

There are no new standards affecting the reported results and financial position.



Neil Harrington
Finance director

Corporate responsibility

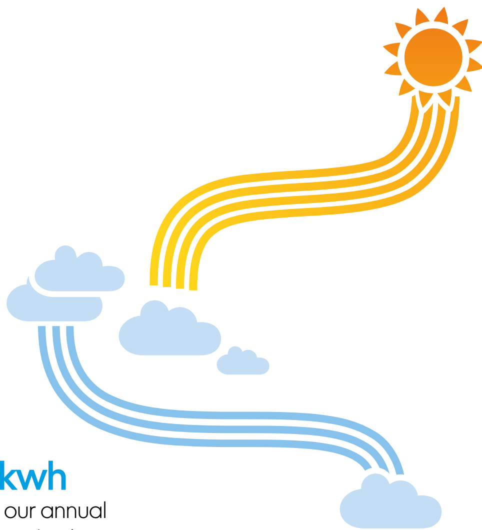
For the next generation

Corporate responsibility underpins our core relationships, those we depend on today and in the future:

- communities – parents and children;
- the people who work for us;
- our suppliers who make and distribute our products; and
- the environment.

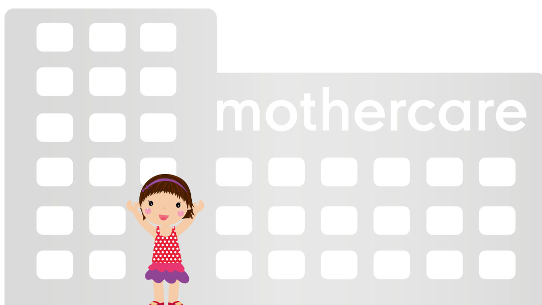
By acting responsibly in the way we run our business we will secure our long-term success and fulfil our mission to meet the needs and aspirations of parents for their children, worldwide.

Our corporate responsibility strategy is focused on the four key areas listed above. This report gives an overview of our activities in each of these areas over the last 12 months and provides an update on our progress against the targets we set in 2007.



-8.6m kwh

Since 2007/08 our annual energy consumption has reduced enough to power our Watford head office for three years



Highlights

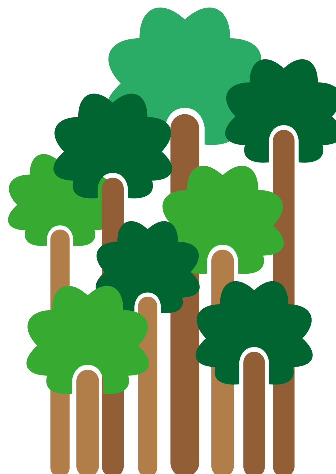
In 2010/11, the Mothercare group:

- joined forces with Save the Children to form a three-year global partnership entitled 'Born to Care'. The aim is to raise £1.75 million, over three years, to reduce childhood mortality around the world and lift children out of poverty in the UK;
- achieved 8th place in The Sunday Times 25 Best Big Companies to Work For;
- launched a Global Code of Conduct Policy defining its behaviour in respect of: supplier relationships, Bribery Act legislation and equal opportunities;
- strengthened its Responsible Sourcing Team in Asia by recruiting three new employees at its Shanghai office; and
- received the Carbon Trust Standard in recognition of good energy management and a fall in carbon emissions between April 2007 and March 2010.

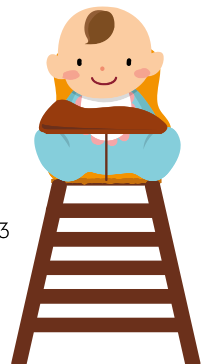
Governance and targets

The corporate responsibility steering committee is chaired jointly by Tim Ashby, the group general counsel and company secretary and Gillian Berkmen, our group brand commercial director. Tim joined Mothercare this year replacing Clive Revett, following his retirement after 23 years of dedicated service to the Mothercare brand. The steering committee reports directly to the PLC board and is supported by a small central team and external experts.

In 2007/08 we set seven targets to be achieved by 2013 (published on www.mothercareplc.com). These targets and our current performance are shown in the table (shaded blue). Last year, we met both carbon targets ahead of schedule, driven in part by the efficiency gains we made integrating the Early Learning Centre and Mothercare operations and by the introduction of efficiency measures across our stores and distribution centres. Our objective to 2013 is to continue efficiency improvements, counteracting the carbon increases from future growth.



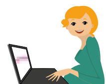
Target of **50%** of solid wooden products made from recycled or FSC wood by 2013



Key performance indicators	2007/8 baseline	2010/11 performance	2013 target	Progress against target
Building energy use (m kWh)	71.2	62.6	–	–
Transport fuel used (m litres)	2.6	2.0	–	–
Transport mileage (m miles)	6.1	4.9	–	–
Carbon emissions (tonnes)	40,400	33,700	–	–
Of which:				
Buildings	33,500	28,500	-15%	-15%
Transport	6,900	5,200	-20%	-25%
Packaging used (tonnes)	11,500	*	–	–
Packaging per £100 (kg, UK only)	20	*	-40%	Not available
Solid wooden products from recycled or Forest Stewardship Council wood	Not collected	*	50% sourced	Not available
Carrier bags used (m, UK only)+	17.4	11.5	-50%	-34%
Recycled waste (tonnes, UK only)	Not collected	2,300	75% recycled	70% recycled
Total fundraising (£k)	100	649	1,000	65% achieved
Of which:				
Direct donations (£k)	100	548	–	–
Employee fundraising (£k)	Not collected	101	–	–

* Our data capture procedures for packaging and wood sourcing are transferring to specialist data companies. Figures for our 2010/11 performance will be available from the autumn.

+ Mothercare stores only. It is estimated that Mothercare stores' usage is 60 per cent of the group total.



Communities – parents and children

We believe that parenting and raising children is an essential foundation for the society we live in, and that healthy babies, parents and families benefit us all. We are committed to helping parents through the work we do providing education and information to parents in the community; our Born to Care Partnership with Save the Children and charitable donations made through the Mothercare Group Foundation.

In 2010, Mothercare joined a select group of parenting brands chosen to be part of the Royal College of Midwives' Alliance partnership programme. It is a three-year arrangement working closely with the national midwifery organisation. Since launch, representatives of the college have been actively participating in our staff training and parenting events.

These include our Baby & Me events which are held in our Parenting Centres for expectant parents, who receive the latest advice and guidance on different aspects of parenting. These events have proved popular, with 7,000 parents-to-be attending since the series was launched.

Our Early Learning Centres host Playtime Tuesday. At ten o'clock parents bring their children along to join in the fun. We believe that play is an important part of a child's creative development and have recruited 'playologists' – experts in play – to conduct trials at ten of our stores aimed at improving the link between play and creativity.

In addition, Gurgle.com, our pregnancy and parenting website has created 23 local community groups around the UK, enabling parents to establish their own support networks and to strengthen relationships with our stores.

23
local community groups around the UK

Corporate responsibility
continued

Charitable Giving

Mothercare's total direct giving to charity last year was £548,161. The largest donation made was to the Mothercare Group Foundation, with further substantial gifts to the Foundation for the Study of Infant Death and Cancer Research UK, which generate donations from a range of products sold in our stores.

In October we announced a three-year global partnership with Save the Children. Called 'Born to Care', it aims to raise £1.75 million over three years, to support Save the Children's EVERY ONE Campaign to improve newborn and child survival around the world and its work to eliminate childhood poverty in the UK. To start the partnership Mothercare made an initial donation of £50,000, to help fund a Save the Children project aiming to improve health care for migrant mothers and their children in China. In the UK, Born to Care will help to fund Save the Children 'Families and Schools Together' projects, where parents and children take part in an eight-week programme to strengthen family bonds, and build relationships with the school, other parents and their community.

Our partnership with Save the Children has galvanised our employees to raise money. Our store staff, and office employees in the UK and around the world have undertaken various fundraising activities. By the close of the financial year, our employees had already raised over £100,000.

Following the devastating floods in Pakistan we joined forces with our distribution provider, DHL to make a difference. We collected £266,000 worth of clothing and shoes at our National Distribution Centre and transported it to the Islamic Relief depot, in Birmingham to be flown out to Pakistan.

Community investment	Donation (£)
Mothercare Group Foundation	102,841
Foundation for the Study of Infant Death	47,500
Save the Children	50,000
Cancer Research UK	50,000
Retail Trust	16,000
Wellbeing of Women	11,000
Other charities and gifts	4,820
Gifts in kind	266,000
Direct donations	**548,161**
Employee fundraising	100,605
Total	**648,766**

Mothercare Group Foundation

The Mothercare group supports the Mothercare Group Foundation – an independent grant-making body focused on projects and charities helping families and babies. The Foundation is an independent charity with trustees drawn from the current Mothercare board and former board members. In 2010/11, the Foundation made £218,783 in grants.

Significant donations were:

- £50,979 to the Wellbeing of Women's Baby Bio-Bank project, funding the salary of a senior research nurse. The project is researching the most common complications occurring in pregnancy;
- £50,000 via Mothercare UK Limited to The Royal College of Midwives' Alliance Programme, an innovative venture formed to actively support midwives and mothers;
- £41,554 to The Stroke Association, a project investigating the causes of strokes in children; and
- £40,000 to The Cambridge Foundation's 'Baby Growth Study', on the effect of chemicals found in the environment on the development of the foetus in the womb.

People who work for us

We promote a work culture that cares – something that resonates with people who work for us who often talk about being part of the Mothercare family. One of the ways we measure this sense of community is by our annual participation in The Sunday Times 25 Best Big Companies to Work For scheme, based on employee votes. This year we were placed eighth overall and were particularly commended for 'the upbeat spirit and family feeling at work' – 79% saying that they care about one another and 76% telling us they feel proud to work for the Company.

We also retained our Two Star status in the Best Company accreditation, which recognises corporate excellence in the workplace. Two Stars is recognised as 'Outstanding' and we were one of only seven retail companies to achieve this award.

£266,000
worth of clothing and shoes transported to Pakistan flood victims

in grants made by the Mothercare Group Foundation

In addition, Mothercare came fourth overall in a survey by The Reputation Institute which measures the reputations companies hold in the eyes of the British public. 40,000 people rated the UK's top 200 companies across seven values, including the areas of workplace, leadership, governance and citizenship.

We believe in the importance of adopting the highest standards of behaviour in all business activities and this year we launched our Global Code of Conduct Policy. It includes examples of acceptable and non-acceptable behaviour in respect of: relationships with suppliers; accepting gifts; equal opportunities; and compliance with the UK Bribery Act. Nearly all of our UK non-store employees have attended a presentation covering the importance of the Code and received a copy for future reference. The Code will be communicated to our wider employee base, business partners and suppliers in the coming months.

Our focus this year has been to renew and strengthen the Learning and Development (L&D) opportunities we offer, to ensure our employees across all grades have the right skills to do their jobs and to progress in the Company. A new training programme called 'Brand Ambassadors' was launched to help store employees become expert in particular areas of importance to our customers, and then share this information with their colleagues. One such programme centred on the development of specialist parenting skills, which saw over 250 employees attend a two-day training programme on baby feeding and weaning, hosted by a range of experts, including representatives from the Royal College of Midwives.

A second initiative, 'Fast Track', identifies and develops assistant managers and senior supervisors who are ready for internal promotion to senior management roles. The programme involves 12 weeks of intensive management training and is proving to be successful, with 74 per cent of graduates achieving promotion since its launch in 2009. Other L&D initiatives include the Emerging Leader Programme and Advance Leader Programme, which are both designed to develop the skills and abilities of future business leaders.

8th

in The Sunday Times 25 Best Big Companies to Work For

People making our products

Responsible sourcing is a key part of the Mothercare ethos. It is a challenging area with complex issues which we continue to work to identify and overcome with our suppliers. The Mothercare group Responsible Sourcing (RS) Code, based on international labour law and reflecting the requirements of the Ethical Trading Initiative Base Code, remains the backbone of our programme and the starting point for dialogue with our suppliers. Our Code, together with our Implementation Policy, is published on www.mothercareplc.com.

