Mothercare plc
Annual report and accounts 2012

www.mothercareplc.com

Financial highlights

Worldwide network sales
£1,232.4m +6.4%

UK sales
£560.0m -4.6%
UK retail (stores and direct) and UK wholesale sales

International sales
£672.4m +17.8%
Retail sales achieved by our franchise partners joint ventures and associate and International wholesale sales

Group sales
£812.7m +2.4%

UK sales
£560.0m -4.6%
UK retail (stores and direct) and UK wholesale sales

International sales
£252.7m +22.4%
Royalty revenues, landed cost of goods delivered to our franchise partners and International wholesale sales

Operating profit
£1.6m -94.4%

UK operating loss
£24.7m n/a
vs. profit of £11.1 million last year

International operating profit
£34.9m +26.9%

Corporate expenses
£7.6m +1.3%

Stores across the world
1,339 +5.7%

Space
4,229k sq. ft. +9.5%

UK stores
311 -16.6%

Space
1,946k sq. ft. -3.5%

International stores
1,028 +15.0%

Space
2,283k sq. ft. +23.7%

Our brands

Mothercare

Mothercare opened its first store in 1961 and since its earliest days has been a specialist retailer of products for mothers-to-be, babies and children up to the age of eight. Our core area of specialism remains the pre-birth months and babies aged up to two years of age. Mothercare's product offering is wide and includes maternity and children's clothing, furniture and home furnishings for babies and young children, bedding, feeding, bathing, travel equipment and toys. We sell our products through retail, internet and wholesale operations in the UK and Internationally through a small but growing wholesale operation and significant franchise operations in Europe, the Middle East and Africa, Asia Pacific and more recently Latin America.

Mothercare stores

- UK – in town: 106
- UK – OOT*: 103
- International: 668

*OOT = Out of town

Early Learning Centre

Early Learning Centre was set up in 1971 as a mail order business selling educational books and toys, and was acquired by the group in 2007. Today ELC is a designer and retailer of educational toys for children aged up to eight years, which are primarily own-brand products designed and sourced through our state-of-the-art sourcing centre in Hong Kong. Product is sold through retail, internet, catalogue and wholesale operations in the UK and through our small wholesale and significant franchise operations in Europe, the Middle East and Africa, Asia Pacific and more recently Latin America.

ELC stores

- UK – in town: 102
- UK – inserts in Mothercare stores: 111
  Note: the figure above refers to inserts in 103 OOT Mothercare stores and eight in town Mothercare stores
- International: 360

Contents

For more information visit:
www.mothercareplc.com

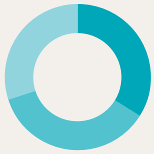
At a glance

UK

Consumer spending remained challenging throughout the year, which resulted in the UK delivering an operating loss of £24.7 million for the financial year ended 31 March 2012.

- Total UK sales were down 4.6 per cent at £560.0 million, with like-for-like sales down 6.2 per cent. Gross margin erosion of circa 500 basis points over the year put further pressure on UK profitability. As a result the UK delivered an operating loss of £24.7 million for the year ended 31 March 2012
- The strategy for transforming the UK will, over the next three years, dispose of loss making stores, reduce the operating cost base by at least £20 million and invest in product, store environment and services, thereby returning the UK to profitability

UK sales



Store sales

£398.7m

UK store sales down 8.7%

2012	£398.7m
2011	£436.6m

We ended the year with 311 stores in the UK having closed a net 62 stores (closed 67 and opened five stores) during the year. Space in the UK was down 3.5 per cent, closing the year with 1,946k sq. ft. across the store portfolio. It is our intention to further reduce the store network to circa 200 stores, reducing space to circa 1,700k sq. ft. by March 2015.

Over the year store-based sales were down 8.7 per cent to £398.7 million. This was attributable to both the decline in like-for-like sales and the continued closure of stores.

Direct

£130.0m

UK direct sales up 0.8%

2012	£130.0m
2011	£129.0m

Total direct sales were up 0.8 per cent at £130.0 million with Direct in Home sales of £91.7 million and Direct in Store sales of £38.3 million. The legacy platform, which contributed to the underperformance of our sales in this segment, has now been replaced by a new platform. Our new website offers additional functionality making it easier for customers to navigate and complete orders more effectively, which is expected to restore this segment of our sales to growth.

Wholesale

£31.3m

Wholesale sales up 44.9%

2012	£31.3m
2011	£21.6m

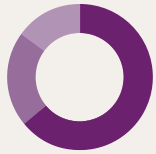
Wholesale sales were up 44.9 per cent to £31.3 million. The mini club range, which is a strategic partnership with Boots UK, continues to perform well. We are exploring the opportunities for growing ELC's wholesale sales and have conducted successful trials with several leading retailers over the Christmas period.

International

Our International business, with 1,028 stores across 58 countries and with 41 partners, continues to grow and saw profits increase by 26.9 per cent to £34.9 million.

- International retail sales were up 18.5 per cent to £665.5 million with like-for-like sales growth of 6.1 per cent
- We took our first steps into a new region, Latin America, and are encouraged by the potential offered by these new markets. We continue to see growth opportunities over the next three years of circa 20 per cent per annum across our International markets with Europe and the Middle East and Africa expected to grow by circa 10 per cent per annum, Asia Pacific by circa 20 per cent and Latin America by over 100 per cent

International sales



Stores

£665.5m

International store sales up 18.5%

2012	£665.5m
2011	£561.5m

Retail sales through our franchise partners' stores were up 18.5 per cent to £665.5 million. We have continued to open stores across all our geographies.

- Europe – 409 stores in 28 countries and increased space by 6.7 per cent
- Asia Pacific – 318 stores in 13 countries and increased space by 53 per cent
- Middle East and Africa – 290 stores in 14 countries and increased space by 23.1 per cent
- Latin America – At the year end we had 11 stores in three countries and recently opened in Venezuela. We now have 12 stores in four countries

Direct

n/a

International Direct launching in FY13

We have taken our first steps towards a multi-channel strategy across our International markets. We now have operational internet sites for ELC in Russia and Australia and for Mothercare in Kuwait, Ireland and Australia. We work with our franchise partners to develop appropriate websites and believe all our major partners will have transactional websites by March 2015.

Wholesale

£6.9m

Wholesale sales down 26.6%

2012	£6.9m
2011	£9.4m

We have a small wholesale business for ELC that helps us extend our reach to markets where we do not have franchise stores. Over the year wholesale sales were down 26.6 per cent to £6.9 million. This was mainly the result of changing our wholesale operations in North America.

Our aim is to be the definitive one-stop-shop for mothers across the world for product, value and service.

The brand qualities that will help us deliver transformation and growth:

Passion p05

We are passionate about the quality of all our products, which is reflected in our clothing ranges where we are working hard to deliver value without compromising on quality.

Expertise p06

We have over 50 years' experience of meeting the needs of mothers and their babies and young children, which is reflected in our new furniture and bedding ranges.

Innovation p07

We have taken the time to reflect on the feedback from mums, taking the best of available technology and developing components where necessary to deliver lighter, easier to manoeuvre and more flexible pushchairs.

For more information visit:
www.mothercare.com

Transformation and growth

Passion

We take pride in the uncompromising quality of our clothing ranges, and have taken heed of customer feedback with regard to our value proposition and fashionability.

Our Autumn/Winter 12 ranges have seen a step up in these important areas and we have worked hard to deliver on customer needs. Our clothing ranges aim to be relevant and age appropriate with a nod to fashion. We have added key staples for the nursery bag with good quality, cute slogan or animal graphic t-shirts at great opening prices. Our ranges now move through the pricing architecture with clear good, better and best ranges. Even at the top end, we have realigned prices to offer uncompromising value to our customers.

For more information visit:
www.mothercare.com

Transformation and growth

Expertise

We have re-launched our furniture and bedding ranges for Autumn/Winter 12 with clear ranges at each price point. We recognise that some customers may have space constraints and have taken these needs into account when designing a compact range. This attention to detail is also evident in the recently launched Treasured range, which was designed with the International customer in mind. The success of the range in the UK at the 'best' end of our ranging reflects the quality and exclusivity of the product.

For more information visit:
www.mothercare.com

Transformation and growth

Innovation

The Movix pushchair is a great example of the innovation that we aim to deliver for our customers. The lightweight, versatile chassis has been designed to accommodate three different travel options for baby with no need for adjustment or additional adaptors. Suitable from birth, the Movix comes with a carrycot which is parent facing and also includes a three-position seat which is both forward and parent facing. In addition a car seat option is available. Extra thought has also gone into accessibility to the under-seat storage and folding mechanism, making life easier for mum.

For more information visit:
www.mothercare.com

Chairman's statement

"We have a robust plan for transformation and growth with new, strong leadership capable of delivering the results."

Alan Parker CBE
Chairman

I was delighted to be approached and appointed Chairman of Mothercare last year. For over 50 years, Mothercare has been one of the pre-eminent names on the UK high street and ELC has over the last 30 years represented innovation and quality as a toy brand. The strengths of both brands, with a network of strong and passionate international franchisees, are clear assets of the Company, complemented by its sourcing operations.

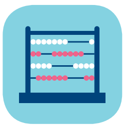
The trading results of the UK business have worsened over the past two years. On becoming Chairman, it became evident from an early stage that significant changes within the business were required. I assumed the role of Executive Chairman in November 2011, with a view to implementing these changes following the resignation of Ben Gordon as Chief Executive.

The board then carried out a thorough structural and operational review of the whole business, with the input of expert external consultants. The key elements of that review – the 'Transformation and Growth' plan – are set out in this report. In essence, we have a plan to transform the UK business to reflect the needs of customers and the changes in their shopping habits, while accelerating the group's successful expansion internationally.

- After a thorough search process, the board appointed Simon Calver as the new Chief Executive. Simon has the skills, experience, passion and leadership expertise to put the Company on a much stronger and more profitable footing
- Having the right people in place is a critical factor to the success of the 'Transformation and Growth' of the business. I have reshaped the executive team, so that now we have Mike Logue as Managing Director UK, and Jerry Cull as Managing Director International, each with ownership for their respective businesses. Their teams will be more focused and aligned to delivering the results we require
- It was clear that costs in the business had to be tackled quickly to reflect the reduction in the store estate in the UK. We now have a clear programme in place to tackle these costs which included a well managed and professional consultation process at the Watford head office. This resulted in some job losses both in Watford and our overseas offices, which were greatly regrettable

Worldwide network sales

International is now a larger part of our business and is set to grow by circa 20 per cent per annum



23.7%

Increase in international retail space

- We have worked with our banks, who have been supportive of our business strategy by agreeing to provide increased facilities to allow the Company to take some of the decisive steps required under the 'Transformation and Growth' plan
- We have carried out a thorough, externally facilitated board evaluation process to review the overall effectiveness of the board and its interaction with the Company's executive management

In addition, the Company has made significant progress over the last year in a number of areas:

- International retail space of Mothercare and ELC products increased by 23.7 per cent (over 400,000 sq. ft. of extra space)
- The UK business reduced its estate by 62 stores, demonstrating that the Company is in the vanguard of reshaping its business to reflect the new customer shopping trends
- A completely new website was launched in May 2012 which significantly improves the online shopping experience with Mothercare through computers or smart phones

Since Simon's appointment as our new Chief Executive I have reverted to the position of non-executive Chairman and will ensure that the appropriate governance and oversight of the Company will be maintained.

I believe we have put the Company on the right course for success, and that the actions that have been taken over a period of nearly six months will allow Simon and his team to re-establish the relationship with our customers as a priority, continue to address the structural issues in the UK business, and to restore the group's profitability.

I appreciate the strength of support that I have received from our franchise partners around the world. Without doubt, this is a vital attribute to the strength and future development of the group. I would like to say a big thank you to our franchise partners for their support.

Also, I would like to recognise the hard work and loyalty of the many thousands of team members during a difficult year. Their commitment continues to be a remarkable feature and remains fundamental to our future success.

Finally, on behalf of the board, I should like to thank Ian Peacock, who retired after nine years as Chairman of Mothercare, for his leadership of the Company and contribution to the business.

Alan Parker CBE
Chairman

Chief Executive's statement

> "We need to bring the customer with us... they need to be at the centre of every decision we make. As a team, this is our most important delivery yet."

Simon Calver
Chief Executive

Group results

Worldwide network sales grew by 6.4 per cent to £1,232.4 million (2011: £1,158.1 million), driven by the growth of our International business but tempered by the continued decline seen in the UK. Group sales, which reflect UK revenues and the payments we receive from our International partners, were up 2.4 per cent to £812.7 million (2011: £793.6 million).

The decline in profits in the 53 week period has however been disappointing with a reduction in underlying profit before tax to £1.6 million, down from £28.5 million last year. International has continued to grow rapidly, but the UK has struggled in the face of a challenging economic backdrop and an increasingly competitive environment.

Underlying profit before tax declined to £1.6 million (2011: £28.5 million) with exceptional charges and other non-underlying items of £104.5 million (2011: £19.7 million) resulting in reported losses before tax of £102.9 million (2011: profit of £8.8 million).

The non-underlying charge of £104.5 million includes £104.4 million of exceptional items including a non-cash write down of UK goodwill and other intangibles already announced in the first half, together with a provision for restructuring costs to deliver the 'Transformation and Growth' plan.

Whilst over 70 per cent of the exceptional charges are non-cash items, the decline in UK profitability and the need to fund an additional quarterly rent payment (due to the 53rd week in this financial year) have resulted in a year-end net debt position of £20.1 million (2011: net cash position of £15.3 million). Over the next three years we will be incurring cash restructuring costs of circa £35 million in total. We recently refinanced our banking facilities to fund the 'Transformation and Growth' plan, increasing committed facilities to £90 million, extending the term to May 2015 and resetting bank covenants (see Financial Review for more details).

As we announced in April, the board has decided to suspend the dividend until the 'Transformation and Growth' plan delivers a marked improvement in our results. There will therefore be no final dividend payment this year, which means the payout for the full year is 2.0p per share.

1,339 stores
Across 59 markets

Group revenues

2012	£812.7m
2011	£793.6m
2010	£766.4m

+2.4%

Helped by International, group sales continued to grow

International results

Total International sales were up 17.8 per cent to £672.4 million (2011: £570.9 million) with total reported sales up 22.4 per cent to £252.7 million (2011: £206.4 million). International underlying operating profits were up 26.9 per cent to £34.9 million (2011: £27.5 million). This profit comprised franchise profits of £38.1 million and joint venture and associate start-up losses of £3.2 million.

We now have three joint ventures and an associate. While our new joint venture in the Ukraine is profitable, our joint ventures in India and China and our Australian associate are start-up operations and as such have made, in total, a £3.2 million loss for the period. We see our equity stakes in these markets as an important investment in future growth opportunities.

We have laid the foundations with our franchise partners that will see an acceleration in revenue and profit growth. We remain the only specialist mother and baby retailer in this position in the world today.

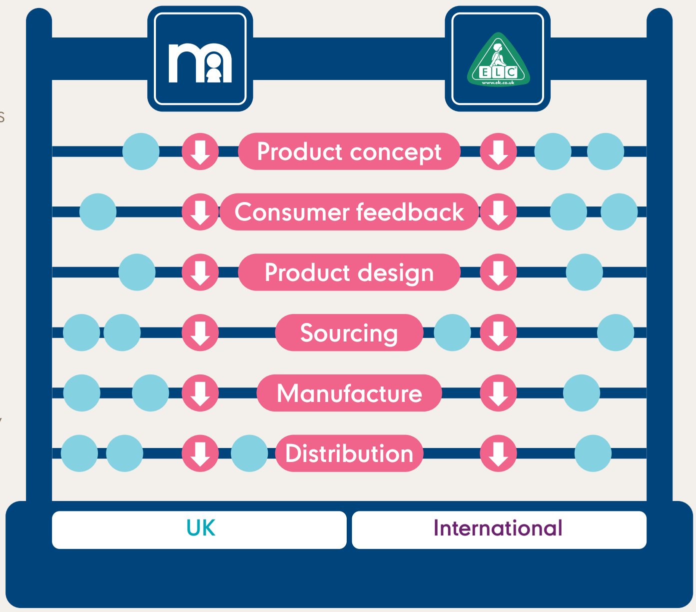
We have great franchise partners many of which I have already had the pleasure of meeting. They have such enthusiasm and passion for our brands and are excited by their potential in each of their countries.

Our business model

Our business is fully integrated across all our 59 countries. Our International markets operate on a franchise model, which means store operations are managed by our partners, while in the UK we manage our stores directly. It is important to know that these differences in who manages stores and the sale of our products, means that there is no difference in the lifecycle of our product ranges, which we manage across our global offices in the UK, India, China, Hong Kong and more recently Bangladesh.

The product cycle starts at the concept stage where we consider our existing ranges, global trends and customer needs. We then test these concepts through customer focus groups. This gives us great insight into price points and the best pricing architecture, thus allowing us to arrive at relevant ranges at the good, better, best price points. At the design stage, we are always considering how we can help our customers by meeting their needs but also by considering the quality that our customers have come to expect from Mothercare.

Once we have product ready for our stores, merchandisers across all our markets consider the ranges and place their orders. It is our job then to source efficiently and ensure product is manufactured to our high standards. We then distribute product to all our markets ensuring timely delivery while also ensuring store staff across all our markets are trained in how best to sell our products.



Chief Executive's statement continued

UK results
Total UK sales were down 4.6 per cent at £560.0 million (2011: £587.2 million) with a like-for-like sales decline of 6.2 per cent. Total Direct sales were up 0.8 per cent at £130.0 million (2011: £129.0 million) with Direct in Home down 1.7 per cent at £91.7 million and Direct in Store up 7.3 per cent at £38.3 million. Our wholesale channel grew by 44.9 per cent to £31.3 million.

Trading conditions in the UK deteriorated as we moved through the year. Although we have gained some market share in home & travel, the market was particularly weak and while we have gained some market share, sales were impacted by the reduction in the overall size of the market. We have managed stock levels very tightly over the year through additional promotions and offers and, as a result, we ended the third quarter with a clean stock position and a reduced gross margin which was, as expected, down 500 basis points for the full year. The UK segment of the Mothercare group recorded a loss of £24.7 million (2011: profit of £11.1 million) for the year.

Our brands
The Mothercare and the Early Learning Centre brands resonate strongly with mothers across the globe. The strength of the International business and franchise partners has allowed us to grow robustly and is a clear indication of the relevance of both brands in our overseas and UK markets. We now have 1,339 stores worldwide across 59 markets – 409 in Europe, 318 in Asia, 311 in the UK, 290 in the Middle East and Africa and 11 in Latin America following our recent launch. In the UK over 80 per cent of expectant mothers continue to visit our stores and our challenge is to convert more of these visitors to loyal, long term customers.

Mothercare was founded in 1961 and has since its earliest days endeavoured to offer mothers-to-be, new mothers and their babies and children up to the age of eight innovative and quality products at great value that are relevant to their lives. Our ranges include products for feeding, bathing, travel equipment, maternity wear and associated product, children's clothing, furniture, bedding and toys. Whilst we remain an important source of information and support for mothers-to-be and new mothers, I realise that we can do a lot more. These improvements will become increasingly apparent to our customers as we move through our three-year 'Transformation and Growth' plan.

Early Learning Centre was founded in 1971 and has its roots in a mail order business that today includes 462 stores worldwide, the internet and a small but growing wholesale business. ELC aims to provide babies and children up to the age of eight years nurturing toys that encourage learning and development in a fun and supportive manner.

Our strategy
We have over the last few months completed a thorough review of our business, both UK and International. This review forms the basis of our 'Transformation and Growth' plan, which is essential to deliver UK profitability and accelerate International growth. The group's task is to deliver this over the next three years.

Actions already taken
In International, we opened our first stores in Latin America. We also took our first steps towards a multi-channel offer with transactional websites for Early Learning Centre in Russia and Australia and for

ELC 36 per cent newness A/W 2011

Worldwide network sales

+6.4%

Our scale continues to grow with worldwide network sales up

Mothercare in Kuwait, Ireland and Australia with Mothercare Indonesia launching in June 2012.

In the UK, we continued our store rationalisation plan and ended the year with 311 stores. On 1 May 2012 we launched our new website.

Our senior management team continues to be strengthened. Mike Logue, our UK Managing Director, has been with the business since August 2011 and is building a strong UK team to assist him in the task ahead. I joined on 30 April 2012 and Jerry Cull our International Managing Director, who has been with the business for over 30 years, continues to drive International forward.

I would like to take this opportunity to thank Alan Parker our Chairman, who stepped up to an executive role, for his leadership of the business over the last few months. Our review is now complete and I have a clear strategy in the 'Transformation and Growth' plan, which we will implement over the next three years. It is in essence a simple plan – accelerate International growth while returning the UK to profitability through cost reduction and transformation. This will be our most important delivery yet. In addition, the customer will return to the centre of everything that we do. Our success will be driven by our ability to reconnect with them, converting more into shoppers both online and in-store.

Our strategy is based on the four cornerstones of:

- Lean retail
- Restore UK profitability
- Accelerate International growth
- Multi-channel worldwide

Summary

I am excited to have joined the Mothercare group as Chief Executive and I am confident about the opportunities ahead. Worldwide network sales are up 6.4 per cent and our brands remain as relevant to our customers today as they ever have been. I have been fully involved in the formulation of the 'Transformation and Growth' plan and I know that it is both the right plan and one which the team and I can deliver.

We have a long way to go, and the plan to bring the UK business back to acceptable levels of profitability will take three years. We need to invest in e-commerce, be ruthless with our non-store cost base and use our scale and growth worldwide to drive sourcing economies and pass these savings onto the customers to improve our value for money around the world. Everything we do will enhance customer value, experience and loyalty in each of our 59 countries. My team and I are up for the challenge and, whilst there is much to do in this difficult economic climate, I look forward to delivering the 'Transformation and Growth' plan. As a team, this will be our most important delivery yet.

Simon Calver
Chief Executive

UK OOT stores

2012	103
2011	98
2010	87

-3.5%

Our space in sq. ft. was down 3.5 per cent as we migrated to larger OOT stores during the year

Chief Executive's statement
'Transformation and Growth' plan: The four cornerstones

1. Lean retail

Lean retail means delivering operational efficiencies and substantial non-store cost reductions, tightly managing cash and working capital and building on the scale of our sourcing operations.

Reduce UK non-store costs by £20 million per annum (annualised)

Our infrastructure is larger than we require, given our new smaller UK operating base. We have identified £20 million of annualised costs that can be taken out of the business over the next three years from areas like distribution, head office costs and payroll. Work has already begun in this area and we have taken action to reduce UK head office payroll costs by 16 per cent.

In addition, we reduced UK stock levels by 12 per cent during FY2011/12 and plan to continue to drive down our working capital requirements.

Sourcing efficiencies

Our buying volumes continue to grow despite the recent decline seen in the UK. International growth of circa 20 per cent provides us with a strong base from which to underpin negotiations with our supplier base to reduce costs that we can pass on to our customers in lower prices, further driving growth.

Category mix

Clothing and home & travel are expected to grow as a percentage of sales as Early Learning Centre stores are closed in the UK which will help to underpin our gross margins. An increased focus on innovation should also help to drive sales of own-brand product and again increase margin. These changes in category mix are expected to lower prices whilst maintaining gross margins.

