Good progress

Transformation and growth

Mothercare plc
Annual report and accounts 2013

www.mothercareplc.com

Financial highlights

Worldwide network sales

£1,185.1m +1.9%

Mar-13	£1,185.1m
Mar-12	£1,163.3m
Mar-11	£1,137.0m

UK sales
£499.7m -9.2%

International sales
£685.4m +11.8%

NB: The above figures are on a comparable, non-statutory 52 vs. 52 week basis and exclude Australia and New Zealand. On a statutory 52 vs. 53 week basis and including Australia and New Zealand, Worldwide network sales were down 0.3%, UK sales were down 10.8% and International sales were up 8.4%.

Space across the world

4,152.5k sq. ft. +3.5%

Stores
1,324 +4.7%

Mar-13	4,152.5 sq. ft.
Mar-12	4,014.2 sq. ft.
Mar-11	3,745.2 sq. ft.

UK space
1,805.2k -7.2%

Stores
255 -18.0%

International space
2,347.3 +13.5%

Stores
1,069 +12.1%

NB: The above figures are on a comparable, non-statutory 52 vs. 52 week basis and exclude Australia and New Zealand. Including Australia and New Zealand, space across the world was down 1.8%, UK space was down 7.2% and International space was up 2.8%.

Group sales

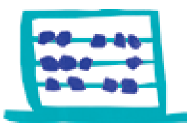
£749.4m -7.8%

Mar-13	£749.4m
Mar-12	£812.7m
Mar-11	£793.6m

UK sales
£499.7m -10.8%

International sales
£249.7m -1.2%

NB: The above figures are on a statutory 52 vs. 53 week basis and include Australia and New Zealand for all of FY2012 and from 1 April 2012 to 30 January 2013 for FY2013. On a comparable 52 vs. 52 week basis and excluding Australia and New Zealand, group sales were down 6.0%, UK sales were down 9.2% and International sales were up 1.2%.



Operating profit

£8.3m +418.8%

Mar-13	£8.3m
Mar-12	£1.6m
Mar-11	£28.5m

UK operating loss
£21.7m reduced by 12.1%

International operating profit
£42.0m +20.3%

Corporate expenses
£7.8m +2.6%

NB: The above figures are on a statutory 52 vs. 53 week basis and include Australia and New Zealand for all of FY2012 and from 1 April 2012 to 30 January 2013 for FY2013. The impact excluding Australia and New Zealand is not material.

Our brands

Mothercare

Our aim at Mothercare is to be the world's leading mother and baby specialist. Our products are designed to meet the needs of mothers-to-be, babies and children up to the age of eight. Our Clothing ranges, which account for 53 per cent of Worldwide network sales, include maternity and offer mothers a broad range of products from entry level prices for everyday value to more premium ranges. Our Home & Travel offer, which accounts for 26 per cent of Worldwide network sales, aims to meet the needs of baby from birth. We sell our products through multi-channel retail and wholesale operations in the UK and through franchise operations across our International markets in the Middle East and Africa, Europe, Asia and Latin America.

Mothercare stores

- UK – in town: 99
- UK – OOT*: 97
- International: 719

*OOT = Out of town

Early Learning Centre

Early Learning Centre aims to provide children up to the age of eight with toys that nurture and encourage learning through play. The range is predominately own-brand, which is designed and sourced through our facilities in Hong Kong. The Early Learning Centre range is sold through our multi-channel retail and wholesale operations in the UK and through franchise and wholesale operations across our International markets in the Middle East and Africa, Europe, Asia and Latin America.

ELC stores

- UK – in town: 59
- UK – inserts in Mothercare stores: 127
  Note: the figure above refers to inserts in 97 OOT Mothercare stores and 30 in town Mothercare stores.
- International: 350

Contents

Overview

Our brands	01
At a glance	02
Our mission	04
Chairman's statement	14
Chief Executive's statement	16
Our business model	21

Business review

Business review	22
Financial review	24
KPIs – Financial and non-financial	28
Risks – Principal risks and uncertainties	30
Corporate responsibility	33

Governance

Board of directors	38
Executive committee	39
Corporate governance	40
Directors' report	48
Remuneration report and chairman's statement	52
Appendix to the remuneration report	63

Financial statements

Directors' responsibilities statement	68
Independent auditor's report to the members of Mothercare plc	69
Consolidated income statement	70
Consolidated statement of comprehensive income/(expense)	70
Consolidated balance sheet	71
Consolidated statement of changes in equity	72
Consolidated cash flow statement	73
Notes to the consolidated financial statements	74

Company financial statements

Independent auditor's report on the Company financial statements	115
Company balance sheet	116
Notes to the Company financial statements	117
Five-year record	120
Shareholder information	121

For more information visit:
www.mothercareplc.com

At a glance
UK

UK losses were reduced to £21.7 million. Our strategy is to close loss-making stores and reduce operating costs mitigating the ongoing challenge of weak consumer spending conditions in the UK.

- Our strategy to transform the UK and return it to profitability is making good progress. We closed 56 stores during the year and took out operating costs, meeting the targets we set ourselves a year ago.
- Total UK sales were down 10.8 per cent (down 9.2 per cent on a comparable 52 vs. 52 week basis) at £499.7 million. Like-for-like sales were down 3.6 per cent, helped by Direct in Home, which was up 4.0 per cent on a comparable basis.

UK sales

Store sales

£340.5m

UK store sales down 14.6%

Mar-13	£340.5m
Mar-12	£398.7m
Mar-11	£436.6m

During the year, we reduced space in the UK by 7.2 per cent, closing 141k sq. ft. or 56 stores. Our Mothercare store format is larger with 196 stores covering 1,711k sq. ft. compared to our Early Learning Centre (ELC) format with 59 stores covering 94k sq. ft., which is where our store closure programme is concentrated. Our strategy to reduce space further to 1,700k sq. ft. or 200 stores and reduce the operating cost base by £20 million by March 2015 is progressing well.

Direct

£127.7m

UK direct sales down 1.8%

Mar-13	£127.7m
Mar-12	£130.0m
Mar-11	£129.0m

Total direct sales were down 1.8 per cent, during the year, with Direct in Home sales of £93.8 million up 2.3 per cent and Direct in Store sales of £33.9 million down 11.5 per cent. Direct in Home has benefited from the migration to a new online platform as well as improved navigation, content and delivery options for our customers. Next day 'click and collect' is now available to all Mothercare stores, is free for our customers and now makes up circa 20 per cent of Direct in Home sales.

Wholesale

£31.5m

UK wholesale sales up 0.6%

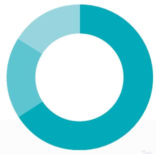
Mar-13	£31.5m
Mar-12	£31.3m
Mar-11	£21.6m

UK wholesale sales were up 0.6 per cent. Miniclub, our strategic partnership with Boots, continues to perform well. We continue to look for opportunities to extend the ELC range to wholesale without impacting our store or direct sales.

Our International business delivered another year of growth. On a comparable basis, space was up 13.5%, sales were up 15% in constant currency and profits were up 20.3%.

- Our strategy to grow our International business remains unchanged. We continue to see growth opportunities in both new and existing markets, where our franchise partners are moving to larger stores while embarking on multi-channel strategies.
- Total International sales were up 8.4 per cent at £728.7 million (up 11.8 per cent at £685.4 million on a comparable 52 vs. 52 week basis and excluding Australia and New Zealand). Adjusting for the Eurozone, where consumer confidence remains depressed, all our regions delivered double-digit sales growth and positive like-for-like sales growth, which was up 5.6 per cent during the year.

International sales



Store sales

£721.0m

International store sales up 8.3%

Mar-13	£721.0m
Mar-12	£665.5m
Mar-11	£561.5m

We now have 1,069 stores covering 2,347k sq.ft. of space with Mothercare stores accounting for 84.5 per cent of space. Retail sales, through our franchise partners' stores were up 8.3 per cent at £721.0 million. We are encouraged by the growth opportunities offered by our International markets and believe we can grow space in line with the level achieved during FY2013.

- Europe – 433 stores, 28 countries, space +4.4 per cent
- Middle East and Africa – 309 stores, 14 countries, space +15.9 per cent
- Asia – 290 stores, 12 countries, space +23.7 per cent
- Latin America – 37 stores, six countries, space +176.0 per cent

Direct

n/a

Base for International direct building well

Over the last year, we have laid the foundations for a robust multi-channel offering for our franchise partners. We now have a scalable online platform that can be rolled out with ease, in multiple languages and currencies. Most of our franchise partners operate in markets where multi-channel is still in its infancy and so developing the infrastructure is crucial. We now have transactional e-commerce sites in Ireland, Indonesia, Kuwait and Russia. In addition, our partner in China has a transactional site on TMall, China's largest online site. Our aim remains to have a multi-channel offer for all our major markets by March 2015.

Wholesale

£7.7m

International wholesale sales up +11.6%

Mar-13	£7.7m
Mar-12	£6.9m
Mar-11	£9.4m

We believe that there is an opportunity to extend the reach of ELC through wholesale but only in those markets where we do not already have a presence through franchise stores. This is a small part of our overall International business, but does offer interesting growth opportunities.

Our mission

Our aim is to be the world's leading mother and baby specialist, making life easier for families the world over with improved value, choice, service and delivery.

Our brands, Mothercare and Early Learning Centre have a strong resonance with parents the world over. It is our intention to build on our position as the leading mother and baby specialist and this is what our three-year Transformation and Growth plan seeks to do.

A year into the plan, we have made good progress. We have improved value, choice, service and delivery for our customers both in store and online. We have reduced losses in the UK and grown our International business, resulting in an increase in underlying profit before tax.

International growth

Our International business delivered profit growth of 20.3 per cent highlighting the strength of this business. This is testament to the strength of the team and their relationship with our franchise partners the world over.

Our International business continues to see good growth opportunities across all our regions. The growth opportunities in our newer markets is clear to see, but even our longer established markets are benefiting from the trend of moving to larger units whilst also establishing multi-channel offers ahead of other retailers in the region.

UK losses reduced

We have made progress towards our aim of returning the UK to profitability with losses reduced by 12.1 per cent. During the year we reduced space by 7.2 per cent by closing 56 loss-making stores, refurbished stores in Edmonton, Nottingham and Dudley, improved value across Clothing and Home & Travel, introduced new and innovative products like Innosense, Xpedior and extended the range of Happyland characters, relaunched our online platform and invested in service. These are initiatives that we will build on in the years ahead.

