

# 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.

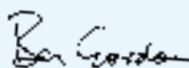
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

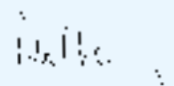
We confirm that to the best of our knowledge:

- 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:

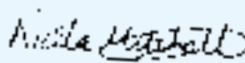
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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 <sup>1</sup> £ million	Non- underlying <sup>2</sup> £ million	Total £ million	Underlying <sup>1</sup> £ million	Non- underlying <sup>2</sup> £ 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)
<b>Profit from retail operations before share-based payments</b>		<b>32.9</b>	<b>(19.7)</b>	<b>13.2</b>	<b>52.5</b>	<b>(4.2)</b>	<b>48.3</b>
<b>Profit from retail operations</b>	7	<b>30.7</b>	<b>(19.7)</b>	<b>11.0</b>	<b>38.1</b>	<b>(5.4)</b>	<b>32.7</b>
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)
<b>Profit from operations before share-based payments</b>		<b>31.1</b>	<b>(19.5)</b>	<b>11.6</b>	<b>52.0</b>	<b>(3.2)</b>	<b>48.8</b>
<b>Profit from operations</b>		<b>28.9</b>	<b>(19.5)</b>	<b>9.4</b>	<b>37.6</b>	<b>(4.4)</b>	<b>33.2</b>
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)
<b>Profit for the period attributable to equity holders of the parent</b>		<b>21.2</b>	<b>(14.7)</b>	<b>6.5</b>	<b>26.6</b>	<b>(3.0)</b>	<b>23.6</b>
<b>Earnings per share</b>							
Basic	11	24.7p		7.6p	31.5p		28.0p
Diluted	11	24.2p		7.4p	30.7p		27.3p

<sup>1</sup> Before items described in note 2 below.

<sup>2</sup> 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

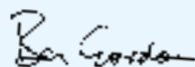
	Note	52 weeks ended 26 March 2011 £ million	52 weeks ended 27 March 2010 £ million
Other comprehensive income – actuarial gain/(loss) on defined benefit pension schemes	28	16.5	(32.1)
Tax relating to components of other comprehensive income	9	(4.3)	9.0
Exchange differences on translation of foreign operations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

# Consolidated balance sheet

As at 26 March 2011

	Note	26 March 2011 £ million	27 March 2010 £ million
<b>Non-current assets</b>			
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
		<b>215.5</b>	208.4
<b>Current assets</b>			
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
		<b>193.8</b>	201.6
<b>Total assets</b>		<b>409.3</b>	410.0
<b>Current liabilities</b>			
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)
		<b>(139.4)</b>	(131.0)
<b>Non-current liabilities</b>			
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)
		<b>(77.1)</b>	(90.6)
<b>Total liabilities</b>		<b>(216.5)</b>	(221.6)
<b>Net assets</b>		<b>192.8</b>	188.4
<b>Equity attributable to equity holders of the parent</b>			
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
<b>Total equity</b>		<b>192.8</b>	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						<b>Total equity £ million</b>
	Share capital £ million	Share premium account £ million	Other reserve <sup>1</sup> £ million	Own shares £ million	Translation reserve £ million	Retained earnings £ million	
<b>Balance at 28 March 2010</b>	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)
<b>Balance at 26 March 2011</b>	<b>44.3</b>	<b>5.9</b>	<b>50.8</b>	<b>(9.0)</b>	<b>0.1</b>	<b>100.7</b>	<b>192.8</b>

For the 52 weeks ended 27 March 2010

	Equity attributable to equity holders of the parent						<b>Total equity £ million</b>
	Share capital £ million	Share premium account £ million	Other reserve <sup>1</sup> £ million	Own shares £ million	Translation reserve £ million	Retained earnings £ million	
<b>Balance at 29 March 2009</b>	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)
<b>Balance at 27 March 2010</b>	<b>44.1</b>	<b>4.9</b>	<b>50.8</b>	<b>(8.9)</b>	<b>1.3</b>	<b>96.2</b>	<b>188.4</b>

<sup>1</sup> 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
<b>Net cash flow from operating activities</b>	25	<b>27.1</b>	50.1
<b>Cash flows from investing activities</b>			
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)
<b>Net cash used in investing activities</b>		<b>(32.0)</b>	(23.7)
<b>Cash flows from financing activities</b>			
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)	–
<b>Net cash used in financing activities</b>		<b>(16.3)</b>	(12.9)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(21.2)</b>	13.5
Cash and cash equivalents at beginning of period		38.5	24.8
Effect of foreign exchange rate changes		(2.0)	0.2
<b>Cash and cash equivalents at end of period</b>		<b>15.3</b>	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.