In 2010, Mothercare commissioned two independent reviews of the RS strategy:

- The first (by specialist company Impactt Ltd) focused on the effectiveness of the Mothercare monitoring programme, comparing the results of the independent audits with information from RS team visits in the Far East and South Asia. The overall conclusion was that visits complemented the audits, enabling a better understanding of the situation on site, and follow up on issues. There were a number of recommendations on how to improve this in the future which we have taken on board.
- The second review by our internal audit division looked at the policies and procedures used by the entire sourcing function, aiming to understand where improvements could be made. The review concluded that the policies in the RS strategy were suitable for purpose, but that there were some occasional gaps in the implementation of these policies.

These two reviews – along with a consideration of the changing geographical spread of our suppliers, the available resources, and the needs of suppliers – formed the basis of a wider review of our RS strategy, completed by the RS team itself.

This resulted in the development of a five-year implementation plan, including the increase of our team from eight to 11 people (three new employees working from our Shanghai office) and a shift of responsibilities, allowing our expert staff to focus more time in the field supporting suppliers. There will be further recruitment in 2011 to strengthen our China field team and field staff for Bangladesh. The RS manager in the UK is also establishing further policies and procedures, information for suppliers and tools for remediation for use in 2011.

Our strategy has, to date, been focused on our first tier suppliers – that is factories where our products are made. We believe this is still the right approach as this is where we have the greatest degree of influence. However, as we increasingly understand our supply chain it is apparent that labour conditions in second tier and third tier suppliers, for example in cotton fields, dye houses and spinning mills, remain largely unregulated. Tackling complex issues with businesses over whom we have little influence is impossible for us to achieve alone and we are collaborating with a number of brands, NGOs, and trade unions to identify ways to support local initiatives that may address these unregulated areas over the long term.

Environment: Energy and waste

In December 2010 we were pleased to be awarded the Carbon Trust Standard, in recognition of our energy management practices and the fall in our carbon footprint between April 2007 and March 2010. This year our carbon emissions increased, although we continued to meet our target of a 15 per cent reduction since 2007/08. Two factors this year pushed up energy use; more store openings and a very cold winter, where we saw increases in store energy use of 11 per cent, on a like-for-like basis. To offset this we continue to install energy efficiency equipment into our new and refitted stores.

Our challenge over the next year is to harness the enthusiasm and creativity of our employees to drive savings. To support this we have now completed the roll-out of Automatic Meter Readers – giving instant access to the energy consumption figures for each store – and launched a CR Champions scheme across our store network. We have 17 CR Champions in total, one for each of our areas. Their role is to encourage and support everyone to use less energy and recycle more waste.

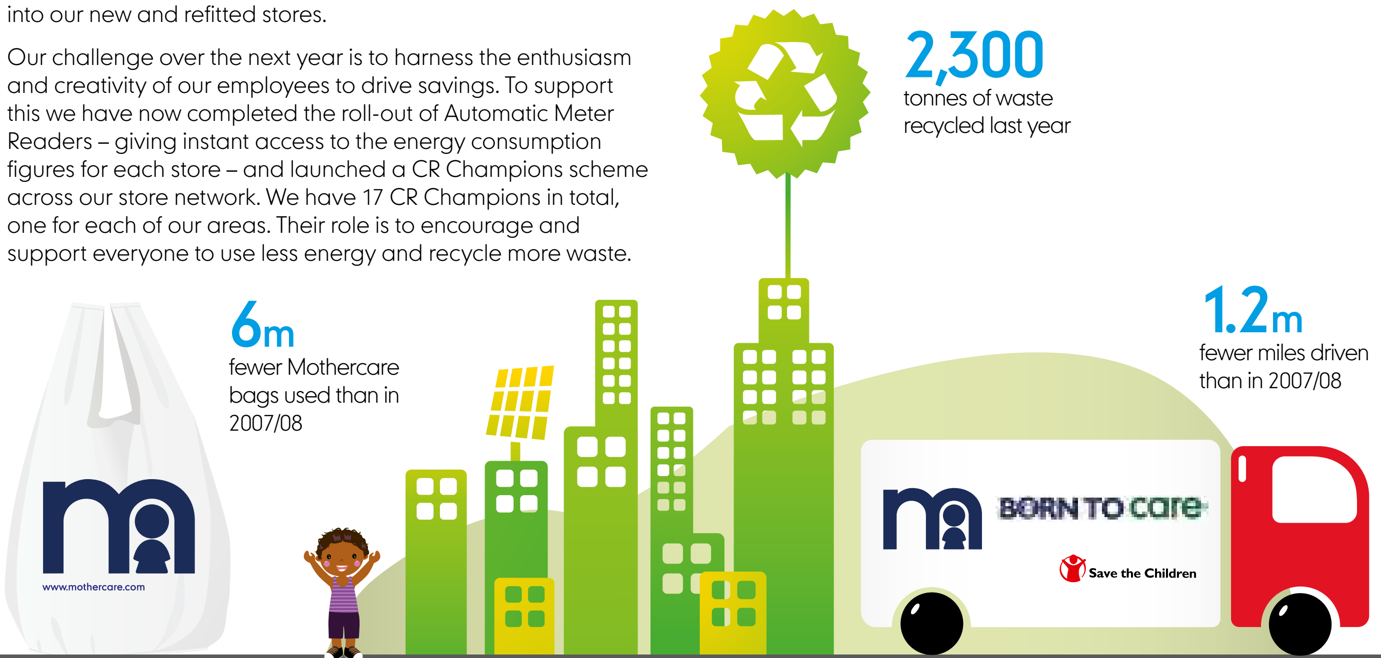
We continue to invest in the carbon efficiency of our transport fleet, this year introducing four new double-deck trailers, following a successful trial in 2010. Their aerodynamic shape reduces drag, increasing fuel efficiency by up to 18 per cent.

At the start of 2010/11, we undertook a survey with our waste contractor to measure more accurately the amount of waste from our stores. The results revealed that our overall recycling rate was lower than previous figures, being approximately 65 per cent of all store waste. We are working with our stores to improve this and have an indication of what is possible from both our Romford and Stoke stores, who have achieved recycling rates of 90 per cent.

Our National Distribution Centre is working towards an aspirational target of zero waste to landfill. This year they took a step closer to that by reducing landfill waste by 40 per cent. This was achieved by a combination of factors: fewer product returns from customers, a reduction in product packaging and the installation of a waste crusher to divert waste away from landfill.

As part of our efforts to reduce the number of single use carrier bags by 50 per cent, we have introduced a policy of asking customers – where appropriate – if they would like a bag, resulting in a further 10 per cent fall in the number we gave away in our Mothercare stores.

We have policies controlling the use of chemicals, focusing on those with known environmental or health risks. In support of our target to ensure over 50 per cent of solid wooden products are made from wood that is recycled or certified by the Forest Stewardship Council, we are working with our suppliers to monitor the source of the wood they use in our products.



Case Study 1: Save the Children – partnership in India – beyond philanthropy

The employees working in our India offices have really got behind our partnership with Save the Children. They have forged strong links with the Save the Children office in Delhi and have so far raised around £11,000.

But the links to Save the Children go beyond fundraising activities. Our RS team worked with the Delhi-based National Manager, Child Protection at Save the Children to run awareness raising sessions for working mothers in supplier factories. In total, eight workshops were conducted (six in Coimbatore and two in Bangalore).

Child labour is still a big issue in India – not so much in the factories where our products are made but in other tiers of the supply chain, such as in cotton fields, spinning mills, dye houses and in the more informal sectors like homeworking, hospitality, construction etc. Schooling can be expensive and many parents choose to stop educating their daughters at a relatively young age.

The objective of the workshop was to educate working mothers about the rights of children, with an emphasis on girls, and prevention of child labour. The trainer provided information about welfare schemes and scholarships available from the government to help keep children out of work and in school.

Over 700 working mothers attended the workshop and the feedback was extremely positive:

Radhika has worked at our supplier Cotton Blossom for two years:

'Save the Children training has been very useful for us. Thank Cotton Blossom for this enlightening opportunity. My take away from this training is that we should provide education to the children without any discrimination between male and female child.'

Uma is also employed by Cotton Blossom and has worked in the factory for three years:

'This programme through Mothercare has been an enlightening experience for me. I committed a mistake of stopping my daughter's education when she was at her tenth standard while I sent my son to college. After attending this programme I vouched myself to continue my daughter's education.'

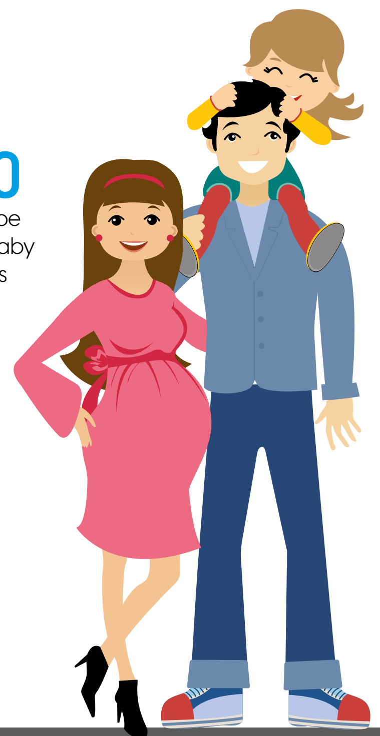
Case Study 2: Baby & Me – parenting events

For many people, becoming an expectant parent is a life-changing experience. In recognition of this, we launched a series of Baby & Me events in our Parenting Centres, last autumn and again this spring. The informal events were aimed at expectant parents and also first-time grandparents, providing them with a forum to ask questions and listen to advice on a whole host of topics, from car safety, to bra fitting, to development toys.

The events were managed by our trained and experienced store staff, who worked alongside a host of advisers from professional organisations such as children centres, baby sensory class teachers, baby massage teachers, health care professionals, and representatives from the Royal College of Midwives, all supported by technical information packs and personal visits from our own, in-house team of experts.

In total we held 185 events across the UK, attended by 7,000 people. They took place in the evenings and on weekends, when the store was closed, making the event more relaxed and enjoyable for everyone who came along. The focus of the event was very much on advice for new parents, rather than on selling products. Over 95 per cent of those who attended said they had really enjoyed the event and would recommend future events to other parents-to-be.

7,000
parents-to-be attended Baby & Me events



£150,000
raised for Save the Children

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 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 Howden Joinery Group PLC (formerly Galiform PLC) 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, a non-executive director of Norwich and Peterborough Building Society from 1997–2005 and a Director of Lombard Risk Management PLC from 2000-2010.

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. Member of the Institution of Civil Engineers.

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, Adelie Food Holdings Ltd, Oasis Dental Healthcare Ltd and The Original Factory Shop Ltd. Non-executive Director of Wagamama Ltd, the Royal London Mutual Insurance Group Ltd. Formerly chairman of Simple Ltd, Avebury Taverns Ltd, Sandpiper Ltd, Wyevale Garden Centres plc and Ideal Shopping Direct plc. Former Governor of London Business School.

Amanda Mackenzie
Non-executive Director
Appointed in January 2011. Chief Marketing and Communications Officer of Aviva plc. A member of Aviva's Executive Committee, Executive sponsor for diversity and Chair of the operational risk committee. Amanda is on Lord Davies' steering board to increase the number of women on corporate boards, and a board member of the National Youth Orchestra.

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 non-executive director of Channel 4 Television Corporation and LumeneOy, and a member of the Advisory Board of WPP.

Directors' report

The directors present their report on the affairs of the group, together with the financial statements and auditor's report for the 52-week period ended 26 March 2011. The corporate governance statement set out on pages 30 to 35 forms part of this report. The chairman's statement at page 4 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 own the Mothercare and Early Learning Centre brands respectively), and Gurgle Limited. Overseas, the group operates a sourcing operation, principally through Mothercare Procurement Limited in Hong Kong, and holds 30 per cent of the share capital of a joint venture with DLF Retail brands in India, 30 per cent of a joint venture with Goodbaby in China, and as at 16 May 2011 holds 23.06 per cent of the share capital of Mothercare Australia Limited. 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 statement, the business review and financial review on pages 1 to 19. The principal risks facing the business are detailed in the corporate governance report at page 31. 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 31.