Transformation and Growth plan

We have made a good start with our Transformation and Growth plan and will build on these themes:

- Operate a lean retail structure;
- Return the UK to profitability;
- International growth; and
- Build a multi-channel business.

Our strategy for transformation and growth

1 Lean retail

Read more on page 6

Our aim is to improve operational efficiencies by reducing non-store operating costs, tightly managing working capital and cash and building on the scale of our sourcing operations.

2 Restore UK profitability

Read more on page 8

Our aim is to return the UK to profitability by stabilising like-for-like sales and reducing store occupancy costs.

3 International growth

Read more on page 10

Our aim is to continue to drive double-digit sales and profit growth by growing space both in new and existing markets while also maintaining mid-single digit like-for-like sales growth.

4 Multi-channel worldwide

Read more on page 12

Our aim is to give our customers the world over a multi-channel offering, allowing them to shop at Mothercare and Early Learning Centre in the way that suits them best.

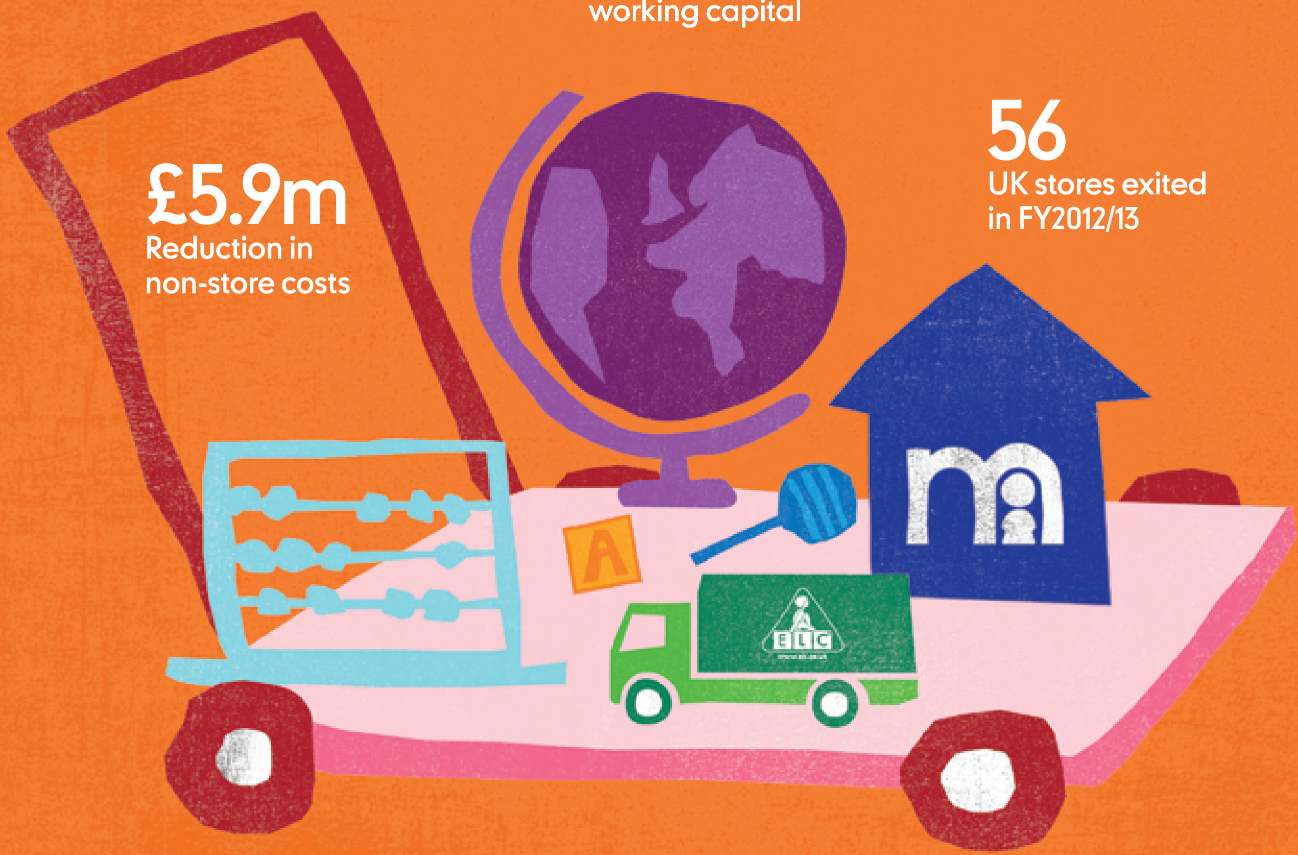
Good progress
Lean retail

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

8%
Reduction in working capital

£5.9m
Reduction in non-store costs

56
UK stores exited in FY2012/13



Our International business is now larger than the UK, accounting for circa 60 per cent of space and retail sales. Worldwide network sales were down 0.3 per cent as International network sales were up 8.4 per cent while UK sales were down 10.8 per cent. This ongoing change in the structure of our business necessitates a change in our operational structure to ensure the efficient use of our capital and resources. Accordingly the Transformation and Growth plan envisages a change over the three years of the plan.

Reduce UK non-store costs by £20 million per annum on an annualised basis

The Transformation and Growth plan identified circa £20 million of non-store operating costs that could be eliminated over the course of the plan. We met our first target to reduce operating cost by £8 million on an annualised basis and expect to reduce these costs by a further £7 million on an annualised basis for the current year.

We have also continued to focus on driving down our working capital requirements and accordingly, we have reduced working capital by 8 per cent during the year.

Sourcing efficiencies

Leveraging buying volumes has helped us deliver greater value for our customers, both in the UK and across our International markets. Whilst it is easy to see how International volumes have grown with retail sales growth of 15.0 per cent in constant currency, UK volumes too have grown, particularly in Clothing. The successful relaunch of Blooming Marvellous during Autumn/Winter 2012 (AW12) resulted in a 16 per cent increase in units bought for Spring/Summer 2013 (SS13) while the Value range also launched for AW12 saw a 30 per cent increase in the number of options bought for SS13.

Category mix

As expected Toys now make up 27 per cent of total UK sales, reflecting the continued closure of Early Learning Centre stores. We would expect Clothing to continue to benefit from the initiatives taken over the last year and for Home & Travel to begin to reap the benefits of the launch of Innosense our own-brand complete feeding range and Xpedior our own-brand pushchair and travel system. We will continue to build on the level of product innovation delivered over the last year.

Service: Dedication to customers

We launched our in store customer survey for both Mothercare and Early Learning Centre a year ago. Scores for both have improved as we have taken on board their feedback. Our customers value the investment in value across all our ranges, increased choice with new products, improved staff knowledge as we have invested in training, and better online and delivery experience for all our customers.
We have only recently extended the customer survey to our online business and we would expect to see similar levels of improvement as a result.

Good progress

Restore UK profitability

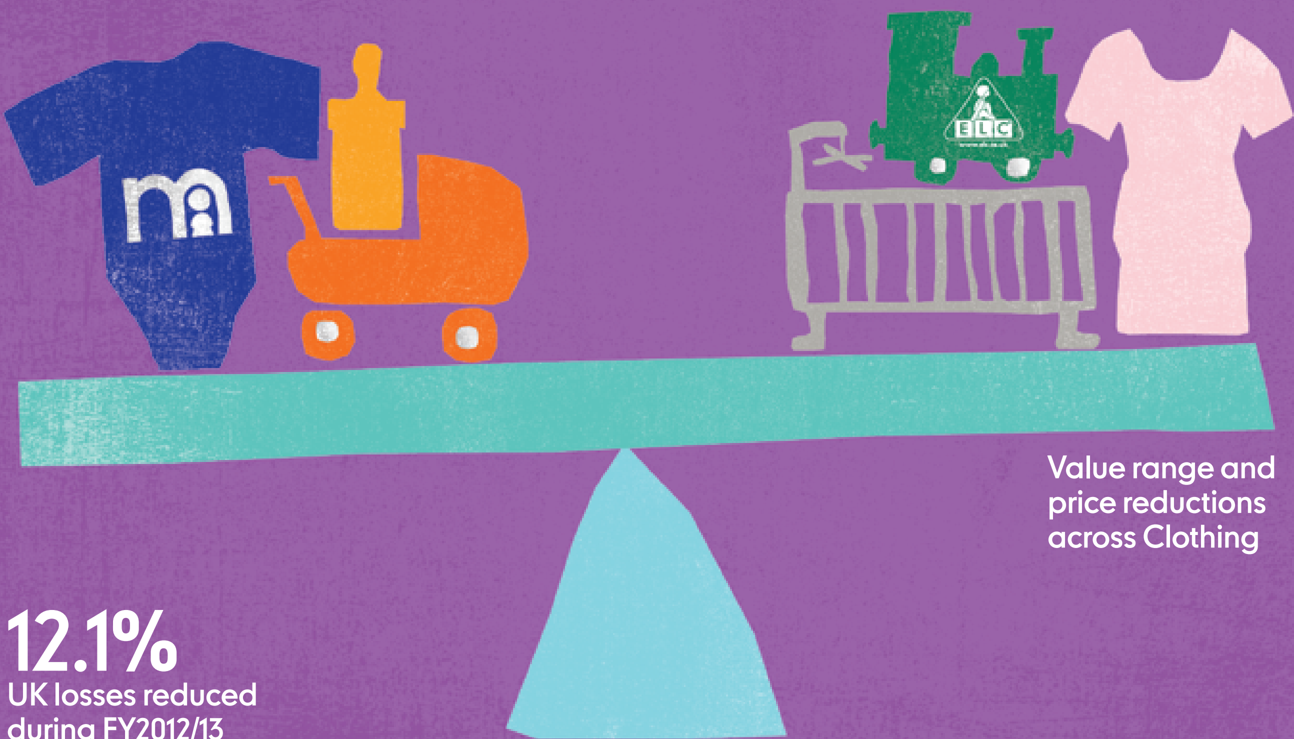
Restoring UK profitability means delivering profitable growth through targeted and specific actions aimed at stabilising like-for-like sales and reducing significantly store occupancy costs.

FY2012/13

'My Customer' was successfully launched for both in store and online customers

255

UK stores
– 196 Mothercare
– 59 Early Learning Centre



Value range and price reductions across Clothing

12.1%

UK losses reduced during FY2012/13

Returning the UK to profitability is crucial to our three-year plan. Over the year, we reduced UK losses by 12.1 per cent to £21.7 million. We will continue to build on the initiatives taken over the last year to ensure we continue to make good progress against this goal.