2. Restore UK profitability

Restoring UK profitability means delivering profitable growth through targeted and specific actions aimed at stabilising like-for-like sales and reducing significantly store occupancy costs.

National coverage

We have identified that circa 200 stores in the UK is the optimum size for Mothercare supported by online and wholesale business. This will offer the best national coverage of mother and baby specialists in the UK. These stores will not only be a place for shopping, customer service and advice but will also offer our 'Collect in Store' service, whereby online orders can be collected from stores. The target 200 stores chain is based around our profitable Mothercare out of town stores, key Mothercare in town stores and Early Learning Centres in key strategic locations. The target 200 store portfolio is currently profitable. The stores to be closed currently lose circa £13 million per annum and these stores will be closed by 2015.

Increase value and innovation across our product ranges

We have lost ground in terms of our value perception and we need to change this. We aim to have a clear pricing architecture with good, better and best ranges all offering value to the customer in terms of quality and price. An increase in own-brand and third-party exclusivity over the term of the plan will also help to improve our value credentials.

In addition over the next few quarters we will continue to launch new and innovative products focused on solving the needs of mums and babies.

Enhance customer service and improve in-store environment

We are investing in additional training for all store staff and will have started with specialist fitters for car seats and bras in all our stores at all times. We have also begun in-store investment focusing on fitting rooms and baby feeding and changing facilities, which are important to our mums.

Customer satisfaction measurement by store has recently been introduced and will further help us to track daily store level performance. It is essential that in all of our markets we set, not follow, the standards of service that mothers expect, to retain the trust of our customers.

3. Accelerate International growth

Accelerating International growth means increasing sales in existing markets, targeting new markets and focusing on key growth regions – China, India, the Middle East and Latin America.

Mothercare is a brand with truly global reach. Our International business continues to go from strength to strength. We have great franchise partners and proven concepts for Mothercare and Early Learning Centre across the emerging markets, which will drive space and revenue growth of approximately 20 per cent per annum over the term of the plan.

We are now in four regions and each is delivering strong growth for us. Europe (which includes Eastern Europe) and the Middle East and Africa, our two largest and oldest regions, are expected to deliver growth of 10 per cent per annum. Asia-Pacific is expected to grow by 20 per cent per annum while our newest region Latin America is expected to grow by over 100 per cent per annum, albeit from a lower base. Our business is well balanced and each region benefits from some high growth markets. In particular we believe Saudi Arabia, Russia, China, India and Latin America will drive growth over the term of the plan. Overall, we expect International retail sales to grow by 20 per cent per annum over the next three years to March 2015.

Our joint ventures in the Ukraine, China and India and our Australian associate are all on track to be profitable by March 2014.

4. Multi-channel worldwide

Multi-channel worldwide means launching new e-commerce platforms in the UK and all major overseas markets, growing both online revenues and store sales and putting Mothercare back into the lead.

New UK platform

In line with the plan we launched our new UK e-commerce platform for both direct to home and in-store ordering on 1 May 2012. The new website is a step change from the old legacy one with richer product content, improved search capabilities and better visibility for search engines. However, this is just the start but it has enabled us to have and use the tools commonplace across the industry to drive conversion and sales. Mothers are becoming much more informed and for many of our categories, significant research is done online before customers visit our stores. Having a great website will therefore grow both online revenues and in-store sales. As the number one baby website we have a large amount of traffic to our site and can increase conversion by doing the basics well. Thereafter we will begin to build long relationships with our customers, growing with them as their family does.

We have launched a new website in the UK and will build the capability to become one of the leading online players in the UK over the next three years. We will be redeveloping and reconfiguring our delivery network, our technology teams and our loyalty and retention tools but we can and will get there.

International websites

In addition, we will lead the move to multi-channel in our International markets with fully operational websites in five markets. Our existing platform has now been tested and is easily scalable across all our markets. We aim to have transactional websites across our major markets over the term of the plan, many of which will be some of the first such sites in their markets in any category.

Wholesale

Mini club, our wholesale arrangement with Boots UK for clothing, has been a great success. In addition to this we have a small but growing wholesale business for ELC product both in the UK and Internationally. We have, over the last few months, successfully trialed with several retailers. Wholesale is a great format for growing our reach for ELC and we would expect this element of our revenues to grow over the term of the plan.

Business review
UK

> "We shall only succeed by delivering for our customers."
>
> **Mike Logue**
> Managing Director – UK

I joined Mothercare in August last year after seeing the potential both the Mothercare and ELC brands had in the UK. Clearly our latest results highlight the task that is ahead of us. I am however confident we can transform the UK business.

Having spent time with our customers and store teams in over 100 of our shops they have made it very clear to me what needs to improve. We have put in place a leadership team wholly focused on the UK and we are off and running, reducing our cost base to ensure we have a lean UK business that can significantly improve value and service.

On 1 May 2012 we launched our new Mothercare.com website and we have over 600,000 customers a week visiting our site. Our customers are seeing market leading prices on car seats and pushchairs as we monitor prices online and in-store daily. It is fantastic to see our investment pay off as we grow market share.

In July we launch our fantastic Autumn Winter 2012 (AW12) clothing range which our sourcing teams around the world have worked tirelessly to design and produce. Prices are down double digits across the entire AW12 range whilst maintaining the quality all our customers trust us for.

As we previously announced we are closing circa 70 ELC stores and circa 40 Mothercare stores by March 2015. This is absolutely the right strategy and we will maintain national coverage of both Mothercare and ELC, even after these store closures. The circa 200 store portfolio will include 100 Early Learning Centres within our larger Mothercare stores and 30 stand-alone ELC stores, which will complement our Mothercare.com and ELC.co.uk websites. We are well positioned to support our customers with the right multi-channel operation.

We have a lot to achieve, however I am confident by continuing to listen to our customers and our teams around the UK we shall transform the UK back to profitable growth.

Mike

Mike Logue
Managing Director – UK

600,000
Customers a week visiting our site

Business review
International

> "Our global reach spreads our risk profile and we are well balanced both across and even within the regions."
>
> **Jerry Cull**
> Managing Director – International

International space growth

2012	2,283k sq. ft.
2011	1,845k sq. ft.
2010	1,538k sq. ft.

6.1% like-for-like growth.

Organic growth continues to play a role in our strategy for our international markets

Our International business continues to go from strength to strength. We are now present in four regions and all contribute to our overall target of growing space and sales by circa 20 per cent per annum. We have also started our journey towards delivering a multi-channel offer across our markets and have transactional websites in four of our markets and expect to have all our major markets covered over the term of the 'Transformation and Growth' plan.

Europe remains our largest region with 409 stores covering 992k sq. ft. in 28 countries. We expect space growth to continue at 10 per cent per annum with the rapid growth markets of Russia and Turkey compensating for our weaker Eurozone markets. Ireland and ELC Russia already have transactional websites and the initial response has been encouraging.

The **Middle East and Africa** is our oldest region and has 290 stores covering 628k sq. ft. in 14 countries. Favourable demographic and growing affluence underpin our growth expectations of 10 per cent per annum. We have recently launched a transactional website in Kuwait, which is fully customised to fit in with local customs and practices.

Asia Pacific now has 318 stores covering 644k sq. ft. in 13 countries. The opportunities in India and China remain significant and we expect to see space growth of 20 per cent per annum for the foreseeable future. Our joint ventures in India, China and Australia will all become profitable over the term of our plan. Our transactional websites in Australia are also proving to be successful and our website in Indonesia launches in June 2012.

Latin America is our newest region and at year end we had 11 stores covering 19k sq. ft. across three countries. We opened our first store in Venezuela in May 2012. The opportunity for growth is significant and we believe we can grow to over 200k sq. ft. over the next three years.

So as you can see the opportunity for growth is encouraging. We have a proven business model for the emerging markets, which we will continue to leverage over the next few years.

C. J. Cull

Jerry Cull
Managing Director – International

Financial review

Results summary
Group underlying profit before tax was £1.6 million (2010/11: £28.5 million). Underlying profit excludes exceptional items and other non-underlying items of £104.5 million, of which £77.0 million was already reported in the first half. This includes the non-cash write down of UK goodwill and intangibles (£55.0 million) in the first half, together with the restructuring costs of delivering the new 'Transformation and Growth' plan. After these non-underlying items, the group recorded a pre-tax loss of £102.9 million (2010/11: profit of £8.8 million).

Income statement

£ million	2011/12	2010/11
Revenue	812.7	793.6
Underlying profit from operations before share-based payments	**2.6**	**31.1**
Share-based payments	(0.6)	(2.2)
Net finance costs	(0.4)	(0.4)
Underlying profit before tax	**1.6**	**28.5**
Exceptional items and unwind of discount on exceptional provisions	(104.5)	(3.6)
Non-cash foreign currency adjustments	2.0	(13.8)
Amortisation of intangible assets	(2.0)	(2.3)
(Loss)/profit before tax	**(102.9)**	**8.8**
Underlying EPS – basic	1.8p	24.7p
EPS – basic	(105.2p)	7.6p

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

53rd week in 2012
The financial year ended 31 March 2012 contained 53 weeks compared to 52 weeks last year. The financial statements and this review have therefore been prepared on this basis.

For information on a more comparable, 52 week basis:

- Group sales were up 0.8 per cent to £799.6 million (2011: £793.6 million)
- UK sales were down 6.3 per cent to £550.3 million (2011: £587.2 million)
- International reported sales were up 20.8 per cent to £249.3 million (2011: £206.4 million)
- Group underlying profit before tax £1.5 million (2011: £28.5 million)

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

Exceptional items
- Restructuring costs in UK head office and distribution of £9.1 million
- Onerous lease provision for the UK business of £11.5 million
- Store impairment provision in relation to the UK business of £3.8 million
- Share-based payments credit in relation to leavers of £0.8 million (resulting from the UK restructure)
- Net losses on disposal or termination of property interests of £22.6 million
- Goodwill and intangible assets impairment in relation to UK share of goodwill and other intangibles arising on the acquisition of ELC of £55.0 million
- Impairment of investment in Australian associate business £2.8 million
- Share of restructuring costs in the Australian associate business of £0.4 million (relating to business reorganisation and integration)

Other non-underlying items:
- Non-cash adjustments principally relating to marking to market of commercial foreign currency hedges at the period end. As hedges are taken out to match future stock purchase commitments, these are theoretical adjustments which we are required to make under IAS 39 and IAS 21. These standards require us to revalue stock and our commercial foreign currency hedges to spot. This volatile adjustment does not affect the cash flows or ongoing profitability of the group and reverses at the start of the next accounting period
- Amortisation of intangible assets (excluding software)
- Unwind of discount on exceptional property provisions £0.1 million

Exceptional items in 2010/11 included £3.6 million restructuring costs of the UK business, £0.2 million net profits on disposal or termination of property interests and £0.2 million unwind of discount on exceptional property provisions.

Results by segment

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

£ million Revenue	2011/12	2010/11
UK	560.0	587.2
International	252.7	206.4
Total	**812.7**	**793.6**

£ million Underlying profit	2011/12	2010/11
UK	(24.7)	11.1
International	34.9	27.5
Corporate	(7.6)	(7.5)
Underlying profit from operations before share-based payments	**2.6**	**31.1**
Share-based payments	(0.6)	(2.2)
Net finance costs	(0.4)	(0.4)
Underlying profit before tax	**1.6**	**28.5**

UK retail sales have declined year-on-year due to store closures and declining like-for-like sales across both the store estate and Direct channels. However, profit has benefited from the property strategy, with lower occupancy costs and tight cost control.

International has benefited from the 22.4 per cent growth in total International reported sales driving growth in royalty income and shipments, with central costs growing at a slower rate. International profit has been reduced by losses in joint ventures and associates during the year, mostly driven by the impact of restructuring in Australia.

Corporate expenses represent board and company secretarial costs and other head office costs including audit, professional fees, insurance and head office property.

Share-based payments

Underlying profit before tax also includes a share-based payments charge of £0.6 million (2010/11: £2.2 million) in relation to the Company's long term incentive schemes. There are four main types of long term share-based incentive scheme, being the Executive Incentive Plan, the Performance Share Plan, the Deferred Shares Plan and the Save As You Earn schemes. Full details can be found in note 28.

The underlying IFRS 2 charge has reduced in 2011/12, reflecting the reduction in the group's performance and a number of leavers from the executive schemes.

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

Like-for-like sales are defined as sales for stores that have been trading continuously from the same selling space for at least a year and include Direct in Home and Direct in Store.

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

	Reported sales		Network sales*	
£ million	2011/12	2010/11	2011/12	2010/11
UK retail sales	528.7	565.6	528.7	565.6
UK wholesale sales	31.3	21.6	31.3	21.6
Total UK sales	560.0	587.2	560.0	587.2
International retail sales	245.8	197.0	665.5	561.5
International wholesale sales	6.9	9.4	6.9	9.4
Total International sales	252.7	206.4	672.4	570.9
Group reported sales/Group network sales	**812.7**	**793.6**	**1,232.4**	**1,158.1**

* Estimate

Business review

Financial review
continued

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

The underlying tax charge comprises current and deferred tax and the effective tax rate is nil per cent (2010/11: 25.6 per cent). The tax charge in some areas of the business has been offset by allowable tax losses. There is no underlying tax charge in 2011/12 (2010/11: £7.3 million). The total tax credit was £11.1 million (2010/11: charge of £2.3 million). In 2012/13, the effective tax rate is expected to increase towards the standard rate of tax.

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

£ million	2012/13*	2011/12	2010/11
Income statement			
Service cost	(2.5)	(2.3)	(2.9)
Return on assets/ (interest) on liabilities	(1.0)	0.2	(0.6)
Gains on curtailment	–	0.2	–
Net charge	**(3.5)**	**(1.9)**	**(3.5)**
Cash funding			
Regular contributions	(2.0)	(1.9)	(2.2)
Deficit contributions	(3.2)	(6.1)	(2.3)
Total cash funding	**(5.2)**	**(8.0)**	**(4.5)**
Balance sheet			
Fair value of schemes' assets		217.3	208.4
Present value of defined benefit obligations		(270.0)	(246.0)
Net liability	**N/A**	**(52.7)**	**(37.6)**

* Estimate

Deficit contributions in 2011/12 include two annual payments due to the 53rd week. This impact does not unwind until 2013/14, when no deficit contribution will be due within the financial year. The gains on curtailment in 2011/12 are due to the UK restructuring headcount reduction.

In consultation with the independent actuaries to the schemes, the key market rate assumptions used in the valuation and their sensitivity to a 0.1 per cent movement in the rate are shown below.

	2011/12 %	2010/11 %	2011/12 Sensitivity %	2011/12 Impact on scheme liabilities £ million
Discount rate	4.9	5.5	+/- 0.1	-/+ 6.0
Inflation – RPI	3.3	3.5	+/- 0.1	+/- 5.3
Inflation – CPI	2.3	2.8	+/- 0.1	+/- 5.3

Balance sheet and cash flow
The balance sheet includes identifiable intangible assets arising on the acquisition of Early Learning Centre of £6.9 million and goodwill of £26.8 million. This relates to the International business. In 2011/12, the group carried out a review to determine whether there is any indication that the goodwill and intangible assets suffered any impairment loss. It has been determined that the UK business does not generate sufficient cash flows to support the full value of the goodwill and intangible assets and consequently an impairment loss of £55.0 million has been charged.

The group continues to generate operating cash, with cash generated from operations of £5.6 million. The inclusion in the year of a 53rd week adversely impacted the timing of cash flows, with additional rental (£13.2 million) and pension deficit payments (£3.3 million) being incurred. Close management of working capital, in particular stock levels, generated an underlying inflow in working capital of approximately £9.0 million, excluding the 53rd week rent payment.

We have made significant investments in our joint ventures and associates during the year to drive growth in International, including £2.0 million in the Ukraine, £1.5 million in Australia, £1.3 million in China and £0.9 million in India.

After investing £24.9 million of capital expenditure (£21.4 million net of lease incentives received), receiving property sale proceeds of £2.3 million and £4.1 million in tax receipts and paying £11.9 million of dividends, the net debt position at the year end is £20.1 million (2010/11: net cash of £15.3 million).

At the year end the group had committed secured bank facilities of £80 million (with an average interest rate of 1.4 per cent above LIBOR) which were due to expire in May 2014. It also had an uncommitted unsecured bank overdraft facility of £10 million. On 11 April 2012, the group refinanced the banking facilities with the support of its two existing banks, HSBC and Barclays, increasing the level of committed facilities from £80 million to £90 million (at an interest rate range of 3.5 per cent to 4.0 per cent above LIBOR) and extending the term to 31 May 2015. These facilities provide additional liquidity and covenant headroom to accommodate the new three-year strategy. The covenants in the new facilities are tested quarterly and are based around gearing, fixed charge cover and guarantor cover.

Going concern
Details of this can be found on page 33 within the corporate governance section.

Capital expenditure
Total capital expenditure in the year was £24.9 million (2010/11: £21.8 million), of which £3.2 million was for software intangibles and £21.7 million was invested in UK stores and web development. Landlord contributions of £3.5 million (2010/11: £9.6 million) were received, partially offsetting the outflow. Net capital expenditure after landlord contributions was £21.4 million (2010/11: £12.2 million). Net capital expenditure for 2012/13, after landlord contributions, is expected to be circa £15.0 million.

Earnings per share and dividend
Basic underlying earnings per share were 1.8p compared to 24.7p last year. The board has decided that given reduction in profits in the 53 week period and the cash investment required to deliver the 'Transformation and Growth' plan, the Company will not pay a final dividend for 2011/12. The total dividend for the year is therefore 2.0p per share (2010/11: 18.3p per share).

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

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

Foreign currency risk
All International sales to franchisees are invoiced in pounds sterling or US dollars.

International published sales represent approximately 31 per cent of group sales. Total International sales represent approximately 55 per cent of group network sales. The group therefore has some currency exposure on these sales, but it is used to offset or hedge in part the group's US dollar and euro denominated product purchases. The group policy is that all material exposures are hedged by using forward currency contracts.

Interest rate risk
At 31 March 2012, the group had drawn down £20 million on its borrowing facility. At this date and throughout 2011/12 no interest rate hedging was considered necessary. Following the refinancing on 11 April 2012 it is anticipated that the group will hedge the floating interest rate on a proportion of the new borrowings.

Shareholders' funds
Shareholders' funds amount to £72.7 million, a decrease of £120.1 million in the year driven largely by the goodwill and other intangible impairments and exceptional provisions required for the UK property transformation and restructuring. This represents £0.83 per share compared to £2.18 per share at the previous year end. The retained earnings reserve in the consolidated balance sheet shows a deficit of £26.5 million. However, the Company has taken steps during the period to increase the retained earnings reserve in the Company balance sheet to £72.3 million and therefore has the ability to pay dividends and make other similar payments when the 'Transformation and Growth' plan is delivering benefits.

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

Neil Harrington

Neil Harrington
Finance director

KPIs – Financial and non-financial
Measuring our performance

International profits

Mar-12	£34.9m
Mar-11	£27.5m
Mar-10	£23.2m

The focus on increasing space is clearly evident in the growth we have seen both in revenues and profits over the last few years across our International business. Profit growth has been at, or ahead of, space and we would expect this to continue to be the case for the foreseeable future.

£34.9m

International space

Mar-12	2,283k sq. ft.
Mar-11	1,845k sq. ft.
Mar-10	1,538k sq. ft.

Our success in our International markets is driven by the quality of our franchise partners who believe in our brands. Whilst we continue to target circa 150 store openings a year, recently opened stores have been larger in size and we are now looking to grow space at the top of our previously guided range of 15-20 per cent per annum. Space growth and the subsequent like-for-like sales growth remains the driving force for revenues in our International markets.

2,283k sq. ft.

Average length of service of store-based employees

Mothercare

Mar-12	6.0 yrs
Mar-11	5.1 yrs
Mar-10	5.4 yrs

ELC

Mar-12	5.8 yrs
Mar-11	5.2 yrs
Mar-10	5.1 yrs

A key strength for both Mothercare and Early Learning Centre is the connection our staff feel for the brands, which is reflected in the above average level of staff retention we enjoy. At March 2012, Mothercare had 4,467 retail employees with an average service of six years with the longest serving employee being with Mothercare for 41 years. ELC with 934 retail employees had an average service of 5.8 years and 29 years for the longest serving employee.

6.0 yrs

Women in senior management positions

Achieved to date

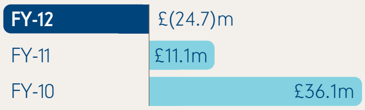
Mar-12	53%
Aug-11	54%
Aug-09	46%

The above-average number of women we have in senior management positions below executive committee level is largely attributable to working mums and those planning to become mums who have a strong affinity with the brands and a culture built on teamwork and cooperation. We strive to offer a fair and flexible environment that will continue to see us give recognition where deserved.

53%

UK profits

Actual achieved to date



Target

FY15(estimate): return to profits

Our three-year transformation plan for the UK envisages a return to profitability by March 2015.

£(24.7)m

UK operating cost reduction

Target UK operating cost reduction

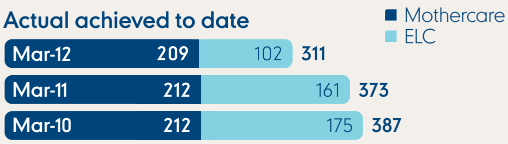
FY15(estimate): £20m

The transformation of the UK is dependent in part on our ability to rationalise our UK operating cost base. In April 2012, we announced that we aim to take £20 million, on an annualised basis, out of this cost base over the three years of the plan. We have already commenced this process and will report on our progress at the end of each year.

£20m

UK store numbers

Actual achieved to date



Target store portfolio

FY15(estimate): circa 200

Mothercare	circa 170
ELC	circa 30

It has been our strategy to rationalise our store portfolio to reflect the evolution we have witnessed in terms of shopping habits across the UK. Core to our strategy of transforming the UK and returning it to profitability is the removal of loss making stores from our estate. This process is expected to eliminate losses of £13 million, through the closure of circa 111 stores, on an annualised basis by FY15. As a result, we expect to have circa 200 stores by March 2015.

311

Principal risks and uncertainties

The principal risks and uncertainties facing the Company may include some of those set out below. These risks and uncertainties reflect and focus on some of the group's challenges in delivering the 'Transformation and Growth' plan, particularly in the context of the wider economic uncertainties at a macro level. It should be borne in mind that this is not an exhaustive list and that there may be other risks that have not been considered or risks that the board considers now are insignificant or immaterial in nature, but that may arise and/or have a larger effect than originally expected. Against this background, the system of internal control is designed to manage rather than eliminate risks, to reduce the impact to the group and to ensure that adequate mitigation is in place.

In order to manage risk effectively, the executive committee (see page 31) has overall responsibility for ensuring that a rolling programme of structured risk assessments of those areas having a significant effect on the future of the business is carried out. The programme ensures, so far as practicably possible, that the appropriate risk management processes are identified, controls established, residual risks evaluated and that the necessary action and risk avoidance measures taken or monitoring undertaken. Elements of the programme are reviewed by the internal audit function during the year. The process outlined above has been in effect during the period and up to the date of the approval of the accounts by the board.