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 11.9p per share. An interim dividend of 6.4p was paid in February 2011 (2010: 5.5p per share) making a total of 18.3p per share (2010: total of 16.8p per share).

The Trustees of the Mothercare Employee Trust, who held 2,458,079 shares at the balance sheet date, have waived their entitlement to receive dividends in respect of 759,536 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 26 April 2011, 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	12,087,008	13.64%
Aberdeen Asset Management Group	10,945,744	12.36%
Fidelity International Limited	9,509,947	10.74%
DC Thomson & Company Ltd	9,250,000	10.45%
Allianz Global Investors	5,285,133	5.97%
Ameriprise Financial Inc (Group)	4,758,472	5.37%
Financiere de L'Echiquier	3,171,100	3.58%
Legal & General Investment Mgmt Ltd (UK)	3,137,595	3.54%

Acquisition of own shares

The Company was given a general approval at the Annual General Meeting (AGM) in July 2010 to purchase up to 10 per cent of its shares in the market. This authority expires after the AGM on 14 July 2011. The authority has not been used during the year.

As at 17 May 2011, the Company's issued share capital was 88,579,997 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 24. 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.

Directors' report
continued

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.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act and related legislation. The Articles may be amended by special resolution of the shareholders. The business of the Company is managed by the Board who may exercise all the powers of the Company subject to the provision of the Articles of Association, the Companies Act and any ordinary resolution of the Company. There are a number of agreements that take effect, alter or terminate upon a change of control such as commercial contracts, bank loan agreements and employee share plans. The only one of these which is considered to be significant in terms of likely impact on the business of the group as a whole are the multi-currency revolving facility agreements detailed in this directors' report which would entitle each bank to cancel the facility and require the repayment of all outstanding amounts on a minimum of 30 days' notice.

Other than early vesting under the group's long-term incentive plans, the directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that would occur because of a takeover bid whether successful or not.

Directors

The following directors served during the 52-week period ended 26 March 2011:

Name	Appointment
Ian Peacock	Chairman and independent non-executive director, chairman of the nomination committee
Karren Brady	Independent non-executive director (resigned 13 August 2010)
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
Amanda Mackenzie	Independent non-executive director (appointed 1 January 2011)

In accordance with the Company's Articles of Association, Richard Rivers and Neil Harrington retire by rotation from the board following the conclusion of the AGM on 14 July 2011 and stand for re-election. Amanda Mackenzie is standing for election having been appointed since the last 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 82 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, email 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 2011, and to come fourth in a survey carried out by the Reputation Institute which measured the reputations that companies hold in the eyes of the British public.

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 28. 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 changes.

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 (2010: nil days) of average daily purchases during the year for the Company and 62 days (2010: 51 days) for the group.

Fixed assets

Changes in tangible fixed assets are shown in note 15 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 and was reported on last year. 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. A further internal valuation was carried out as at April 2011 on the same basis. This adjusted valuation of the properties resulted in a surplus over their net book value of £8,812,459.

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 16 May 2011 in respect of a £40,000,000 credit facility with Barclays Bank PLC for general business purposes and (ii) a multi currency revolving facility dated 16 May 2011 in respect of a £40,000,000 credit facility with HSBC Bank PLC for general business purposes. These agreements supersede the multi currency revolving facilities entered into by the group with Barclays Bank PLC and HSBC Bank PLC on 26 April 2010.

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 20 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-appointment 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 £102,841. Total charitable cash donations for the year ended 26 March 2011 were £282,161 (2010: £414,070).

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

Annual General Meeting

The 2011 Annual General Meeting will be held on Thursday, 14 July 2011 at 10.30am in the conference suite at the Company's head office at Cherry Tree Road, Watford, Hertfordshire WD24 6SH.

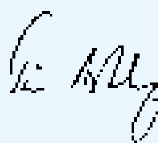
The notice of the meeting and a prepaid form of proxy for the use of shareholders unable to come to the AGM but who may wish to vote or to put any questions to the board of directors are enclosed with this annual report for those shareholders who elected to receive paper copies. The Company wishes to 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 general counsel and 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



Tim Ashby
Group general counsel and company secretary
17 May 2011

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 26 March 2011 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.

The importance of improving the gender balance on boards is increasingly recognised and in February of this year Lord Davies made a series of recommendations in his report 'Women on Boards' which are now being considered by the Financial Reporting Council. Currently the Mothercare plc board (excluding the executive directors) has one woman and four men, and the senior executive management team (including the executive directors) has three women and six men. The Company believes it is well positioned to meet the challenge of improving gender diversity.

Going concern

The directors have reviewed the going concern principle in the light of the guidance provided by the FRC. 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 15 to 19. In addition, notes 20 and 21 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 committed secured bank facilities of £40 million which expire on 31 October 2013. It also had an uncommitted unsecured bank overdraft of £10 million. As of 16 May 2011 the group refinanced to increase its committed secured bank facilities to £80 million until 16 May 2014. The uncommitted unsecured bank overdraft remains at £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 £30 million during the period to fund seasonal working capital and at the year end the group had a cash balance of £15.3 million in addition to the £40 million of available facilities at the time (which has now been increased to £80 million as noted above).

Although the market conditions in the UK remain challenging, the global nature of the group's business means that it has long-term contracts with its franchisees around the world and long-standing relationships with many of its suppliers. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the weak consumer outlook in the UK.

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. Accordingly, the financial statements are prepared on the going concern basis.

Risk management

The business review sets out the performance of the business 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, 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 26 March 2011 the group's largest franchisee represents approximately 10 per cent of group sales and receivables. The group's brands are potentially exposed to the commercial risk in the default by franchisees of payment for amounts due on royalties and goods supplied. In order to mitigate this risk, the group seeks to insure the receivables due from franchisees but in turn may then 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 infringement. 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.
- Any failure in or termination of the group's wholesale business (such as mini club in the UK) could adversely affect the development of and expansion of this channel of business, in addition to any contractual or other liability that may result.
- The group's investments in joint ventures and overseas companies exposes it to greater risk to certain overseas markets, and to the operating performance of those businesses.
- Any failure of the group's logistics, distribution and information technology strategies or platforms, or its business continuity procedures, may restrict the ability of the group to make product available to its UK business, in its worldwide stores network and/or Direct businesses thereby failing to meet customer expectations and adversely affecting 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. As noted above, the group has sought to strengthen further 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 are taken or monitored. 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, fire safety and internal process compliance.

The internal audit function (a combination of internal 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 misstatement 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 the group chief executive, group finance director, the operational directors within the group and the group general counsel and 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 general counsel and 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 is or 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 interest 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 82 to 84. During the period no director was, and procedures are in place to ensure that no director is, involved in deciding or determining his or her own remuneration.

The nomination committee, chaired during the year by Ian Peacock, comprises all of the non-executive directors. The terms of reference of the committee 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 chairman with the assistance of the group general counsel and company secretary using an in-depth questionnaire. The chairman also interviewed each non-executive director drawing upon the themes and issues disclosed by the questionnaire. The review 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 take place at least four times a year following the announcement of the half- and full-year results and trading statements at the AGM and post Christmas. During such meetings the board is able to put forward its objectives for the business and discuss performance against those objectives and develop an understanding of the views of major shareholders. The outcome of meetings with major shareholders is reported by the 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 general counsel and 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 26 March 2011

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 four 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 principle is 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, and the nature of any non-audit work must be approved by the committee. The committee has assisted the board in the assessment of the adequacy of the resourcing plan for the internal audit function. 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 26 March 2011

		Committee		
Director	Board	Audit	Nomination	Remuneration
Maximum number of meetings	5	4	–	4
Ian Peacock	5	4	–	4
Karren Brady (resigned August 2010)	1	1	–	2
Bernard Cragg	4	4	–	4
Ben Gordon	5	2	–	3
Neil Harrington	5	4	–	4
Richard Rivers	5	4	–	4
David Williams	4	4	–	4
Amanda Mackenzie (appointed January 2011)	1	–	–	1

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 two ad hoc board meetings which approved the interim and full-year report and accounts respectively and which were constituted by the board from those members available at that time having considered the views of the whole board beforehand. Although there was no formal meeting of the nominations committee, the members of the board at the time met with and approved the appointment of Amanda Mackenzie prior to her appointment.

Remuneration report

Remuneration committee chairman's statement

Remuneration plays a critical role in fostering the long-term growth and success of any business in a way that promotes good corporate governance and acceptable risk management. This report explains the principles and details of the group's remuneration arrangements to demonstrate that they continue to be aligned with these objectives.

Last year, the committee undertook a comprehensive review of Mothercare's compensation to its executive directors and senior management to ensure that the short- and long-term incentives reward performance in line with the group's strategy. This review was carried out by independent remuneration consultants with input from the board and the executive directors. The conclusion of the review was that the incentive arrangements were appropriate, remain closely aligned with shareholders' interests and are motivational for the management team. As a result of this review and based on the recommendations received, the committee decided that the structure of the remuneration packages did not require any major alteration. For the third year in succession, the committee decided not to increase executive committee salaries in order to maintain the emphasis on variable pay in such a way that remuneration remains directly linked to business performance.

The short-term incentive scheme already includes specific business-related performance measures, in addition to PBT and cash flow targets, with payment under the scheme weighted to reward achievement of most or all of the targets. The group's PSP and EIP schemes remain the cornerstone of its longer term incentive plans for executive directors and senior management and encourage profit growth of 15 per cent per annum and the delivery of total shareholder return to shareholders. The committee believes that these schemes continue to work well and that no changes are required at this time. Details of all these schemes are set out more specifically later in this report.

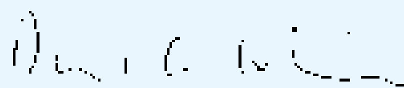
The PSP and EIP schemes, approved by shareholders in 2006, work on three-year cycles. In this year's remuneration report we report on performance of the second PSP and EIP cycles (for the period to 27 March 2010) for which the following results were achieved:

- Mothercare's market cap increased by 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 per cent; General Retailers -32 per cent); and
- Underlying profit before tax over three years increased by 64.6 per cent to £37.2 million.

The report on the performance of the third cycle of EIP and PSP (which matured in March 2011) will be detailed in next year's annual report.

The management team continues to work hard to deliver value to shareholders through continued improvement in the product offering and brand experience at both Mothercare and Early Learning Centre, for the benefit of all of our customers around the world. The performance of the group's worldwide business, in addition to its performance in the UK, is reflected in its remuneration strategy and the retention of this experienced management team will be an important factor in driving the continued success of the overall business.

We believe that we have a fair balance between the remuneration incentives and the performance of the group's business, in each case both for the short and long term.



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 14 July 2011 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 82), emoluments and compensation payments as set out in Table 1A 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 Bernard Cragg, Ian Peacock and Richard Rivers serving throughout the year, and with Karren Brady serving until her resignation in August 2010 and Amanda Mackenzie serving from January 2011.

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 four 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 general counsel and 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

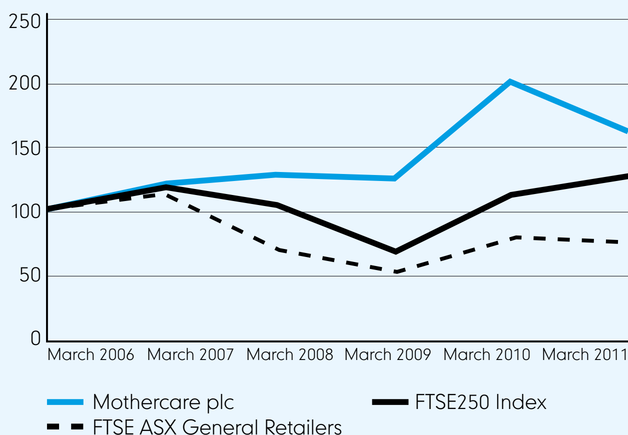
With the exception of DLA Piper LLP, the external advisers listed above have not provided any other services to the Company and do not have any other connections with the Company. DLA Piper LLP provides general legal advice to the group.

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 26 March 2011.