National coverage

Our aim is to be the leading mother and baby specialist and to do so we will need to ensure our customers have easy access to our stores. We expect to have circa 200 stores by March 2015, which will crucially act as a collection point as part of our multi-channel offer for our customers. The importance of our store network is clear; during the year circa 20 per cent of all Direct in Home orders were collected from a Mothercare store.

We have made good progress and have closed 56 loss-making stores during the year. As a result we now operate from 255 stores (196 Mothercare and 59 Early Learning Centre) across the UK.

Increase value and innovation across our product ranges

We have significantly improved value for our customers over the last year. We reduced prices across all our Clothing ranges by low double-digit per cent for both AW12 and SS13, relaunched Blooming Marvellous at improved price points and introduced a Value range for our customers. Our price match strategy has helped to improve our value perception across Home & Travel. We have also launched innovative new products like Innosense and Xpedior that will help re-establish our position as the leading mother and baby specialist whilst also helping us to manage margins. Our Toy ranges have also seen over 30 per cent newness over both AW12 and SS13, which have gone a long way towards rebuilding Early Learning Centre's position as the place to go to for educational toys.

Enhance customer service and improve in-store environment

Last year we invested heavily in retraining staff in areas such as car seat fitting and bra fitting. We have continued specialist training of staff in collaboration with manufacturers to ensure our customers get the service they deserve. We launched an in store customer survey at the beginning of the year, which has allowed us insight into areas that needed improvement. We have listened to customer feedback and our customer scores have improved over the year. We have recently extended this service to Direct and hope to be able to deliver similar improvements for our online customers as well.

Value: Reacting to competitive pressure

Our customers were clear in their feedback. We needed to improve our value credentials if we were going to retain their loyalty. We listened. During the year we reduced pricing for Clothing twice by low double-digit per cent while also introducing a 'Value' range of clothing. In Home & Travel our price match strategy has worked well towards improving our value perception.

Good progress

International growth

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

20.3%
Profit growth

15.0%
Sales growth in constant currency

13.5%
Space growth

Our International business now operates across 60 markets with 1,069 stores and 2.3 million sq. ft., which is up 13.5 per cent over the previous year. As a result sales were up 11.8 per cent (up 15.0 per cent in constant currency) while profits were up 20.3 per cent during the year.

Our International growth strategy is based on growing space both in new and existing markets. Whilst the opportunity is easy to see in our less developed markets like Latin America, Russia, China and India, our more mature markets like those in the Middle East are benefiting from the move to new space. Last year, all four of our regions delivered growth both in terms of space and revenues.

Notwithstanding the issues faced by our Eurozone markets, our franchise partners in Europe grew space by 4.4 per cent during the year. The continued strength of our Eastern European markets and in particular Russia have more than compensated for the Eurozone weakness. The Middle East and Africa, which is our oldest market, grew space by 15.9 per cent as the move to larger stores continued to underpin growth in these markets. In Asia, excluding Australia and New Zealand, space was up 23.7 per cent. Latin America, our newest region, also continues to offer strong growth opportunities underpinned by very solid partnerships, which resulted in space growth of 176 per cent albeit from a low base.

It is also encouraging to note that International like-for-like sales grew by 5.6 per cent during the year, highlighting that these markets are far from maturity.

Our joint ventures in the Ukraine, China and India are expected to break even during the current year, further helping to improve growth for our International markets.

Choice: Refining our sourcing and logistics

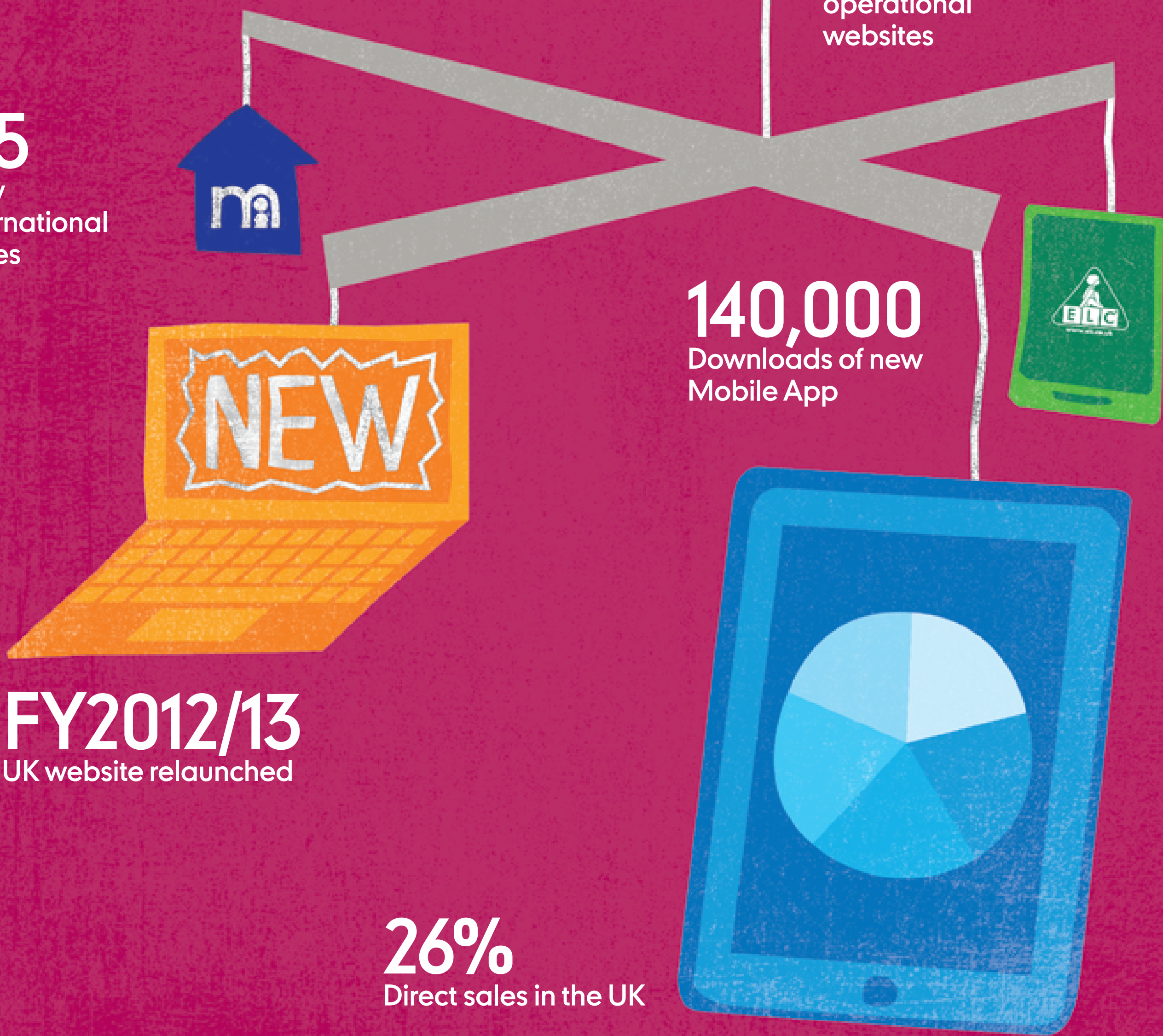
We expect to see continued growth in volumes as our International business grows. In addition, the recent improvements in value across Clothing have helped to increase volumes. We aim to leverage our relationships with our suppliers to ensure that we continue to deliver the best value for our customers. We have also improved the delivery options for our customers so that they can get the best service possible with quicker delivery to both store and home.

Good progress

Multi-channel

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

5
International markets with operational websites



115
New International stores

140,000
Downloads of new Mobile App

FY2012/13
UK website relaunched

26%
Direct sales in the UK

Multi-channel is core to our strategy both for the UK and across our International businesses. Direct already accounts for 26 per cent of total UK sales with circa 20 per cent of all Direct in Home orders collected from a Mothercare store. Our aim is to offer our customers convenience allowing them to shop the way that suits them best.

New UK platform

Our new online platform for the UK was launched just over a year ago on 1 May 2012. It has allowed us to make significant changes to the shopping experience and our customers are noticing the difference. The success of this transition is clear in the 18.2 per cent growth in Direct in Home sales experienced over the last quarter of the year. In November 2012, we launched our Mobile App, which has been downloaded circa 140,000 times and was voted 'Best Mobile App 2013' by Mobile Retail Awards. We will also be launching an Android App to further help our customers access our products in the way most convenient to them.

In May 2013, we made next day 'click and collect' available through all our Mothercare stores. This service is free for customers and already makes up circa 20 per cent of Direct in Home sales. Whilst Direct in Home has been a great success, there is still more to be done to improve the performance of our Direct in Store sales. This is a priority for FY2013/14 and our task will be to return this aspect of sales back to growth.

International websites

As part of our three-year Transformation and Growth plan, we said that we wanted to have transactional sites in all major markets by March 2015. Over the last year we have been busy putting in place a fully scalable online platform that can easily be rolled out to multiple markets in multiple languages and currencies. We have tested the capabilities of the platform and believe that it can now be readily implemented. They key to success is ensuring that our partners have the right infrastructure in place. Over the last year this has been a priority for us and our partners are prepared for the challenge ahead.

Our franchise partners in Ireland, Kuwait, Indonesia and Russia – both for Mothercare and Early Learning Centre – have successfully rolled out transactional websites. In addition, our partner in China has an online site up and running on TMall, the largest online trading site in China, and will be looking to launch its own site in due course.

We have made good progress so far and look forward to rolling out to more markets over the course of the next two years.

Wholesale

Miniclub, our partnership with Boots UK, continues to perform well. It is the only wholesale arrangement we have for clothing. In addition, we are looking at the opportunity to grow Early Learning Centre through selected wholesale arrangements both in the UK and overseas where we do not already have a presence.

Deliver: Launching the new online platform

Our new online platform was launched a year ago in the UK and has significantly improved the customer experience. A great platform also needs great delivery if it is going to work. Over the last year we have changed carrier, shortened delivery times and made next day delivery both free and possible to all UK Mothercare stores. We will work hard to incrementally improve service for our customers, but already Direct in Home sales were up 18.2 per cent during the last quarter of the year, indicating the success to date.

Chairman's statement

"The group is now more customer focused and efficient as we restore the profitability of the UK business and continue to grow internationally."

Alan Parker CBE
Chairman

Space across the world

2013	4,152k sq. ft.
2012	4,229k sq. ft.
2011	3,862k sq. ft.

(On a statutory basis).