	Risk	Impact	Mitigation
Financial	■ The group fails to meet the financial targets set out in the 'Transformation and Growth' plan	■ Potential breach of covenants contained in bank facility agreements leading to event of default	■ Detailed monthly monitoring of financial performance against plan targets ■ Alternative financing options to supplement bank facility ■ Restructured head office and UK store teams
	■ LFL sales in the UK do not meet expectations under 'Transformation and Growth' plan	■ Poor business performance may mean that financial targets are not met ■ Loss of supplier confidence ■ Loss of market share	■ Reshaped UK business team ■ New price and value strategy supported by promotional activity ■ New website launched
	■ Unforeseen additional cash funding to support international joint venture operations and associates	■ Diverts cash away from the UK business ■ May delay UK business turnaround	■ Joint ventures and associates submit business plans and management reports monthly to the Company ■ Attendance at board meetings
	■ UK store rationalisation programme is difficult to achieve in current market conditions	■ Greater than anticipated costs of closure ■ Reduces cash available to UK business	■ 2011/12 targets met which provides a record of past performance ■ Dedicated and experienced property team
	■ Uncertainty in the macro economic environment – particularly the Eurozone economies ■ Fluctuations and uncertainty in exchange rates	■ Continued weak UK consumer confidence may delay business turnaround ■ Underperforming International business in affected regions ■ Increase in cost of goods impacts margin ■ Potential for increase in bad debts	■ Product range and pricing being adapted to meet customer demand ■ Strong franchise partners; close working relationship with franchisees ensures early awareness of any financial issues ■ Credit insurance ■ Limited exposure to Eurozone economies

	Risk	Impact	Mitigation
Operational	■ The UK business fails to deliver on brand standards, or react to changes in consumer demand or existing or new competitor activity	■ Loss of market share ■ Loss of sales leading to a shortfall in profits	■ Improvements being made at store level through better store operations, staff training and store standards ■ New website launched in the UK ■ New customer satisfaction programme launched ■ Structured pricing policy and strategy ■ Product range and pricing being adapted to meet customer demand
	■ International expansion leads to over-exposure in certain territories	■ The group becomes vulnerable to key markets	■ Strong franchise operations work closely with international franchisees ■ Credit insurance against key franchisee recoverables
Manufacturing and product	■ The group fails to meet its reputation for quality, safety and integrity	■ Damage to brand reputation and customer confidence would impact sales	■ Significant group investment in product quality management resource ■ High standards communicated throughout supply chain ■ In-house responsible sourcing team working in Bangladesh, India and China ■ Global code of conduct communicated and applied to head office/suppliers/franchisees
	■ Failure to invest properly in product innovation	■ New products and innovation are a key driver of sales	■ The group maintains an ongoing investment strategy in new products ■ Launches of new products and ranges planned for FY13
People and infrastructure	■ Organisational change and headcount reductions lead to erosion of corporate knowledge	■ The 'Transformation and Growth' plan falls behind schedule	■ Development and approval of key business objectives for all employees from top down with quarterly reviews to monitor employee performance
	■ Legacy IT systems fail to meet business requirements	■ Adverse impact on performance and ability to meet key targets	■ Comprehensive IT review planned
	■ Failure or increase in costs of the group's logistics or global distribution network	■ The UK business or international franchisees do not meet customer demand, leading to loss in sales ■ Erosion of margin	■ Regular review and audit of distribution network ■ Strengthened and dedicated expert distribution team

Corporate responsibility

Corporate responsibility underpins our core relationships for today and the future:

- Communities – parents and children
- The people who work for us
- Our suppliers who make and distribute our products
- The environment

Our aim is to be the definitive one-stop-shop for mothers across the world for product, value and service.

This report gives an overview of our activities over the last 12 months and provides an update on the targets we set ourselves in 2007.

Highlights
In 2011/12, the Mothercare group:

- exceeded its targets in buildings emissions, transport emissions and waste recycling
- had average service of store-based staff of nearly six years at both Mothercare and ELC stores
- had 53 per cent of senior management positions (below executive committee level) filled by women
- was ranked seventh in the Reputation Institute's survey

Average length of service of store staff

Mothercare

2012	6.0 yrs
2011	5.1 yrs
2010	5.4 yrs

ELC

2012	5.8 yrs
2011	5.2 yrs
2010	5.1 yrs

Our staff both at Mothercare and ELC continue to have a close affinity with the brands which is reflected in their length of service

Governance and targets

The corporate responsibility steering committee is chaired by Tim Ashby, our group general counsel and company secretary, who has been with Mothercare since 2010. The steering committee reports directly to the plc board and is supported by a small central team and external experts.

In 2007/08 we set seven targets to be achieved by 2013 (published on www.mothercareplc.com). These targets and our current performance are shown in the table on the next page (shaded blue). We are currently in the process of setting our next set of targets to cover the period spanning our 'Transformation and Growth' plan and beyond and we will report on them in due course.

Key performance indicators	2007/08 baseline	2011/12 performance	2013 target baseline	Progress against target baseline
Buildings energy use (m kWh)	71.2	57.5	–	–
Transport fuel used (m litres)	2.6	1.7	–	–
Transport mileage (m miles)	6.1	4.3	–	–
Carbon emissions (tonnes) of which:	40,400	30,200	–	–
Buildings	33,500	25,600	-15%	-24%
Transport	6,900	4,600	-20%	-33%
Packaging used (tonnes)	11,500	9,300	–	–
Packaging per £100 (kg, UK only)	20.0	17.0	-40%	-15%
Solid wooden products recycled or Forest Stewardship Council wood	Not collected	*	50% sourced	Not available
Carrier bags used (m, UK only)	17.4	11.1	-50%	-36%
Recycled waste (tonnes, UK only)	Not collected	3,800	75% recycled	86% recycled
Total fundraising (£k)	100	760	1,000	76% achieved
of which:				
Direct donations (£k)	100	32	32	–
Employee fundraising (£k)	Not collected	728	–	–

* Data collection for 2012 in progress. Performance will be available in the autumn.

Buildings emissions – target achieved

We met our buildings emissions target in FY2011 and have exceeded our target this year by nine percentage points.

This was in part due to the ongoing store closures, a milder winter and our Swindon warehouse being fully rented out. We have also seen a 17 per cent reduction in electricity consumption and a 30 per cent reduction in gas consumption at our Daventry distribution centre. These reductions were driven by greater use of thermostat control, dimmer switches and a reduction in weekend working. We have also seen a small benefit from the reduction in Defra's emission factors for both electricity and gas.

It is encouraging to note that our stores improved their energy performance per sq. ft. by 3.4 per cent during the year.

Transport emissions – target achieved

We exceeded our target by 5 percentage points in FY2011 and have seen a further improvement, partly due to store closures but also from more effective stock control, ensuring that the right products are at the right place at the right time. Overall we have achieved a 33 per cent reduction in carbon emissions from our transport fleet since 2007/08.

Waste recycling – target achieved

We redoubled our efforts, during the year, to reduce waste and increase recycling at both our stores and our distribution centres. Our ELC warehouse at Daventry was able to achieve zero waste to landfill during the year.

Communities – parents and children

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

Awards received

During the year ELC was awarded the 'best toy shop' at 'Tommy's let's get baby friendly Awards 2012'. Mothercare won 'best maternity basics' at the 'Pregnancy & birth bloom awards 2012'.

Children's play facilities

In recognition of the importance of play in the development of children, we have created a small soft play area in a number of our stores. The areas are signposted and support the ethos of Playtime which we continue to hold every Tuesday at 11am across our ELC stores and ELC inserts in larger

Corporate responsibility continued

Mothercare stores. These playtimes are hosted by staff and include painting, modelling, colouring and singing nursery rhymes and involve parents and carers also.

Baby and Me events
Our larger Mothercare stores hold Baby and Me events for expectant mums and dads who receive advice and guidance on different aspects of parenting. These events have proved to be extremely popular.

Charitable giving
Mothercare's total direct giving to charity last year was £32,324, with £27,324 to the Mothercare Group Foundation and £5,000 to Save the Children. During the year the Mothercare Group Foundation was able to make grants of £124,360.

People who work for us
Mothercare retains its caring culture, which is clear in the loyalty we enjoy from our staff. The average length of service for our store-based staff is high at 6.0 years for Mothercare and 5.8 years for ELC. It is also not unusual to come across staff members with 10, 15 and even 20 years of service. The longest serving employee at Mothercare has clocked up 41 years, while at ELC the number is equally impressive at 29 years.

In addition, we take equal opportunities seriously and aim to reward and promote talent where appropriate. As a result we are proud to say that 53 per cent of senior management positions (below executive committee level) are held by women.

In a year when Mothercare has undergone significant change, we were ranked seventh in the survey conducted by the Reputation Institute. The study measures the reputations of over 250 companies in the UK and is part of a larger study of over 2,000 companies globally. The research conducted by the Reputation Institute indicates that strong reputations are based on the concepts of admiration, trust, good feeling and overall esteem that stakeholders have towards a company.

People making our products
Responsible sourcing remains a key focus for Mothercare – we aim to reduce the risk of brand-damaging allegations by monitoring our supply base, gaining a better understanding of the complex issues that affect workers and ultimately working to provide better workplaces for them. Our Responsible Sourcing Code of Conduct and Implementation Policy are available online at www.mothercareplc.com

Our Responsible Sourcing Team is made up of 12 dedicated professionals located regionally in our Head and Sourcing Offices. They work directly with our suppliers and factories to understand the issues in the supply chain and improve working conditions. Their work is complemented by the third-party audit information we obtain through SEDEX (www.sedexglobal.com). By using our own internal team and third-party audit information, we increase the visibility we have over the supply chain, which allows us to focus on gaining transparency and working with the factory to make improvements.

The more work we do in this area, the more complex issues we unravel, which are often industry-wide issues and not limited to individual factories. In order to tackle these sorts of issues, we continue to be active members of the Ethical Trading Initiative (www.ethicaltrade.org). This platform allows us to have dialogue with other retailers, non-governmental organisations and trade unions, and to work together on programmes that tackle endemic issues that cannot be resolved by individual retailers.

Going forward, the Mothercare Responsible Sourcing Programme has to adapt to a changing business environment. As a result of this, the team is in the midst of developing a five-year strategy which will cement current global practices and fully embed responsible sourcing in the day-to-day culture of the Mothercare business, before expanding and undertaking aspirational work in the later years of the strategy. This will allow us to maintain the high standard of our current work, whilst helping us to plan for the future. It will also provide the team with measurable goals to achieve and track progress.

The focus of the Responsible Sourcing Team is on the first tier of our supply base where we believe we have the greatest influence and ability to bring about change. In 2011/12, 96 per cent of our supply base was registered on SEDEX and third-party audit information was provided for 88 per cent of factories. In addition to this our in-house team visited 80 per cent of our direct supply base to offer help and guidance on non-compliance resolution.

The second and third tiers of our supply base (e.g. spinning mills, homeworkers, etc) are investigated on a project basis or as part of our involvement with ETI working groups such as the group to tackle the Sumangali scheme in South India, which exists in spinning mills over which we as an individual retailer have very limited influence. This approach allows us to target our resources effectively and develop best practice, which we then work to implement in a wider context at a later stage.

Case Study – Collaborative factory improvement projects in India and Bangladesh

Mothercare is participating in the Responsible and Accountable Garment Sector (RAGS) Challenge Fund, set up by the Department for International Development (DfID). We are working with five other retailers on the Benefit for Business and Workers (BBW) project, which focuses on improving the management systems of ready-made garment manufacturers, demonstrating the business benefits of providing better jobs and providing the tools and know-how to create change.

The goal of the project is to make responsible business and efficient production the norm in the Indian and Bangladesh Garment Export Manufacturing sectors. The objectives are to support factories to:

- Introduce and sustain productivity and quality improvements
- Have a more stable and satisfied workforce
- Provide better remuneration packages for workers
- Ensure that workers do not work excessive hours
- Ensure that workers are able to communicate their views

The project is delivered in two phases:

- Phase One (November 2010 – February 2012) consists of building management skills and improving working conditions in 10 pilot factories in India and Bangladesh
- Phase Two consists of training and implementation support for 100 factories commencing March 2012

Mothercare has two key factories involved in Phase One, both of whom have achieved very encouraging results, including significant improvements in productivity, absenteeism and turnover. We are particularly pleased by the shift in the factory owners' way of thinking about their business and their workers. Some examples of improvements:

India factory

- Productivity up by over 20 per cent in the Mothercare factory vs. less than 1.5 per cent over the whole project group in India
- Absenteeism down by over 50 per cent vs. less than 40 per cent for the overall India project group
- Labour turnover down by over 70 per cent vs. 40 per cent for the overall India project group
- Average hourly rate of pay up by 8 per cent vs. 20 per cent drop in the overall India project group
- Average working hours down by over 6 per cent

Bangladesh factory

- Efficiency up by 7 per cent
- Absenteeism has reduced by over 75 per cent vs. 55 per cent in the overall Bangladesh project group
- Basic pay of the lowest paid worker has increased by over 9 per cent vs. 2.5 per cent in the overall Bangladesh project group
- Average working hours reduced by over 30 per cent vs. 17 per cent in the overall Bangladesh project group

The feedback from the factories involved has been very positive:

> "This is the first time I have come across an opportunity for supervisors to partake in a factory development project; I feel more important and recognised."

Supervisor at our factory in India.

Business review

Board of directors

Committee Memberships key:

- **A** Audit Committee
- **R** Remuneration Committee
- **N** Nomination Committee
- **F** Full board member

1. Alan Parker R N F
Chairman

Appointed August 2011
Executive Chairman of Mothercare plc from 17 November 2011 to 30 April 2012. Non-executive director of Kesa Electrical plc, Jumeirah International LLC and Justice Holdings Limited. President and Chairman of the British Hospitality Association. Formerly Chief Executive of Whitbread plc and Managing Director EMEA of Holiday Inn.

2. Simon Calver F
Chief Executive

Appointed April 2012
Formerly Chief Executive of Lovefilm International; CEO of Video Island; President and Chief Operating Officer of Riverdeep Inc; Vice President and General Manager of Home and Small Business, UK and Ireland, Dell Computer Corporation and Vice President International Sales Operations, PepsiCo Inc.

3. Neil Harrington F
Finance Director

Appointed January 2006
Non-executive director and audit committee chair at McBride plc. Formerly Finance Director of George Clothing UK, a division of Asda Stores Limited; Chief Financial and Admin Officer of Global George, a division of Wal-Mart Stores Inc; Finance Director of Barclaycard International, a division of Barclays Bank plc; and Group Financial Controller of French Connection Group plc. On 25 April 2012, the Company announced the resignation of Neil Harrington. Chartered Accountant.

4. Bernard Cragg A R N F
Senior non-executive director

Appointed March 2003
Senior non-executive director of Workspace Group plc; non-executive director of Astro All Asia Networks plc and Progressive Digital Media Group plc. Formerly Group Finance Director and Chief Financial Officer of Carlton Communications plc, Chairman of I-mate plc and Datamonitor plc and a non-executive director of Bristol & West plc and Arcadia Group plc. Chartered Accountant.

5. Amanda Mackenzie A R N F
Non-executive director

Appointed January 2011
Chief Marketing and Communications Officer of Aviva plc. A member of Aviva's Executive Committee, Executive sponsor for diversity and Chair of the operational risk committee. Member of Lord Davies steering group to increase the number of women on corporate boards; President of the Marketing Society; board member of the National Youth Orchestra and chair of Front Foot for the Advertising Association.

6. Richard Rivers A R N F
Non-executive director

Appointed July 2008
Formerly Chief of Staff and Head of Corporate Strategy at Unilever. A non-executive director of Channel 4 Television Corporation and Lumene Oy, and a member of the Advisory Board of WPP.

7. David Williams A R N F
Non-executive director

Appointed August 2004
Chair of Operating Partners of Duke Street Capital LLP, The Original Factory Shop Ltd; Natures Way Foods Ltd and Wagamama Ltd. Non-executive Director of the Royal London Mutual Insurance Group Ltd. Formerly Chairman of Simple Ltd, Avebury Taverns Ltd, Sandpiper Ltd, Wyevale Garden Centres plc and Ideal Shopping Direct plc, Adelie Food Holdings Ltd and Oasis Dental Healthcare Ltd. Formerly Governor of London Business School.

Executive committee

1. Simon Calver
Chief Executive

(**See opposite page for biography)**

2. Tim Ashby
Group General Counsel and Company Secretary

Appointed May 2010
Formerly Region Counsel for Europe/Africa at Yum! Brands Inc. (owners of KFC, Pizza Hut and Taco Bell); Senior International Counsel, PepsiCo, Inc.; Solicitor, Denton Wilde Sapte.

3. Jerry Cull
Managing Director – International

Appointed December 2005
With the group for over 30 years. Director of International and head of Mothercare's franchise business since 1995. Formerly, regional manager at Mothercare; various roles at Bhs, including Head of Bhs International.

4. Neil Harrington
Finance Director

(**See opposite page for biography)**

5. Mike Logue
Managing Director – UK

Appointed August 2011
Formerly Commercial Director for non food and managing director of Asda Living at Asda; Managing Director of Gamestation; various operational roles at Marks and Spencer throughout the UK and in Hong Kong.

6. Sue Malti
Group HR Director

Appointed December 2006
Formerly HR Director at RHM (Rank Hovis McDougal); Group HR Director at the Thresher Group; various HR and commercial roles at Marks and Spencer (1984-1990).

Corporate governance

"Having been a Chief Executive for many years, I recognise and firmly believe in the importance of good corporate governance and the benefits that it brings – to the Company, its shareholders and its management. We carried out a thorough evaluation of the board a few months ago, which I will use to establish a clear framework of objectives and governance of the Company over the next few years."

Alan Parker CBE
Chairman

The Company believes that by seeking to achieve a high standard of corporate governance in all of the activities undertaken by the group, the group's reputation and performance will be enhanced. In addition, it will also promote and benefit the interests of investors, customers, staff and other stakeholders. To this end, and save as described below, the Company considers that it has complied throughout the 53-week period ended on 31 March 2012 with the relevant provisions set out in the UK Corporate Governance Code published by the Financial Reporting Council (FRC) in 2010 having applied the main and supporting principles set out in Sections A to E of the Code.

The board

The leadership of the Mothercare plc business is provided by the Mothercare plc board. It operates on a unitary basis and ordinarily comprises the non-executive Chairman, four independent non-executive directors, and two full-time executive directors, being the group Chief Executive and the Finance Director. During the past year, Ian Peacock retired as Chairman and Alan Parker was appointed as the new Chairman with effect from 15 August 2011.

Following Ben Gordon's resignation as Chief Executive, with effect from 17 November 2011, Alan Parker took on the role of part-time Executive Chairman until 30 April 2012, being the period during which the Company was without a Chief Executive. Alan Parker worked three days a week for, and did not become Chief Executive of, the Company. In his capacity as Executive Chairman, Alan Parker initiated the structural and operational review of the business, had the executive committee reporting to him directly, and reshaped the executive management team. Alan Parker relinquished his position as Executive Chairman on the same day that Simon Calver commenced as Chief Executive. It is noted that this was a technical breach of the UK Corporate Governance Code requirement to separate the responsibilities of running the Company and running the board, even though Alan Parker did not become Chief Executive.

A key element of the board's responsibility is monitoring and reviewing the effectiveness of the Company's system of internal control and the non-executive directors challenge and scrutinise its effectiveness and integrity. The Company has continued to maintain a system of internal control within an executive management structure with defined lines of responsibility and delegation of authority within prescribed financial and operational limits. The system of internal control is based on financial, operational, compliance and risk control policies and procedures together with regular reporting of financial performance and measurement of key performance indicators. Risk management, planning, budgeting and forecasting procedures are also in place together with formal capital investment and appraisal arrangements.

Following his appointment, the Chairman instigated a detailed externally facilitated evaluation of the board (using Wickland Westcott), and its effectiveness and operation. The review was positive but suggested recommendations to improve further the overall effectiveness of the board, its composition and its interaction with the executive committee, and which are now being implemented by the board.

Diversity

The importance of improving the diversity balance (including gender) on boards of UK listed companies is recognised. Currently the Mothercare plc board (excluding the executive directors) comprises one woman and four men, and the senior executive management team (including the executive directors) has one woman and four men. The Company believes it is well positioned to meet the challenge of improving gender diversity and expects to have women representing 25 per cent of its board by January 2013, and an increased percentage of women on the executive committee by the same time. As at 31 March 2012, 53 per cent of the senior management positions (the two grades below executive committee) were held by women.

Going concern

The directors have reviewed the going concern principle in the light of the guidance provided by the FRC. The group's business activities, and the factors likely to affect its future development, are set out in the business review. The financial position of the group, its cash flows, liquidity position and borrowing facilities are set out in the financial review on pages 18 to 21. In addition, notes 21 and 22 to the financial statements include the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its hedging arrangements and its exposure to credit and liquidity risks.

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

A review of the business performance is set out in the financial review. Trading in the period has been impacted by the economic downturn in the UK with a reduction in the underlying result of the UK business leading to an underlying loss for the period of £24.7 million (2011: profit of £11.1 million). The International business continues to expand, generating an underlying profit for the period of £34.9 million (2011: £27.5 million).

As noted in the Chief Executive's review we have performed a structural and operational review of the size and scope of our business. In the UK, the 'Transformation and Growth' plan aims to stabilise like-for-like sales and margin, reduce UK central costs, close additional stores to focus on a core portfolio of circa 200 stores and launch combined online and in-store customer options with a new website and; in international accelerate expansion (with more store openings in both new and existing countries) and 30 new overseas websites. The resulting strategy will deliver a transformation of the UK business, together with increased International growth in the next three years.

At the year end the group had committed secured bank facilities of £80 million (with an average interest rate of 1.4 per cent above LIBOR) which were due to expire in May 2014. It also had an uncommitted unsecured bank overdraft facility of £10 million. On 11 April 2012 the group refinanced the banking facilities with the support of its two existing banks, HSBC and Barclays, increasing the level of committed facilities from £80 million to £90 million (at an interest rate range of 3.5 per cent to 4.0 per cent above LIBOR) and extending the term to 31 May 2015 (see note 21). These facilities provide additional liquidity and covenant headroom to accommodate the new three-year strategy. The covenants in the new facilities are tested quarterly and are based around gearing, fixed charge cover and guarantor cover.

The committed bank facility was drawn down by a maximum of £40 million during the period and at the year end the group had a net debt balance of £20.1 million funded by a drawdown against the facility of £10 million, £10 million of committed overdraft and £1.9 million of uncommitted overdraft, net of £1.8 million of cash.

The current challenging economic conditions, particularly the difficult consumer and retail environment, create uncertainty around the level of demand for the group's products. However, with the new strategy in place, the long term contracts with its franchisees around the world, long standing relationships with many of its suppliers and other mitigating actions available, the directors believe that the group is well placed to manage its business risks successfully despite the uncertain economic outlook.

The group's latest forecasts and projections, which incorporate the execution of the new strategy, have been sensitivity-tested for reasonably possible adverse variations in trading performance. This indicates the group will operate within the terms of its borrowing facilities and covenants for the foreseeable future. To the extent that future trading is worse than a reasonably possible downside, which the directors do not consider a likely scenario, then there are mitigating actions available which enable the group to continue to operate within the terms of the borrowing facilities and covenants for the foreseeable future.