The indices were chosen on the basis that Mothercare is a constituent of both the FTSE250 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 to the executive directors 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 increased responsibilities, the group maintained 2010/11 salary levels 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 2011/12.

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 2010/11 the committee decided that the annual bonus PBT measure should be complemented with measures of operating cash flow, working capital and other key performance indicators (the indicators that are not commercially sensitive are set out in the table below). Consequently, they decided that 75 per cent of the bonus opportunity would be linked to group PBT and the remaining 25 per cent to these other performance measures. The individual performance multipliers would apply to both elements. The cash bonus opportunity remained unchanged from prior years at 115 per cent for Neil Harrington and 135 per cent for Ben Gordon.

Key measures		Target	Achievement
UK stores	Like-for-like sales inc VAT	+3.8%	-2.7%
Direct in Home	Sales growth exc VAT	+15.5%	+10.5%
International	New stores	94	166

Ben Gordon and Neil Harrington received no performance-related bonuses for the year ended 26 March 2011 (2010: £224,100 and £71,600 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 group's performance share plan scheme was approved by shareholders in 2006. Under the PSP, conditional awards of shares of up to 100 per cent of salary (in exceptional circumstances, 200 per cent of salary) are made to selected executives, as determined by the remuneration committee each year. Conditional awards were made to the wider executive team through awards made in May and November as nil-cost options. Details of executive directors' historical awards are set out in Appendix A on page 83.

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 per annum and 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 per annum 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.

During the three-year performance period to 31 March 2010, Mothercare's profit before tax increased from £22.6 million to £37.2 million, representing a cumulative annualised percentage growth of 14.2 per cent. Accordingly, the awards granted in 2007 vested at 93.6 per cent of the total awards available under the scheme, resulting in the issue of 503,999 shares. Details of the three-year performance to March 2011 will be set out in next year's annual report.

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.

The Executive Incentive Plan (EIP)

The group's executive incentive plan was approved by shareholders in 2006. 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.

At the vesting date, the committee retains discretion to defer up to 50 per cent of an award into shares for a further year. Following a minor refinement approved by the committee to the EIP in 2009, in order to provide additional alignment with shareholders' interests, awards from 2009 onwards will be settled wholly in shares (rather than up to 50 per cent as provided in the original scheme). 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 84). 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), the percentage of surplus value in EIP Table 2 will apply. The additional pre-tax profit synergies achieved were ahead of this target.

During the three-year performance period to 27 March 2010, 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.

With regard to the EIP award that vested in March 2010, the remuneration committee decided to exercise its discretion to defer the maximum 50 per cent of the vested amount into shares. These share awards will not be released until July 2011 and therefore the value of the deferred shares to which the executive directors will be entitled will not be known until that date. Details are set out in Appendix A on page 84. Details of the three-year performance to 26 March 2011 will be set out in next year's annual report.

The Executive Share Option Scheme (ESOS)

The Mothercare plc 2000 Share Option Plan

Following approval of the PSP, no options were granted under the Mothercare 2000 Share Option Plan during the year.

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. Bernard Cragg, Richard Rivers, David Williams and Amanda Mackenzie have service agreements with the group that may be terminated upon one month's notice. Their service agreements were entered into on 24 July 2002, 26 March 2003, 27 May 2008, 2 July 2004 and 1 January 2011 respectively.

A review of the compensation arrangements of the chairman and non-executive directors was carried out by the committee in 2009/10 using independent remuneration consultants. Accordingly with effect from 1 April 2010, the annual salary/fees payable to the chairman were increased to £180,000, the senior non-executive director to £60,000, the chairman of the remuneration committee to £55,000 and the other non-executive directors to £50,000.

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 which he currently receives an annual fee of £48,000.

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 2010/11) 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 8 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 2010/11). The normal retirement age is 65 years. Contributions by Neil Harrington are set at 8 per cent of pensionable salary.

The committee regularly reviews the financial impact to the Company of pension provision. Given the regulatory changes expected in October 2012 a further review of the effect of these changes on the Company pension schemes is under way. In the meantime, in order to control the cost of pensions, the group has agreed with the Trustees of the Executive Pension Scheme the introduction of a capped accrual section which limits annual accrual in excess of inflation to £3,125 per annum and has agreed with the individuals affected to pay a salary supplement of up to £16,000 per annum to compensate for their reduced accrual.

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 83.

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 28.

Emoluments and compensation payments

The emoluments (including pension contributions) for executive directors for the year ended 26 March 2011 and the salaries paid to the management level below the board are set out in Tables 1A and 1B of Appendix A on page 82.

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.

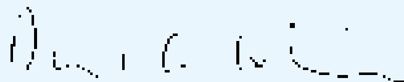
	Interest held at 26 March 2011 (number)	Interest held at 27 March 2010 (or appointment if later) (number)
Ian Peacock	210,709	210,709
Ben Gordon	425,329	421,949
Bernard Cragg	20,000	20,000
Neil Harrington	66,022	59,642
Richard Rivers	8,000	5,000
David Williams	38,300	30,375
Amanda Mackenzie	–	–

Ian Peacock and David Williams are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 3,151 Mothercare shares in trust on 26 March 2011 (3,151 on 27 March 2010). A separate trust, the Mothercare Employee Trust, held 2,458,079 shares on 26 March 2011 (2,709,453 shares on 27 March 2010).

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 26 March 2011 and 17 May 2011.

Approved by the board on 17 May 2011 and signed on its behalf by:



David Williams
Chairman, remuneration committee

Directors' responsibilities statement

The directors are responsible for preparing the Annual 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; 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.

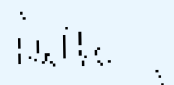
Responsibility statement

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 17 May 2011 and signed on its behalf by:

Ben Gordon
Chief Executive



Neil Harrington
Finance Director

Independent auditor's report on the consolidated group financial statements

We have audited the group financial statements of Mothercare plc for the 52 weeks ended 26 March 2011 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 30. 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 auditor's 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 auditor

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 and express an opinion on 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 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 misstatement, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 26 March 2011 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 group 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 report, in relation to going concern;
- 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; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Mothercare plc for the 52 weeks ended 26 March 2011 and on the information in the directors' remuneration report that is described as having been audited.

Nicola Mitchell, FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
17 May 2011

Consolidated income statement

For the 52 weeks ended 26 March 2011

	Note	52 weeks ended 26 March 2011			52 weeks ended 27 March 2010		
		Underlying[1] £ million	Non-underlying[2] £ million	Total £ million	Underlying[1] £ million	Non-underlying[2] £ million	Total £ million
Revenue	4, 5	**793.6**	**–**	**793.6**	766.4	–	766.4
Cost of sales		**(721.6)**	**(16.1)**	**(737.7)**	(676.0)	(3.4)	(679.4)
Gross profit		**72.0**	**(16.1)**	**55.9**	90.4	(3.4)	87.0
Administrative expenses before share-based payments		**(39.1)**	**(3.6)**	**(42.7)**	(37.9)	(0.8)	(38.7)
Share-based payments	27	**(2.2)**	**–**	**(2.2)**	(14.4)	(1.2)	(15.6)
Administrative expenses		**(41.3)**	**(3.6)**	**(44.9)**	(52.3)	(2.0)	(54.3)
Profit from retail operations before share-based payments		**32.9**	**(19.7)**	**13.2**	52.5	(4.2)	48.3
Profit from retail operations	7	**30.7**	**(19.7)**	**11.0**	38.1	(5.4)	32.7
Profit on disposal/termination of property interests		**–**	**0.2**	**0.2**	–	1.0	1.0
Share of results of joint ventures and associates	13	**(1.8)**	**–**	**(1.8)**	(0.5)	–	(0.5)
Profit from operations before share-based payments		**31.1**	**(19.5)**	**11.6**	52.0	(3.2)	48.8
Profit from operations		**28.9**	**(19.5)**	**9.4**	37.6	(4.4)	33.2
Net finance costs	8	**(0.4)**	**(0.2)**	**(0.6)**	(0.4)	(0.3)	(0.7)
Profit before taxation		**28.5**	**(19.7)**	**8.8**	37.2	(4.7)	32.5
Taxation	9	**(7.3)**	**5.0**	**(2.3)**	(10.6)	1.7	(8.9)
Profit for the period attributable to equity holders of the parent		**21.2**	**(14.7)**	**6.5**	26.6	(3.0)	23.6
Earnings per share							
Basic	11	**24.7p**		**7.6p**	31.5p		28.0p
Diluted	11	**24.2p**		**7.4p**	30.7p		27.3p

1 Before items described in note 2 below.
2 Includes exceptional items (profit/loss on disposal/termination of property interests, restructuring 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.

All results relate to continuing operations.

Consolidated statement of comprehensive income

For the 52 weeks ended 26 March 2011

	Note	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Other comprehensive income – actuarial gain/(loss) on defined benefit pension schemes	28	**16.5**	(32.1)
Tax relating to components of other comprehensive income	9	**(4.3)**	9.0
Exchange differences on translation of foreign operations		**(1.2)**	0.1
Net gain/(loss) recognised in other comprehensive income		**11.0**	(23.0)
Profit for the period		**6.5**	23.6
Total comprehensive income for the period attributable to equity holders of the parent		**17.5**	0.6

Consolidated balance sheet

As at 26 March 2011

	Note	26 March 2011 £ million	27 March 2010 £ million
Non-current assets			
Goodwill	14	**68.6**	68.6
Intangible assets	14	**38.5**	36.3
Property, plant and equipment	15	**91.1**	93.9
Investments in joint ventures and associates	13	**10.4**	1.7
Deferred tax asset	16	**6.9**	7.9
		215.5	208.4
Current assets			
Inventories	17	**116.0**	91.3
Trade and other receivables	18	**62.5**	57.7
Cash and cash equivalents	19	**15.3**	38.5
Currency derivative assets	21	**–**	14.1
		193.8	201.6
Total assets		**409.3**	410.0
Current liabilities			
Trade and other payables	22	**(130.1)**	(120.6)
Current tax liabilities		**(1.0)**	(1.4)
Currency derivative liabilities	21	**(2.7)**	–
Short-term provisions	23	**(5.6)**	(9.0)
		(139.4)	(131.0)
Non-current liabilities			
Trade and other payables	22	**(32.3)**	(26.2)
Retirement benefit obligations	28	**(37.6)**	(55.1)
Long-term provisions	23	**(7.2)**	(9.3)
		(77.1)	(90.6)
Total liabilities		**(216.5)**	(221.6)
Net assets		**192.8**	188.4
Equity attributable to equity holders of the parent			
Called up share capital	24	**44.3**	44.1
Share premium account		**5.9**	4.9
Other reserve		**50.8**	50.8
Own shares	24	**(9.0)**	(8.9)
Translation reserves		**0.1**	1.3
Retained earnings		**100.7**	96.2
Total equity		**192.8**	188.4

Approved by the board and authorised for issue on 17 May 2011 and signed on its behalf by:

Ben Gordon
Chief Executive

Neil Harrington
Finance Director

Consolidated statement of changes in equity

For the 52 weeks ended 26 March 2011

	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 28 March 2010	44.1	4.9	50.8	(8.9)	1.3	96.2	188.4
Total comprehensive income for the period	–	–	–	–	(1.2)	18.7	17.5
Issue of equity shares	0.2	1.0	–	–	–	–	1.2
Credit to equity for equity-settled share-based payments	–	–	–	–	–	2.6	2.6
Purchase of own shares	–	–	–	(1.4)	–	–	(1.4)
Shares transferred to employees on vesting	–	–	–	1.3	–	(1.3)	–
Dividends paid	–	–	–	–	–	(15.5)	(15.5)
Balance at 26 March 2011	**44.3**	**5.9**	**50.8**	**(9.0)**	**0.1**	**100.7**	**192.8**

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	43.8	4.3	50.8	(10.6)	1.2	108.0	197.5
Total comprehensive income for the period	–	–	–	–	0.1	0.5	0.6
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)	–
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

1 The other reserve relates to shares issued as consideration for the acquisition of Early Learning Centre on 19 June 2007.