It has been a busy year in the transformation of Mothercare plc. I am pleased to say that the group's profitability has improved from last year in line with market expectations for the first phase of our Transformation and Growth plan. This has been achieved against a backdrop of considerable change in the organisation:

- Simon Calver started as our Chief Executive on 30 April 2012 and has brought about a fundamental change in many parts of the Company and its culture. He has led formidably from the front in putting our customers back into the heart of everything we do.
- Simon has appointed five new members to his executive committee during the year, culminating with the arrival of Matt Smith as the Chief Financial Officer in March 2013. This has allowed for a thorough evaluation of the way the organisation is structured. The group is now more customer focused and efficient as we restore the profitability of the UK business and continue to grow internationally.
- I welcome Lee Ginsberg, Angela Brav and Imelda Walsh as new non-executive directors. All have commercial expertise which will complement Mothercare's business. Lee has replaced Bernard Cragg as the Chairman of the Audit Committee and Imelda Walsh will become Chair of the Remuneration Committee after the Annual General Meeting in July.
- On behalf of the board, I should like to thank Bernard Cragg and David Williams, both of whom retired after nine years as non-executive directors and Chairman of the Audit and Remuneration Committees respectively, for their considerable and insightful contributions to the business.
- Our International business has continued to grow with strong like-for-like sales, expansion into new countries, and supported by growth in retail space (and the development of an online platform) from our franchise partners.
- Our UK business is focusing on providing quality and value to our customers, both online and in our stores where customers receive the expert help that our store colleagues can provide. Over the year, it has reduced losses by rationalising its cost base and closing over 50 loss-making stores.
- The business is reshaping itself to meet the changes in shopping habits of customers and the online experience and delivery that customers expect.
- We have launched exciting new products, such as the Innosense feeding range and the Xpedior pushchair, and new Value clothing ranges, all of which have been well received by our customers.

I recognise that the group still has a long way to meet all the objectives of its three-year Transformation and Growth plan but each of these developments is significant. I am confident that my board will provide the appropriate governance and oversight of the group, and this will be a critical factor to delivering success.

Finally, Mothercare is all about partnership and I would like to thank all those involved with our great brands. The contribution of our store colleagues at Mothercare and ELC has been excellent, as has that of our head office in the UK and our overseas sourcing offices. Again, I recognise the strength of support that the whole group has received from its franchise partners around the world which gives us the inspiration to improve year on year.

Alan Parker CBE
Chairman

Blooming Marvellous

Relaunched in AW12 has seen mark-downs reduced

£250

Xpedior is a 3-in-1 travel system launched in the UK in March 2013

47 SKUs, 21 new designs

Innosense launched in the UK in January 2013

20% of UK clothing

Value range launched during AW12 and is now in its second season

Chief Executive's statement

"We have improved value, choice, service and delivery for our customers both in store and online and these are themes that we will continue to build on in the years ahead."

Simon Calver
Chief Executive

Worldwide network sales

2013	£1,228.4m
2012	£1,232.4m
2011	£1,158.1m

Overview

One year into our three-year Transformation and Growth plan we have made good progress, but this is only the start of what we can achieve. In our three-year plan we outlined four things we needed to do:

1. Operate a lean retail structure;
2. Return the UK to profitability;
3. Drive International growth; and
4. Build a multi-channel business.

I am pleased to say we have made progress against all of these.

We have improved value, choice, service and delivery for our customers both in store and online and these are themes that we will continue to build on in the years ahead. Most importantly, I am pleased to say that we now have a full executive team that will lead Mothercare on the journey we started a year ago. The team brings together expertise in product development, merchandising, marketing and retail management both in the UK and Internationally; all of which is underpinned by a strong finance and people capability.

This executive team structure now reflects the global nature of our business. Our operating model needs to ensure we develop the right products for all our customers at the right price and in the right quantities. Every transaction with each customer in all of our markets needs to help them on their special journey of parenthood. We now operate from 4.1 million sq. ft. globally and have 1,324 stores across 61 countries. Nearly 60 per cent of Worldwide network sales are generated outside the UK, which mirrors our footprint in terms of space.

Our business is dependent on sourcing from Asia and includes countries like China, India and Bangladesh. As a mother and baby specialist, at Mothercare we take the safety and wellbeing of all those involved in the manufacture of our products very seriously. We have an ethical sourcing policy and a team in place, which regularly inspects all factory premises and ensures that our suppliers' factories are safe and fit for purpose. Recent events in Bangladesh highlight the importance of improving standards. Whilst our suppliers are not impacted, we have signed up to the Accord on Fire and Building Safety in Bangladesh to support the improvement in the safety and conditions of all those employed in the manufacture of goods.

Our people are fantastic ambassadors for our brands and, when we do things well, our customers respond very positively. As a true specialist, we are uniquely placed with parents and need to continue to make the most of this advantage globally. When we offer better value, unit sales increase significantly. When we introduce product innovation with new launches like Innosense, Xpedior and a new Happyland toy range, our customers switch to us. And when we improve our in store experience our customers are delighted. These results, a year into our Transformation and Growth plan, have shown progress but there remains a lot to do and significantly more opportunity ahead.

Group results seeing improved profit before tax

Worldwide network sales were down 0.3 per cent at £1,228.4 million for the year (FY2012: £1,232.4 million) with total International sales up 8.4 per cent at £728.7 million (FY2012: £672.4 million) and total UK sales down 10.8 per cent at £499.7 million (FY2012: £560.0 million). Group sales, which reflect total UK sales and revenues from our International partners declined 7.8 per cent at £749.4 million (FY2012: £812.7 million). On a comparable basis Worldwide network sales were up 1.9 per cent and group sales were down 6.0 per cent.

Space across both our UK and International businesses was down 1.8 per cent during the year with International space up 2.8 per cent at 2.3 million sq. ft. and the UK down 7.2 per cent at 1.8 million sq. ft. Adjusting for Australia and New Zealand, where all 74 stores (0.2 million sq. ft.) were closed during the year, total space was up 3.4 per cent with International space up 13.5 per cent and UK space down 7.2 per cent.

In January we announced that the directors of Mothercare Australia Limited, in which Mothercare plc (through its subsidiary Mothercare Finance Limited) had a minority 23 per cent shareholding, had taken the decision to place the business into administration. Having assessed various potential strategies, the administrators decided to close the business. As a result all 74 stores in Australia and New Zealand have now been closed.

Group underlying profit before tax was up at £8.3 million (FY2012: £1.6 million) with International profits up 20.3 per cent at £42.0 million (FY2012: £34.9 million), UK losses reduced to £21.7 million (FY2012: £24.7 million) and corporate expenses broadly flat at £7.8 million (FY2012: £7.6 million). After exceptional items and other non-underlying charges of £29.8 million (FY2012: £104.5 million), the reported loss before tax was reduced to £21.5 million (FY2012: £102.9 million). These exceptional costs are: £15.6 million for UK property restructuring, £11.1 million for Australia, £4.3 million for onerous leases and £4.7 million for other restructuring costs.

We end the year with net debt of £32.4 million (FY2012: £20.1 million), which partly reflects the investment in stock for new product lines across Clothing and Home & Travel. This is well within our committed banking facilities of £90 million, which cover the life of our three-year plan and expire in May 2015. No dividend has been declared for FY2013.

International profits up over 20 per cent

	FY2012/13 52 weeks to 30-Mar-13	FY2011/12 53 weeks to 31-Mar-12	% change vs. last year
International retail sales	£721.0m	£665.5m	+8.3%
International wholesale sales	£7.7m	£6.9m	+11.6%
Total International sales	£728.7m	£672.4m	+8.4%
Underlying profit	£42.0m	£34.9m	+20.3%

Our International business continues to deliver encouraging growth in terms of space and revenues, with profits up 20.3 per cent to £42.0 million.

International now trades from 2.3 million sq. ft., with 1,069 stores across 60 countries. During the year our International partners opened 115 stores and some, with our help, made further progress towards establishing multi-channel businesses. Our partners now have transactional online sites in Indonesia, Ireland, Kuwait and two in Russia for both Early Learning Centre and Mothercare. In addition, our partner in China has a transactional site on TMall, the largest online trading platform in China, and will in time have its own online platform. We now have a global e-commerce platform in place, which will be rolled out to help our franchise partners develop their multi-channel strategies. The growth opportunities in our newer markets is clear, but even our longer established markets are benefiting from the trend of moving to larger units whilst also establishing multi-channel offers ahead of other retailers in the region.

Our continuing International business is impacted by an ongoing weaker performance from our Eurozone markets, which has been offset by a stronger performance from our Eastern European markets, particularly Russia. All four of our regions saw positive growth in both like-for-like and retail sales. Despite the negative contribution from our Eurozone markets, International saw like-for-like sales growth of 5.6 per cent.

Europe is still our largest market with 433 stores in 28 countries. A net 24 stores were opened and space grew by 4.4 per cent, which indicates that this region still continues to see growth opportunities despite the continuing Eurozone challenges.

The Middle East and Africa is our oldest region and has 309 stores in 14 countries. A net 19 stores were opened and space grew by 15.9 per cent, reflecting the ongoing transition to larger stores as the business matures. This increase in space means our franchise partners in these markets are taking advantage of a greater proportion of our product offering to increasingly become the one-stop-shop for mums in these markets.

Chief Executive's statement continued

Asia remains a high growth market with 290 stores across 12 countries. India and China continue to deliver rapid growth and our partners in the region, excluding Australia and New Zealand, opened 46 stores and increased space by 23.7 per cent during the year. The year also saw the closure of all 74 stores in Australia and New Zealand as Mothercare Australia Limited was put into administration by its directors.

Latin America now has 37 stores in six countries. It is early days with some new partners here but the results so far are very encouraging. We have also identified great quality potential new partners for further roll-out in the region and have confidence in the opportunity ahead.

Total International sales were up 8.4 per cent at £728.7 million (FY2012: £672.4 million) with International Wholesale sales up 11.6 per cent at £7.7 million (FY2012: £6.9 million) and International Retail sales up 8.3 per cent at £721.0 million (FY2012: £665.5 million). Reported International sales of £249.7 million were down 1.2 per cent during the year.

On a comparable basis, total International sales were up 15.0 per cent in constant currency for the year, whilst in sterling terms revenues were up 11.8 per cent.

International profit growth has remained robust at 20.3 per cent to £42.0 million (FY2012: £34.9 million) with retail profits of £43.4 million (FY2012: £38.1 million) and joint venture losses reduced to £1.4 million (FY2012: loss of £3.2 million).