After considering the forecasts, sensitivities and mitigating actions available to management, the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements are therefore prepared on the going concern basis.

Risk management

The effective management of risks within the group is essential to underpin the delivery of its objectives and strategy. The board is responsible for ensuring that risks are identified and appropriately managed across the group and has delegated to the audit committee responsibility for reviewing the group's internal controls, including the systems established to identify, assess, manage and monitor risks. The Company has an internal audit function, which reports through the group general counsel and company secretary to the audit committee. The activities of the internal audit function are supplemented by external resources as necessary. The external auditors also report to the audit committee on the efficiency of controls as part of the audit.

The principal risks and uncertainties facing the Company are set out on pages 24 and 25.

The programme of specific risk management activity of the Company's UK operations continued during the year across the activities of both brands. Under this programme, individual stores are tested against a risk assessment model that emphasises health and safety, fire safety and internal process compliance.

The board believes that the system of internal control described can provide only reasonable and not absolute assurance against material mis-statement or loss. During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Bribery Act 2010

The Bribery Act 2010, which came into force on 1 July 2011, consolidates previous legislation and introduces (amongst other things) a new corporate offence of "failure to prevent bribery". Non-compliance with this Act could expose the group to unlimited fines and other consequences.

Accordingly, the group has introduced additional measures into the business to reinforce its zero tolerance approach to bribery and corruption.

The Group Global Code of Conduct (with specific reference to the Bribery Act) was issued to all non-store level employees both in the UK and overseas. The group's position on bribery and corruption has been explained to suppliers and franchisees at conferences, and to its joint venture partners. The group maintains a global "whistleblower" hotline accessible in many languages.

Shareholder relations

The Company maintains regular dialogue with institutional shareholders following presentation of the financial performance of the business to the investing communities. Opportunities for dialogue take place at least six times a year. Formal meetings are held following the announcement of the half and full year results, with telephone conversations and ad hoc meetings following our four trading statements. During such meetings the board is able to put forward its objectives for the business and discuss performance against those objectives and develop an understanding of the views of major shareholders. The outcome of meetings with major shareholders is reported by the Chief Executive at board meetings on a periodic basis.

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

The board and directors

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

The non-executive directors are independent and free from any business or other relationship that could interfere with their judgement. Although Bernard Cragg was appointed a non-executive director of the Company in March 2003, and has now served over nine years in that role, he will retire as a non-executive director (and senior independent director and chair of the audit committee) in December 2012. The board considers that Bernard Cragg remains independent until his retirement. The non-executive directors do not participate in any bonus, share option or pension scheme of the Company.

The business commitments of each member of the board are set out in the biographical details on page 30. Notwithstanding such commitments, each member of the board is able to allocate sufficient time to the Company to discharge his/her responsibilities effectively.

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

The board is assisted by committees that it has established with written terms of reference. The roles of the remuneration, audit and nomination committees are set out below. The audit, remuneration and nomination committees comprised the four non-executive directors with the Chairman additionally serving on the remuneration and nomination committees. A record of the meetings held during the year of the board, its committees and the attendance by individual directors is set out at page 37.

The board has delegated day-to-day and business management control of the group to the executive committee. The executive committee ordinarily consists of the group Chief Executive, Finance Director, the managing directors of the UK and International businesses, other operational directors within the group, and the group general counsel and company secretary.

Throughout the period, the board has been supplied with information and papers submitted at each board meeting which ensures that the major aspects of the group's affairs are reviewed regularly in accordance with a rolling agenda and programme of work. All directors, whether executive or non-executive, have unrestricted access to the group general counsel and company secretary and executives within the group on any matter of concern to them in respect of their duties. In addition, new directors are given appropriate training on appointment to the board. Appropriate time is made during the year for continuing training on relevant topics concerning the functioning of the board and the obligations of directors. The Company has undertaken to reimburse legal fees to the directors if circumstances should arise in which it is necessary for them to seek separate, independent, legal advice in furtherance of their duties. In accordance with the Articles of Association, one-third of the directors are required to offer themselves for re-election every year; from 2013, the board has resolved that all directors should offer themselves for re-election, notwithstanding that it is a requirement of the UK Corporate Governance Code for FTSE 350 companies that the directors do so every year.

The board is of the opinion that the directors seeking re-election at the AGM have continued to give effective counsel and commitment to the Company and accordingly should be re-appointed. During the year the senior independent director did not carry out an annual performance review of the Chairman, who was appointed in August 2011, but will do so next year.

Directors' interests and indemnity arrangements

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

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

Directors' conflicts of interest

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

Corporate governance continued

Committees

David Williams
Chairman, remuneration committee

The remuneration committee, chaired during the year by David Williams, comprises the Chairman and the non-executive directors. It establishes the remuneration policy generally, approves specific arrangements for the Chairman and the executive directors and reviews and comments upon the proposed arrangements for senior executives so as to ensure consistency within the overall remuneration policy and group strategy. The terms of reference of the committee are set out on the Company's website. Full disclosure of the Company's remuneration policy and details of the remuneration of each director is set out in the remuneration report on pages 42 to 49 and in Appendix A on pages 50 to 52. During the period no director was, and procedures are in place to ensure that no director is, involved in deciding or determining his or her own remuneration.

Alan Parker
Chairman, nomination committee

The nomination committee, chaired by Alan Parker following his appointment during the year, comprises all of the non-executive directors. The terms of reference of the committee are set out on the Company's website. The committee makes proposals on the size, structure, composition (including diversity) and appointments to the board. It carries out the selection process and agrees the terms of appointment of non-executive directors. Ordinarily an external search agency is used to assist in the identification of suitable candidates for board appointments. The nomination committee also reviews succession planning on an annual basis. The Company's position on diversity balance is set out earlier in this report.

Bernard Cragg
Chairman, audit committee

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

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

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

The main activities of the audit committee in the 53 weeks ended 31 March 2012
During the period the audit committee has:

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

The audit committee reviews annually the independence of the external audit firm and the individuals carrying out the audit by receiving assurances from, and assessing, the audit firm against best practice principles. The committee seeks to balance the benefits of continuity of audit personnel and the need to assure independence through change of audit personnel by agreeing with the audit firm staff rotation policies. There are no contractual obligations restricting the committee's choice of external auditors.

In any event, the external auditors are required to rotate the audit partner responsible for the audit every five years. The current lead audit partner has been in place for five years, and is being replaced once the accounts for the year have been finalised and approved.

In addition, a policy in respect of non-audit work by the audit firm is in effect. The general principle is that the audit firm should not be requested to carry out non-audit services on any activity of the Company where they may, in the future, be required to give an audit opinion, and the nature of any non-audit work must be approved by the committee. The committee has assisted the board in the assessment of the adequacy of the resourcing plan for the internal audit function. In respect of the activities of the function, the committee has received reports upon the work carried out and the results of the investigations including management responses, their adequacy and timeliness.

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

As a result of its work during the year, the committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence of the external auditors (by enquiry of them, and reviewing the report issued by the auditors regarding their independence, and the non-audit services provided by the auditors and the safeguards relating thereto). The Company did not pay any non-audit fees to the auditors on a contingent basis (non-audit fees incurred in the year are set out in note 7). The Chairman of the committee will be available at the AGM to answer any questions on the work of the committee.

Director attendance

Director attendance statistics for the 53-week period ended 31 March 2012

				Committee
Director	Board	Audit	Nomination	Remuneration
Maximum number of meetings	**9**	**4**	**7**	**7**
Alan Parker*	6	3	5	5
Ian Peacock*	4	2	3	3
Bernard Cragg	9	4	7	6
Ben Gordon*	4	n/a	n/a	n/a
Neil Harrington	9	n/a	n/a	n/a
Amanda Mackenzie	9	4	7	7
Richard Rivers	9	4	7	7
David Williams	9	4	7	7

Notes:

Ben Gordon and Neil Harrington attended meetings of the audit and remuneration committees upon the invitation of the respective chairmen. Ian Peacock and Alan Parker attended meetings of the audit committee on the same basis during their respective periods as Chairman of the Company. In addition to the board meetings above there were two ad hoc board meetings which approved the interim and full year report and accounts respectively and which were constituted by the board from those members available at that time, having considered the views of the whole board beforehand.

* denotes that the director either was appointed or retired/resigned during the year and thus was not eligible to attend all meetings.

Directors' report

The directors present their report on the affairs of the group, together with the financial statements and auditors' report for the 53-week period ended 31 March 2012. The corporate governance statement set out on pages 32 to 37 forms part of this report. The Chairman's statement on pages 8 and 9 gives further information on the work of the board during the period. The principal activity of the group is as a specialist multi-channel retailer, franchisor and wholesaler of products for mothers-to-be, babies and children under the Mothercare and Early Learning Centre brands.

Business review

The principal companies within the Mothercare group for the period under review were Mothercare plc (the 'Company'); Mothercare UK Limited and Chelsea Stores Holdings Ltd (which own the Mothercare and Early Learning Centre brands respectively). The Companies Act 2006 requires the directors' report to contain a review of the business and a description of the principal risks and uncertainties facing the group. A review of the business strategy and a commentary on the performance of the group is set out in the performance highlights, our group overview, Chairman's statement, Chief Executive's statement, the business review and financial review. The principal risks facing the business are detailed in the corporate governance report. These disclosures form part of this report. The directors' report is prepared for the members of the Company and should not be relied upon by any other party or for any other purpose. Where the directors' report (including the performance highlights, our group overview, business review, financial review, KPIs, corporate responsibility report, directors' remuneration report and corporate governance report) contain forward-looking statements these are made by the directors in good faith based on the information available to them at the time of their approval of this report. These statements will not be updated or reported upon further during the year unless the Company is under a legal obligation to do so. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying such forward-looking statements or information.

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

Going concern

The accounts have been prepared under the going concern principle. For full details please see the corporate governance report on page 33.

Dividend

The directors are not recommending the payment of a final dividend. An interim dividend of 2p per share was paid in February 2012 (2011: 6.4p per share) making a total of 2p per share (2011: total of 18.3p per share) for the year.

The Trustees of the Mothercare Employee Trust, who held 440,394 shares, and Mothercare Employees' Share Trustee Limited which held 3,151 shares, waived their entitlement to receive dividends in respect of these shares.

Shares

As at 23 May 2012, the Company's issued share capital was 88,637,086 ordinary shares of 50p each all carrying voting rights. Details of the change in the Company's issued share capital during the year is set out in note 25. No shares were held in Treasury.

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

Details of the Company's employee share schemes are set out in the remuneration report. The Trustees of the Mothercare Employee Trust and Mothercare Employees' Share Trustee Limited abstain from voting their shareholding in the Company.

Substantial shareholdings

As at 30 April 2012, the Company has been advised of or is aware of the following interests above 3 per cent in the Company's ordinary share capital:

Holder	Number of shares	Percentage of issued share capital
M&G Investment Management Ltd	12,973,149	14.64%
DC Thomson & Company Ltd	9,313,522	10.51%
Fidelity International Limited	7,064,133	7.97%
Allianz Global Investors	6,553,148	7.40%
Aberdeen Asset Managers Limited	6,042,805	6.82%
Capital Group of Companies	5,248,433	5.92%
Financière de L'Echiquier (FR)	3,496,800	3.95%

Acquisition of own shares

The Company was given a general approval at the AGM in July 2011 to purchase up to 10 per cent of its shares in the market. This authority expires after the AGM on 19 July 2012. The authority has not been used during the year.

Significant agreements and change of control

The group has entered into one significant agreement in the past year. This is a multi currency term and revolving facilities agreement dated 11 April 2012 in respect of a £90,000,000 credit facility with Barclays Bank plc and HSBC Bank plc for general business purposes. This supersedes the multi currency revolving facilities agreement entered into by the group with Barclays Bank plc and HSBC Bank plc on 16 May 2011.

There are a number of agreements that alter or terminate upon a change of control such as commercial contracts, bank loan agreements and employee share plans. The only one of these which is considered to be significant in terms of likely impact on the business of the group as a whole is the multi currency term and revolving facilities agreement referred to above under which a change of control of the Company would entitle the banks to cancel the facility and require the repayment of all outstanding amounts on a minimum of 30 days' notice

Other than early vesting under the group's long term incentive plans, the directors are not aware of any agreements between the Company and its directors or employees that provide for compensation for loss of office or employment that would occur because of a takeover bid whether successful or not. There are no special contractual payments associated with a change of control of the Company.

Directors

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles may be amended by special resolution of the shareholders. The business of the Company is managed by the board who may exercise all the powers of the Company subject to the provision of the Articles of Association, the Companies Act and any ordinary resolution of the Company.

The following directors served during the 53-week period ended 31 March 2012:

Name	Appointment
Alan Parker	Executive Chairman (17 November 2011 to 30 April 2012); Chairman and non-executive director (15 August – 16 November 2011 and from 30 April 2012); Chairman of the nomination committee (from 15 August 2011)
Ian Peacock	Chairman and Chairman of the nomination committee until 15 August 2011; non-executive director (retired 31 October 2011)
Bernard Cragg	Senior independent non-executive director and Chairman of the audit committee
Ben Gordon	Executive director (until 17 November 2011)
Neil Harrington	Executive director
Amanda Mackenzie	Independent non-executive director
Richard Rivers	Independent non-executive director
David Williams	Independent non-executive director and Chairman of the remuneration committee

Simon Calver was appointed as Chief Executive on 30 April 2012.

In accordance with the Company's Articles of Association, David Williams and Bernard Cragg retire by rotation from the board following the conclusion of the AGM on 19 July 2012 and stand for re-election. Alan Parker and Simon Calver are standing for election having been appointed since the last AGM. Biographical details of all of the directors, indicating their experience and qualifications, are set out on page 30. In light of the number of changes to the board over the past year, the required election of Alan Parker and Simon Calver at the AGM, the forthcoming retirement as a director of Bernard Cragg after more than nine years as a director, and the announced resignation of Neil Harrington, it has been decided to defer the retirement and re-election of all directors until the annual general meeting of the Company in 2013 notwithstanding that it is a requirement of the UK Corporate Governance Code for FTSE 350 companies that the directors do so every year.

Details of directors' service arrangements are set out in the remuneration report on page 47.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 49 and 50 respectively. A statement of directors' interests in contracts and indemnity arrangements is set out on page 35.

Employees

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

The Company aspires to develop a loyal and high performing team through the development of its culture and values. As part of this development process it measures the capabilities of the group's employees, ascertains their development needs and develops and implements programmes designed to ensure that the critical skills required for the development of both the individual and the group are attained.

The group's remuneration strategy is set out in the remuneration report which includes details of the various incentive schemes and share plans operated by the group.

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

During the year, it became necessary to carry out a consultation process affecting certain roles at the Company's head office in Watford and to make redundancies in some of its overseas offices. The Company recognises the impact of such processes on its employees and this process was carried out thoroughly and professionally, and in compliance with relevant laws and regulations.

Pensions

The group operates pension schemes for those of its employees who wish to participate. Details of the pension charge is set out in note 29. The board is mindful that further changes to elements of its pension provision will be inevitable given the proposed tax and auto-enrolment requirements introduced over the past year. The Company has commenced a series of reviews to seek a practical solution to these changes.

Payment of suppliers

Payments to merchandise suppliers are made in accordance with general conditions of purchase, which are communicated to suppliers at the beginning of the trading relationship. It is the group's policy to make payments to non-merchandise suppliers, unless otherwise agreed, within the period set out in the supplier's invoice or within 60 days from the date of invoice.

The amount owed to trade creditors at the end of the financial year represented nil days (2011: nil days) of average daily purchases during the year for the Company and 53 days (2011: 62 days) for the group.

Fixed assets

Changes in tangible fixed assets are shown in note 16 to the accounts. A valuation of the group's freehold and long leasehold properties, excluding rack rented properties, was carried out by external valuers, as at December 2009. The basis of the valuation is Existing Use Value in respect of properties primarily occupied by the group and on the basis of Market Value in respect of investment properties, both bases being in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Manual. A further internal valuation of the freehold properties was carried out as at April 2012 on the same basis. This adjusted valuation of the freehold properties resulted in a surplus over their net book value of £2,201,773.

Corporate citizenship

The group's corporate social responsibility ethos and details of the programmes that it runs in its business relationships around the world are set out on pages 26 to 29. During the year, the group re-issued its Global Code of Conduct to all its office employees, both in the UK and overseas.

Auditors

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

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

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

A resolution proposing the re-election of Deloitte LLP as auditors to the Company will be put to the AGM.

Charitable and political donations

The Company made no donations during the year to the Mothercare Group Foundation. Total cash charitable donations for the year ended 31 March 2012 were £32,324 (2011: £282,161).

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

Post balance sheet events

Post balance sheet events are disclosed in note 31.

Annual General Meeting

The 2012 Annual General Meeting will be held on Thursday, 19 July 2012 at 10.00am in the conference suite at the Company's head office at Cherry Tree Road, Watford, Hertfordshire WD24 6SH.

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

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

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

The notice of meeting gives explanatory notes on the business to be proposed at the meeting.

By order of the Board

Tim Ashby
Group General Counsel and Company Secretary
23 May 2012

Remuneration report

David Williams
Chairman, remuneration committee

Remuneration committee chairman's statement

During the last 12 months, we have seen a significant reduction in the group's profitability, primarily as a result of the deterioration in the trading results of the UK business, and consequent impact on the share price. Over the same period, we have initiated important leadership changes, including the appointment of a new Chairman and Chief Executive, and further changes to the management team are planned. All of this has been against the background of the development of the 'Transformation and Growth' plan essential to the future of Mothercare as outlined elsewhere in this annual report.

We are operating in a rapidly changing environment for executive pay in the UK, which is now a high profile and sensitive matter. Reflecting the Company's performance, during the year there were no increases in the salary levels of executive directors, which remain at 2008/09 levels. Further, no annual bonus payments were paid, and awards made under the Performance Share Plan (PSP) and Executive Incentive Plan (EIP) relating to the performance over the three-year period ending 31 March 2012 did not vest. However, awards made under the Executive Incentive Plan (EIP) for the three-year period to 26 March 2011 did vest reflecting the group's relative performance as against other general retailers over that period (details are set out in the remuneration report).

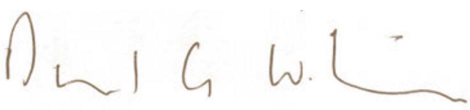
Given the Company's current position, it is now an opportune time to break with the past and to put in place a remuneration strategy and arrangements which are better aligned with the current debate on remuneration and, most importantly, reflect Mothercare's plans for 'Transformation and Growth' in the future. The PSP and EIP plans which operated in the past, and delivered significant reward to executives and shareholders (as Mothercare increased in value in both absolute terms and relative to other retailers) are no longer appropriate, not least because they cannot be supported by the Company's current financial position and future business strategy.

The committee is determined that, as well as adopting aspects of best practice (such as deferral of bonuses), remuneration should also provide a strong link between reward and sustainable performance for shareholders. Set against this, Mothercare is in a challenging situation and undergoing significant management change. Remuneration must be sufficiently attractive to allow us to recruit, retain and motivate a new senior management team with the skills and capability to navigate our current situation and deliver the 'Transformation and Growth' plan so we can meet our future aspirations.

In January 2012 the remuneration committee appointed new consultants to help review the Company's executive remuneration arrangements. Our intention was to bring forward a framework for approval at the annual general meeting. However, it has become clear that more time is required to enable a full and effective consultation with our shareholders on the new arrangements. This will allow our proposals to be properly set within the context of the 'Transformation and Growth' plan we have just announced, and will also give us time to reflect investor views properly in our proposals.

The committee expects to consult further on future long term incentive proposals over the summer once the new strategy has been fully articulated and digested by investors. In the meantime, the committee will operate a short term incentive plan with financial and non-financial performance measures linked to the business plan. This is important to enable Simon Calver, our new Chief Executive, to reinforce the focus of his management team to deliver the business turnaround.

These are clearly challenging times for executive pay in general, and Mothercare in particular. Your board is putting the building blocks in place for sustained 'Transformation and Growth', with new senior leadership at the Company being a critical component. We look forward to receiving your support for the remuneration report at the annual general meeting.



David Williams
Chairman, remuneration committee

Introduction and remuneration policy statement

Our remuneration policy is to provide competitive remuneration packages that will help recruit, retain and motivate executives of the required calibre to meet the group's strategic objectives. We aim to ensure that the policy is appropriate to the group's needs and rewards executives for achieving relevant performance criteria. The committee monitors the group's compliance with the UK Corporate Governance Code provisions and institutional investor guidelines for directors' remuneration.

During the year, the committee has re-considered the group's remuneration policy, and its short term and long term incentive plans to ensure that it has a structure in place which supports its three-year business plan. During this review, the committee considered the appropriateness of the existing policy and incentive plans from a strategic and business perspective and also took into account views expressed by shareholders, current market practice, regulatory changes and corporate governance requirements. The outcome of the review was that the existing incentive plans are no longer considered to be appropriate and that revised arrangements were necessary. As a consequence, the Company is actively consulting with shareholders, and will be proposing a new long term incentive plan for approval by shareholders in due course and will also be making some amendments to its short term incentive plan with effect from the 2012/13 financial year.

The revised policy will support and be aligned with the company's 'Transformation and Growth' plan (detailed in the Chief Executive's statement) both from a structural and strategic perspective. It will also take into account best practice and will provide the Company with the ability to retain, motivate and attract key executives to support the Company through its next stage in development.

The key design principles of the revised incentive arrangements will be as follows:

- Executive directors and senior employees will be given the opportunity to earn highly competitive levels of reward for exceptional delivery of the 'Transformation and Growth' plan over the medium to long term, subject to the proviso that excessive or undeserved remuneration should not be paid
- The Company must have the ability to retain and attract talent of an appropriate calibre to execute the business strategy in a highly challenging environment, and reflecting the future aspirations of the Company
- The performance metrics should be closely aligned to the Company's strategic objectives and the targets chosen will represent an accurate measure of performance against the success of meeting the objectives
- The structures will reflect best practice guidelines, wherever possible, and will be developed in full consultation with investors

Accordingly, this report will address both the policy and plans that have been in place during the year, and details of the revised policy and amended short term incentive plan.

The remuneration report

This report to shareholders has been prepared in accordance with the Companies Act 2006 (the Act), and the relevant regulations relating to directors' remuneration, the requirements of the Listing Rules of the UK Listing Authority and the UK Corporate Governance Code. At the Annual General Meeting on 19 July 2012 shareholders will be asked to approve this report, as well as the share matching awards for the Chairman.

The relevant section of the Act and regulations require the auditors to report on certain elements of this report and to state whether in their opinion these elements have been properly prepared in accordance with the Act. The audited sections include directors' share options, the PSP and EIP awards (including that set out in Appendix A on page 50), emoluments and compensation payments as set out in Table 1A and pension arrangements set out in Table 2 of Appendix A.

The remuneration committee

Composition of the remuneration committee

The remuneration committee comprises the independent non-executive directors and the Chairman of the Mothercare plc board (who, in the view of the directors, was deemed to be independent upon appointment). David Williams is Chairman of the committee with Bernard Cragg, Amanda Mackenzie and Richard Rivers serving throughout the year. Ian Peacock served until his retirement in October 2011 and Alan Parker has served since his appointment in August 2011.