# Notes to the consolidated financial statements

## continued

### 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.

# Notes to the consolidated financial statements

## continued

### 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.

# Notes to the consolidated financial statements

## continued

### 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	–
<b>Total revenue</b>	<b>793.7</b>	<b>766.4</b>

#### 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
<b>Revenue</b>				
External sales	587.2	206.4	–	793.6
<b>Result</b>				
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)
<b>Profit from operations</b>				<b>9.4</b>
Interest revenue				0.1
Finance costs				(0.7)
Profit before taxation				8.8
Taxation				(2.3)
<b>Profit for the period</b>				<b>6.5</b>

	52 weeks ended 27 March 2010			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
<b>Revenue</b>				
External sales	590.3	176.1	–	766.4
<b>Result</b>				
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)
<b>Profit from operations</b>				<b>33.2</b>
Finance costs				(0.7)
Profit before taxation				32.5
Taxation				(8.9)
<b>Profit for the period</b>				<b>23.6</b>

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
<b>Other information</b>			
Capital additions	25.7	–	25.7
Depreciation and amortisation	23.0	–	23.0
<b>Balance sheet</b>			
<b>Assets</b>			
Segment assets	277.8	109.3	387.1
Unallocated corporate assets			22.2
Consolidated total assets			409.3
<b>Liabilities</b>			
Segment liabilities	169.8	5.4	175.2
Unallocated corporate liabilities			41.3
Consolidated total liabilities			216.5

# Notes to the consolidated financial statements

## continued

### 5. Segmental information continued

	52 weeks ended 27 March 2010		
	UK £ million	International £ million	Consolidated £ million
<b>Other information</b>			
Capital additions	23.9	–	23.9
Depreciation and amortisation	20.5	–	20.5
<b>Balance sheet</b>			
<b>Assets</b>			
Segment assets	265.3	84.2	349.5
Unallocated corporate assets			60.5
Consolidated total assets			410.0
<b>Liabilities</b>			
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 <sup>1</sup>	(13.8)	(1.3)
Amortisation of intangibles <sup>1</sup>	(2.3)	(2.1)
Unwinding of discount on exceptional property provisions included in finance costs	(0.2)	(0.3)
<b>Exceptional and other non-underlying items</b>	<b>(19.7)</b>	<b>(4.7)</b>

<sup>1</sup> 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):

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

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

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

## Notes to the consolidated financial statements

### continued

#### 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:

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

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

<sup>1</sup> 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
<b>Charge for taxation on profit for the period</b>	<b>2.3</b>	<b>8.9</b>

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)	–
<b>Charge for taxation on profit for the period</b>	<b>2.3</b>	<b>8.9</b>

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).

## Notes to the consolidated financial statements

### continued

#### 10. Dividends

	52 weeks ended 26 March 2011		52 weeks ended 27 March 2010	
	pence per share	£ million	pence per share	£ million
<b>Amounts recognised as distributions to equity holders in the period</b>				
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	52 weeks ended 27 March 2010
	million	million
<b>Weighted average number of shares in issue</b>	<b>85.8</b>	84.4
Dilution – option schemes	1.8	2.1
<b>Diluted weighted average number of shares in issue</b>	<b>87.6</b>	86.5
	£ million	£ million
<b>Earnings for basic and diluted earnings per share</b>	<b>6.5</b>	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)
<b>Underlying earnings</b>	<b>21.2</b>	26.6
	pence	pence
<b>Basic earnings per share</b>	<b>7.6</b>	28.0
<b>Basic underlying earnings per share</b>	<b>24.7</b>	31.5
<b>Diluted earnings per share</b>	<b>7.4</b>	27.3
<b>Diluted underlying earnings per share</b>	<b>24.2</b>	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:

	<b>52 weeks ended 26 March 2011 £ million</b>	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)
<b>Investments at end of year</b>	<b>10.4</b>	<b>1.7</b>
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.

## Notes to the consolidated financial statements continued

### 14. Goodwill and intangible assets

	Intangible assets				
	Goodwill £ million	Trade name £ million	Customer relationships £ million	Software £ million	Total £ million
<b>Cost</b>					
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
<b>As at 26 March 2011</b>	<b>68.6</b>	<b>28.6</b>	<b>5.7</b>	<b>26.4</b>	<b>60.7</b>
<b>Amortisation and impairment</b>					
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
<b>As at 26 March 2011</b>	<b>–</b>	<b>5.0</b>	<b>3.1</b>	<b>14.1</b>	<b>22.2</b>
<b>Net book value</b>					
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
<b>As at 26 March 2011</b>	<b>68.6</b>	<b>23.6</b>	<b>2.6</b>	<b>12.3</b>	<b>38.5</b>