Our International results are testament to the hard work and knowledge offered by our International team and the strength of the relationships they have with our franchise partners. We work closely with all our partners who offer invaluable local knowledge and expertise. They help us leverage the benefits that our brands and products offer. I am pleased to say that we continue to see good growth opportunities across all our regions.

UK losses reduced as planned

	FY2012/13 52 weeks to 30-Mar-13	FY2011/12 53 weeks to 31-Mar-12	% change vs. last year
UK direct sales	£127.7m	£130.0m	(1.8%)
UK retail sales (including direct)	£468.2m	£528.7m	(11.4%)
UK wholesale sales	£31.5m	£31.3m	+0.6%
Total UK sales	£499.7m	£560.0m	(10.8%)
Underlying loss	(£21.7m)	(£24.7m)	+12.1%

Against the backdrop of continuing pressure on the UK consumer, we are making progress towards reducing losses in the UK. Over the last 12 months we have closed 56 loss-making stores, refurbished our Edmonton, Nottingham and Dudley stores, improved value across Clothing and Home & Travel, introduced new and innovative product like Innosense, Xpedior and extended the range of Happyland toy characters, relaunched our online platform and invested in service. These initiatives are beginning to have a beneficial impact and we will build on these themes over the years ahead.

We have, over the last year, reduced our UK footprint by 7.2% and now operate from 1.8 million sq. ft. with 255 stores (196 Mothercare and 59 Early Learning Centre). We closed 56 stores (13 Mothercare and 43 Early Learning Centre), ahead of our target of circa 50, as we were able to negotiate deals with our landlords while also closing stores as their leases came up for renewal.

As expected these store closures have impacted UK sales, which were down 10.8 per cent at £499.7 million (FY2012: £560.0 million). On a comparable basis total UK sales were down 9.2 per cent. This decline in store-based sales was mitigated by the improvement in Direct in Home sales of £93.8 million, up 2.3 per cent on a statutory basis and up 4.0 per cent on a comparable basis. The migration to a new online platform together with the improvement in navigation, content and delivery options has delivered good results, but there is more to do.

In May 2013, we made 'click and collect' available through all our Mothercare stores. This service is free and allows customers to order from home and collect from any Mothercare store the very next day, and makes up circa 20 per cent of Direct in Home sales. Our iPhone Mobile App, which we launched at the end of November 2012, has been downloaded circa 140,000 times and was voted 'Best Mobile App 2013' by Mobile Retail Awards. We will also be launching an Android App to further help our customers access our products in the most convenient way to them. We are becoming more competitive online and offering the services that many other businesses have been doing for some time. Whilst our Direct in Home sales have responded well to the improvements we have made during the last year, Direct in Store sales have been disappointing and at £33.9 million were down 11.5 per cent. This is an area that we will be focusing on during the year ahead. Together, total Direct sales were down 1.8 per cent at £127.7 million.

UK Wholesale sales of £31.5 million were up 0.6 per cent. Miniclub, our partnership with Boots, continues to perform well and we are beginning to make progress towards extending the Early Learning Centre range as a Wholesale offer where appropriate.

We have refurbished some of our larger stores and have gained real insight into what works for our customers and we will use these insights as we continue

255

We have reduced UK space by 7.2% and now have 255 stores in the UK

18.2%

Direct in Home responded well to the transition to a new online platform and improved delivery options with 18.2% growth in Q4

to reshape our store portfolio. Building on our experiences from last year, we have just completed refurbishing Leeds and plan at least a further two stores in the year ahead. A year since the investment in our Edmonton store, customers are reacting well as it is still performing ahead of the rest of the store portfolio.

We have made good progress with Clothing, reducing overall pricing by low double-digit per cent for two successive seasons now. We launched the Value range, for AW12, which sold out soon after it was launched and prompted reordering of product for the first time in several years. We increased both the range and volume for SS13 such that our Value range now makes up circa 20 per cent of the Clothing ranges. We relaunched 'Blooming Marvellous' for AW12 offering our customers better maternity quality, fashion and value and have seen reduced levels of markdown. At the premium end of our Clothing range, we launched 'Little Bird' by Jools Oliver, which complements 'Baby K' by Myleene Klass.

Home & Travel is the more challenging of our product categories. Third-party branded product makes up approximately 50 per cent of the range and so is more exposed to competitive pricing pressure. Our work with key brands and price matching has improved our price perception on these products, but we aim to move the sales mix towards our own-brand ranges. We have started the process by introducing new and innovative own-brand products that are relevant to our customers. This will also

1,069

We grew space by 13.5%, excluding Australia and New Zealand, and now have 1,069 stores across 60 International markets

5.6%

International continues to see growth from both new and existing markets with like-for-like sales growth of 5.6%

Chief Executive's statement continued

£8.3m

Group underlying profit before tax improved to £8.3m (FY2011/12: £1.6m)

help us re-establish our credentials as the leading mother and baby specialist in the UK. In January we launched Innosense, a complete feeding range with 47 SKUs, 21 of which were newly designed. Key items include a breast pump with three adjustable positions, a wide-neck bottle with an off-centre teat and clever stacking design of the lozenge shaped steriliser. In March 2013 we launched the Xpedior our own-brand pram and pushchair travel system, which at £250 is very competitively priced. It complements the Orb, which was launched in November last year. This is just the beginning and we aim to continue the good work started over the last 12 months.

Our Early Learning Centre range has also been improved. Early Learning Centre is synonymous with learning and our AW12 ranges saw a complete refresh with many new products focusing on 3D playing aimed at encouraging fine motor skills and hand-eye coordination. Innovation and newness, particularly in own-brand, have been a key area of focus. New product accounted for over 30 per cent of our own brand ranges for AW12 and SS13. In addition, the relaunch of our Happyland toy characters making them collectable items for children at affordable prices has also delivered good results.

Our customers want more than great product at great prices. They want better service and they also want us to engage more frequently with them. We have extended our customer survey to Direct and so are able to build a complete picture of how our customers view us both in store and online. Earlier this year we were an official partner of the highly successful Channel 4 series 'One Born Every Minute' with an average of 3.4 million viewers per episode, many of whom were either looking forward to a birth or had welcomed a baby into their families in the previous 12 months. Our weekly Twitter parties during the show offered customers the opportunity to get advice from our expert midwife and proved very popular. We are also engaging more readily with opinion-forming groups and last month, in April 2013, I held my first direct Q&A session with Mumsnet.

Whilst we still have a long way to go, I am encouraged by the progress we have made in the UK over the last year. We are taking positive action by closing loss-making stores, driving efficiency across the organisation, creating more excitement in store and making step changes in our product ranges and architecture. We are laying the foundation for a stronger, more relevant and more responsive business for our customers.

Summary and outlook

My first year as Chief Executive of Mothercare has been both exciting and challenging. I have overseen the first steps towards returning Mothercare to its rightful position as the leading multi-channel mother and baby specialist both in the UK and across all our 60 International markets. Importantly, with a full executive team now in place, I can look forward to building on the progress made over the last 12 months. I am also pleased to announce my new arrival, Nieve Elizabeth, who came into the world in December and is already a great tester for all our new innovations.

However, trading conditions and consumer confidence remain weak in the UK and Eurozone. In the UK, we will continue with our strategy to manage the business to cash margins while closing loss-making stores and taking out non-store costs. Our efforts to engage more effectively with our customers while also investing in value, choice, service and delivery will help us mitigate some of the impact of continued weak consumer confidence. Our International markets, with the exception of the Eurozone, continue to offer good growth opportunities and we will continue to drive this part of the business forward aggressively, in line with the last year.

Against this backdrop, I believe that we have made solid progress implementing our three-year Transformation and Growth plan. We have great people in the business and I thank them for all their efforts. I believe the work done over the last year has put Mothercare on a firmer footing which I, and all the teams in the business, look forward to building on in the years ahead.

Simon Calver
Chief Executive

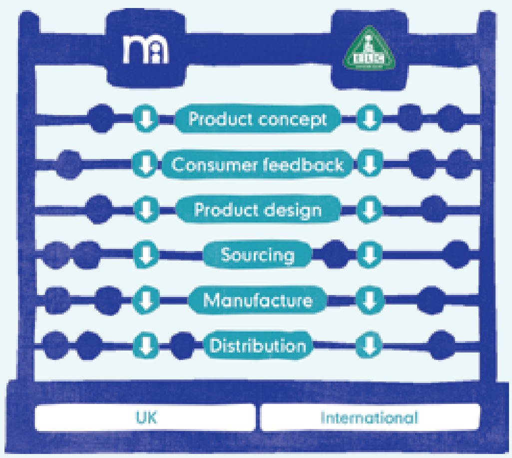
Our business model

Our business is fully integrated across all our 61 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 life cycle 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.



Business review
UK

"We must remain entirely focused on the customer, if we are to succeed in the UK."

Matt Stringer
Commercial Director – UK

UK space

2013	1,805k sq. ft.
2012	1,946k sq. ft.
2011	2,017k sq. ft.

-3.6%

UK like-for-like sales supported by the return to growth of Direct in Home of 18.2% during the last quarter of the year

It has been a busy year with good progress made towards achieving our goal of returning the UK to profitability. Losses were reduced by 12.1 per cent, compared to last year, as the benefits of the initiatives taken began to have a positive impact on the UK business. Whilst there is more to be done, I am pleased with what we have achieved so far.

At the beginning of the year we said we were going to close circa 50 stores, allowing us to eliminate £3 million of losses at store contribution level, while also reducing non-store operating costs by £8 million. We have met our cost targets and exceeded the store closure target with 56 stores (13 Mothercare and 43 Early Learning Centre) closed during the year. Our aim is to maintain a national presence in the UK, which is central to our multi-channel strategy. As part of this strategy, we transitioned to a new online platform in May last year and have improved delivery options for all our customers. The results have been encouraging with Direct in Home growing by 18.2 per cent during the last quarter of the year. We also refurbished our stores in Edmonton, Nottingham and Dudley, which are performing ahead of the rest of the store estate and aim to refurbish at least a further two this year in addition to Leeds already completed.

If we are going to succeed in the UK, we must be entirely focused on our customers. We know from customer surveys that we need to improve our value credentials. We have listened and in Clothing, we have improved value across all our ranges; while also relaunching our more on-trend maternity range 'Blooming Marvellous' at keener price and launching our highly successful 'Value' range for children's clothing. Our price match strategy in Home & Travel has allowed us to improve value in this segment where as much as 50 per cent of the range is easily comparable branded products. The launch of own-brand products like Innosense and Xpedior in Home & Travel will also allow us to improve value while re-establishing our credentials as the leading mother and baby specialist in the UK. In addition, our Early Learning Centre ranges have seen significant progress with new products focused on encouraging learning through play, while keeping prices down.