Consolidated cash flow statement

For the 52 weeks ended 26 March 2011

	Note	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Net cash flow from operating activities	25	**27.1**	50.1
Cash flows from investing activities			
Interest received		**0.1**	–
Purchase of property, plant and equipment		**(16.6)**	(18.7)
Purchase of intangibles – software		**(5.2)**	(5.5)
Purchase of intangibles – other		**(3.1)**	–
Proceeds from sale of property, plant and equipment		**3.3**	2.4
Investments in joint ventures, associate and acquisition of subsidiaries		**(10.5)**	(1.9)
Net cash used in investing activities		**(32.0)**	(23.7)
Cash flows from financing activities			
Interest paid		**(0.6)**	(0.5)
Repayment of obligations under finance leases		**–**	(0.1)
Equity dividends paid		**(15.5)**	(13.2)
Issue of ordinary share capital		**1.2**	0.9
Purchase of own shares		**(1.4)**	–
Net cash used in financing activities		**(16.3)**	(12.9)
Net (decrease)/increase in cash and cash equivalents		**(21.2)**	13.5
Cash and cash equivalents at beginning of period		**38.5**	24.8
Effect of foreign exchange rate changes		**(2.0)**	0.2
Cash and cash equivalents at end of period		**15.3**	38.5

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 92. 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 14.

These financial statements are presented in UK 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 26 March 2011. The comparative period covered the 52 weeks ended 27 March 2010.

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.

New standards affecting presentation and disclosure

There are no new standards in the year affecting the presentation and disclosure of the financial statements.

New standards affecting the reported results and financial position

There are no new standards in the year affecting the reported results and financial position.

New standards not affecting the reported results nor the financial position

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 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'

New Standards in issue but not yet effective

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

- Amendments to IAS 12 'Deferred Tax: Recovery of Underlying Assets'
- Amendments to IFRS 1 'Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters'
- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets'
- Improvements to IFRSs 2010 'Improvements to IFRSs 2010'
- Amendment to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters'
- IFRS 9 'Financial Instruments'
- IAS 24 'Related Party Disclosures'
- Amendment to IAS 32 'Classification of Rights Issues'
- Amendments to IFRIC 14 (Nov. 2009) 'Prepayments of a Minimum Funding Requirement'
- 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 26 March 2011. 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. Acquisition related costs are recognised in profit and loss as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) '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 and deferred tax assets or liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.

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.

2. Significant accounting policies continued

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 accruals 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.

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 11.

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 related to property restructures, integration and restructuring costs and other non-operating items can have a material impact on the absolute amount of and trend in the profit from operations and the result for the year. Therefore any gains and losses on such items are analysed as non-underlying on the face of the income statement. Further details of the exceptional items are provided in note 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 the Early Learning Centre and Blooming Marvellous. 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 and associates

Joint ventures and associates are accounted for using the equity method whereby the interest in the joint venture or associate 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 ventures and associates.

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 lease.

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 the functional currency 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, 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.

2. Significant accounting policies continued

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 other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

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 accruals basis to the income statement using the effective interest rate 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.

2. Significant accounting policies continued

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 and options, 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.

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 28 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 26 March 2011, the group's pension liability was £37.6 million (2010: £55.1 million). 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, a suitable long-term growth rate 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 (2010: £68.6 million).

Property provisions
Descriptions of the provisions held at the balance sheet date are given at note 23. 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 are 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 estimated 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.

Notes to the consolidated financial statements
continued

4. Revenue

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

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Revenue	793.6	766.4
Interest revenue	0.1	–
Total revenue	**793.7**	766.4

5. Segmental information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reported to the group's board in order to allocate resources to the segments and assess their performance. The group's reporting segments under IFRS 8 are UK and International.

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

	52 weeks ended 26 March 2011			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	587.2	206.4	–	793.6
Result				
Segment result (underlying)	11.1	27.5	(7.5)	31.1
Share-based payments				(2.2)
Non-cash foreign currency adjustments				(13.8)
Amortisation of intangible assets				(2.3)
Exceptional items				(3.4)
Profit from operations				9.4
Interest revenue				0.1
Finance costs				(0.7)
Profit before taxation				8.8
Taxation				(2.3)
Profit for the period				6.5

	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

Revenues are attributed to countries on the basis of the customer's location. The largest international customer represents approximately 9.9 per cent (2010: 9.0 per cent) of group sales.

	52 weeks ended 26 March 2011		
	UK £ million	**International £ million**	**Consolidated £ million**
Other information			
Capital additions	**25.7**	**–**	**25.7**
Depreciation and amortisation	**23.0**	**–**	**23.0**
Balance sheet			
Assets			
Segment assets	**277.8**	**109.3**	**387.1**
Unallocated corporate assets			**22.2**
Consolidated total assets			**409.3**
Liabilities			
Segment liabilities	**169.8**	**5.4**	**175.2**
Unallocated corporate liabilities			**41.3**
Consolidated total liabilities			**216.5**

5. Segmental information continued

	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

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.

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 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Exceptional items:		
Profit on disposal/termination of property interests	**0.2**	1.0
Restructuring costs included in administrative expenses	**(3.6)**	–
Integration of ELC included in administrative expenses	**–**	(0.8)
Share-based payment charge included in administrative expenses	**–**	(1.2)
Other non-underlying items:		
Non-cash foreign currency adjustments under IAS 39 and IAS 21[1]	**(13.8)**	(1.3)
Amortisation of intangibles[1]	**(2.3)**	(2.1)
Unwinding of discount on exceptional property provisions included in finance costs	**(0.2)**	(0.3)
Exceptional and other non-underlying items	**(19.7)**	(4.7)

1 Included in non-underlying cost of sales is a charge of £16.1 million (2010: charge of £3.4 million).

Profit on disposal/termination of property interests

During the 52 weeks ended 26 March 2011 a net credit of £0.2 million (2010: a net credit of £1.0 million) has been recognised in profit from operations relating to profit on disposal/termination of property interests from property restructuring and provisions against subleases and vacant property.

Integration of the Early Learning Centre

In the prior year £0.8 million was charged to administrative expenses relating to restructuring costs.

Restructuring costs

During the 52 weeks ended 26 March 2011 a charge of £3.6 million (2010: £nil) was recognised in administrative expenses arising from a substantial restructure of the group's UK head office operations which will improve efficiency and effectiveness and result in a reduction in the ongoing cost base.

Share-based payment charge included in administrative expenses

During the 52 weeks ended 27 March 2010 a charge of £1.2 million relating to the 2007 Executive Incentive Plan was recognised in administrative expenses relating to synergies achieved from the integration of the Early Learning Centre.

7. Profit from retail operations

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

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Cost of inventories recognised as an expense	**440.9**	413.1
Write down of inventories to net realisable value recognised as an expense	**1.0**	0.2
Depreciation of property, plant and equipment	**16.6**	15.1
Amortisation of intangible assets – software	**4.1**	3.3
Amortisation of intangible assets – other included in non-underlying cost of sales	**2.3**	2.1
Net rent of properties	**68.2**	69.1
Amortisation of lease incentives	**(5.9)**	(3.4)
Hire of plant and equipment	**1.9**	2.1
Staff costs (including directors):		
Wages and salaries (including cash bonuses, excluding share-based payment charges)	**87.9**	87.2
Social security costs	**5.5**	5.6
Pension costs (see note 28)	**4.1**	3.7
Share-based payment charges (see note 27)	**2.2**	14.4
Restructuring costs included in administrative expenses	**3.6**	–
Integration of ELC included in non-underlying administrative expenses	**–**	0.8

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 26 March 2011 number	52 weeks ended 27 March 2010 number
Number of employees	**7,440**	7,452
Full-time equivalents	**4,650**	4,486

7. Profit from retail operations continued

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 36 to 41 and 82 to 84.

For the 52 weeks ended 26 March 2011, profit from retail operations is stated after a non-underlying net charge of £13.8 million (2010: £1.3 million) to cost of sales as a result of non-cash foreign currency adjustments under IAS 39 and IAS 21.

The analysis of auditor's remuneration is as follows:

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries pursuant to legislation	**0.2**	0.2
Total audit fees	**0.3**	0.3
Corporate finance services	**0.2**	–
Tax services	**0.1**	0.1
Total non-audit fees	**0.3**	0.1

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

The corporate finance fees were in connection with investments and potential investments.

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, in the corporate governance report.

8. Net finance costs

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Interest receivable	**(0.1)**	–
Interest and bank fees on bank loans and overdrafts	**0.5**	0.4
Unwinding of discounts on provisions[1]	**0.2**	0.3
Finance costs	**0.6**	0.7

1 Non-underlying charge of £0.2 million (2010: £0.3 million) of unwinding of discount on exceptional provisions (see note 6).

9. Taxation

The charge for taxation on profit for the period comprises:

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Current tax:		
Current year	**8.1**	8.5
Adjustment in respect of prior periods	**(0.8)**	(1.5)
	7.3	7.0
Deferred tax: (see note 16)		
Current year	**(5.0)**	0.4
Change in tax rate in respect of prior periods	**0.6**	–
Adjustment in respect of prior periods	**(0.6)**	1.5
	(5.0)	1.9
Charge for taxation on profit for the period	**2.3**	8.9

UK corporation tax is calculated at 28 per cent (2010: 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 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Profit for the period before taxation	**8.8**	32.5
Profit for the period before taxation multiplied by the standard rate of corporation tax in the UK of 28% (2010: 28%)	**2.5**	9.1
Effects of:		
Expenses not deductible for tax purposes	**1.0**	0.7
Change in tax rate	**1.0**	–
Impact of overseas tax rates	**(0.7)**	(0.4)
Utilisation of tax losses not previously recognised against capital gains	**(0.1)**	(0.5)
Adjustment in respect of prior periods	**(1.4)**	–
Charge for taxation on profit for the period	**2.3**	8.9

In addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations amounting to £4.3 million has been charged directly to equity (2010: credit of £9.0 million).

10. Dividends

	52 weeks ended 26 March 2011		52 weeks ended 27 March 2010	
	pence per share	**£ million**	pence per share	£ million
Amounts recognised as distributions to equity holders in the period				
Final dividend for the prior year	**11.3p**	**9.9**	9.9p	8.5
Interim dividend for the current year	**6.4p**	**5.6**	5.5p	4.7
		15.5		13.2

The proposed final dividend of 11.9p per share for the 52 weeks ended 26 March 2011 was approved by the board after 26 March 2011, on 17 May 2011, and so, in line with the requirements of IAS 10 'Events After the Balance Sheet Date', the related cost of £10.5 million has not been included as a liability as at 26 March 2011. This dividend will be paid on 5 August 2011 to shareholders on the register on 3 June 2011.

11. Earnings per share

	52 weeks ended 26 March 2011 million	52 weeks ended 27 March 2010 million
Weighted average number of shares in issue	**85.8**	84.4
Dilution – option schemes	**1.8**	2.1
Diluted weighted average number of shares in issue	**87.6**	86.5
	£ million	£ million
Earnings for basic and diluted earnings per share	**6.5**	23.6
Non-cash foreign currency adjustments	**13.8**	1.3
Amortisation of intangibles arising on acquisition of ELC and Blooming Marvellous	**2.3**	2.1
Unwinding of discount on exceptional property provisions	**0.2**	0.3
Exceptional items (note 6)	**3.4**	1.0
Tax effect of above items	**(5.0)**	(1.7)
Underlying earnings	**21.2**	26.6
	pence	pence
Basic earnings per share	**7.6**	28.0
Basic underlying earnings per share	**24.7**	31.5
Diluted earnings per share	**7.4**	27.3
Diluted underlying earnings per share	**24.2**	30.7

12. 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.

13. Investments in joint ventures and associates

Aggregated amounts relating to joint ventures and associates:

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Investments at start of year	**1.7**	0.7
Additions	**10.5**	1.6
Disposals	**–**	(0.1)
Share of loss	**(1.8)**	(0.5)
Investments at end of year	**10.4**	1.7
Summary financial results and position of joint ventures and associates:		
Total assets	**51.6**	7.2
Total liabilities	**(25.0)**	(2.5)
Total loss for the period	**(6.7)**	(1.1)

Details of the joint ventures and associates 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	30
Juno Retail Private Limited	India	30	30
Mothercare Australia Limited (formerly known as Headline Group Limited)	Australia	25	25

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.