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			Assets in course of construction £ million	Total £ million
	Freehold £ million	Leasehold £ million	Fixtures, fittings, equipment £ million		
<b>Cost</b>					
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)
<b>As at 26 March 2011</b>	<b>12.0</b>	<b>117.6</b>	<b>204.6</b>	<b>2.4</b>	<b>336.6</b>
<b>Accumulated depreciation and impairment</b>					
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)
<b>As at 26 March 2011</b>	<b>2.6</b>	<b>86.3</b>	<b>156.6</b>	<b>–</b>	<b>245.5</b>
<b>Net book value</b>					
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
<b>As at 26 March 2011</b>	<b>9.4</b>	<b>31.3</b>	<b>48.0</b>	<b>2.4</b>	<b>91.1</b>

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.

## Notes to the consolidated financial statements

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#### 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)
<b>At 26 March 2011</b>	<b>(2.1)</b>	<b>3.4</b>	<b>9.7</b>	<b>1.9</b>	<b>(6.0)</b>	<b>6.9</b>

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)
<b>Finished goods and goods for resale</b>	<b>116.0</b>	<b>91.3</b>

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
	<b>62.5</b>	<b>57.7</b>

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
<b>Balance at end of year</b>	<b>(1.4)</b>	<b>(1.7)</b>

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)
<b>Trade accounts receivable net carrying amount</b>	<b>51.0</b>	<b>39.8</b>

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.

# Notes to the consolidated financial statements

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### 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
	<b>(10.4)</b>	<b>(13.8)</b>	<b>10.3</b>	<b>11.8</b>

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)

# Notes to the consolidated financial statements

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### 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
<b>Current liabilities</b>		
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
	<b>130.1</b>	120.6
<b>Non-current liabilities</b>		
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
<b>Current liabilities</b>		
Property provisions	5.2	8.5
Other provisions	0.4	0.5
<b>Short-term provisions</b>	<b>5.6</b>	9.0
<b>Non-current liabilities</b>		
Property provisions	6.8	8.9
Other provisions	0.4	0.4
<b>Long-term provisions</b>	<b>7.2</b>	9.3
Property provisions	12.0	17.4
Other provisions	0.8	0.9
<b>Total provisions</b>	<b>12.8</b>	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
<b>Balance at 26 March 2011</b>	<b>12.0</b>	<b>0.8</b>	<b>12.8</b>

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.

## Notes to the consolidated financial statements continued

### 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
<b>Allotted, called up and fully paid</b>				
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
<b>Balance at end of year</b>	<b>88,540,219</b>	<b>88,116,381</b>	<b>44.3</b>	<b>44.1</b>

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
<b>Profit from retail operations</b>	<b>11.0</b>	<b>32.7</b>
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
<b>Operating cash flow before movement in working capital</b>	<b>48.1</b>	<b>54.4</b>
Increase in inventories	(23.9)	(7.2)
Increase in receivables	(4.8)	(2.9)
Increase in payables	13.7	13.5
<b>Cash generated from operations</b>	<b>33.1</b>	<b>57.8</b>
<b>Income taxes paid</b>	<b>(6.0)</b>	<b>(7.7)</b>
<b>Net cash flow from operating activities</b>	<b>27.1</b>	<b>50.1</b>

## 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)
<b>Net rent expense for the year</b>	<b>70.1</b>	<b>71.2</b>

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
<b>Total future minimum lease payments</b>	<b>499.1</b>	<b>543.8</b>

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
<b>Total future minimum lease payments</b>	<b>8.5</b>	<b>6.9</b>

# Notes to the consolidated financial statements

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### 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)
<b>Balance at end of year</b>	<b>326p</b>	<b>30,000</b>	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)
<b>Balance at end of year</b>	<b>308p</b>	<b>768,613</b>	<b>1,243,132</b>

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

## Notes to the consolidated financial statements

### continued

#### 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:

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

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

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	<b>5.5%</b>	5.6%
Future pension increases	<b>3.4%</b>	3.6%
Expected rate of salary increases	<b>3.5%</b>	4.7%
Expected return on schemes' assets	<b>7.0%</b>	7.2%
Analysed between:		
Equities	<b>8.3%</b>	8.6%
Bonds	<b>5.1%</b>	5.4%
Property	<b>6.3%</b>	6.6%
Alternative assets	<b>7.3%</b>	7.5%
Other assets	<b>5.1%</b>	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.