So as you can see, we have made significant progress during the year. We have improved value across Clothing and Home & Travel, introduced new and innovative own-brand products in Home & Travel and Toys, relaunched our online platform and invested in service while also refurbishing three stores and closing 56 loss-making stores. This is a good start and I look forward to building on these themes in the year ahead.

Matthew Stringer.

Matt Stringer
Commercial Director – UK

International

"Our International business is well diversified, resulting in another year of solid double-digit growth for both sales and profits."

Jerry Cull
Managing Director – International

International space

2013	2,347k sq. ft.
2012	2,283k sq. ft.
2011	1,845k sq. ft.

+5.6%

International now has 1,069 stores across 60 markets and like-for-like sales remain positive at 5.6%

Our International business continues to grow from a very solid base, built up over the last 10 years. The results are a testament to the strength of our relationships with our franchise partners and the hard work put in by our International team.

We now have 2.3 million sq. ft. across both the Mothercare and Early Learning Centre brands with 1,069 stores in 60 countries. Space was up 2.8 per cent on a statutory basis. Excluding Australia and New Zealand and on a comparable and ongoing basis space was up 13.5 per cent, which along with 5.6 per cent like-for-like sales growth saw International retail sales grow by 15 per cent in constant currencies. As planned, profits were up 20.3 per cent at £42.0 million.

The diversified nature of our International business meant we were able to deliver these results despite weaker trading conditions in the Eurozone and our Australian associate going into administration. Regardless of these issues both Europe and Asia grew space and retail sales last year. It is encouraging to note that all four of our regions continue to offer exciting growth opportunities. While it is easy to see the growth opportunities offered by our less mature markets like those in Latin America, Russia, China and India, we believe there remains plenty of opportunity even in our more mature markets.

The **Middle East and Africa** is our oldest region, where we have had a presence for over 30 years. Even here we can expect to see double-digit space and sales growth as we benefit from the trend towards larger stores and the move to a multi-channel format over the term of our Transformation and Growth plan. **Europe**, our largest region is expected to see continued growth as Russia, our largest International market remains far from maturity, and compensates for Eurozone weakness. **Asia** is also far from maturity, with markets like China and India still growing their footprint. Our joint ventures in these markets are expected to turn profitable over the course of our three-year plan. We have been in **Latin America** for just over a year, but already we have made significant progress and are now in six markets.

The outlook remains very favourable with our partners fully committed to the brands. I look forward to leveraging these relationships and growing our International business in the years ahead.

Jerry Cull
Managing Director – International

Financial review

Results summary
Group underlying profit before tax increased by £6.7 million to £8.3 million (2011/12: £1.6 million). Underlying profit excludes exceptional items and other non-underlying items which are analysed below. After these non-underlying items, the group recorded a pre-tax loss of £21.5 million (2011/12: Loss of £102.9 million). Underlying profit from operations before interest and the IFRS 2 share-based payments charge increased by £9.9 million to £12.5 million.

Income statement

£ million	52 weeks ended 30 March 2013	53 weeks ended 31 March 2012
Revenue	749.4	812.7
Underlying profit from operations before interest and share-based payments	**12.5**	**2.6**
Share-based payments	(0.9)	(0.6)
Net finance costs	(3.3)	(0.4)
Underlying profit before tax	**8.3**	**1.6**
Exceptional items and unwind of discount on exceptional provisions	(35.7)	(104.5)
Non-cash foreign currency adjustments	6.9	2.0
Amortisation of intangible assets	(1.0)	(2.0)
Loss before tax	**(21.5)**	**(102.9)**
Underlying EPS – basic	6.2p	1.8p
EPS – basic	(24.9)p	(105.2)p

53rd week in 2012
The year ended 30 March 2013 contains 52 weeks compared to 53 weeks for the year ended 31 March 2012. 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 down 6.3 per cent to £749.4 million (2012: £799.6 million).
- UK sales were down 9.2 per cent to £499.7 million (2012: £550.3 million).
- International revenue was up 0.2 per cent to £249.7 million (2012: £249.3 million).
- Group profit before exceptional items and taxation was up £6.8 million to £8.3 million (2012: £1.5 million).

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).

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

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

Exceptional items:

- Australian associate write-off costs of £11.1 million.
- Net losses on disposal or termination of property interests of £13.8 million.
- Onerous lease provision for the UK business of £4.3 million.
- Store impairment provision in relation to the UK business of £1.8 million.
- Restructuring costs of the UK and head office organisation of £4.2 million.

Exceptional items in 2011/12 included £9.1 million restructuring costs of the UK business, £22.6 million net losses on disposal or termination of property interests, £11.5 million onerous lease provision for the UK business, £3.8 million store impairment provision in relation to the UK business, £55.0 million goodwill and intangible assets impairment in relation to UK share of goodwill and other intangibles arising on the acquisition of ELC, £2.8 million impairment of investment in Australian associate, £0.4 million share of restructuring costs in the Australian associate business and £0.8 million share-based payments credit (resulting from the UK restructure).

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

£ million – Revenue	52 weeks to 30 March 2013	53 weeks to 31 March 2012
UK	499.7	560.0
International	249.7	252.7
Total	**749.4**	**812.7**

£ million – Underlying Profit/(loss)	52 weeks to 30 March 2013	53 weeks to 31 March 2012
UK	(21.7)	(24.7)
International	42.0	34.9
Corporate	(7.8)	(7.6)
Profit from operations before share-based payments	**12.5**	**2.6**
Share-based payments	(0.9)	(0.6)
Net finance costs	(3.3)	(0.4)
Underlying profit before tax	**8.3**	**1.6**

UK retail sales have declined year on year due to store closures and declining like-for-like sales across the store estate partially offset by increases in our Direct in Home business. Profit has benefited from the property strategy, with the continued exit from loss-making stores and tight cost control.

International has benefited from increased royalties driven from higher network sales and overhead cost savings. International profit also includes losses in joint ventures and associates which have reduced during the year.

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 £0.9 million (2011/12: £0.6 million) in relation to the Company's long term incentive schemes. There are five main types of long-term share-based incentive scheme being the Long Term Incentive Plan, 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 charges as calculated under IFRS 2 are theoretical calculations based on a number of market-based factors and estimates about the future, including estimates of Mothercare's future share price, future profitability and TSR in relation to the General Retailers. As a result it is difficult to estimate or predict reliably future charges.

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	52 weeks ended 30 March 2013	53 weeks ended 31 March 2012	52 weeks ended 30 March 2013	53 weeks ended 31 March 2012
UK retail sales	468.2	528.7	468.2	528.7
UK wholesale sales	31.5	31.3	31.5	31.3
Total UK sales	499.7	560.0	499.7	560.0
International retail sales	242.0	245.8	721.0	665.5
International wholesale sales	7.7	6.9	7.7	6.9
Total International sales	249.7	252.7	728.7	672.4
Group sales/Group network sales	**749.4**	**812.7**	**1,228.4**	**1,232.4**

* Estimated

Financial review
continued

Financing and taxation

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

The underlying tax charge comprises current and deferred tax. The effective tax rate is 33.7 per cent (2011/12: nil per cent). The effective tax rate is higher than the standard tax rate of 24 per cent mainly due to the write-off of a deferred tax asset. The tax charge in some areas of business has been offset by allowable tax losses. An underlying tax charge of £2.8m (2011/12: £Nil) has been included for the period and in total the tax charge was £0.5m (2011/12: credit of £11.1m).

Pensions

During the year the group's defined benefit pension schemes have been closed to future accrual.

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

	As per amendments to IAS 19		As reported	
£ million	2013/14* New IAS	2012/13 New IAS	2012/13	2011/12
Income statement				
Service cost	(0.1)	(2.4)	(2.4)	(2.3)
Running costs	(1.0)	(0.8)	–	–
Return on assets/(interest) on liabilities	(2.8)	(2.6)	(1.0)	0.2
Gains on curtailment	–	3.3	3.3	0.2
Net charge	(3.9)	(2.5)	(0.1)	(1.9)
Cash funding				
Regular contributions	–	(2.0)	(2.0)	(1.9)
Deficit contributions	(6.2)	(5.2)	(5.2)	(6.1)
Total cash funding	(6.2)	(7.2)	(7.2)	(8.0)
Balance sheet				
Fair value of schemes' assets		234.8	234.8	217.3
Present value of defined benefit obligations		(296.4)	(296.4)	(270.0)
Net liability	N/A	(61.6)	(61.6)	(52.7)

* Estimate

The estimated net charge for the year 2013/14 presented above has been prepared applying the amended version of IAS 19, which will be applied for the first time in 2013/14. The key changes are:

- The expected return on assets is replaced by interest on the assets calculated using the discount rate (impact of c£2.4 million).
- Running costs currently accounted for as a deduction to the expected return on assets will be reported as a separate cost.
- These changes will result in the 2012/13 result being restated with the net charge associated with the defined benefit pension scheme increasing from £0.1 million to £2.5 million.

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

	2012/13	2011/12	2012/13 Sensitivity	2012/13 Sensitivity £ million
Discount rate	4.6%	4.9%	+/–0.1% +/–0.05%	–/+7.0 –/+3.5
Inflation – RPI	3.4%	3.3%	+/–0.1%	+/–6.2
Inflation – CPI	2.4%	2.3%	+/–0.1%	+/–6.2

The sensitivity of the IAS 19 valuation to a 0.1 per cent and 0.05 per cent movement in the discount rate is set out in the table above.

Balance sheet and cash flow
The balance sheet includes identifiable intangible assets arising on the acquisition of Early Learning Centre of £7.4 million and goodwill of £26.8 million. This relates to the International business.

The group continues to generate operating cash, with cash generated from operations of £9.3 million. Income taxes of £2.5 million were paid in the year resulting in net cash flow from operating activities of £6.8 million.

We have made further investment in our joint ventures during the year to drive the growth in International, including £1.1 million in China and £0.7 million in India.

After investing £16.2 million of capital expenditure (£12.7 million net of lease incentives received), receiving property proceeds of £2.2 million, the net debt position at the year end is £32.4 million (2011/12: Net debt of £20.1 million).

Going concern
Details of this can be found on page 41 within the corporate governance report.