The committee's principal duty is the determination of the remuneration for the executive directors, approval of the pay and benefits of the members of the executive committee and oversight of remuneration policy for management below executive director and executive committee members to ensure that such remuneration is consistent with delivery of the business strategy and value creation for shareholders.

The committee met seven times during the year and each member's attendance at these meetings is set out on page 37 of the corporate governance report. The committee's detailed terms of reference are available on the Mothercare website at www.mothercareplc.com.

Advisers to the remuneration committee

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

As at 31 March 2012, the committee's advisers were:

Person or organisation	Services provided
PricewaterhouseCoopers LLP	Advice on the new incentive schemes, executive remuneration and remuneration benchmarking
Lane Clark & Peacock LLP	Pensions advice
DLA Piper LLP	Legal services principally in respect of employment contracts

Lane Clark & Peacock LLP does not provide any other services to the Company and does not have any other connections with the Company. However, DLA Piper LLP provides general legal advice to the group, and PwC LLP provides certain other advice and non-audit services to the group.

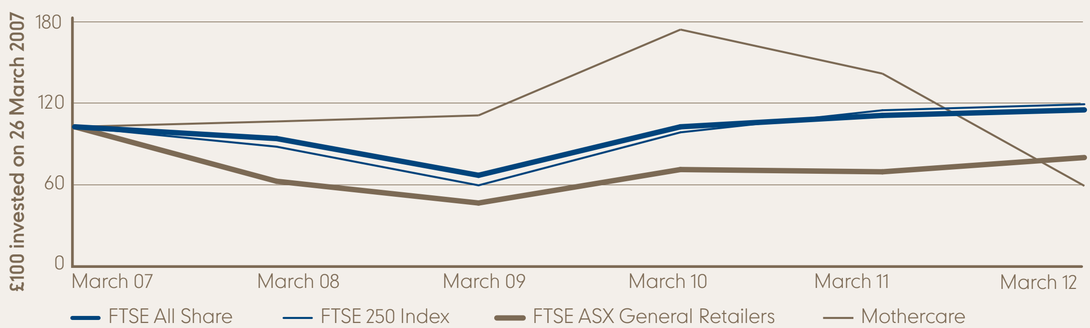
During the period 1 April 2011 to 31 December 2011, Kepler Associates Ltd advised the committee on executive remuneration and remuneration benchmarking. With effect from January 2012, the committee has been advised by PwC on these issues.

Performance graph

The performance graph below shows the group's TSR against the return achieved by the FTSE 250 Index. Mothercare plc entered the FTSE 250 on 30 June 2008, but returned to the FTSE SmallCap Index on 19 December 2011. The performance graph below shows performance against the FTSE 250 Index and the FTSE All Share General Retailers Index. The graph shows the five financial years to 31 March 2012.

The indices were chosen on the basis that Mothercare was a constituent of both the FTSE 250 and FTSE General Retailers indices. The group's performance against the FTSE All Share General Retailers Index determines the level of vesting of awards under the Executive Incentive Plan.

Five-year total shareholder return



Directors' remuneration

Current

The executive directors' fixed annual remuneration comprises a base salary (which is normally reviewed in April each year) and benefits; they also receive variable remuneration through an annual bonus scheme, and the group's long term incentive plans (EIP and PSP). The group made no awards to the executive directors under any other long term incentive scheme during the year, although they are entitled to participate in the Save As You Earn share option scheme, which is open to all employees (but excluding non-executive directors).

The remuneration of the non-executive directors comprises fixed annual fees. Expenses incurred on group business are reimbursed when claimed. Non-executive director fees are reviewed periodically and set at levels to reflect the time commitment and responsibilities of the non-executive directors. The fees of the non-executive directors are determined by the Chairman and executive directors on behalf of the board. The non-executive directors do not participate in the group pension, annual bonus plan or any long term incentive scheme. The Chairman's remuneration is determined by the remuneration committee without the Chairman present. As an inducement for Alan Parker to become Chairman, the Company agreed to implement a share matching scheme under which it would match the shares purchased by him, up to a maximum value and subject to certain performance criteria being met. Details of this scheme, which is subject to shareholder approval, are set out later in this report.

Future

The executive directors' fixed annual remuneration will still comprise a base salary, which is normally reviewed in April each year, and benefits. The variable elements of remuneration will be delivered through a short term incentive plan and a long term incentive plan. All elements of the variable remuneration will be assessed against both financial and non-financial performance criteria. Further details are set out below.

Ordinarily, the Company would report on the balance between the fixed and performance based compensation awarded to its executive directors. However, one of the executive directors (Neil Harrington) has submitted his resignation and will not receive variable compensation in this financial year; and the payment of variable compensation to the other executive director is subject to the finalisation of a new long term incentive plan in consultation with shareholders.

Salary

Each executive director's salary is considered individually by the remuneration committee, taking account of individual performance and potential; pay positioning relative to comparable roles, particularly at other retailers and also companies of similar size in other sectors; pay elsewhere in the Company, and advice from the independent remuneration consultants. Base salary is the only element of remuneration used in determining pensionable earnings under the Mothercare executive pension scheme. With the exception of increases in salary to reflect increased responsibilities, the group maintained 2011/12 salary levels at 2008/09 levels. Consequently, the salaries for Ben Gordon (prior to his departure) and Neil Harrington remained at £600,000 and £265,400 per annum respectively.

Simon Calver has been appointed as Chief Executive with effect from 30 April 2012. His salary is £500,000 per annum. This represents a material reduction to the level of the previous incumbent to reflect the Company's financial position. In setting Simon Calver's salary the remuneration committee took a range of factors into account, most importantly the level of salary deemed necessary to attract an individual of a calibre with the necessary skills required to develop and lead the 'Transformation and Growth' plan in order for the business to meet its future aspirations. The Committee also took into consideration competitive levels of salary in the retail sector, taking into account Mothercare's current market capitalisation. No change to Neil Harrington's salary is proposed for the year 2012/13.

Short term incentive plan (STIP)

Current: Annual bonus

The annual cash bonus scheme for executive directors is based on the achievement of group financial targets and the delivery of stretching personal targets tied to key business objectives. Financial and personal targets are set annually by the remuneration committee. For the year 2011/12 the committee decided that the annual bonus PBT measure should include measures of operating cash flow, working capital and other key performance indicators. Consequently, it was decided that 75 per cent of the bonus opportunity would be linked to group PBT and the remaining 25 per cent to these other performance measures. The individual performance multipliers would apply to both elements. Any bonus awarded would be paid entirely in cash. As the targets were not met, no bonus was paid for the year.

Ben Gordon resigned during the year and did not receive a bonus, although the maximum bonus opportunity at the start of the year was 135 per cent of salary; Neil Harrington's bonus opportunity is a maximum of 115 per cent of salary; he received no performance related bonus for the year ended 31 March 2012 (2011: £nil).

Future: STIP
With effect from 2012/13, a number of amendments will be made to the STIP. The key amendments and rationale are as follows:

- The maximum bonus potential for the Chief Executive will be reduced to 125 per cent of salary and for the Finance Director will be 100 per cent of salary
- The performance metrics will be aligned to the Company's 'Transformation and Growth' plan and its key focus areas over the next 12 months. Both financial and strategic measures – based on a balanced scorecard approach – will be used with a weighting of 75 per cent financial and 25 per cent strategic measures. Strategic measures will include customer satisfaction surveys
- Payment under the STIP will be subject to an overriding financial measure based on the Company's net quarterly cash/debt position which will ensure that STIP payments are not made where the financial position of the Company does not support it and when they are unjustified
- For the executive directors and other members of the executive committee, 30 per cent of any STIP payment earned will be deferred into shares in the Company for a three-year period. By paying a significant portion of any STIP in shares, executives' focus on long term value creation and the degree of alignment with shareholders will be increased
- During the deferral period, in line with best practice, the shares are subject to claw back in exceptional circumstances, such as financial misstatement

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

Long term incentive plan
Current:
(a) The Performance Share Plan (PSP)
The group's performance share plan was approved by shareholders in 2006. Under the PSP, conditional awards of shares of up to 100 per cent of salary (in exceptional circumstances, 200 per cent of salary) are made to selected executives, as determined by the remuneration committee each year. Conditional awards were made to the wider executive team through awards made in May and November. Details of executive directors' historical awards are set out in Appendix A on page 50.

Vesting of shares to an individual is conditional upon the achievement of the cumulative three-year growth in group PBT. 20 per cent of an award vests if Mothercare's three-year PBT growth is 5 per cent p.a. and 100 per cent of an award will vest if Mothercare's three-year PBT per share growth is at least 15 per cent each year, with straight-line vesting in between. Dividends accrue and are paid on shares that vest. If the performance threshold of 5 per cent p.a. PBT per share growth is not met the award lapses. PBT per share was chosen as the remuneration committee believed that PBT was a good measure of Mothercare's financial performance; it is highly visible internally, and is regularly monitored and reported.

For the three-year performance period to 26 March 2011, Mothercare's profit before tax decreased. Accordingly, the awards granted in 2008 did not vest. This was also the case for awards granted in 2009 which did not vest by reference to the three-year performance ended 31 March 2012.

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

(b) The Executive Incentive Plan (EIP)
The group's executive incentive plan was approved by shareholders in 2006. Under the EIP, selected senior executives are eligible to receive a percentage of 'surplus value created' over a three-year performance period. 'Surplus value created' is defined as group TSR outperformance of the FTSE All-Share General Retailers Index (Index) multiplied by the average market capitalisation of the group over the

three-month period immediately prior to the start of the financial year in which the grant date falls. The committee believed this relative TSR performance condition provided alignment with shareholders' long term interests, as well as supporting the motivation and retention of the management team. However, as noted elsewhere in this report, the committee has re-considered the suitability of the EIP scheme and will be proposing its replacement in due course.

At the vesting date, the committee retains discretion to defer up to 50 per cent of an award into shares for a further year. Following a minor refinement approved by the committee to the EIP in 2009, in order to provide additional alignment with shareholders' interests, awards from 2009 onwards will be settled wholly in shares (rather than up to 50 per cent as provided in the original scheme). The EIP was also amended to allow an executive to extend the period of deferral by awarding the deferred element as nil-cost options.

EIP awards have been made in each year since inception in 2006. The award criteria made to executive directors is set out in EIP Table 1 in Appendix A (page 50).

During the three-year performance period to 26 March 2011, Mothercare's total shareholder return outperformed the FTSE General Retailers Index by 38.29 per cent (Mothercare +48.78 per cent, General Retailers +10.49 per cent).

With regard to the EIP award that vested in March 2011, the remuneration committee decided to exercise its discretion to defer the maximum 50 per cent of the vested amount into shares. These share awards will not be released until June 2012 and therefore the value of the deferred shares to which the executive directors will be entitled will not be known until that date. Details are set out in Appendix A on page 50.

No EIP Awards vested in relation to the performance ended 27 March 2012.

Future:

Long term incentive plan

As explained earlier in this report, the committee has reconsidered the applicability of the existing PSP and EIP, in light of the group's performance in the past two years and the longer term business objectives and performance targets set out by the Chief Executive in this report.

The outcome of the review was that the PSP and EIP are no longer considered to be appropriate and that revised arrangements were necessary in order to support the company in delivering its three-year business plan and to have regard to changing market practices. The Company is currently working with its key shareholders to devise an appropriate long term incentive plan which will be implemented in due course.

The Executive Share Option Scheme (ESOS)

The Mothercare plc 2000 Share Option Plan

Under the rules of the Mothercare 2000 Share Option Plan no further options can be granted.

Shareholding guidelines

Executive directors are expected to build up a shareholding equal to 100 per cent of their basic salaries after three years in position. Under the proposed terms of the short term incentive plan outlined above, 30 per cent of any payments would be deferred in shares for a three-year period and would count towards this shareholding obligation at their net of tax value.

Details of the shares held by the directors as at 31 March 2012 are provided below.

Service contracts

Executive directors

Executive directors' service contracts are rolling contracts that require 12 months' notice by either the Company or executive to terminate the contract. Mitigation provisions are included in any severance agreement.

Ben Gordon, the former Chief Executive, resigned from the Company on 17 November 2011 having commenced with the group on 2 December 2002. His service agreement provided for liquidated damages on termination by the group for basic salary equivalent to the unexpired portion of the notice period and the fair value of the benefits to which he may be entitled, including pension credits but not bonus or long term incentives. Accordingly, Ben Gordon received a payment equal to his basic salary in lieu of notice for the period from 17 November 2011 to 9 October 2012. Ben Gordon also received his contractual entitlement to the benefits of any share awards under the performance share plan and executive incentive plan which had vested before 11 October 2011, and these are set out in Appendix A on page 50.

Non-executive directors

Alan Parker is entitled to six months' salary on termination of his service agreement dated 2 August 2011 by the group. Bernard Cragg, Richard Rivers, David Williams and Amanda Mackenzie have service agreements with the group that may be terminated upon one month's notice; their service agreements were entered into on 26 March 2003, 27 May 2008, 2 July 2004 and 1 January 2011 respectively.

As at 31 March 2012, the annual salary/fees payable to the Chairman (in his non-executive capacity) were £200,000, the senior non-executive director £60,000, the Chairman of the Remuneration Committee £55,000 and the other non-executive directors £50,000.

As an inducement for Alan Parker to become Chairman and related to his service agreement, the Company agreed to implement a share matching scheme under which it would grant 60,000 performance related share options if Alan Parker purchased and held shares in the Company in the vesting period to the value of £200,000. The Chairman purchased these shares and the Company granted 60,000 options with a nominal exercise price which vest in August 2014 subject to certain performance criteria being met. For the grant to vest in full, the Company total shareholder return over the three-year performance period must be greater than or equal to the total shareholder return of the FTSE 250 (excluding certain mining and investment companies) plus 50 per cent, if the Company's performance is below TSR index, the award will not vest. The Chairman must retain his shareholding for the performance period.

In accordance with the UK Corporate Governance Code and the Listing Rules, the implementation of the share matching plans for Alan Parker are subject to shareholder approval and have been proposed as resolution 10 on the notice of meeting.

Executive Chairman

Following the resignation of Ben Gordon with effect from 17 November 2011, Alan Parker became Executive Chairman, and agreed to spend three days per week in this role until a new Chief Executive was appointed. Alan Parker did not act as a Chief Executive of the Company. Following Simon Calver's appointment with effect from 30 April 2012, Alan Parker stood down as Executive Chairman on the same date. For the six months' duration of his role as Executive Chairman, and to reflect the material increase in the time spent on behalf of the group, Alan Parker received an extra fee of approximately £200,000. The Company also agreed to an extension of the share matching arrangement awarded to Alan Parker on his appointment as Chairman. The Company agreed to match additional investment in the Company by Alan Parker on a 0.35:1 (Company/Alan Parker) basis (up to a maximum further investment of £400,000). The vesting of this additional match is subject to the same performance criteria as the initial share matching scheme and the award will not vest if the performance criteria are not satisfied. As described above, the implementation of this plan is subject to shareholders' approval.

External appointments and other commitments of the directors

The other business commitments of the directors are set out within their biographical details on page 30. An executive director may take one external appointment as a non-executive director, subject to the approval of the board. The director may retain any fees from such a role. Neil Harrington is a non-executive director of McBride plc, from which he currently receives an annual fee of £40,000.

Pension arrangements

Neil Harrington is a member of the Mothercare Executive Pension Scheme. Neil Harrington participates in the pension builder career average section of the Mothercare Executive Pension Scheme. Pension accrues at one forty-fifth of pensionable salary (subject to a notional earnings cap of £185,400). The normal retirement age is 65 years. Contributions by Neil Harrington are set at 8 per cent of pensionable salary.

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

Those directors and senior executives subject to the earnings cap and who participated in the FURBS arrangements now receive a cash salary supplement equivalent to the former FURBS payment, for investment in an investment vehicle of their own choice. Further pension detail is given in Table 2 of Appendix A on page 50.

For further details of the pension provision within the group during the year, see the directors' report on page 38.

For further details on the cost of pensions to the group, including the statements required by IAS 19, see note 29.

Emoluments and compensation payments

The emoluments (including pension contributions) for executive directors for the year ended 31 March 2012 and the salaries paid to the management level below the board are set out in Tables 1A and 1B of Appendix A on page 50.

Beneficial interests of the directors

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

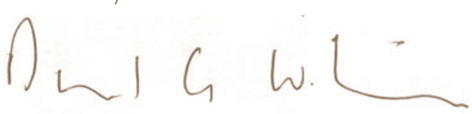
	Interest held at 31 March 2012 (or appointment if later) (number)	Interest held at 26 March 2011 (or appointment if later) (number)
Alan Parker	210,400	–
Bernard Cragg	20,000	20,000
Neil Harrington	100,000	66,022
Richard Rivers	29,000	8,000
David Williams	71,300	38,300
Amanda Mackenzie	25,760	–

Tim Ashby and David Williams are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 3,151 Mothercare shares in trust on 31 March 2012 (3,151 on 26 March 2011). A separate trust, The Mothercare Employee Trust, held 440,394 shares on 31 March 2012 (2,458,079 shares on 26 March 2011).

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

There have been no movements in directors' interests, beneficial or non-beneficial, between 31 March 2012 and 23 May 2012.

Approved by the Board on 23 May 2012 and signed on its behalf by:



David Williams
Chairman, remuneration committee

Appendix to the remuneration report

APPENDIX A
Table 1A
Directors' emoluments
Total emoluments (including pension contributions) in the 53 weeks ended 31 March 2012 were £7,460,000 (2011 – £7,815,000).

	Salary/fees £000		Performance bonus £000		Benefits £000		Incentive schemes' vesting £000		Compensation for loss of office £000		Total remuneration (excl. pensions) £000		Pension contributions £000	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Executive directors														
Alan Parker	272	–	–	–	–	–	–	–	–	–	272	–	–	–
Ben Gordon	380	600	–	–	9	13	3,968	4,586	658	–	5,015	5,199	23	32
Neil Harrington	265	265	–	–	12	11	1,411	1,794	–	–	1,688	2,070	34	32
Non-executive directors														
Ian Peacock	108	180	–	–	–	–	–	–	–	–	108	180	–	–
Bernard Cragg	60	60	–	–	–	–	–	–	–	–	60	60	–	–
Amanda Mackenzie	50	8	–	–	–	–	–	–	–	–	50	8	–	–
Richard Rivers	50	50	–	–	–	–	–	–	–	–	50	50	–	–
David Williams	55	55	–	–	–				–	–	55	55	–	–
Karren Brady	–	20	–	–	–	–	–	–	–	–	–	20	–	–

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

(i) In addition to the pension contributions for Ben Gordon set out above, a sum of £63,810 was paid to Ben Gordon for the 53 weeks ended 31 March 2012 and £82,170 was paid for the 52 weeks ended 26 March 2011, as a salary supplement referred to in page 48 following the discontinuance of the FURBS scheme.

(ii) In addition to the pension contributions for Neil Harrington set out above, a sum of £40,854 was paid to Neil Harrington for the 53 weeks ended 31 March 2012 and £26,923 is paid for the 52 weeks ended 26 March 2011 as an employer contribution directly to a SIPP following the discontinuance of the FURBS scheme. Included within the current year amount paid is a supplement of £16,000 given in return for voluntarily capping the pension accrual at £140,625.

(iii) Alan Parker was non-executive Chairman from 15 August 2011 to 17 November 2011 with a fee of £200,000 per annum. From 18 November 2011 he assumed the role of Executive Chairman with a fee of £600,000 per annum. On 30 April 2012 Mr Parker reverted to the role of non-executive Chairman and his fee reverted back to £200,000 per annum.

(iv) Ben Gordon's Incentive Scheme Vesting in 2012 includes £441,000 relating to early vesting as a result of his resignation.

Table 1B
Aggregate directors' remuneration
The total amounts for directors' remuneration were as follows:

	2012 £000	2011 £000
Emoluments	**1,261**	1,262
Compensation for loss of office	**658**	–
Amounts receivable under long term incentive schemes	**5,379**	6,380
Money Purchase pension contributions	**162**	173
Total	**7,460**	7,815

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	2012	2011
250,001 – 300,000	–	1
200,001 – 250,000	–	–
150,001 – 200,000	6	5
100,001 – 150,000	2	1
75,001 – 100,000	–	1
50,001 – 75,000	–	–

Table 2
Pensions

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

	Defined benefits for Final Salary Scheme (£000)									Money Purchase
	Accrued benefits in Mothercare Executive Pension scheme					Transfer value as at *				Group contri-butions
	At 26 March 2011	Change during year	At 31 March 2012	Change during year net of inflation	Transfer value of change in year net of inflation	26 March 2011	Change during year	Director contri-butions	31 March 2012	
Ben Gordon	34.0	3.5	37.5	1.7	23.36	447,822	206,725	–	654,547	63,811
Neil Harrington	20.8	3.9	24.7	2.8	32.96	181,698	127,529	–	309,227	40,854

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

Note:
The transfer values represent a liability to the group and not a sum paid or due to be paid to the individual. The amounts shown as director contributions were made under salary sacrifice arrangements and are shown for reasons of transparency.

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

Director	27 March 2011 (number)	Granted during year (number)	(Lapsed) during year (number)	Grant date	Vesting/(lapse) date	Vested during year (number)	Gains on exercise 2012 £	31 March 2012 (number)
Ben Gordon	240,802	–	(240,802)	16 June 2008	16 June 2011	–	–	–
	115,384	–	(115,384)	25 May 2010	11 October 2011	–	–	–
	–	135,135	(135,135)	24 May 2011	11 October 2011	–	–	–
Total	356,186	135,135	(491,321)			–	–	–
Neil Harrington	79,886	–	(79,886)	16 June 2008	16 June 2011	–	–	–
	38,278	–	–	25 May 2010	25 May 2013	–	–	38,278
	–	44,831	–	24 May 2011	24 May 2014	–	–	44,831
Total	118,164	44,831	(79,886)			–	–	83,109

The above awards were granted as nil-cost options.

Executive Incentive Plan

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

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

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

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

2008 Cycle: Total surplus value created £128.98 million

Name	Vesting date	Cash amount paid £	Deferred into shares (number)	Reference share price
Ben Gordon (1)	6 June 2011	977,255	228,224	428p
Neil Harrington (2)	6 June 2011	390,904	91,290	428p

(1) Ben Gordon's deferred shares vested following his resignation from the Company. Vesting occurred on 31 January 2012. On the date of the vesting the share price was 193p. In addition 745,610 deferred shares related to the 2007 scheme vested during the year at a reference share price of 342p.
(2) Neil Harrington's deferred shares will vest on 6 June 2012 and the value of the deferred shares to which he will be entitled will not be known until that date. In addition 298,244 deferred shares related to the 2007 scheme vested during the year at a reference share price of 342p.