On 30 September 2010, the group acquired 23.27 per cent of the share capital of Headline Group Limited, a company registered in Australia. On 26 November 2010 the group acquired a further 1.73 per cent bringing the group's share at that time to 25 per cent. Headline Group Limited changed its name to Mothercare Australia Limited on 22 December 2010. Subsequently Mothercare Australia Limited has issued further shares which has had the effect of diluting the group share. The group has (but has not yet exercised) an option to acquire further shares in Mothercare Australia Limited which could increase its holding to 25 per cent.

The fair value of the Group's investment in Mothercare Australia Limited was £8.4 million as at 26 March 2011. The reporting date of Mothercare Australia Limited is 30 June. The group has equity accounted for Mothercare Australia Limited for six months ended 31 December 2010 as the data for the final three months to 26 March 2011 has not been made available yet and is price sensitive.

14. Goodwill and intangible assets

	Goodwill £ million	Intangible assets Trade name £ million	Customer relationships £ million	Software £ million	Total £ million
Cost					
As at 28 March 2009	68.6	25.0	5.5	16.0	46.5
Acquisition of subsidiary	–	0.2	0.2	–	0.4
Additions	–	–	–	5.5	5.5
Disposals	–	–	–	(0.3)	(0.3)
As at 27 March 2010	68.6	25.2	5.7	21.2	52.1
Additions	–	3.1	–	5.2	8.3
Exchange differences	–	0.3	–	–	0.3
As at 26 March 2011	**68.6**	**28.6**	**5.7**	**26.4**	**60.7**
Amortisation and impairment					
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
Amortisation	–	1.5	0.8	4.1	6.4
As at 26 March 2011	**–**	**5.0**	**3.1**	**14.1**	**22.2**
Net book value					
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
As at 26 March 2011	**68.6**	**23.6**	**2.6**	**12.3**	**38.5**

Goodwill, trade name and customer relationships relate to the acquisition of the Early Learning Centre on 19 June 2007, Gurgle Limited on 8 September 2009 and Blooming Marvellous on 7 July 2010. 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 and expected changes to selling prices. Management has used a pre-tax discount rate of 10.4 per cent (2010: 11.1 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 three-year period. Cash flows beyond the three-year period assume a 2 per cent 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 £1.6 million (2010: £1.2 million) of internally generated intangible assets.

At 26 March 2011, the group had entered into contractual commitments for the acquisition of software amounting to £0.3 million (2010: £0.9 million).

15. 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 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
Transfers	–	–	1.7	(1.7)	–
Additions	–	7.0	8.0	2.4	17.4
Exchange differences	–	–	(0.1)	–	(0.1)
Disposals	(2.7)	(2.4)	(4.8)	–	(9.9)
As at 26 March 2011	**12.0**	**117.6**	**204.6**	**2.4**	**336.6**
Accumulated depreciation and impairment					
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
Charge for year	0.1	5.8	10.7	–	16.6
Exchange differences	–	–	(0.1)	–	(0.1)
Disposals	(0.1)	(2.0)	(4.2)	–	(6.3)
As at 26 March 2011	**2.6**	**86.3**	**156.6**	**–**	**245.5**
Net book value					
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
As at 26 March 2011	**9.4**	**31.3**	**48.0**	**2.4**	**91.1**

The net book value of leasehold properties includes £31.1 million (2010: £30.4 million) in respect of short leasehold properties.

At 26 March 2011, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £5.0 million (2010: £11.1 million).

Freehold land and buildings with a carrying amount of £9.4 million (2010: £12.1 million) have been pledged to secure the group's borrowing facility (see note 20). The group is not allowed to pledge these assets as security for other borrowings.

16. 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	Total £ million
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
Credit/(charge) to income	1.9	3.5	(1.4)	0.1	0.9	5.0
Transfer to current tax	–	(1.7)	–	–	–	(1.7)
Charge to other comprehensive income	–	–	(4.3)	–	–	(4.3)
At 26 March 2011	**(2.1)**	**3.4**	**9.7**	**1.9**	**(6.0)**	**6.9**

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:

	26 March 2011 £ million	27 March 2010 £ million
Deferred tax assets	**18.4**	21.7
Deferred tax liabilities	**(11.5)**	(13.8)
	6.9	7.9

17. Inventories

	26 March 2011 £ million	27 March 2010 £ million
Underlying	**122.2**	99.0
Non-underlying foreign currency adjustments	**(0.8)**	(1.7)
Allowance against carrying value of inventories	**(5.4)**	(6.0)
Finished goods and goods for resale	**116.0**	91.3

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 net cost in the period is £1.0 million (2010: £0.2 million).

18. Trade and other receivables

	26 March 2011 £ million	27 March 2010 £ million
Trade receivables gross	**52.4**	41.5
Allowance for doubtful debts	**(1.4)**	(1.7)
Trade receivables net	**51.0**	39.8
Prepayments and accrued income	**8.0**	13.4
Other receivables	**3.5**	4.5
	62.5	57.7

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

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Balance at beginning of year	**(1.7)**	(2.0)
Utilised in the year	**–**	0.1
Released in the year	**0.3**	0.2
Balance at end of year	**(1.4)**	(1.7)

The group's exposure to credit risk inherent in its trade receivables is discussed in note 21. 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.

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

	26 March 2011 £ million	27 March 2010 £ million
Trade receivables gross	**52.4**	41.5
Allowance for doubtful debts	**(1.4)**	(1.7)
Trade receivables net	**51.0**	39.8
Of which:		
Amounts neither impaired nor past due on the reporting date	**45.5**	38.7
Amounts past due:		
Less than one month	**2.4**	1.3
Between one and three months	**1.7**	0.8
Between three and six months	**1.6**	0.3
Greater than six months	**1.2**	0.4
Allowance for doubtful debts	**(1.4)**	(1.7)
Trade accounts receivable net carrying amount	**51.0**	39.8

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 21. 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.

19. Cash and cash equivalents

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

20. Borrowing facilities

The group had no outstanding borrowings as at 26 March 2011 and 27 March 2010.

Overdraft

The group has an unsecured overdraft facility of £10.0 million which bears interest at 1.00 per cent above bank base rates. None of this facility was drawn down at 26 March 2011.

Committed borrowing facilities

The group had £40 million of committed secured borrowing facilities available at 26 March 2011 with an interest rate of 1.70 per cent above LIBOR in respect of which all conditions precedent have been met. The final maturity date of this facility is 31 October 2013. None of this facility was drawn down at 26 March 2011. As of 16 May 2011 the group refinanced with an increase of the committed secured bank facilities to £80 million at an interest rate of 1.4 per cent above LIBOR which expires after three years (with an option to extend for a further two years subject to bank approval). The uncommitted unsecured bank overdraft remains at £10 million. Further information is included within the corporate governance statement.

21. 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:

	26 March 2011 £ million	27 March 2010 £ million
Foreign currency forward exchange contracts:		
Not later than one year	**139.2**	142.7
After one year but not more than five years	**–**	37.3
	139.2	180.0
Foreign currency option contracts:		
Not later than one year	**6.1**	–
	6.1	–

If the spot rate at maturity for the foreign currency options is higher than 1.70 to the US dollar, the notional value outstanding would be £12.1 million.

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.

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 26 per cent (2010: 23 per cent) of group sales. Of these sales, 19 per cent (2010: 18 per cent) were invoiced in foreign currency. The group purchases product in foreign currencies, representing approximately 42 per cent (2010: 42 per cent) of purchases.

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

	Liabilities		Assets	
	26 March 2011 £ million	27 March 2010 £ million	**26 March 2011 £ million**	27 March 2010 £ million
US dollar	**(6.5)**	(10.3)	**5.8**	8.4
Euro	**(0.3)**	(0.6)	**2.1**	2.0
Hong Kong dollar	**(3.0)**	(2.5)	**0.4**	0.4
Indian rupee	**(0.3)**	(0.3)	**1.5**	0.8
Chinese renminbi	**(0.3)**	(0.1)	**0.1**	0.1
Singapore dollar	**–**	–	**0.4**	0.1
	(10.4)	(13.8)	**10.3**	11.8

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

	26 March 2011 £ million	27 March 2010 £ million
At notional value	**139.2**	180.0
At fair value	**(2.7)**	13.6

At 26 March 2011, the average hedged rate for outstanding forward foreign currency contracts is 1.57 for US dollars and 1.12 for euros. These contracts mature between April 2011 and March 2012.

In addition, the fair value of embedded derivatives is £nil (2010: £0.5 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 increase 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.

	26 March 2011 £ million	27 March 2010 £ million
US dollar impact	**(12.5)**	(18.1)

21. Risks arising from financial instruments continued

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 18 and cash and cash equivalents of £15.3 million.

The average credit period on trade receivables was 23 days (2010: 18 days) based on total group revenue.

D. Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group's short-, medium- and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 20 is a description of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

22. Trade and other payables

	26 March 2011 £ million	27 March 2010 £ million
Current liabilities		
Trade payables	**77.5**	59.1
Payroll and other taxes including social security	**2.0**	4.2
Accruals and deferred income	**42.6**	51.5
VAT payable	**4.0**	2.1
Lease incentives	**4.0**	3.7
	130.1	120.6
Non-current liabilities		
Lease incentives	**32.3**	26.2

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 62 days (2010: 51 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.

23. Provisions

	26 March 2011 £ million	27 March 2010 £ million
Current liabilities		
Property provisions	**5.2**	8.5
Other provisions	**0.4**	0.5
Short-term provisions	**5.6**	9.0
Non-current liabilities		
Property provisions	**6.8**	8.9
Other provisions	**0.4**	0.4
Long-term provisions	**7.2**	9.3
Property provisions	**12.0**	17.4
Other provisions	**0.8**	0.9
Total provisions	**12.8**	18.3

The movement on total provisions is as follows:

	Property provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 28 March 2010	17.4	0.9	18.3
Utilised in year	(6.0)	(0.3)	(6.3)
Charged in year	1.5	0.2	1.7
Released in year	(1.1)	–	(1.1)
Unwinding of discount	0.2	–	0.2
Balance at 26 March 2011	**12.0**	**0.8**	**12.8**

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.

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

24. Called up share capital

	52 weeks ended 26 March 2011 Number of shares	52 weeks ended 27 March 2010 Number of shares	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Allotted, called up and fully paid				
Ordinary shares of 50 pence each:				
Balance at beginning of year	**88,116,381**	87,602,632	**44.1**	43.8
Issued under the Mothercare 2000 Executive Share Option Plan	**71,394**	463,429	**–**	0.2
Issued under the Mothercare Sharesave Scheme	**352,444**	50,320	**0.2**	0.1
Balance at end of year	**88,540,219**	88,116,381	**44.3**	44.1

Further details of employee and executive share schemes are given in note 27.

The own shares reserve of £9.0 million (2010: £8.9 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 27). The total shareholding is 2,461,230 (2010: 2,712,604) with a market value at 25 March 2011 of £11.7 million (2010: £16.3 million).