Capital additions
Total capital additions in the year were £12.5 million (2011/12: £26.0 million), including £3.0 million for software intangibles and £7.8 million invested in UK stores. Landlord contributions of £3.5 million (2011/12: £3.5 million) were received, partially offsetting the outflow. Net capital expenditure after landlord contributions was £9.0 million (2011/12: £22.5 million).

Earnings per share and dividend
Basic underlying earnings per share were 6.2 pence compared to 1.8 pence last year. The board has concluded that given the cash investment required to deliver the Transformation and Growth strategy the Company will not pay a final dividend for 2012/13. The total dividend for the year is nil pence per share (2011/12: 2.0 pence 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 reported sales represent approximately 33 per cent of group sales. Total International sales represent approximately 59 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
The group has drawn down £50 million on its term borrowing facility. Following the group refinancing on 11 April 2012 the group now hedges all of the floating interest rate on this term facility using interest rate swaps. These financial instruments are accounted for as a cash flow hedge with changes in the fair value of the financial instrument that are designated as effective recognised in comprehensive income and any ineffective portion recognised immediately in the income statement.

Shareholders' funds
Shareholders' funds amount to £38.8 million, a decrease of £33.9 million in the year driven largely by the exceptional provisions required for the UK property transformation and restructuring and the impairment of the investment in the Australian associate. This represents £0.44 per share compared to £0.82 per share at the previous year end.

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

KPIs – Financial and non-financial
Measuring our performance

International profits

Mar-13	£42.0m
Mar-12	£34.9m
Mar-11	£27.5m

Our strategy of growing space both in new and existing markets has resulted in another year of double-digit sales and profit growth for International. Excluding Australia and New Zealand, space was up 13.5 per cent, retail sales were up 15.0 per cent in constant currency and profits were up 20.3 per cent during the year.

£42.0m

International space

Mar-13	2,347k sq. ft.
Mar-12	2,068k sq. ft.
Mar-11	1,768k sq. ft.

FY2012/13 was impacted by the closure of all stores in Australia and New Zealand. Adjusting for these closures, our International franchise partners opened 115 stores and increased space by 13.5 per cent to 2,347k sq. ft. during the year.

2,347k sq. ft.

Average length of service of store-based employees

Mothercare

Mar-13	6.4 years
Mar-12	6.0 years
Mar-11	5.1 years

Early Learning Centre

Mar-13	5.8 years
Mar-12	5.8 years
Mar-11	5.2 years

All members of store staff continue to feel a strong connection with both our brands – Mothercare and Early Learning Centre. This close connection is clear in the continued longevity of store staff, which is higher than the average for other retailers.

6.4 years

Women in senior management positions

Mar-13	49%
Mar-12	53%
Mar-11	54%

The proportion of women in senior management positions below executive committee level has reduced to 49 per cent (17 out of 35), but still remains above average. As we have reassessed our needs as a business there has been some change, and we continue to strive to offer a fair and flexible working environment that is conducive to working mums.

49%

UK profits/(losses)

Mar-13	loss of £21.7m
Mar-12	loss of £24.7m
Mar-11	profit of £11.1m

UK losses were reduced by 12.1 per cent during the year, making progress towards our goal of returning the UK to profitability by March 2015.

-£21.7m

UK operating cost reduction of £20m

Mar-13	-£8m ✓
Mar-14	-£7m
Mar-15	-£5m

Our three-year Transformation and Growth plan envisages reducing operating costs by £20 million, on an annualised basis. We said we would reduce costs by £8 million on an annualised basis for FY2012/13 and we have achieved this target.

UK store numbers

Mar-13	255 stores	196 Mothercare and 59 ELC
Mar-12	311 stores	209 Mothercare and 102 ELC
Mar-11	373 stores	212 Mothercare and 161 ELC

We have made good progress towards our target of reducing our store base to circa 200 stores by March 2015. During the year we closed 56 stores (13 Mothercare and 43 Early Learning Centre) and ended the year with 255 stores.

255 stores

Risks
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 on the group and to ensure that adequate mitigation is in place.

In order to manage risk effectively, the executive committee (see page 39) 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. This programme ensures, so far as practicably possible, that the appropriate risk management processes are identified, controls established, residual risks evaluated and that the necessary monitoring action and risk avoidance measures taken. Elements of the programme are reviewed by the internal audit function during the course of each financial 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 stores teams
	■ LFL sales in the UK do not meet expectations under the 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 and loyalty programme ■ Direct to customer channels, including 'click and collect'
	■ Unforeseen additional cash funding to support international joint venture operations	■ Diverts cash away from the UK business ■ May delay UK business turnaround	■ Joint ventures submit business plans and management reports monthly to the Company ■ Attendance at joint venture company board meetings

	Risk	Impact	Mitigation
Financial continued	■ UK store rationalisation programme becomes difficult to achieve in current market conditions	■ Greater than anticipated costs of closure ■ Reduces cash available to UK business	■ 2012/13 targets met which demonstrates a record of past performance over two years ■ Dedicated and experienced property team
	■ Uncertainty in the macro economic environment – particularly the Eurozone economies ■ Fluctuations and uncertainty in exchange rates	■ Weak UK consumer confidence continues 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 in place and tested ■ Limited exposure to Eurozone economies ■ Roll out franchisee online offerings
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 ■ Customer satisfaction programme launched and embedded ■ Structured pricing policy and strategy ■ Product range and pricing being adapted to meet customer demand
	■ International expansion leads to overexposure in certain territories	■ The group becomes vulnerable in key markets	■ Strong franchise operations work closely with international franchisees ■ Credit insurance against key franchisee recoverables in place and tested
	■ Major supply chain or logistics disruption resulting from geo-political events	■ Product supply is halted or severely impacted	■ The group sources products from a number of different regions

Risks
Principal risks and uncertainties continued

	Risk	Impact	Mitigation
Manufacturing and Product	■ The group fails to meet its reputation for quality, safety and integrity ■ The group fails to ensure that its supplier base operates to the appropriate standards of safety	■ 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 through the system ■ Focus shifted to pre-despatch quality checks
	■ Failure to invest properly in product innovation	■ Lack of new product and innovation would directly impact sales	■ The group maintains an ongoing investment strategy in new products ■ Launch of new products and ranges delivered in FY2012/13 with further planned launches in FY2013/14
People and Infrastructure	■ Organisational change and headcount reductions lead to erosion of corporate knowledge	■ The Transformation and Growth plan falls behind schedule	■ In-depth organisational review to ensure any change is managed efficiently and with minimum disruption to business ■ 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 defined
	■ 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

Our corporate responsibility strategy reflects our mission to be the leading global mother and baby specialist. We aim to ensure that we conduct ourselves responsibly, not just for our customers but also for all those involved with getting our products to our customers and the wider communities that these people live and work in. This is reflected in the relationships we have with our stakeholders:

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

This report aims to give an overview of our activities over the last year and gives an update on the five-year target we set ourselves at the end of 2007/08.

Highlights

During FY2012/13, Mothercare plc:

- Continued to exceed its five-year targets in building emissions, transport emissions and waste recycling
- Maintained average length of service for store-based staff at six years for both Mothercare and Early Learning Centre
- Continued to recognise diversity of talent with 49 per cent of senior managers (below board level) filled by women
- Was ranked eighth in the Reputation Institute's annual survey
- Won over 25 awards across both Mothercare and Early Learning Centre brands

Governance and target

The strategic direction of our corporate responsibility programme is managed by the Corporate Responsibility Steering Committee, which is chaired by Tim Ashby, our Group General Counsel/Company Secretary. The importance of corporate responsibility is reflected in the structure of this Committee, which consists of directors from product development, sourcing, logistics, retail operations and property. This Committee reports to the board and is supported by the corporate responsibility team.

Targets for FY2012/13

At the end of FY2007/08 Mothercare plc set itself seven targets that were to be achieved by FY2012/13 (published on www.mothercareplc.com). These targets along with their performance are set out in the table below (shaded blue).

Key performance indicators	FY2007/08 baseline	FY2012/13 performance	FY2012/13 target	Progress against target
Building energy use (m kWh)	71.2	55.2	–	–
Transport fuel used (m litres)	2.6	1.3	–	–
Transport mileage (m miles)	6.1	3.5	–	–
Carbon emissions (tonnes) of which:	40,400	27,300	–	–
Buildings	33,500	24,100	-15%	-28%
Transport	6,900	3,200	-20%	-54%
Packaging used (tonnes)	11,500	8,500	–	–
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	9.7	-50%	-45%
Recycled waste (tonnes, UK only)	Not collected	2,900	75% recycled	92% recycled
Total fundraising (£k)	100	359	1,000	36% achieved
of which:				
Direct donations (£k)	100	59	–	–
Employee fundraising (£k)	Not collected	300	–	–

Corporate responsibility continued

Building emissions – target exceeded

We met our building emissions target in FY2010/11 and have since exceeded the target for both FY2011/12 and the current year FY2012/13. The final outcome is 13 percentage points ahead of the target we set in FY2007/08.

This was achieved in part due to the planned store closures, and the closure of our Swindon warehouse, and was also achieved despite the much colder winter this year. There was an increase in gas consumption year on year, due to the colder winter, but this was offset by a significant decrease in electricity usage, both in our stores and warehouses.

Transport emissions – target exceeded

We exceeded our target in FY2010/11 by five percentage points and have since continued to make further improvements.

Over the last 12 months, we have continued to improve our fleet efficiency, reducing the number of miles travelled transporting our product by 19 percentage points.

Taken together we have achieved a 54 per cent reduction in CO_2 emissions from our transport fleet since FY2007/08. This is attributable to consolidating our Mothercare and Early Learning Centre fleets, a reduction in store numbers, implementing new delivery schedules to increase vehicle fill and new driver training initiatives to improve fuel efficiency.

Waste Recycling – target exceeded

Over the last year, our store waste to landfill reduced from 490 tonnes to 254 tonnes. This largely resulted from the closure of smaller ELC stores, which tend to produce more waste than our larger Mothercare stores. Stores have continued to focus on reducing waste.

Waste to landfill from our distribution centres has remained static over the year. The group has continued to improve its performance, recycling 92 per cent of its waste, up from 86 per cent the previous year.

Where ongoing targets have not been achieved, they have been incorporated into new KPIs for FY2014/15. This includes packaging where, since the FY2007/08 baseline, the packaging handled has reduced by 26 per cent but not achieved the five-year target set for FY12/13.

New targets

The last set of targets were set at the end of FY2007/08 and covered the five-year period to FY2012/13. We have set ourselves new targets that reflect our business and are in keeping with our Transformation and Growth plan that runs to the end of FY2014/15. We will be measuring our performance against seven criteria – four existing targets have been updated while three new targets have been added. For FY2014/15 we are focusing indicators on those areas where we believe we can make the most change both in the UK and overseas. The new targets are in the table below.