## Notes to the consolidated financial statements

### continued

#### 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)
	<b>3.5</b>	<b>3.3</b>

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)
<b>Liability recognised in balance sheet</b>	<b>37.6</b>	<b>55.1</b>

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

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

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

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

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

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

The history of experience adjustments is as follows:

	<b>52 weeks ended 26 March 2011</b>	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	<b>246.0m</b>	£252.1m	£175.6m	£167.3m	£191.6m
Fair value of schemes' assets	<b>(£208.4m)</b>	(£197.0m)	(£150.2m)	(£181.1m)	(£193.6m)
Deficit/(surplus) in the schemes	<b>£37.6m</b>	£55.1m	£25.4m	(£13.8m)	(£2.0m)
Experience adjustments on schemes' liabilities	<b>(£19.0m)</b>	£66.0m	(£1.9m)	(£35.1m)	(£17.3m)
Percentage of schemes' liabilities	<b>7.7%</b>	26.2%	1.1%	21.0%	9.0%
Experience adjustments on schemes' assets	<b>(£2.5m)</b>	£33.9m	(£44.9m)	(£26.9m)	(£1.2m)
Percentage of schemes' assets	<b>1.2%</b>	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.

## Notes to the consolidated financial statements

### continued

#### 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.

	<b>52 weeks ended 26 March 2011 £ million</b>	52 weeks ended 27 March 2010 £ million
Short-term employee benefits	<b>3.7</b>	3.0
Post-employment benefits	<b>0.4</b>	0.4
Share-based payments	<b>1.8</b>	11.1
	<b>5.9</b>	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
<b>Executive directors</b>												
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
<b>Non-executive directors</b>												
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
<b>Total</b>	<b>7,815</b>	<b>8,983</b>

### 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:

	Accrued benefits in Mothercare Executive Pension Scheme					Defined benefits for final salary scheme £000				Money purchase £000
						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 <sup>1</sup>	(3,380)	284	1 March 2011	31 August 2011	1 March 2011	6,625	–
Neil Harrington	3,380 <sup>1</sup>	(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
<b>Total</b>	<b>365,802</b>	<b>107,384</b>			<b>(117,000)</b>	<b>678,600</b>	<b>356,186</b>
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
<b>Total</b>	<b>122,411</b>	<b>35,556</b>			<b>(39,803)</b>	<b>230,857</b>	<b>118,164</b>

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% <sup>1</sup>	0.6% <sup>1</sup>
Over £75m	2.0% <sup>2</sup>	0.8% <sup>2</sup>

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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# 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.

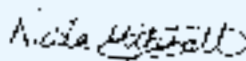
## Matters on which we are required to report by exception

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

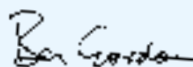
# Company balance sheet

As at 26 March 2011

	Note	26 March 2011 £ million	27 March 2010 £ million
<b>Fixed assets</b>			
Investments in subsidiary undertakings	3	214.4	211.8
		<b>214.4</b>	211.8
<b>Current assets</b>			
Debtors	4	2.5	5.0
Cash at bank and in hand and time deposits		(38.1)	(20.2)
		<b>(35.6)</b>	(15.2)
<b>Creditors – amounts falling due within one year</b>	5	<b>(53.7)</b>	(73.2)
<b>Net current liabilities</b>		<b>(89.3)</b>	(88.4)
<b>Total assets less current liabilities</b>		<b>125.1</b>	123.4
<b>Net assets</b>		<b>125.1</b>	123.4
<b>Capital and reserves attributable to equity interests</b>			
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
<b>Equity shareholders' funds</b>	8	<b>125.1</b>	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

# 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
	<b>214.4</b>	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	–
	<b>2.5</b>	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
	<b>53.7</b>	73.2

## Notes to the Company financial statements continued

### 6. Called up share capital

	Number of shares	£ million
<i>Allotted, called up and fully paid</i>		
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
<b>Balance at 26 March 2011</b>	<b>88,540,219</b>	<b>44.3</b>

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
<b>Balance at 26 March 2011</b>	<b>5.9</b>	<b>50.8</b>	<b>(9.0)</b>	<b>33.1</b>

### 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
<b>Equity shareholders' funds carried forward</b>	<b>125.1</b>	<b>123.4</b>

# Five year record

(unaudited)

	2011	2010	2009	2008	2007
	£ million	£ million	restated <sup>4</sup> £ million	restated <sup>4</sup> £ million	£ million
<b>Summary of consolidated income statements</b>					
Revenue	793.6	766.4	723.6	676.8	498.5
Underlying <sup>1</sup> profit from operations before interest	28.9	37.6	37.0	38.5	21.0
Non-underlying <sup>2</sup> 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
<b>Summary of consolidated balance sheets</b>					
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
<b>Other key statistics</b>					
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 <sup>3</sup>	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) <sup>3</sup>	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.