25. Reconciliation of cash flow from operating activities

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Profit from retail operations	**11.0**	32.7
Adjustments for:		
Depreciation of property, plant and equipment	**16.6**	15.1
Amortisation of intangible assets – software	**4.1**	3.3
Amortisation of intangible assets – other	**2.3**	2.1
Underlying losses on disposal of property, plant and equipment	**0.9**	1.0
Losses on disposal of intangible assets – software	**–**	0.1
Loss on non-underlying non-cash foreign currency adjustments	**13.8**	1.3
Equity-settled share-based payments	**2.6**	2.6
Movement in property provisions	**(5.7)**	(5.0)
Movement in integration provisions	**–**	(3.3)
Movement in other provisions	**(0.1)**	0.1
Amortisation of lease incentives	**(5.9)**	(3.4)
Lease incentives received	**9.6**	10.2
Payments to retirement benefit schemes	**(5.2)**	(6.1)
Charge to profit from operations in respect of retirement benefit schemes	**4.1**	3.7
Operating cash flow before movement in working capital	**48.1**	54.4
Increase in inventories	**(23.9)**	(7.2)
Increase in receivables	**(4.8)**	(2.9)
Increase in payables	**13.7**	13.5
Cash generated from operations	**33.1**	57.8
Income taxes paid	**(6.0)**	(7.7)
Net cash flow from operating activities	**27.1**	50.1

26. Operating lease arrangements

The group as lessee:

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Amounts recognised in cost of sales for the year:		
Minimum lease payments paid	**70.4**	71.7
Contingent rents	**0.4**	0.4
Minimum sublease payments received	**(0.7)**	(0.9)
Net rent expense for the year	**70.1**	71.2

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:

	26 March 2011 £ million	27 March 2010 £ million
Not later than one year	**72.5**	74.5
After one year but not more than five years	**212.5**	229.3
After five years	**214.1**	240.0
Total future minimum lease payments	**499.1**	543.8

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

	26 March 2011 £ million	27 March 2010 £ million
Not later than one year	**1.2**	1.1
After one year but not more than five years	**3.0**	1.5
After five years	**4.3**	4.3
Total future minimum lease payments	**8.5**	6.9

27. Share-based payments

An expense is recognised for share-based payments based on the fair value of the awards (at the date of grant for those awards due to be equity-settled and at year end for those due to be cash-settled), 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 £2.2 million (2010: £14.4 million), including national insurance, of which £2.6 million (2010: £2.3 million) was equity-settled. In the prior year there was an exceptional charge for share-based payments of £1.2 million of which £0.3 million was equity-settled, relating to synergies achieved from the integration of the Early Learning Centre.

These charges relate to the following schemes:

A. Executive Share Option Scheme
B. Save As You Earn schemes
C. Executive Incentive Plan
D. Performance Share Plan
E. Deferred Shares Scheme

Details of the share schemes that the group operates are provided in the directors' remuneration report on pages 36 to 41.

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. 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 26 March 2011 Number of shares**	52 weeks ended 27 March 2010 Number of shares
Balance at beginning of year	**319p**	**111,407**	589,603
Forfeited during year	**321p**	**(24,838)**	(14,767)
Exercised during year	**314p**	**(56,569)**	(463,429)
Balance at end of year	**326p**	**30,000**	111,407

The weighted average share price at the date of exercise for share options exercised during the period was 530p, ranging from 502p to 602p. The options outstanding at 26 March 2011 had a weighted average remaining contractual life of 3.3 years.

B. 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 in the year of grant and are placed in the employee Save As You Earn trust for a three-year period.

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

	Weighted average exercise price	52 weeks ended 26 March 2011 Number of shares	52 weeks ended 27 March 2010 Number of shares
Balance at beginning of year	**302p**	**1,243,132**	1,229,082
Granted during year	**–**	**–**	230,951
Forfeited during year	**318p**	**(124,129)**	(152,632)
Exercised during year	**283p**	**(349,944)**	(50,320)
Expired during year	**284p**	**(446)**	(13,949)
Balance at end of year	**308p**	**768,613**	1,243,132

The shares outstanding at 26 March 2011 had a weighted average remaining contractual life of 1.5 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
Number of options granted	230,951	635,038	743,552
Share price at grant date	676p	237p	284p
Exercise price	497p	237p	284p
Expected volatility	30.0%	30.0%	25.0%
Risk-free rate	3.00%	2.00%	5.00%
Expected dividend yield	3.00%	3.50%	3.00%
Time to expiry	3.25 years	3.25 years	3.25 years
Fair value of option	172.9p	41.1p	53.1p

C. 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 and 2010 schemes are wholly share settled schemes where some of the shares can be delivered on vesting and the remainder deferred.

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

Grant date	June 2010	May 2009	July 2008
Market capitalisation at award date	£562.7m	£338.4m	£337.2m
Expected Mothercare share price volatility	30.0%	30.0%	25.0%
Expected Index volatility	30.0%	30.0%	20.0%
Risk-free rate	2.68%	3.70%	5.05%
Correlation between Mothercare and the Index	50.0%	50.0%	45.0%
Time to expiry	3 years	3 years	3 years
Fair value at grant date	£3.0m	£1.8m	£2.2m
Fair value at 26 March 2011	£1.1m	£0.7m	£4.6m

27. Share-based payments continued

D. 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 26 March 2011 Number of shares	52 weeks ended 27 March 2010 Number of shares
Balance at beginning of year	**1,430,838**	1,970,015
Awarded during year	**641,855**	–
Lapsed during year	**(235,805)**	(21,435)
Vested during year	**(503,999)**	(517,742)
Balance at end of year	**1,332,889**	1,430,838

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

Grant date	November 2010	June 2010	November 2008	June 2008
Number of shares awarded	62,992	578,863	39,576	958,500
Share price at date of grant	522p	520p	284p	374p
Exercise price	nil	nil	nil	nil
Time to expiry	3 years	3 years	3 years	3 years
Fair value per share	nil	nil	nil	nil

E. Deferred Shares Scheme

The Deferred Shares scheme is a conditional award of shares determined on historic group performance. The number of shares outstanding under the Deferred Shares scheme is as follows:

	52 weeks ended 26 March 2011 Number of shares
Balance at beginning of year	–
Awarded during year	**192,119**
Lapsed during year	**(24,829)**
Vested during year	–
Balance at end of year	**167,290**

Grant date	June 2010	June 2010
Number of shares awarded	96,060	96,060
Share price at date of grant	557p	557p
Exercise price	nil	nil
Time to expiry	2 years	3 years

Two tranches of shares were awarded in June 2010; 96,060 vest in two years and 96,060 vest in three years.

28. Retirement benefit schemes

Defined contribution schemes

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

The total cost charged to income of £0.6 million (2010: £0.4 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 2009 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 26 March 2011 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 26 March 2011 disclosed a net defined pension deficit of £37.6 million (2010: £55.1 million).

The major assumptions used in the updated actuarial valuations were:

	26 March 2011	27 March 2010
Discount rate	**5.5%**	5.6%
Future pension increases	**3.4%**	3.6%
Expected rate of salary increases	**3.5%**	4.7%
Expected return on schemes' assets	**7.0%**	7.2%
Analysed between:		
Equities	**8.3%**	8.6%
Bonds	**5.1%**	5.4%
Property	**6.3%**	6.6%
Alternative assets	**7.3%**	7.5%
Other assets	**5.1%**	5.4%

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.

28. 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%	-/+ 28.0
Rate of salary growth	+/- 0.5%	+/- 2.7
Life expectancy	+ 1 year	+ 7.4

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

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Current service cost	**2.9**	2.1
Interest cost	**14.1**	11.4
Expected return on schemes' assets	**(13.5)**	(10.2)
	3.5	3.3

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 £11.0 million (2010: a gain of £44.1 million), resulting in an actuarial loss of £2.5 million (2010: gain of £33.9 million).

There was an actuarial gain of £19.0 million (2010: a loss of £66.0 million) relating to the defined benefit obligations. The UK Government announced on 8 July 2010 that it will in future use the Consumer Price Index (CPI) rather than the Retail Prices Index (RPI) as the measure of price inflation for the purposes of regulating occupational pension schemes. The group's current UK defined benefit pension scheme consists of a number of tranches, each of which is covered by slightly different rules. The rules for some of the tranches specify that pensions will increase in line with the annual statutory order published by the UK Government. The group has therefore amended its assumption for increase to these tranches of the scheme to reflect that future increase on those tranches will be calculated using CPI rather than RPI. The resulting reduction in the present value of scheme liabilities of £8.6 million is treated as a change in actuarial assumptions, and this is included in the total net actuarial gains for the period of £16.5 million, which can be seen in the consolidated statement of comprehensive income.

The amount recognised in other comprehensive income for the year ending 26 March 2011 is a gain of £16.5 million (2010: a loss of £32.1 million).

The total cumulative actuarial loss recognised in other comprehensive income is £32.1 million (2010: £48.6 million).

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

	26 March 2011 £ million	27 March 2010 £ million
Present value of defined benefit obligations	**246.0**	252.1
Fair value of schemes' assets	**(208.4)**	(197.0)
Liability recognised in balance sheet	**37.6**	55.1

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

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
At beginning of year	**252.1**	175.6
Service cost	**2.9**	2.1
Interest cost	**14.1**	11.4
Contribution from scheme members	**1.7**	1.8
Actuarial (gains)/losses	**(19.0)**	66.0
Benefits paid	**(5.8)**	(4.8)
At end of year	**246.0**	252.1

Movements in the fair value of schemes' assets were as follows:

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
At beginning of year	**197.0**	150.2
Actual return on schemes' assets	**11.0**	44.1
Company contributions	**4.5**	5.7
Members' contributions	**1.7**	1.8
Benefits paid	**(5.8)**	(4.8)
At end of year	**208.4**	197.0

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

	26 March 2011 per cent	**26 March 2011 £ million**	27 March 2010 per cent	27 March 2010 £ million
Equities	**8.3**	**94.8**	8.6	97.2
Bonds	**5.1**	**57.3**	5.4	64.5
Property	**6.3**	**26.1**	6.6	24.9
Alternative assets	**7.3**	**30.1**	7.5	9.0
Other assets	**5.1**	**0.1**	5.4	1.4
		208.4		197.0

The history of experience adjustments is as follows:

	52 weeks ended 26 March 2011	52 weeks ended 27 March 2010	52 weeks ended 28 March 2009	52 weeks ended 29 March 2008	52 weeks ended 31 March 2007
Present value of defined benefit obligations	**246.0m**	£252.1m	£175.6m	£167.3m	£191.6m
Fair value of schemes' assets	**(£208.4m)**	(£197.0m)	(£150.2m)	(£181.1m)	(£193.6m)
Deficit/(surplus) in the schemes	**£37.6m**	£55.1m	£25.4m	(£13.8m)	(£2.0m)
Experience adjustments on schemes' liabilities	**(£19.0m)**	£66.0m	(£1.9m)	(£35.1m)	(£17.3m)
Percentage of schemes' liabilities	**7.7%**	26.2%	1.1%	21.0%	9.0%
Experience adjustments on schemes' assets	**(£2.5m)**	£33.9m	(£44.9m)	(£26.9m)	(£1.2m)
Percentage of schemes' assets	**1.2%**	17.2%	29.9%	14.9%	0.6%

The estimated amount of cash contributions expected to be paid to the schemes during the 52 weeks ending 24 March 2012 is £4.9 million, which includes £2.8 million paid on 31 March 2011.

29. 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 26 March 2011			
	Sales of goods £ million	**Purchase of goods £ million**	**Amounts owed by related parties £ million**	**Amounts owed to related parties £ million**
Joint ventures and associates	**14.3**	**–**	**8.4**	**–**

	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 and associates	1.3	–	1.7	–

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.

Other transactions

During the year, the group sold a freehold property on an arm's length basis to the Mothercare defined benefit pension scheme for cash of £3.0 million. There were no amounts outstanding in relation to this transaction at the period end.

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 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Short-term employee benefits	**3.7**	3.0
Post-employment benefits	**0.4**	0.4
Share-based payments	**1.8**	11.1
	5.9	14.5

Other transactions with key management personnel

There were no other transactions with key management personnel.

30. Events after the balance sheet date

There were no events after the balance sheet date.

Appendix to the remuneration report

APPENDIX A

Table 1A

Directors' emoluments

Total emoluments (including pension contributions) in the 52 weeks ended 26 March 2011 were £7,815,000 (2010: £8,983,000).

	Salary/ fees £000		Performance bonus £000		Benefits £000		Incentive scheme vesting £000		Total remuneration (excl. pensions) £000		Pension contributions £000	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Executive directors												
Ben Gordon	**600**	600	**0**	224	**13**	13	**4,586**	5,631	**5,199**	6,468	**32**	37
Neil Harrington	**265**	265	**0**	72	**11**	11	**1,794**	1,654	**2,070**	2,002	**32**	37
Non-executive directors												
Ian Peacock	**180**	145	**–**	–	**–**	–	**–**	–	**180**	145	**–**	–
Karren Brady	**20**	45	**–**	–	**–**	–	**–**	–	**20**	45	**–**	–
Bernard Cragg	**60**	50	**–**	–	**–**	–	**–**	–	**60**	50	**–**	–
Amanda Mackenzie	**8**	–							**8**	–		
Richard Rivers	**50**	45	**–**	–	**–**	–	**–**	–	**50**	45	**–**	–
David Williams	**55**	45	**–**	–	**–**	–	**–**	–	**55**	45	**–**	–

Note:

Benefits typically include a company car, medical 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, for the 52 weeks ended 26 March 2011 and 52 weeks ended 27 March 2010, as a salary supplement referred to on page 40 following the discontinuance of the FURBS scheme.