Directors' share matching scheme

Director	26 March 2011	Granted	Grant date	Vest date	31 March 2011
Alan Parker	–	60,000(1)	2 August 2011	1 August 2014	60,000
	–	54,997(2)	17 November 2011	16 November 2014	54,997

(1) During the year the Chairman was granted 60,000 performance related share options with a nominal exercise price. As a condition of this award the Chairman was required to purchase and hold shares in the Company over the vesting period for a value of £0.2 million. At 31 March 2012 the Chairman had purchased the required value of shares.
(2) Upon assuming the role of Executive Chairman, the Chairman was granted 54,997 performance related share options with a nominal exercise price. As a condition of this award the Chairman was required to purchase and hold shares in the Company over the vesting period for a value of £0.4 million. At 31 March 2012 the Chairman had purchased £0.2 million of shares in the Company. The above disclosure assumes the remainder of shares will be purchased during the agreed purchase period.

Financial statements

Contents

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board on 23 May 2012 and signed on its behalf by:

Neil Harrington

Neil Harrington
Finance Director

Independent auditor's report to the members of Mothercare plc

We have audited the group financial statements of Mothercare plc for the 53 weeks ended 31 March 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 31 March 2012 and of its loss for the 53 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 matter 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 UK Corporate Governance 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 53 weeks ended 31 March 2012 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
23 May 2012

Consolidated income statement
For the 53 weeks ended 31 March 2012

		53 weeks ended 31 March 2012			52 weeks ended 26 March 2011		
	Note	Underlying[1] £ million	Non-underlying[2] £ million	Total £ million	Underlying[1] £ million	Non-underlying[2] £ million	Total £ million
Revenue	4, 5	**812.7**	**–**	**812.7**	793.6	–	793.6
Cost of sales		**(768.4)**	**(2.0)**	**(770.4)**	(721.6)	(16.1)	(737.7)
Gross profit		**44.3**	**(2.0)**	**42.3**	72.0	(16.1)	55.9
Administrative expenses before share-based payments		**(38.5)**	**(10.9)**	**(49.4)**	(39.1)	(3.6)	(42.7)
Share-based payments	28	**(0.6)**	**0.8**	**0.2**	(2.2)	–	(2.2)
Administrative expenses		**(39.1)**	**(10.1)**	**(49.2)**	(41.3)	(3.6)	(44.9)
(Loss)/profit from retail operations before share-based payments		**5.8**	**(12.9)**	**(7.1)**	32.9	(19.7)	13.2
(Loss)/profit from retail operations	7	**5.2**	**(12.1)**	**(6.9)**	30.7	(19.7)	11.0
(Loss)/profit on disposal/termination of property interests		**–**	**(22.6)**	**(22.6)**	–	0.2	0.2
Exceptional and non-underlying items	6	**–**	**(69.3)**	**(69.3)**	–	–	–
Share of results of joint ventures and associates	13, 14	**(3.2)**	**(0.4)**	**(3.6)**	(1.8)	–	(1.8)
(Loss)/profit from operations before share-based payments		**2.6**	**(105.2)**	**(102.6)**	31.1	(19.5)	11.6
(Loss)/profit from operations		**2.0**	**(104.4)**	**(102.4)**	28.9	(19.5)	9.4
Net finance costs	8	**(0.4)**	**(0.1)**	**(0.5)**	(0.4)	(0.2)	(0.6)
(Loss)/profit before taxation		**1.6**	**(104.5)**	**(102.9)**	28.5	(19.7)	8.8
Taxation	9	**–**	**11.1**	**11.1**	(7.3)	5.0	(2.3)
(Loss)/profit for the period attributable to equity holders of the parent		**1.6**	**(93.4)**	**(91.8)**	21.2	(14.7)	6.5
(Loss)/earnings per share							
Basic	11	**1.8p**		**(105.2p)**	24.7p		7.6p
Diluted	11	**1.8p**		**(105.2p)**	24.2p		7.4p

1 Before items described in note 2 below.
2 Includes exceptional items (profit/loss on disposal/termination of property interests, restructuring costs, impairment charges, provision for onerous leases) and other non-underlying items of 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 53 weeks ended 31 March 2012

	Note	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Other comprehensive (expense)/income – actuarial (loss)/gain on defined benefit pension schemes	29	**(21.2)**	16.5
Tax relating to components of other comprehensive income	9	**4.1**	(4.3)
Exchange differences on translation of foreign operations		**(0.1)**	(1.2)
Net (loss)/gain recognised in other comprehensive income		**(17.2)**	11.0
(Loss)/profit for the period		**(91.8)**	6.5
Total comprehensive (expense)/income for the period attributable to equity holders of the parent		**(109.0)**	17.5

Consolidated balance sheet
As at 31 March 2012

	Note	31 March 2012 £ million	26 March 2011 £ million
Non-current assets			
Goodwill	15	**26.8**	68.6
Intangible assets	15	**22.1**	38.5
Property, plant and equipment	16	**86.3**	91.1
Investments in joint ventures	13	**6.8**	3.2
Investment in associate	14	**3.2**	7.2
Deferred tax asset	17	**17.6**	6.9
		162.8	215.5
Current assets			
Inventories	18	**99.1**	116.0
Trade and other receivables	19	**74.7**	62.5
Cash and cash equivalents	20	**1.8**	15.3
		175.6	193.8
Total assets		**338.4**	409.3
Current liabilities			
Trade and other payables	23	**(123.8)**	(130.1)
Borrowings	21	**(1.9)**	–
Current tax liabilities		**(0.1)**	(1.0)
Currency derivative liabilities	22	**(1.3)**	(2.7)
Short term provisions	24	**(24.5)**	(5.6)
		(151.6)	(139.4)
Non-current liabilities			
Trade and other payables	23	**(29.0)**	(32.3)
Borrowings	21	**(20.0)**	–
Retirement benefit obligations	29	**(52.7)**	(37.6)
Long term provisions	24	**(12.4)**	(7.2)
		(114.1)	(77.1)
Total liabilities		**(265.7)**	(216.5)
Net assets		**72.7**	192.8
Equity attributable to equity holders of the parent			
Share capital	25	**44.3**	44.3
Share premium account		**6.2**	5.9
Other reserve		**50.8**	50.8
Own shares	25	**(2.1)**	(9.0)
Translation reserves		**–**	0.1
Retained (loss)/earnings		**(26.5)**	100.7
Total equity		**72.7**	192.8

Approved by the Board and authorised for issue on 23 May 2012 and signed on its behalf by:

Neil Harrington
Finance Director

Consolidated statement of changes in equity
For the 53 weeks ended 31 March 2012

	Equity attributable to equity holders of the parent						
	Share capital £ million	Share premium account £ million	Other reserve[1] £ million	Own shares £ million	Translation reserve £ million	Retained earnings £ million	**Total equity £ million**
Balance at 27 March 2011	44.3	5.9	50.8	(9.0)	0.1	100.7	192.8
Total comprehensive (expense)/income for the period	–	–	–	–	(0.1)	(108.9)	(109.0)
Issue of equity shares	–	0.3	–	–	–	–	0.3
Credit to equity for equity-settled share-based payments	–	–	–	–	–	0.5	0.5
Shares transferred to employees on vesting	–	–	–	6.9	–	(6.9)	–
Dividends paid	–	–	–	–	–	(11.9)	(11.9)
Balance at 31 March 2012	**44.3**	**6.2**	**50.8**	**(2.1)**	**–**	**(26.5)**	**72.7**

For the 52 weeks ended 26 March 2011

	Equity attributable to equity holders of the parent						
	Share capital £ million	Share premium account £ million	Other reserve[1] £ million	Own shares £ million	Translation reserve £ million	Retained earnings £ million	**Total equity £ million**
Balance at 28 March 2010	44.1	4.9	50.8	(8.9)	1.3	96.2	188.4
Total comprehensive income for the period	–	–	–	–	(1.2)	18.7	17.5
Issue of equity shares	0.2	1.0	–	–	–	–	1.2
Credit to equity for equity-settled share-based payments	–	–	–	–	–	2.6	2.6
Purchase of own shares	–	–	–	(1.4)	–	–	(1.4)
Shares transferred to employees on vesting	–	–	–	1.3	–	(1.3)	–
Dividends paid	–	–	–	–	–	(15.5)	(15.5)
Balance at 26 March 2011	**44.3**	**5.9**	**50.8**	**(9.0)**	**0.1**	**100.7**	**192.8**

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

Consolidated cash flow statement
For the 53 weeks ended 31 March 2012

	Note	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Net cash flow from operating activities	26	**5.6**	27.1
Cash flows from investing activities			
Interest received		**0.9**	0.1
Purchase of property, plant and equipment		**(21.7)**	(16.6)
Purchase of intangibles – software		**(3.2)**	(5.2)
Purchase of intangibles – other		**–**	(3.1)
Proceeds from sale of property, plant and equipment		**2.3**	3.3
Investments in joint ventures and associates		**(5.7)**	(10.5)
Net cash used in investing activities		**(27.4)**	(32.0)
Cash flows from financing activities			
Interest paid		**(1.3)**	(0.6)
New bank loans raised		**20.0**	–
Equity dividends paid		**(11.9)**	(15.5)
Issue of ordinary share capital		**0.3**	1.2
Purchase of own shares		**–**	(1.4)
Net cash raised/(used) in financing activities		**7.1**	(16.3)
Net decrease in cash and cash equivalents		**(14.7)**	(21.2)
Cash and cash equivalents at beginning of period		**15.3**	38.5
Effect of foreign exchange rate changes		**(0.7)**	(2.0)
Net (debt)/cash and cash equivalents at end of period		**(0.1)**	15.3

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 105. The nature of the group's operations and its principal activities are set out in note 5 and in the overview and business review on pages 1 and 16 to 17.

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 53 weeks ended 31 March 2012. The comparative period covered the 52 weeks ended 26 March 2011.

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:

- IAS 24 (2009) 'Related Party Disclosures'
- Improvements to IFRSs 2010
- Amendments to IFRIC 14 (Nov. 2009) 'Prepayments of a Minimum Funding Requirement'
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

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 (and in some cases had not yet been adopted by the EU).

- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets'
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities'
- IFRS 9 'Financial Instruments'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of interests in other entities'
- IFRS 13 'Fair value measurement'
- IAS 1 (Amended) 'Presentation of items in Other Comprehensive Income'
- Amendments to IAS 12 'Deferred Tax: Recovery of Underlying Assets'
- IAS 19 (Revised) 'Employee benefits'
- IAS 27 (Revised) 'Separate Financial Statements'
- IAS 28 (Revised) 'Investments in Associates and Joint Ventures'
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'
- Amendments to IAS 12 'Deferred Tax: Recovery of Underlying Assets'

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, except as follows:

- IAS 19 (revised) will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the group's total obligation. Following the adoption of IAS 19 (revised) effective from periods starting after 1 January 2013 the net retirement benefit obligation in the balance sheet will not be impacted but the net finance cost of pensions within the income statement will increase. This will reduce profit for the year and accordingly increase other comprehensive income.

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 32.
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 31 March 2012. 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.

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.

2. Significant accounting policies continued

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, impairment charges, 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 period. 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 and are amortised on a straight-line basis over their expected economic lives. 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 less any impairment in the value of individual investments. The profit or loss of the group includes the group's share of the profit or loss of the joint ventures and associates.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

Where a group entity transacts with an associate or joint venture of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate or joint venture.

Leasing

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

The group as lessor

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

The group as lessee

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

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

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

Foreign currencies

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

In preparing the financial statements of the individual companies, transactions in currencies other than 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 in 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.

2. Significant accounting policies continued

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.

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 is normally five years.

Impairment of tangible and intangible assets excluding goodwill
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 in 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 rate interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

Derivative financial instruments
The group uses forward foreign currency contracts to mitigate the transactional impact of foreign currencies on the group's performance. The group's financial risk management policy prohibits the use of derivative financial instruments for speculative or trading purposes and the group does not therefore hold or issue any such instruments for such purposes.

2. Significant accounting policies continued

Derivative financial instruments that are economic hedges that do not meet the strict IAS 39 'Financial Instruments: Recognition and Measurement' hedge accounting rules are accounted for as financial assets or liabilities at fair value through profit or loss and hedge accounting is not applied. Forward foreign currency contracts are recognised initially at fair value, which is updated at each balance sheet date. Changes in the fair values are recognised in the income statement.

Embedded derivatives

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

Market risk

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

Foreign exchange rate risk

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

Consequently, it enters into various contracts that reflect the changes in the value of foreign exchange rates to preserve the value of assets, commitments and anticipated transactions. The group also uses forward contracts 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, updated at each balance sheet date.

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% 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% discount related to shares expected to vest on a straight-line basis over the vesting period.

Onerous leases

Present obligations arising out of onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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 29 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 31 March 2012, the group's pension liability was £52.7 million (2011: £37.6 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 (see note 16) 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 £26.8 million (2011: £68.6 million).

Property provisions
Descriptions of the provisions held at the balance sheet date are given at note 24. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any differences between expectations and the actual future liability are accounted for in the period when such determination is made.

Onerous leases
Provisions has been made in respect of leasehold properties for vacant, partly let and loss making trading stores and costs relating to Early Learning Centre's supply chain warehouse, for the shorter of the remaining period of the lease and the period until, in the directors' opinion, they will be able to exit the lease commitment. The amount provided is based on the future rental obligations together with other fixed outgoings, net of any sub-lease income and in the case of trading stores the expected future shortfall in contribution to cover the fixed outgoings.

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

In determining the provision, the cash flows have been discounted on a pre tax basis using a risk free rate of return. Significant assumptions are used in making these calculations and changes in assumptions and future events could cause the value of these provisions to change.

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 (see note 18).

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 (see note 19).

4. Revenue

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

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Revenue	812.7	793.6
Interest revenue	0.9	0.1
Total revenue	**813.6**	793.7

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 online 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.

	53 weeks ended 31 March 2012			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	560.0	252.7	–	812.7
Result				
Segment result (underlying)	(24.7)	34.9	(7.6)	2.6
Share-based payments (underlying)				(0.6)
Non-cash foreign currency adjustments				2.0
Amortisation of intangible assets				(2.0)
Exceptional items				(104.4)
Loss from operations				(102.4)
Net finance costs				(0.5)
Loss before taxation				(102.9)
Taxation				11.1
Loss for the period				(91.8)

	52 weeks ended 26 March 2011			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	587.2	206.4	–	793.6
Result				
Segment result (underlying)	11.1	27.5	(7.5)	31.1
Share-based payments				(2.2)
Non-cash foreign currency adjustments				(13.8)
Amortisation of intangible assets				(2.3)
Exceptional items				(3.4)
Profit from operations				9.4
Net finance costs				(0.6)
Profit before taxation				8.8
Taxation				(2.3)
Profit for the period				6.5

Revenues are attributed to countries on the basis of the customer's location. The largest international customer represents approximately 13.8% (2011: 9.9%) of group International sales.

	53 weeks ended 31 March 2012		
	UK £ million	**International £ million**	**Consolidated £ million**
Other information			
Capital additions	**20.1**	**5.9**	**26.0**
Depreciation and amortisation	**17.8**	**5.0**	**22.8**
Balance sheet			
Assets			
Segment assets	**203.1**	**115.8**	**318.9**
Unallocated corporate assets			**19.5**
Consolidated total assets			**338.4**
Liabilities			
Segment liabilities	**176.0**	**13.7**	**189.7**
Unallocated corporate liabilities			**76.0**
Consolidated total liabilities			**265.7**

In addition to the depreciation and amortisation reported above, impairment losses of £9.4 million, £41.8 million and £13.2 million (2011: £nil) were recognised in respect of property, plant and equipment, goodwill and intangible assets respectively. These impairment losses were attributable to the UK segment.

5. Segmental information continued

	52 weeks ended 26 March 2011		
	UK Restated* £ million	International Restated* £ million	Consolidated £ million
Other information			
Capital additions	21.7	4.0	25.7
Depreciation and amortisation	19.6	3.4	23.0
Balance sheet			
Assets			
Segment assets	277.8	109.3	387.1
Unallocated corporate assets			22.2
Consolidated total assets			409.3
Liabilities			
Segment liabilities	169.8	5.4	175.2
Unallocated corporate liabilities			41.3
Consolidated total liabilities			216.5

*Capital additions and depreciation and amortisation have been restated to separately identify those items that form part of the International segment.

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:

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Exceptional items:		
Restructuring costs in cost of sales	**(2.0)**	–
Restructuring costs included in administrative expenses	**(7.1)**	(3.6)
Store property, plant and equipment impairment included in administrative expenses	**(3.8)**	–
Share-based payment credit included in administrative expenses	**0.8**	–
Onerous lease provision	**(11.5)**	–
(Loss)/profit on disposal/termination of property interests	**(22.6)**	0.2
Goodwill and intangible assets impairment (see note 15)	**(55.0)**	–
Impairment of investment in associate (see note 14)	**(2.8)**	–
Share of restructuring cost in associate	**(0.4)**	–
Total exceptional items:	**(104.4)**	(3.4)
Other non-underlying items:		
Non-cash foreign currency adjustments under IAS 39 and IAS 21[1]	**2.0**	(13.8)
Amortisation of intangibles[1]	**(2.0)**	(2.3)
Unwinding of discount on exceptional property provisions included in finance costs	**(0.1)**	(0.2)
Exceptional and other non-underlying items	**(104.5)**	(19.7)

1 Included in non-underlying cost of sales is a charge of £nil million (2011: charge of £16.1 million).

Restructuring costs in cost of sales

During the 53 weeks ended 31 March 2012 the warehouse previously supplying the Early Learning Centre online business was closed and the business transferred into the warehouse supporting the Mothercare online business. This rationalisation of warehouses led to a one-off integration cost of £2.0 million (2011: £nil).

Restructuring costs in administration expenses

During the 53 weeks ended 31 March 2012 a charge of £7.1 million (2011: £3.6 million) was recognised relating to a substantial head office restructuring and group reorganisation. Included within this expense are redundancy payments including some senior executives, curtailment gain on the defined benefit pension scheme and professional and advisory fees in connection with the new strategic plan.

Store property, plant and equipment impairment included in administration expenses

During the 53 weeks ended 31 March 2012 the group has made provision of £3.8 million (2011: £nil) for store impairment where the carrying value of property plant and equipment is higher than the net realisable value and value in use.

Share-based payment credit included in administrative expenses

During the 53 weeks ended 31 March 2012 a credit of £0.8 million was recognised in respect of leavers from the executive incentive share schemes.

Onerous lease provision

A provision of £11.5 million has been made for onerous leases relating to vacant, sublet and trading properties having taken into consideration the results for the year, the Christmas trading activity and the continued pressure on the UK store portfolio. Onerous lease provisions have been recognised where there is an expected shortfall in the store contribution to cover the fixed rental obligations. A discount rate of 2.3% has been used in calculating the provision, being the risk free rate.

(Loss)/profit on disposal/termination of property interests

During the 53 weeks ended 31 March 2012 a net charge of £22.6 million (52 weeks ended 2011: a net credit of £0.2 million) has been recognised in loss/profit from operations relating to losses on disposal/termination of property interests relating to the store reduction programme announced in May 2011. In April 2012 the group announced further store closures and these related costs will be provided for in the next financial year.

Goodwill and intangible assets impairment

The group has carried out a review to determine whether there is any indication that the goodwill and intangible assets have suffered any impairment loss. It has been determined that the UK business does not generate sufficient cash flows to support the value of the goodwill and intangible assets allocated to the UK segment and consequently an impairment loss of £55.0 million has been charged.

Impairment of investment in associate

The group has carried out a review of its investment in associate and written the investment down to recoverable amount at 31 March 2012 (£2.8 million charge).

Share of restructuring cost in associate

During the year the Australian associate undertook a significant integration and rebranding of three separate mother and baby chains into a single cohesive Mothercare brand. Mothercare's share of these costs of £0.4 million (2011: £nil) is included and has been treated as exceptional.

7. (Loss)/profit from retail operations

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

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Net total foreign exchange (gains)/losses	**(5.2)**	7.4
Cost of inventories recognised as an expense	**491.8**	433.5
(Release)/write down of inventories to net realisable value	**(0.5)**	1.0
Depreciation of property, plant and equipment	**16.2**	16.6
Amortisation of intangible assets – software	**4.6**	4.1
Amortisation of intangible assets – other included in non-underlying cost of sales	**2.0**	2.3
Impairment of property, plant and equipment	**3.8**	–
Underlying loss on disposal of property, plant and equipment	**0.7**	–
Net rent of properties	**65.4**	68.2
Amortisation of lease incentives	**(5.2)**	(5.9)
Hire of plant and equipment	**1.9**	1.9
Staff costs (including directors):		
Wages and salaries (including cash bonuses, excluding share-based payment charges)	**85.8**	87.9
Social security costs	**5.3**	5.5
Pension costs (see note 29)	**2.5**	4.1
Share-based payment (credit)/charges (see note 28)	**(0.2)**	2.2
Exceptional costs included in cost of sales (see note 6)	**2.0**	16.1
Exceptional costs included in administrative expenses (see note 6)	**7.1**	3.6

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

	53 weeks ended 31 March 2012 number	52 weeks ended 26 March 2011 number
Number of employees comprising:		
UK stores	**5,890**	6,390
Head office	**779**	772
Overseas	**274**	278
Total	**6,943**	7,440
Full time equivalents	**4,350**	4,650

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 42 to 49.

For the 53 weeks ended 31 March 2012, profit from retail operations is stated after a non-underlying net credit of £2.0 million (2011: £13.8 million charge) 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:

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for other services to the group:		
The audit of the Company's subsidiaries pursuant to legislation	**0.2**	0.2
Total audit fees	**0.3**	0.3
Corporate finance services	**–**	0.2
Tax advisory services	**–**	0.1
Other services	**0.2**	–
Total non-audit fees	**0.2**	0.3

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

The corporate finance fees were in connection with investments and potential investments. Other services of £0.2 million include fees in connection with restructuring and the review of the group's interim statement.

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 37, in the corporate governance report.

8. Net finance costs

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Interest receivable	**(0.9)**	(0.1)
Interest and bank fees on bank loans and overdrafts	**1.3**	0.5
Unwinding of discounts on provisions[1]	**0.1**	0.2
Net finance costs	**0.5**	0.6

1 Non-underlying charge of £0.1 million (2011: £0.2 million) of unwinding of discount on exceptional provisions (see note 6).

9. Taxation

The (credit)/charge for taxation on (loss)/profit for the period comprises:

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Current tax:		
Current year	**(2.1)**	8.1
Adjustment in respect of prior periods	**(2.4)**	(0.8)
	(4.5)	7.3
Deferred tax: (see note 17)		
Current year	**(6.5)**	(5.0)
Change in tax rate in respect of prior periods	**(0.5)**	0.6
Adjustment in respect of prior periods	**0.4**	(0.6)
	(6.6)	(5.0)
(Credit)/charge for taxation on (loss)/profit for the period	**(11.1)**	2.3

UK corporation tax is calculated at 26% (2011: 28%) of the estimated assessable (loss)/profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The (credit)/charge for the period can be reconciled to the (loss)/profit for the period before taxation per the consolidated income statement as follows:

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
(Loss)/profit for the period before taxation	**(102.9)**	8.8
(Loss)/profit for the period before taxation multiplied by the standard rate of corporation tax in the UK of 26% (2011: 28%)	**(26.7)**	2.5
Effects of:		
Expenses not deductible for tax purposes	**15.4**	1.0
Change in tax rate	**0.2**	1.0
Impact of overseas tax rates	**(0.2)**	(0.7)
Utilisation of tax losses not previously recognised against capital gains	**0.3**	(0.1)
Adjustment in respect of prior periods	**(2.0)**	(1.4)
Impact of write-off of prior year deferred tax asset	**1.9**	–
(Credit)/charge for taxation on (loss)/profit for the period	**(11.1)**	2.3

In addition to the amount credited to the income statement, deferred tax relating to retirement benefit obligations amounting to £4.1 million has been credited directly to other comprehensive income (2011: £4.3 million charge).