(ii) In addition to the pension contributions for Neil Harrington set out above, a sum of £26,923 is paid, for the 52 weeks ended 26 March 2011 and 52 weeks ended 27 March 2010, 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 part 1 of the Companies Act 2006 are as follows:

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2011 £000	2010 £000
Emoluments	**1,262**	1,515
Gains on exercise of share options	**–**	1,369
Amounts receivable under long-term incentive schemes	**6,380**	5,916
Money purchase pension contributions	**173**	183
Total	**7,815**	8,983

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	**2011**	2010
250,001 – 300,000	**1**	–
200,001 – 250,000	**–**	1
150,001 – 200,000	**5**	5
100,001 – 150,000	**1**	1
75,001 – 100,000	**1**	–
50,001 – 75,000	**–**	1

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*				Group contributions
	At 27 March 2010	Change during year	At 26 March 2011	Change during year net of inflation	Transfer value of change in year net of inflation	27 March 2010	Change during year	Director contributions	26 March 2011	
Ben Gordon	30	4	34	3	14	421	27	–	448	82
Neil Harrington	16	5	21	4	22	155	27	–	182	27

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

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	27 March 2010	(Exercised) during year	Exercise price (pence)	First exercise date	Last exercise date	Exercise date	Gains on exercise 2011 £	26 March 2011
Ben Gordon	3,380[1]	(3,380)	284	1 March 2011	31 August 2011	1 March 2011	6,625	–
Neil Harrington	3,380[1]	(3,380)	284	1 March 2011	31 August 2011	9 March 2011	6,625	–

Notes:
1 Options granted under the three-year SAYE option scheme.
The options set out above are granted without payment from a participant.
The market price on the date of exercise of the options was 480p on both 1 March 2011 and 9 March 2011.

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

Performance Share Plan

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

Director	27 March 2010 (number)	Granted/ (lapsed) during year (number)	Grant date	Vesting/ (lapse) date	Vested during year	Gains on exercise 2011 £	26 March 2011 (number)
Ben Gordon	125,000	(8,000)	25 June 2007	25 June 2010	(117,000)	678,600	–
	240,802	–	16 June 2008	16 June 2011	–	–	240,802
	–	115,384	25 May 2010	25 May 2013	–	–	115,384
Total	365,802	107,384			(117,000)	678,600	356,186
Neil Harrington	42,525	(2,722)	25 June 2007	25 June 2010	(39,803)	230,857	–
	79,886	–	16 June 2008	16 June 2011	–	–	79,886
	–	38,278	25 May 2010	25 May 2013	–	–	38,278
Total	122,411	35,556			(39,803)	230,857	118,164

The above awards were granted as nil-cost options.
The share price on 25 June 2010 was 580p.

Appendix to the remuneration report
continued

Executive Incentive Plan

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

EIP TABLE 1

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

1 Percentage applies only on up to £25m 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 page 39.

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

2007 cycle: total surplus value created £390.7 million.

Name	Vesting date	Cash amount paid £	Deferred into shares (number)	Reference share price (pence)
Ben Gordon	19 July 2010	3,907,000	745,610	524
Neil Harrington	19 July 2010	1,562,800	298,244	524

The deferred shares will vest on 19 July 2011 and the value of the deferred shares to which the directors will be entitled will not be known until that date.

Company financial statements

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87 Company balance sheet
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Independent auditor's report on the Company financial statements

We have audited the parent company financial statements of Mothercare plc for the 52 weeks ended 26 March 2011 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 auditor's 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 auditor

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 and express an opinion on 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 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 misstatement, 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 26 March 2011;
- 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 matter

We have reported separately on the group financial statements of Mothercare plc for the 52 weeks ended 26 March 2011.

Nicola Mitchell, FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
17 May 2011

Company balance sheet

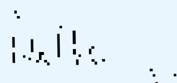
As at 26 March 2011

	Note	26 March 2011 £ million	27 March 2010 £ million
Fixed assets			
Investments in subsidiary undertakings	3	**214.4**	211.8
		214.4	211.8
Current assets			
Debtors	4	**2.5**	5.0
Cash at bank and in hand and time deposits		**(38.1)**	(20.2)
		(35.6)	(15.2)
Creditors – amounts falling due within one year	5	**(53.7)**	(73.2)
Net current liabilities		**(89.3)**	(88.4)
Total assets less current liabilities		**125.1**	123.4
Net assets		**125.1**	123.4
Capital and reserves attributable to equity interests			
Called up share capital	6	**44.3**	44.1
Share premium	7	**5.9**	4.9
Other reserve	7	**50.8**	50.8
Own shares	7	**(9.0)**	(8.9)
Profit and loss account	7	**33.1**	32.5
Equity shareholders' funds	8	**125.1**	123.4

The notes to the Company financial statements on pages 88 to 90 and the accounting policies described therein form an integral part of this balance sheet.

Approved by the board on 17 May 2011 and signed on its behalf by:

Ben Gordon
Chief Executive



Neil Harrington
Finance Director

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 26 March 2011. The comparative period covered the 52 weeks ended 27 March 2010.

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 26 March 2011 and the preceding 52 weeks ended 27 March 2010.

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 26 March 2011 was £14.8 million (2010: £31.6 million). The auditor's 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:

	26 March 2011 £ million	27 March 2010 £ million
Cost of investments (less amounts written off £153.0 million (2010: £153.0 million))	**148.9**	146.3
Loans to subsidiary undertakings	**65.5**	65.5
	214.4	211.8

	£ million
Cost	
At 28 March 2010	211.8
Share-based payments to employees of subsidiaries	2.6
At 26 March 2011	214.4
Provisions for impairment	
At 28 March 2010 and 26 March 2011	–
Net book value	214.4

4. Debtors

	26 March 2011 £ million	27 March 2010 £ million
Amounts due from subsidiary undertakings	**2.3**	5.0
Other debtors	**0.2**	–
	2.5	5.0

5. Creditors – amounts falling due within one year

	26 March 2011 £ million	27 March 2010 £ million
Amounts due to subsidiary undertakings	**53.0**	72.8
Accruals and other creditors	**0.7**	0.4
	53.7	73.2

6. Called up share capital

	Number of shares	£ million
Allotted, called up and fully paid		
Ordinary shares of 50p each:		
Balance at 28 March 2010	88,116,381	44.1
Issued under the Mothercare 2000 Executive Share Option Plan	71,394	–
Issued under the Mothercare Sharesave Scheme	352,444	0.2
Balance at 26 March 2011	**88,540,219**	**44.3**

Further details of employee and executive share schemes are provided in note 27 to the consolidated financial statements.

The own shares reserve of £9.0 million (2010: £8.9 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 27 to the consolidated financial statements). The total shareholding is 2,461,230 (2010: 2,712,604) with a market value at 25 March 2011 of £11.7 million (2010: £16.3 million).

7. Reserves

	Share premium £ million	Other reserve £ million	Own shares £ million	Profit and loss account £ million
Balance at 28 March 2010	4.9	50.8	(8.9)	32.5
Net premium on shares issued	1.0	–	–	–
Fair value of share-based payments	–	–	–	2.6
Purchase of own shares	–	–	(1.4)	–
Shares transferred to employees on vesting	–	–	1.3	(1.3)
Dividends	–	–	–	(15.5)
Profit for the financial year	–	–	–	14.8
Balance at 26 March 2011	**5.9**	**50.8**	**(9.0)**	**33.1**

8. Reconciliation of equity shareholders' funds

	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Equity shareholders' funds brought forward	**123.4**	97.2
Dividends	**(15.5)**	(13.2)
Shares issued	**1.2**	0.9
Fair value of share-based payments	**2.6**	6.9
Purchase of own shares	**(1.4)**	–
Retained profit for the year	**14.8**	31.6
Equity shareholders' funds carried forward	**125.1**	123.4

Five year record
(unaudited)

	2011 £ million	2010 £ million	2009 restated[4] £ million	2008 restated[4] £ million	2007 £ million
Summary of consolidated income statements					
Revenue	**793.6**	766.4	723.6	676.8	498.5
Underlying[1] profit from operations before interest	**28.9**	37.6	37.0	38.5	21.0
Non-underlying[2] items	**(19.5)**	(4.4)	6.1	(34.1)	(3.7)
Interest (net)	**(0.6)**	(0.7)	(1.1)	0.1	1.6
Profit before taxation	**8.8**	32.5	42.0	4.5	18.9
Taxation	**(2.3)**	(8.9)	(11.8)	(4.4)	(4.4)
Profit for the financial year	**6.5**	23.6	30.2	0.1	14.5
Basic earnings per share	**7.6p**	28.0p	36.2p	0.1p	20.9p
Basic underlying earnings per share	**24.7p**	31.5p	32.0p	34.5p	24.2p
Summary of consolidated balance sheets					
Deferred tax asset/(liability)	**6.9**	7.9	0.8	(4.4)	0.2
Other non-current assets	**208.6**	200.5	197.6	200.8	90.6
Net current assets	**54.4**	70.6	57.9	26.3	73.5
Retirement benefit obligations	**(37.6)**	(55.1)	(25.4)	2.0	2.0
Other non-current liabilities	**(39.5)**	(35.5)	(33.4)	(27.7)	(15.3)
Total net assets	**192.8**	188.4	197.5	197.0	151.0
Other key statistics					
Share price at year end	**474.00p**	601.00p	386.50p	400.00p	407.00p
Net cash/equity	**7.9%**	20.4%	12.5%	11.5%	26.5%
Capital expenditure	**21.8**	24.2	22.8	20.4	18.5
Depreciation and amortisation	**23.0**	20.5	22.0	19.7	13.9
Rents	**68.2**	69.1	71.0	71.2	51.6
Number of UK stores	**373**	387	405	425	225
Number of International stores[3]	**894**	728	609	494	328
UK selling space (000s sq ft)	**2,017**	2,008	2,007	2,070	1,791
International selling space (000s sq ft)[3]	**1,845**	1,538	1,294	1,040	n/a
Average number of employees	**7,440**	7,452	7,715	7,626	5,363
Average number of full-time equivalents	**4,650**	4,486	4,653	4,244	3,149

1 Before items described in note 2 below.
2 Includes exceptional items (profit/loss on disposal/termination of property interests, restructuring 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, joint ventures and associates.
4 Restated for Amendments to IAS 38.

Shareholder information

Shareholder analysis

A summary of holdings as at 26 March 2011 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	0.1	8
Nominee companies	74.0	846
Other corporate holders	10.0	122
Individuals	4.4	23,640
	88.5	**24,616**

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 and Early Learning Centre stores in the UK. 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. Eligible shareholders can request a voucher booklet by sending their name, address and shareholder account number by e-mail to investorrelations@mothercare.com or by writing to the registered office.

Share price data

	2011	2010
Share price at 25 March 2011 (26 March 2010)	**474.00p**	601.00p
Market capitalisation	**£419.7m**	£529.6m
Share price movement during the year:		
High	**627.50p**	690.00p
Low	**466.50p**	372.25p

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

	2011
Annual General Meeting	14 July
Announcement of interim results	16 November

	2012
Payment of interim dividend	February
Preliminary announcement of results for the 52 weeks ending 24 March 2012	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

Group general counsel and company secretary

Tim Ashby

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 0871 384 2013
www.equiniti.com

Calls to Equiniti 0871 numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

Postal share dealing service

A postal share dealing service is available through the Company's registrars for the purchase and sale of Mothercare plc shares. Further details can be obtained from Equiniti on 0871 384 2248.

Stockbrokers

The Company's stockbrokers are:

J.P. Morgan Cazenove & Co Limited, 20 Moorgate, London EC2R 6DA
Telephone 020 7155 5155

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

ShareGift

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

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

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