10. Dividends

	53 weeks ended 31 March 2012		52 weeks ended 26 March 2011	
	pence per share	£ million	pence per share	£ million
Amounts recognised as distributions to equity holders in the period				
Final dividend for the prior period	**11.9p**	**10.1**	11.3p	9.9
Interim dividend for the current period	**2.0p**	**1.8**	6.4p	5.6
		11.9		15.5

In line with the announcement made with the trading statement on 12 April 2012, the Company will not pay any dividend until the 'Transformation and Growth' plan is delivering benefits and accordingly no final dividend has been declared for the 53 weeks ended 31 March 2012.

11. Earnings per share

	53 weeks ended 31 March 2012 million	52 weeks ended 26 March 2011 million
Weighted average number of shares in issue	**87.2**	85.8
Dilution – option schemes (for underlying results only)	**1.7**	1.8
Diluted weighted average number of shares in issue	**88.9**	87.6
	£ million	£ million
Earnings for basic and diluted earnings per share	**(91.8)**	6.5
Exceptional and other non-underlying items (note 6)	**104.5**	19.7
Tax effect of above items	**(11.1)**	(5.0)
Underlying earnings	**1.6**	21.2
	pence	pence
Basic earnings per share	**(105.2)**	7.6
Basic underlying earnings per share	**1.8**	24.7
Diluted earnings per share	**(105.2)**	7.4
Diluted underlying earnings per share	**1.8**	24.2

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

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 Restated* £ million
Investments at start of period	**3.2**	1.7
Additions	**4.5**	2.4
Share of loss	**(0.9)**	(0.9)
Investments at end of period	**6.8**	3.2
Summary aggregate financial results and position of joint ventures:		
Current assets	**14.9**	11.7
Non-current assets	**4.8**	5.4
Total assets	**19.7**	17.1
Current liabilities	**(8.2)**	(9.0)
Non-current liabilities	**–**	(0.9)
Total liabilities	**(8.2)**	(9.9)
Total joint venture revenue	**25.5**	9.2
Total loss for the period	**(3.1)**	(3.1)

* The prior year has been restated to separately analyse joint ventures and associates (see note 14).

Details of the joint ventures are as follows:

	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
Mothercare-Goodbaby China Retail Limited	Hong Kong	30	50
Rhea Retail Private Limited	India	30	30
Juno Retail Private Limited	India	30	30
Wadicare Limited	Cyprus	30	30

On 1 November 2011, the group acquired a 30% share of the share capital of Wadicare Limited, a company registered in Cyprus for £2 million plus associated acquisition costs. This company has purchased the shares of MB Group Limited Ukraine which trades through the former Mothercare and Early Learning Centre franchises in Ukraine.

During the year the group made additional investments in Mothercare-Goodbaby China Retail Limited of (£1.3 million), Rhea Retail Private Limited (£0.5 million) and Juno Retail Private Limited (£0.4 million).

14. Investments in associate

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 Restated* £ million
Investment at start of period	**7.2**	–
Additions	**1.5**	8.1
Share of loss	**(2.7)**	(0.9)
Impairment	**(2.8)**	–
Investment at end of period	**3.2**	7.2
Summary financial results and position of associates:		
Current assets	**17.9**	21.0
Non-current assets	**15.6**	13.5
Total assets	**33.5**	34.5
Current liabilities	**(17.7)**	(13.8)
Non-current liabilities	**(3.4)**	(1.3)
Total liabilities	**(21.1)**	(15.1)
Total revenue for the period[1]	**51.1**	18.7
Total loss for the period[1]	**(11.3)**	(3.6)

* The prior year has been restated to separately analyse joint ventures and associates.
1 The period shown above relates to the 12 months ended 31 December 2011 (comparative is the six months post acquisition to 31 December 2010).

Details of the associate is as follows:

	Place of incorporation	Proportion of ownership interest %	Proportion of voting power held %
Mothercare Australia Limited	Australia	23.0	23.0

At 31 March 2012 the group undertook an impairment review of the investment carrying value. A discounted cash flow forecast was used based on two years of forecasts extended out a further two years using planned growth rates. A pre tax discount rate of 9.83% was used. The impairment review indicated that the cost of investment was worth more than the recoverable amount at 31 March 2012 and therefore the group has made an impairment provision of £2.8 million. The reporting date of Mothercare Australia Limited is 30 June 2012. The group has equity accounted for Mothercare Australia Limited for 12 months ended 31 December 2011 as the data for the final three months to 31 March 2012 has not been made available yet and is price sensitive as Mothercare Australia Limited is a public company.

15. Goodwill and intangible assets

	Goodwill £ million	Trade name £ million	Customer relationships £ million	Software £ million	Total £ million
		Intangible assets			
Cost					
As at 27 March 2010	68.6	25.2	5.7	21.2	52.1
Additions	–	3.1	–	5.2	8.3
Exchange differences	–	0.3	–	–	0.3
As at 27 March 2011	68.6	28.6	5.7	26.4	60.7
Additions	–	–	–	3.2	3.2
Exchange differences	–	0.2	–	–	0.2
As at 31 March 2012	**68.6**	**28.8**	**5.7**	**29.6**	**64.1**
Amortisation and impairment losses					
As at 27 March 2010	–	3.5	2.3	10.0	15.8
Amortisation	–	1.5	0.8	4.1	6.4
As at 27 March 2011	–	5.0	3.1	14.1	22.2
Impairment losses	41.8	12.0	1.2	–	13.2
Amortisation	–	1.3	0.7	4.6	6.6
As at 31 March 2012	**41.8**	**18.3**	**5.0**	**18.7**	**42.0**
Net book value					
As at 27 March 2010	68.6	21.7	3.4	11.2	36.3
As at 26 March 2011	68.6	23.6	2.6	12.3	38.5
As at 31 March 2012	**26.8**	**10.5**	**0.7**	**10.9**	**22.1**

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 (£nil, 2011: £41.8 million) and International (£26.8 million, 2011: £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 with a discounted cash flow model being used to calculate this amount. The key assumptions for the value in use calculation are those regarding the discount rates, growth rates and expected changes to selling prices. Management has used a pre tax discount rate of 9.83% (2011: 10.4%) which reflects the time value of money and risks related to the CGUs. The cash flow projections are based on financial budgets and forecasts approved by the board covering a three-year period. Cash flows beyond the three-year period assume a 2% growth rate (2011: 2%), 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 International CGU. With reasonable possible changes in key assumptions, there is no indication that the carrying amount of goodwill would be reduced to a lower amount.

At 26 March 2011 goodwill of £41.8 million was allocated to the UK business segment and £26.8 million to the International business. The UK segment has experienced a fall in demand during the year. The group has therefore revised its cash flow forecast for the UK business segment and goodwill and intangibles has seen a reduction to its recoverable amount through recognition of an impairment loss against goodwill (£41.8 million), trade name (£12.0 million) and customer relationships (£1.2 million).

Forecasts show that, in overall terms, the goodwill and intangibles acquired with the Early Learning Centre has significantly more value than that recorded in the books as the group has more than doubled the number of stores within International and the UK segments combined since acquisition. However at the time of acquisition Early Learning Centre was predominantly a UK business, resulting in the majority of goodwill being allocated to the UK. Whilst the International business for Early Learning Centre has subsequently grown very rapidly it is not possible to offset the surplus in International goodwill against the deficit in UK goodwill.

Software

Software additions include £1.5 million (2011: £1.6 million) of internally generated intangible assets.

At 31 March 2012, the group had entered into contractual commitments for the acquisition of software amounting to £0.3 million (2011: £0.3 million).

16. Property, plant and equipment

	Properties including fixed equipment				
	Freehold £ million	Leasehold £ million	Fixtures, fittings, equipment £ million	Assets in course of construction £ million	Total £ million
Cost					
As at 27 March 2010	14.7	113.0	199.8	1.7	329.2
Transfers	–	–	1.7	(1.7)	–
Additions	–	7.0	8.0	2.4	17.4
Exchange differences	–	–	(0.1)	–	(0.1)
Disposals	(2.7)	(2.4)	(4.8)	–	(9.9)
As at 27 March 2011	12.0	117.6	204.6	2.4	336.6
Transfers	(0.6)	0.6	2.4	(2.4)	–
Additions	–	5.3	6.7	10.8	22.8
Exchange differences	–	–	(0.1)	–	(0.1)
Disposals	(1.2)	(1.8)	(3.9)	–	(6.9)
As at 31 March 2012	**10.2**	**121.7**	**209.7**	**10.8**	**352.4**
Accumulated depreciation and impairment					
As at 27 March 2010	2.6	82.5	150.2	–	235.3
Charge for period	0.1	5.8	10.7	–	16.6
Exchange differences	–	–	(0.1)	–	(0.1)
Disposals	(0.1)	(2.0)	(4.2)	–	(6.3)
As at 27 March 2011	2.6	86.3	156.6	–	245.5
Charge for period	0.1	4.8	11.3	–	16.2
Impairment	0.1	4.0	5.3	–	9.4
Exchange differences	–	–	(0.1)	–	(0.1)
Disposals	(0.2)	(1.3)	(3.4)	–	(4.9)
As at 31 March 2012	**2.6**	**93.8**	**169.7**	**–**	**266.1**
Net book value					
As at 27 March 2010	12.1	30.5	49.6	1.7	93.9
As at 26 March 2011	9.4	31.3	48.0	2.4	91.1
As at 31 March 2012	**7.6**	**27.9**	**40.0**	**10.8**	**86.3**

The net book value of leasehold properties includes £27.5 million (2011: £31.1 million) in respect of short leasehold properties. £3.8 million of the impairment on property, plant and equipment has been included within non-underlying administration expenses and the remaining £5.6 million is included within loss on disposal/termination of property interests.

Notes to the consolidated financial statements continued

16. Property, plant and equipment continued

At 31 March 2012, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £3.6 million (2011: £5.0 million).

Freehold land and buildings with a carrying amount of £7.6 million (2011: £9.4 million) have been pledged to secure the group's borrowing facility (see note 21). The group is not allowed to pledge these assets as security for other borrowings.

17. Deferred tax assets and liabilities

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

	Accelerated tax depreciation £ million	Short term timing differences £ million	Retirement benefit obligations £ million	Share-based payments £ million	Intangible assets £ million	Losses £ million	Total £ million
At 27 March 2010	(4.0)	1.6	15.4	1.8	(6.9)	–	7.9
(Charge)/credit to income	1.9	3.5	(1.4)	0.1	0.9	–	5.0
Transfer to current tax	–	(1.7)	–	–	–	–	(1.7)
Charge to other comprehensive income	–	–	(4.3)	–	–	–	(4.3)
At 27 March 2011	(2.1)	3.4	9.7	1.9	(6.0)	–	6.9
Credit/(charge) to income	0.5	4.5	(1.2)	(1.9)	4.0	0.7	6.6
Charge to other comprehensive income	–	–	4.1	–	–	–	4.1
At 31 March 2012	**(1.6)**	**7.9**	**12.6**	**–**	**(2.0)**	**0.7**	**17.6**

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:

	31 March 2012 £ million	26 March 2011 £ million
Deferred tax assets	**23.4**	18.4
Deferred tax liabilities	**(5.8)**	(11.5)
	17.6	6.9

At the balance sheet date the group has unused tax losses of £2.8 million (2011: £nil) available for offset against future profits. A deferred tax asset has been recognised of £0.7 million in respect of £2.8 million (2011: £nil) of such losses. There are no unrecognised tax losses.

At the reporting date, deferred tax liabilities of £0.8 million (2011 : £0.4 million) relating to withholding taxes have not been provided in respect of the aggregate amount of unremitted earnings of £5.9 million (2011 : £3.4 million) in respect of subsidiaries. No liability has been recognised because the group, being in a position to control the timing of the distribution of intra group dividends, has no intention to distribute intra group dividends in the foreseeable future that would trigger withholding tax. There are no unremitted earnings in connection with interests in associates and joint ventures.

At 31 March 2012, the group has unused capital losses of £662.5 million (2011: £665.2 million) available for offset against future capital gains. No asset has been recognised in respect of the capital losses as it is not considered probable that there will be future taxable capital gains. The capital losses may be carried forward indefinitely.

18. Inventories

	31 March 2012 £ million	26 March 2011 £ million
Underlying	**104.0**	121.4
Allowance against carrying value of inventories	**(4.9)**	(5.4)
Finished goods and goods for resale	**99.1**	116.0

The amount of write down of inventories to net realisable value recognised as net income in the period is £0.5 million (2011: cost of £1.0 million).

19. Trade and other receivables

	31 March 2012 £ million	26 March 2011 £ million
Trade receivables gross	**48.8**	52.4
Allowance for doubtful debts	**(1.6)**	(1.4)
Trade receivables net	**47.2**	51.0
Prepayments and accrued income	**19.0**	8.0
Other receivables	**7.1**	3.5
Trade and other receivables due within one year	**73.3**	62.5

	31 March 2012 £ million	26 March 2011 £ million
Trade and other receivables due after more than one year	**1.4**	–

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

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Balance at beginning of period	**(1.4)**	(1.7)
(Charged)/released in the period	**(0.2)**	0.3
Balance at end of period	**(1.6)**	(1.4)

The group's exposure to credit risk inherent in its trade receivables is discussed in note 22. The group has no significant concentration of credit risk. The group operates effective credit control procedures in order to minimise exposure to overdue debts and where possible also carries insurance against the cost of bad debts. The insurance counterparties involved in transactions are limited to high quality financial institutions. 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.

19. Trade and other receivables continued

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

	31 March 2012 £ million	26 March 2011 £ million
Trade receivables gross	**50.2**	52.4
Allowance for doubtful debts	**(1.6)**	(1.4)
Trade receivables net	**48.6**	51.0
Of which trade receivables gross comprise:		
Amounts neither impaired nor past due on the reporting date	**44.1**	45.5
Amounts past due:		
Less than one month	**1.3**	2.4
Between one and three months	**2.2**	1.7
Between three and six months	**1.2**	1.6
Greater than six months	**1.4**	1.2
Allowance for doubtful debts:		
Amounts neither impaired nor past due on the reporting date	**(0.3)**	(0.3)
Less than one month	**–**	–
Between one and three months	**–**	–
Between three and six months	**(0.3)**	(0.8)
Greater than six months	**(1.0)**	(0.3)
Trade accounts receivable net carrying amount	**48.6**	51.0

Provisions for doubtful trade accounts receivable are established based upon the difference between the receivable value and the estimated net collectible amount. The group establishes its provision for doubtful trade accounts receivable based on its historical loss experiences and an analysis of the counterparty's current financial position.

The average credit period taken on sales of goods is disclosed in note 22. No interest is charged on trade receivables, however, the right to charge interest on outstanding balances is retained.

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

20. Cash and cash equivalents

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

21. Borrowing facilities

The group had outstanding borrowings at 31 March 2012 of £21.9 million (2011: £nil).

Overdraft

The group has an unsecured overdraft facility of £10.0 million which bears interest at 1.0% above bank base rates. £1.9 million of this facility (net of cash in transit) was drawn down at 31 March 2012.

Committed borrowing facilities

The group also had £80 million of committed secured borrowing facilities available at 31 March 2012 with an average interest rate of 1.43% above LIBOR in respect of which all conditions precedent have been met. The final maturity date of this facility was 31 October 2013. £20 million of this facility was drawn down at 31 March 2012.

The group has subsequently agreed a refinancing of its banking facilities as of 11 April 2012 with its two existing banks, increasing the level of committed facilities from £80 million to £90 million and extending the term to 31 May 2015 at an interest rate range of 3.5 to 4% above LIBOR. These facilities further strengthen the group's financial position and provide additional liquidity and covenant headroom to accommodate the new three-year strategy. Further information is included within the corporate governance statement.

	31 March 2012 £ million	26 March 2011 £ million
Borrowings:		
Unsecured borrowings at amortised cost:		
Bank overdrafts (net of cash in transit)	**(1.9)**	–
Secured borrowings at amortised cost:		
Committed facility	**(20.0)**	–
Total borrowings	**(21.9)**	–
Amount due for settlement within one year	**(1.9)**	–
Amount due for settlement after one year	**(20.0)**	–
Total borrowings	**(21.9)**	–
Weighted average interest rate paid	**2.24**	2.16

22. Risks arising from financial instruments

A. Terms, conditions and risk management policies

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

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

	31 March 2012 £ million	26 March 2011 £ million
Foreign currency forward exchange contracts:		
Not later than one year	**110.7**	139.2
After one year but not more than five years	**9.5**	–
	120.2	139.2
Foreign currency option contracts:		
Not later than one year	**–**	6.1
	–	6.1

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 net debt, which includes borrowings disclosed in note 21 after deducting 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.

22. Risks arising from financial instruments continued

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 31% (2011: 26%) of group sales. Of these sales, 23% (2011: 19%) were invoiced in foreign currency. The group purchases product in foreign currencies, representing approximately 46% (2011: 42%) of total 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	
	31 March 2012 £ million	26 March 2011 £ million	**31 March 2012 £ million**	26 March 2011 £ million
US dollar	**(5.0)**	(6.5)	**14.4**	5.8
Euro	**(0.2)**	(0.3)	**2.4**	2.1
Hong Kong dollar	**(2.0)**	(3.0)	**0.4**	0.4
Indian rupee	**(0.2)**	(0.3)	**1.2**	1.5
Chinese renminbi	**(0.6)**	(0.3)	**0.2**	0.1
Singapore dollar	**–**	–	**0.1**	0.4
	(8.0)	(10.4)	**18.7**	10.3

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

	31 March 2012 £ million	26 March 2011 £ million
At notional value	**120.2**	139.2
At fair value	**(1.2)**	(2.7)

At 31 March 2012, the average hedged rate for outstanding forward foreign currency contracts is 1.58 for US dollars. There were no forward contracts in place for any other currencies at the year end. These contracts mature between April 2012 and May 2013. The fair value of foreign currency forward contracts is measured using quoted foreign exchange rates and yield curves from quoted rates matching the maturities of the contracts, and they therefore are categorised within level 2 of the fair value hierarchy set out in IFRS 7.

The fair value of embedded derivatives is a liability of £0.1 million (2011: £nil million).

Currency sensitivity analysis

The group's foreign currency financial assets and liabilities are denominated mainly in US dollars. The following table details the impact of a 10% 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.

	31 March 2012 £ million	26 March 2011 £ million
US dollar impact	**(9.9)**	(12.5)

C. Credit risk

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

The carrying amount of the financial assets represents the maximum credit exposure of the group. The carrying amount is presented net of impairment losses recognised. The maximum exposure to credit risk comprises trade receivables as shown in note 19 and cash and cash equivalents of £1.8 million.

The average credit period on trade receivables was 21 days (2011: 23 days) based on total group revenue. The average credit period on International trade receivables was 67 days (2011: 82 days).

D. Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 21 is a description of additional undrawn facilities that the group has at its disposal to further reduce liquidity risk.

E. Interest rate risk

The principal interest rate risk of the group arises in respect of its sterling borrowings. The group's borrowing facilities at 1.43% over LIBOR expose the group to cash flow interest rate risk. The interest exposure is monitored by management but due to low interest rate levels during the period no interest rate hedging has been undertaken.

Going forward under the new banking arrangements the group intends to use derivative contracts to manage its interest rate risk.

Notes to the consolidated financial statements continued

23. Trade and other payables

	31 March 2012 £ million	26 March 2011 £ million
Current liabilities		
Trade payables	**71.0**	77.5
Payroll and other taxes including social security	**2.3**	2.0
Accruals and deferred income	**43.7**	42.6
VAT payable	**2.0**	4.0
Lease incentives	**4.8**	4.0
	123.8	130.1
Non-current liabilities		
Lease incentives	**29.0**	32.3

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 53 days (2011: 62 days). The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

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

24. Provisions

	31 March 2012 £ million	26 March 2011 £ million
Current liabilities		
Property provisions	**24.1**	5.2
Other provisions	**0.4**	0.4
Short term provisions	**24.5**	5.6
Non-current liabilities		
Property provisions	**12.0**	6.8
Other provisions	**0.4**	0.4
Long term provisions	**12.4**	7.2
Property provisions	**36.1**	12.0
Other provisions	**0.8**	0.8
Total provisions	**36.9**	12.8

The movement on total provisions is as follows:

	Property provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 27 March 2011	12.0	0.8	12.8
Utilised in period	(8.7)	(0.4)	(9.1)
Charged in period	34.0	0.4	34.4
Released in period	(1.3)	–	(1.3)
Unwinding of discount	0.1	–	0.1
Balance at 31 March 2012	**36.1**	**0.8**	**36.9**

Property provisions principally represent the costs of store disposals or closures relating to the optimisation of the UK portfolio which involves the closure of Mothercare and Early Learning Centre stores and provisions for onerous lease costs. Provisions for onerous leases have been made for vacant, partly let and trading stores for the shorter of the remaining period of the lease and the period until, the group will be able to exit the lease commitment. For trading stores the amount provided is based on the shortfall in contribution required to cover future rental obligations together with other fixed outgoings. The majority of this provision is expected to be utilised over the next three financial years.

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

25. Share capital

	53 weeks ended 31 March 2012 Number of shares	52 weeks ended 26 March 2011 Number of shares	**53 weeks ended 31 March 2012 £ million**	52 weeks ended 26 March 2011 £ million
Issued and fully paid				
Ordinary shares of 50 pence each:				
Balance at beginning of period	**88,540,219**	88,116,381	**44.3**	44.1
Issued under the Mothercare 2000 Executive Share Option Plan	**–**	71,394	**–**	–
Issued under the Mothercare Sharesave Scheme	**96,543**	352,444	**–**	0.2
Balance at end of period	**88,636,762**	88,540,219	**44.3**	44.3

Further details of employee and executive share schemes are given in note 28.

The own shares reserve of £2.1 million (2011: £9.0 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 28). The total shareholding is 443,545 (2011: 2,461,230) with a market value at 31 March 2012 of £0.7 million (2011: £11.7 million).

26. Reconciliation of cash flow from operating activities

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
(Loss)/profit from retail operations	**(6.9)**	11.0
Adjustments for:		
Depreciation of property, plant and equipment	**16.2**	16.6
Amortisation of intangible assets – software	**4.6**	4.1
Amortisation of intangible assets – other	**2.0**	2.3
Impairment of property, plant and equipment	**9.4**	–
(Losses)/profits on disposal of property, plant and equipment	**(23.0)**	0.9
(Profit)/loss on non-underlying non-cash foreign currency adjustments	**(2.0)**	13.8
Equity-settled share-based payments	**0.5**	2.6
Movement in property provisions	**12.7**	(5.7)
Movement in other provisions	**–**	(0.1)
Amortisation of lease incentives	**(5.2)**	(5.9)
Lease incentives received	**3.5**	9.6
Payments to retirement benefit schemes	**(8.0)**	(4.6)
Charge to profit from operations in respect of retirement benefit schemes	**1.9**	3.5
Operating cash flow before movement in working capital	**5.7**	48.1
Decrease/(increase) in inventories	**18.5**	(23.9)
Increase in receivables	**(9.8)**	(4.8)
(Decrease)/increase in payables	**(12.9)**	13.7
Cash (utilised)/generated from operations	**1.5**	33.1
Income taxes received/(paid)	**4.1**	(6.0)
Net cash (outflow)/inflow from operating activities	**5.6**	27.1

	27 March 2011 £ million	Cash flow £ million	Foreign exchange £ million	31 March 2012 £ million
Cash and cash equivalents	15.3	(12.8)	(0.7)	**1.8**
Net overdrafts	–	(1.9)	–	**(1.9)**
Net cash and cash equivalents/(debt)	15.3	(14.7)	(0.7)	**(0.1)**

27. Operating lease arrangements

The group as lessee:

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Amounts recognised in cost of sales for the period:		
Minimum lease payments paid	**67.4**	70.4
Contingent rents	**0.4**	0.4
Minimum sublease payments received	**(0.5)**	(0.7)
Net rent expense for the period	**67.3**	70.1

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:

	31 March 2012 £ million	26 March 2011 £ million
Not later than one year	**65.2**	72.5
After one year but not more than five years	**195.6**	212.5
After five years	**185.7**	214.1
Total future minimum lease payments	**446.5**	499.1

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

	31 March 2012 £ million	26 March 2011 £ million
Not later than one year	**1.4**	1.2
After one year but not more than five years	**3.6**	3.0
After five years	**1.8**	4.3
Total future minimum lease payments	**6.8**	8.5

28. 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 is £0.6 million (2011: £2.2 million), including national insurance, of which £0.5 million (2011: £2.6 million) was equity-settled. The exceptional credit for share-based payments of £0.8 million (2011: £nil) arises in respect of leavers from the executive incentive share schemes. At 31 March 2012 the liability in the balance sheet is £0.1 million related to the expected national insurance charge when share-based payment schemes vest (2011: £0.9 million).

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
F. Share Matching Scheme

Details of the share schemes that the group operates are provided in the directors' remuneration report on pages 42 to 49.

28. Share-based payments continued

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 annum compound growth over the vesting period. If the options remain unexercised after a period of 10 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	53 weeks ended 31 March 2012 Number of shares	52 weeks ended 26 March 2011 Number of shares
Balance at beginning of period	326p	30,000	111,407
Forfeited during period		–	(24,838)
Exercised during period		–	(56,569)
Balance at end of period	326p	30,000	30,000

The options outstanding at 31 March 2012 had a weighted average remaining contractual life of 2.3 years and ranged in price from 284p to 335p.

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%.

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

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

	Weighted average exercise price	53 weeks ended 31 March 2012 Number of shares	52 weeks ended 26 March 2011 Number of shares
Balance at beginning of period	308p	768,613	1,243,132
Granted during period	115p	2,752,739	–
Forfeited during period	299p	(34,216)	(124,129)
Exercised during period	276p	(96,543)	(349,944)
Cancelled in the period	370p	(161,811)	–
Expired during period	305p	(41,991)	(446)
Balance at end of period	139p	3,186,791	768,613

The shares outstanding at 31 March 2012 had a weighted average remaining contractual life of three years and ranged in price from 115p to 497p.

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 2011	December 2009	December 2008
Number of options granted	2,752,739	230,951	635,038
Share price at grant date	159p	676p	237p
Exercise price	115p	497p	237p
Expected volatility	43.1%	30.0%	30.0%
Risk free rate	0.58%	3.00%	2.00%
Expected dividend yield	3.00%	3.00%	3.50%
Time to expiry	3.25 years	3.25 years	3.25 years
Fair value of option	56.4p	172.9p	41.1p

The resulting fair value is expensed over the service period of three years on the assumption that 20% of options will lapse over the service period as employees leave the group.

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 2009, 2010 and 2011 schemes are a wholly equity settled scheme 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	May 2011	June 2010	May 2009
Market capitalisation at award date	£449.0m	£562.7m	£338.4m
Expected Mothercare share price volatility	30.0%	30.0%	30.0%
Expected Index volatility	30.0%	30.0%	30.0%
Risk free rate	2.38%	2.68%	3.70%
Correlation between Mothercare and the Index	50.0%	50.0%	50.0%
Time to expiry	3 years	3 years	3 years
Fair value at grant date	£1.8m	£3.0m	£1.8m
Fair value at 26 March 2012	£0.1m	Nil	Nil

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:

	53 weeks ended 31 March 2012 Number of shares	52 weeks ended 26 March 2011 Number of shares
Balance at beginning of period	**1,332,889**	1,430,838
Awarded during period	**999,807**	641,855
Lapsed during period	**(1,276,378)**	(235,805)
Vested during period	**–**	(503,999)
Balance at end of period	**1,051,318**	1,332,889

28. Share-based payments continued

The fair value of the plan award is calculated based on Mothercare's estimate of future profit per share growth. At the current time the group's forecasts suggest that the performance share plan is not expected to pay out and consequently the fair value is nil.

Grant date	November 2011	May 2011	November 2010	June 2010
Number of shares awarded	376,154	618,653	62,992	578,863
Share price at date of grant	137p	446p	522p	520p
Exercise price	Nil	Nil	Nil	Nil
Time to expiry	3 years	3 years	3 years	3 years
Fair value per share	137p	446p	522p	520p

E. Deferred Shares Scheme

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

	53 weeks ended 31 March 2012 Number of shares	52 weeks ended 26 March 2011 Number of shares
Balance at beginning of period	**167,290**	–
Awarded during period	**–**	192,119
Lapsed during period	**(57,581)**	(24,829)
Vested during period	**–**	–
Balance at end of period	**109,709**	167,290

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

F. Share Matching Scheme

During the year the Chairman was granted 60,000 options with a nominal exercise price which vest in August 2014. To enable maximum vesting the Company total shareholder return over the three-year performance period must be greater than or equal to the total shareholder return of the FTSE 250 plus 50%. As a condition of this award the Chairman was required to purchase shares in the Company for a value of £0.2 million and must continue to hold these shares over the performance period. At the date of grant the fair value of these awards was less than £0.1 million.

Upon assuming the role of Executive Chairman, the Chairman was granted a further 54,997 options with a nominal exercise price which vest in November 2014. To enable maximum vesting the Company total shareholder return over the three-year performance period must be greater than or equal to the total shareholder return of the FTSE 250 plus 50%. As a condition of this award the Chairman is required to purchase shares in the Company for a value of £0.4 million and must continue to hold these shares over the performance period. At the date of grant the fair value of these awards was less than £0.1 million.

Grant date	Dec 2011	Dec 2011
Number of shares awarded	60,000	54,997
Share price at date of grant	155p	155p
Fair value price at date of grant	116p	116p
Exercise price	Nil	Nil
Time to expiry	3 years	3 years

The shares were granted in two tranches with expiry in August and November 2014.

The resulting fair value is expensed over the service period of three years.

29. 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 (2011: £0.6 million) represents contributions due and paid to these schemes by the group at rates specified in the rules of the plan.

Defined benefit schemes

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

On 28 March 2004, the final salary schemes were 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% to an average of 6.8% or accrue future benefits on a 'career average' basis.

In 2009 the 'career average' 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. Actuarial valuations of the Mothercare Staff and Executive Pension Schemes were undertaken as at 31 March 2011. Discussions are underway between the Company and the trustees with the aim of signing off the actuarial valuations and recovery plans by 30 June 2012. The most recent full actuarial valuations were updated as at 31 March 2012 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 ended 31 March 2012 disclosed a net defined pension deficit of £52.7 million (2011: £37.6 million).

The major assumptions used in the updated actuarial valuations were:

	31 March 2012	26 March 2011
Discount rate	**4.9%**	5.5%
Inflation rate – RPI	**3.3%**	3.5%
Inflation rate – CPI	**2.3%**	2.8%
Future pension increases	**3.2%**	3.4%
Expected rate of salary increases	**3.3%**	3.5%
Expected return on schemes' assets	**6.0%**	7.0%
Analysed between:		
Equities	**7.3%**	8.3%
Bonds	**4.7%**	5.1%
Property	**5.3%**	6.3%
Alternative assets	**6.3%**	7.3%
Other assets	**4.7%**	5.1%

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.

29. Retirement benefit schemes continued

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% floor.

	Age 65 now	Age 45 now
Staff pension scheme:		
Male	86.4	87.7
Female	88.2	89.8
Executive pension scheme:		
Male	88.5	89.8
Female	89.3	90.9

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%	-/+6.0
Rate of price inflation	+/- 0.1%	+/- 5.3
Life expectancy	+ 1 year	+ 8.1

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

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Current service cost	**2.3**	2.9
Interest cost	**13.5**	14.1
Expected return on schemes' assets	**(13.7)**	(13.5)
Gains on curtailment	**(0.2)**	–
	1.9	3.5

Current service cost, interest cost and expected return on schemes' assets have been included in underlying administrative expenses and the curtailment gain is included within non-underlying administrative expenses.

The expected return on scheme assets was a gain of £13.7 million (2011: a gain of £13.5 million) with a resulting actuarial loss of £8.5 million (2011: loss of £2.5 million).

There was an actuarial loss of £12.7 million (2011: a gain of £19.0 million) relating to the defined benefit obligations.

The amount recognised in other comprehensive income for the year ended 31 March 2012 is a loss of £21.2 million (2011: a gain of £16.5 million).

The total cumulative actuarial loss recognised in other comprehensive income is £53.3 million (2011: £32.1 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:

	31 March 2012 £ million	26 March 2011 £ million
Present value of defined benefit obligations	270.0	246.0
Fair value of schemes' assets	(217.3)	(208.4)
Liability recognised in balance sheet	52.7	37.6

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

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
At beginning of period	246.0	252.1
Service cost	2.3	2.9
Gains on curtailments	(0.2)	–
Interest cost	13.5	14.1
Contribution from scheme members	1.5	1.7
Actuarial losses/(gains)	12.7	(19.0)
Benefits paid	(5.8)	(5.8)
At end of period	270.0	246.0

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

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
At beginning of period	208.4	197.0
Expected return on schemes' assets	13.7	13.5
Actuarial losses	(8.5)	(2.5)
Company contributions	8.0	4.5
Members' contributions	1.5	1.7
Benefits paid	(5.8)	(5.8)
At end of period	217.3	208.4

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

	31 March 2012 %	31 March 2012 £ million	26 March 2011 %	26 March 2011 £ million
Equities	7.3	84.6	8.3	94.8
Bonds	4.7	63.1	5.1	57.3
Property	5.3	24.5	6.3	26.1
Alternative assets	6.3	33.7	7.3	30.1
Other assets	4.7	11.4	5.1	0.1
		217.3		208.4

29. Retirement benefit schemes continued

The history of experience adjustments is as follows:

	53 weeks ended 31 March 2012	52 weeks ended 26 March 2011	52 weeks ended 27 March 2010	52 weeks ended 28 March 2009	52 weeks ended 29 March 2008
Present value of defined benefit obligations	**£270.0m**	£246.0m	£252.1m	£175.6m	£167.3m
Fair value of schemes' assets	**(£217.3m)**	(£208.4m)	(£197.0m)	(£150.2m)	(£181.1m)
Deficit/(surplus) in the schemes	**£52.7m**	£37.6m	£55.1m	£25.4m	(£13.8m)
Experience adjustments on schemes' liabilities	**£12.7m**	(£19.0m)	£66.0m	(£1.9m)	(£35.1m)
Percentage of schemes' liabilities	**4.7%**	7.7%	26.2%	1.1%	21.0%
Experience adjustments on schemes' assets	**(£8.5m)**	(£2.5m)	£33.9m	(£44.9m)	(£26.9m)
Percentage of schemes' assets	**3.9%**	1.2%	17.2%	29.9%	14.9%

The estimated amount of cash contributions expected to be paid to the schemes during the 52 weeks ending 30 March 2013 is £5.2 million.

30. 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 and associates 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:

53 weeks ended 31 March 2012	**Sales of goods £ million**	**Purchase of goods £ million**	**Amounts owed by related parties £ million**	**Amounts owed to related parties £ million**
Joint ventures and associates	**22.0**	**–**	**9.9**	**–**

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	–

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. A provision of £0.8 million (2011: £0.8 million) has been made for doubtful debts in respect of the amounts owed by related parties.

Remuneration of key management personnel

The remuneration of the operating board (including executive and non-executive 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 42 to 49.

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Short term employee benefits	**2.8**	3.7
Post employment benefits	**0.4**	0.4
Compensation for loss of office	**1.6**	–
Share-based payments	**0.4**	1.8
	5.2	5.9

Mothercare pension scheme

Details of other transactions and balances held with the two pension schemes are set out in note 29.

Other transactions with key management personnel

There were no other transactions with key management personnel.

31. Events after the balance sheet date

On 11 April 2012 the group agreed the refinancing of its banking facilities with the support of its existing banks, HSBC and Barclays increasing the level of committed facilities from £80 million to £90 million and extending the term to 31 May 2015 (see note 21).

On 12 April 2012 the group announced a further reduction in the UK store portfolio, reshaping the UK around a profitable core of 200 stores. The group will now close 111 stores (36 Mothercare and 75 Early Learning Centres) over the next three years to March 2015. The costs associated with the additional store closures announced in April 2012 will be provided for in the next financial year.

There were no other events after the balance sheet date.

Company financial statements

Contents

Independent auditor's report on the Company financial statements

We have audited the parent company financial statements of Mothercare plc for the 53 weeks ended 31 March 2012 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 material 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 31 March 2012;
- 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 53 weeks ended 31 March 2012.

Nicola Mitchell, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
23 May 2012

Company balance sheet
As at 31 March 2012

	Note	31 March 2012 £ million	26 March 2011 Restated* £ million
Fixed assets			
Investments in subsidiary undertakings	3	**214.9**	214.4
		214.9	214.4
Current assets			
Debtors	4	**50.4**	39.0
Cash at bank and in hand and time deposits		**0.3**	0.4
		50.7	39.4
Creditors – amounts falling due within one year	5	**(74.1)**	(128.7)
Net current liabilities		**(23.4)**	(89.3)
Total assets less current liabilities		**191.5**	125.1
Creditors – amounts falling due after more than one year	5	**(20.0)**	–
Net assets		**171.5**	125.1
Capital and reserves attributable to equity interests			
Called up share capital	6	**44.3**	44.3
Share premium	7	**6.2**	5.9
Other reserve	7	**50.8**	50.8
Own shares	7	**(2.1)**	(9.0)
Profit and loss account	7	**72.3**	33.1
Equity shareholders' funds	8	**171.5**	125.1

* The prior year balance sheet has been restated to reallocate bank loans and overdrafts within creditors and to reanalyse intercompany debtors and creditors.

Approved by the Board on 23 May 2012 and signed on its behalf by:

Neil Harrington

Neil Harrington
Finance Director

Company Registration Number: 1950509

Notes to the Company financial statements

1. Significant accounting policies

Basis of presentation

The Company's accounting period covers the 53 weeks ended 31 March 2012. The comparative period covered the 52 weeks ended 26 March 2011.

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 53 weeks ended 31 March 2012 and the preceding 52 weeks ended 26 March 2011.

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 59.

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 53 weeks ended 31 March 2012 was £57.5 million (2011: profit of £14.8 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
Mothercare Procurement Limited	Sourcing company	Hong Kong
Early Learning Centre Limited	Retailing company	United Kingdom

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

	31 March 2012 £ million	26 March 2011 £ million
Cost of investments (less amounts written off £153.0 million (2011: £153.0 million))	**149.4**	148.9
Loans to subsidiary undertakings	**65.5**	65.5
	214.9	214.4

Notes to the Company financial statements continued

3. Investments in subsidiary undertakings continued

	£ million
Cost	
At 27 March 2011	214.4
Share-based payments to employees of subsidiaries	0.5
At 31 March 2012	214.9
Provisions for impairment	
At 27 March 2011 and 31 March 2012	–
Net book value	214.9

4. Debtors

	31 March 2012 £ million	26 March 2011 Restated* £ million
Amounts due from subsidiary undertakings	**49.8**	38.8
Other debtors	**0.6**	0.2
	50.4	39.0

* The prior year balance sheet has been restated to reanalyse intercompany debtors and creditors.

5. Creditors

Creditors: amounts falling due within one year

	31 March 2012 £ million	26 March 2011 Restated* £ million
Amounts due to subsidiary undertakings	**56.9**	89.5
Bank loans and overdrafts	**15.8**	38.5
Accruals and other creditors	**1.4**	0.7
	74.1	128.7

* The prior year balance sheet has been restated to reanalyse intercompany debtors and creditors.

Creditors: amounts falling due after more than one year

	31 March 2012 £ million	26 March 2011 £ million
Bank loans and overdrafts	**20.0**	–
	20.0	–

6. Called up share capital

	Number of shares	£ million
Issued and fully paid		
Ordinary shares of 50p each:		
Balance at 27 March 2011	88,540,219	44.3
Issued under the Mothercare Sharesave Scheme	96,543	–
Balance at 31 March 2012	**88,636,762**	**44.3**

Further details of employee and executive share schemes are provided in note 28 to the consolidated financial statements.

The own shares reserve of £2.1 million (2011: £9.0 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 28 to the consolidated financial statements). The total shareholding is 443,545 (2011: 2,461,230) with a market value at 31 March 2012 of £0.7 million (2011: £11.7 million).

7. Reserves

	Share premium £ million	Other reserve £ million	Own shares £ million	Profit and loss account £ million
Balance at 27 March 2011	5.9	50.8	(9.0)	33.1
Net premium on shares issued	0.3	–	–	–
Fair value of share-based payments	–	–	–	0.5
Shares transferred to employees on vesting	–	–	6.9	(6.9)
Dividends	–	–	–	(11.9)
Profit for the financial year	–	–	–	57.5
Balance at 31 March 2012	**6.2**	**50.8**	**(2.1)**	**72.3**

Included in the profit for the year was a dividend from a subsidiary undertaking of £59.6 million.

8. Reconciliation of equity shareholders' funds

	53 weeks ended 31 March 2012 £ million	52 weeks ended 26 March 2011 £ million
Equity shareholders' funds brought forward	**125.1**	123.4
Dividends	**(11.9)**	(15.5)
Shares issued	**0.3**	1.2
Fair value of share-based payments	**0.5**	2.6
Purchase of own shares	**–**	(1.4)
Retained profit for the period	**57.5**	14.8
Equity shareholders' funds carried forward	**171.5**	125.1

Five year record (unaudited)

	2012 £ million	2011 £ million	2010 £ million	2009 Restated[4] £ million	2008 Restated[4] £ million
Summary of consolidated income statements					
Revenue	**812.7**	793.6	766.4	723.6	676.8
Underlying[1] profit from operations before interest	**2.0**	28.9	37.6	37.0	38.5
Non-underlying[2] items	**(104.4)**	(19.5)	(4.4)	6.1	(34.1)
Interest (net)	**(0.5)**	(0.6)	(0.7)	(1.1)	0.1
(Loss)/profit before taxation	**(102.9)**	8.8	32.5	42.0	4.5
Taxation	**11.1**	(2.3)	(8.9)	(11.8)	(4.4)
(Loss)/profit for the financial year	**(91.8)**	6.5	23.6	30.2	0.1
Basic (loss)/earnings per share	**(105.2p)**	7.6p	28.0p	36.2p	0.1p
Basic underlying earnings per share	**1.8p**	24.7p	31.5p	32.0p	34.5p
Summary of consolidated balance sheets					
Deferred tax asset/(liability)	**17.6**	6.9	7.9	0.8	(4.4)
Other non-current assets	**145.2**	208.6	200.5	197.6	200.8
Net current assets	**24.0**	54.4	70.6	57.9	26.3
Retirement benefit obligations	**(52.7)**	(37.6)	(55.1)	(25.4)	2.0
Other non-current liabilities	**(61.4)**	(39.5)	(35.5)	(33.4)	(27.7)
Total net assets	**72.7**	192.8	188.4	197.5	197.0
Other key statistics					
Share price at year end	**166.0p**	474.0p	601.0p	386.5p	400.0p
Net (debt)cash/equity	**(27.6%)**	7.9%	20.4%	12.5%	11.5%
Capital expenditure	**24.9**	21.8	24.2	22.8	20.4
Depreciation and amortisation	**22.8**	23.0	20.5	22.0	19.7
Rents	**65.4**	68.2	69.1	71.0	71.2
Number of UK stores	**311**	373	387	405	425
Number of International stores[3]	**1,028**	894	728	609	494
UK selling space (000's sq. ft.)	**1,946**	2,017	2,008	2,007	2,070
International selling space (000's sq. ft.)[3]	**2,283**	1,845	1,538	1,294	1,040
Average number of employees	**6,943**	7,440	7,452	7,715	7,626
Average number of full time equivalents	**4,350**	4,650	4,486	4,653	4,244

1 Before items described in note 2 below.
2 Includes exceptional items (profit/loss on disposal/termination of property interests, impairment charges, restructuring costs, impairment charges, provision for onerous leases) and other non-underlying items of 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 (2008 balance sheet only).

Shareholder information

Shareholder analysis

A summary of holdings as at 30 March 2012 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	417,546	7
Nominee companies	73,342,826	721
Other corporate holders	10,252,241	121
Individuals	4,624,149	23,249
	88,636,762	**24,098**

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

Individual shareholders owning 500 or more Mothercare shares are entitled to a 10% discount in defined denominations on up to £500 of merchandise in Mothercare and Early Learning Centre stores in the UK. If an individual shareholding of 500 or more shares is not on the share register but is held through a nominee or trustee, the book of vouchers can nevertheless be obtained. Eligible shareholders can request a voucher booklet by sending their name, address and shareholder account number by email to investorrelations@mothercare.com or by writing to the registered office.

Share price data

	2012	2011
Share price at 30 March 2012 (26 March 2011)	**166.00p**	474.00p
Market capitalisation	**£147.1m**	£419.7m
Share price movement during the year:		
High	**477.20p**	627.50p
Low	**127.30p**	466.50p

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

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

Registrars and transfer office

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

Financial calendar

	2012
Annual General Meeting	19 July
Announcement of interim results	20 November
	2013
Payment of interim dividend	February
Preliminary announcement of results for the 52 weeks ending 30 March 2013	end May
Issue of report and accounts	mid June
Annual General Meeting	mid July
Payment of final dividend	mid August

Registered office and head office

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

Group general counsel and company secretary

Tim Ashby

Registrars

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

Equiniti Limited
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA
Telephone 0871 384 2013 (calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary).
Lines are open 08:30 to 17:30, Monday to Friday.
www.equiniti.com

Shareholder information continued

Postal share dealing service

A postal share dealing service is available through the Company's registrars for the purchase and sale of Mothercare plc shares. Further details can be obtained from Equiniti on 0871 384 2248 (calls to this number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary). Lines are open 08:30 to 17:30, Monday to Friday.

Stockbrokers

The Company's stockbrokers are:

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

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

ShareGift

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

Further information about ShareGift is available from www.sharegift.org or by telephone on 020 7930 3737.

Notes

Notes

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