Key performance indicator	Objective of KPI	FY2014/15 target
Extending existing targets		
Carbon emissions from buildings	Continue to reduce carbon emissions from our buildings	5% per annum
Carbon from transport	Continue to reduce carbon emissions from transporting our products	5% per annum
Packaging	Continue to reduce the packaging per £100 of goods we sell	1% per annum
Waste	Drive up recycling of our own waste	Maintain at 90%
Introducing new targets		
Including International in targets	Extend our approach to corporate responsibility to our overseas operations	
Water in our supply chain	Look for ways to reduce water usage, particularly in areas of particular stress	
Supply chain transparency	Look further and deeper into our supply chain, improving product traceability and control	

These targets will ensure we continue to operate in a responsible manner, taking into account the communities which are affected by our operations. They will also lay the basis for future investment after the completion of the Transformation and Growth plan.

Communities – parents and children

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

Awards received

Over the last year the group received over 25 awards for Mothercare and Early Learning Centre. These awards reflect the contribution we make to helping parents and their babies. Amongst many others, we received awards for best changing facilities, best family friendly retailer, best steriliser for Innosense and best learning and developmental toy for ELC's cash register.

Mumspace stores

We now have four stores in the UK with additional facilities and space to hold in-store activities for pregnant women, parents and their children. We work with a wide range of companies and local independent teachers to provide pregnancy yoga, baby massage, free support groups for new mums, dance and music classes for toddlers. The stores are located in Edmonton, Dudley, Southampton and Leeds. In Edmonton we also have a Costa Coffee café and a Tea Monkey café in our Leeds store.

Children's play areas

Our larger stores with Mumspace have an extended play area for young children with a variety of life-size ELC Happyland themed castles, windmills and trains. The aim is to allow children the opportunity to let their imaginations go wild and play in a friendly and safe environment. In addition, we have a caterpillar reading corner for quieter times.

Baby and me events

'Baby and me' events take place in over 100 of our larger Mothercare stores at least three times a year. The store team gives essential advice on those baby products of most interest to first time parents on issues like infant car seat safety and fitting, pushchair/pram choices, sleep safety and essential nursery furniture and our expert bra measuring service. We also invite local antenatal teachers, midwives and other baby organisations to the event to advise new parents about what is available locally, and where they can get support after their baby arrives.

National Breastfeeding Week – The Royal College of Midwives and Mothercare work in partnership to promote National Breastfeeding Week every year. We work with the RCM to support midwives and help mothers get the right and most up-to-date advice about breastfeeding. Every year we actively promote Breastfeeding Week within the community and in Mothercare stores around the UK. Midwives, health visitors and breastfeeding supporters frequently take advice-stands in our stores during the week to talk to mums about all aspects of feeding and to encourage pregnant women to consider breastfeeding their babies. We encourage Midwife advice points in areas where the breastfeeding rates are particularly low. Mothercare has been a RCM Alliance Partner since 2010.

Charitable giving – Mothercare's total direct giving to charity last year was £59,000 to the Mothercare Group Foundation. In addition to this direct giving, Mothercare was able to raise around £300,000 through staff fundraising for our global charity partnership with Save the Children. This takes our fundraising total over the life of this partnership to £1,129,000, a figure of which we are all incredibly proud.

Corporate responsibility continued

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 6.4 years for Mothercare and 5.8 years for ELC. We have many staff members with 10, 15 and even 20 years of service.

We take equal opportunities very seriously and aim to reward and promote talent where appropriate. As a result we are proud to say that 49 per cent of senior management positions (below board level) are held by women.

In another year of significant change, Mothercare was ranked eighth in the Annual 'RepTrak Pulse 2013' 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 indicates that customers are focusing not just on products and services, but also areas such as corporate governance and corporate citizenship.

People making our products

Responsible sourcing is a key focus for Mothercare. Our aim is to reduce the risk of poor working conditions by monitoring our supply base, gaining a better understanding of the complex issues that affect workers and working to provide better workplaces for them. Our responsible sourcing code of conduct and implementation policy is available online: www.mothercareplc.com

Our Responsible Sourcing Team is made up of eight dedicated professionals located regionally in sourcing offices who report in to the senior corporate responsible manager. The team works directly with the suppliers and factories that we source from in Bangladesh, China and India to understand the issues and help to make improvements to working conditions in the supply chain.

We ensure that all factory premises are inspected at least once a year and often our teams make additional visits as their regional location enables them to do so. Most of our suppliers own the factory premises that our products are produced in, which enables us to inspect the entire building and not just the area in which our products are manufactured.

Recent events in Bangladesh highlight the importance of these issues and whilst we were not impacted we have signed up to the Accord on Fire and Building Safety in Bangladesh to support the improvement in the safety and rights of all those employed in the manufacture of goods in that country.

In addition to the work with suppliers and factories noted above, our team works closely with SEDEX and the Ethical Trading Initiative (ETI). Our corporate responsibility team works in conjunction with third-party audit information obtained through SEDEX (www.sedexglobal.com). By using third-party audit information and our own internal team, we aim to increase the visibility we have over the supply chain, which then allows us to focus on gaining transparency and working with factories to make improvements.

The more work we do in this area, the more complex are some of the issues that we unravel. The issues are often industry-wide and are 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 enables us to have dialogue with other retailers, non-governmental organisations and trade unions, and to work together on programmes that tackle endemic issues that can't be resolved by individual retailers.

The responsible sourcing team is in the first year of implementing a five-year strategy, which aims to cement current global practices and continue its work to embed responsible sourcing in the day-to-day culture of the Mothercare business, before expanding and undertaking aspirational work in the latter years of the strategy. This strategy should allow us to maintain the high standard of our current work, whilst helping us to plan for the future. Good progress is being made against the first year targets of this strategy, and the team is about to launch a new supplier engagement programme with selected key factories that will build capacity in factory management team and allow them to improve working conditions on a day-to-day basis.

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 FY2012/13 96 per cent of our supply base was registered on SEDEX and third-party audit information was provided for 84 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.

Mothercare continues to work with other brands and retailers, through the platform of the ETI, to understand and remedy the issues found deeper in the supply chain (e.g. spinning mills, homeworkers etc). We have targeted our resources at the specific areas of spinning mills in South India and homeworkers in China, as we know that these industries have specific issues that we can begin to address by working together. In doing so, we have been able to develop methods for dealing with such issues in collaboration with others, and in our own supply chains.

Case Study – Homeworker project in North China

Moses baskets are a popular choice for new parents the world over. It is one of the first purchases made by new parents and Mothercare sells tens of thousands of Moses baskets every year, through its 1,324 stores and online in the UK and across its 60 International markets.

Moses basket making is an artisan industry and baskets are hand-woven by home workers in northern China. This artisanal skill is passed from mother to daughter in Shandong province. The weaving materials come from local farms, usually owned or worked by the families themselves. The materials are a by-product of corn production, which means basket weaving is sustainable, reduces waste and gives families in the region an extra income, particularly during the cold winter months when agricultural work is not available.

It is, however, a skill that is in decline as young people in China continue to migrate to larger towns and cities in search of better paid work. Cities like Qing Dao or Shanghai are attractive to the younger generation as they can get better paid factory work while also experiencing city living. The average age of basket weavers is 50-60, and the number of basket weavers available to make Moses baskets is declining rapidly.

Looking to ensure the continuation of this valuable industry, our responsible sourcing team worked with sourcing managers in Shanghai and local consultants ELEVATE (formerly INFACT Global Partners) to fully understand the supply chain. An important part of this work included understanding the lives of homeworkers, why they work, how much they earn and what could be done to make basket weaving more appealing.

As a result we have:

- Signed contracts with all of our suppliers, including the subcontractor and the middle men who collect these baskets from homeworkers
- Simplified the delivery routes to save time and money
- Reduced the working hours for workers at the subcontractor by over 9% and increased their pay by over 50%
- Developed a training video to show homeworkers how to weave baskets more efficiently. The average time spent weaving a basket has since been reduced by over 20%, enabling them to earn more money in less time
- Increased the price paid for the baskets, so some homeworkers are earning up to 50% more per month from basket weaving

By doing this work, we have improved the quality and the availability of baskets while also attracting new and younger workers into the supply chain. The defect rate for baskets from these homeworkers has reduced by over 50%. The impact on cash flow has been beneficial and wastage has also been reduced. This will allow Mothercare to continue buying Moses baskets from these workers for many years to come.

This project has provided a model for Mothercare to use in other areas of the supply chain, and has proved that it is possible to improve working conditions alongside commercial concerns such as quality and delivery.

"The quality of Moses baskets has really improved in 2012. The main defect areas, such as deformed baskets, broken ribs, loose weaving and size issues are much less common now, mainly due to the efforts made by both Mothercare and our supplier".
Mothercare Sourcing Manager, Shanghai.

"I feel I worked faster than before; I can complete a basket in 10 hours in 2011, now I think I can complete a basket in 8 hours".
Homeworker based in Linqu, Shandong Province.

Board of directors

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3.


5.


7.


2.


4.


6.


8.


Committee Memberships key:
A Audit Committee R Remuneration Committee N Nomination Committee F Full board member

1. Alan Parker CBE R N F
Chairman

Appointed in August 2011.
Executive Chairman of Mothercare plc from 17 November 2011 to 30 April 2012. Non-executive chairman of Darty plc and non-executive independent director of Burger King Worldwide Inc. 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 Officer

Appointed in 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; Vice President International Sales Operations, PepsiCo Inc.and Vice President PepsiCola UK Ltd.

3. Matt Smith F
Chief Financial Officer

Appointed in March 2013.
Formally Finance Director of Argos, part of Home Retail Group plc. Matt has spent ten years in senior financial roles at Home Retail Group, and also had responsibility for supply chain, distribution and IT. Prior to Home Retail Group, Matt worked at KPMG both in London and Sydney, becoming a director in its corporate finance department. Matt is a Chartered Accountant.

4. Angela Brav A R N F
Non-executive Director

Appointed in January 2013.
Chief Executive Officer of InterContinental Hotels Group PLC. Angela has held various senior roles within the group since joining in 1991 including Senior Vice President, Americas franchise operations and applied technology, senior vice president, applied technology for the Americas region, senior vice president, integrated technology solution and senior vice president, quality and service. Angela has also worked at IHG's headquarters in Brussels, Belgium and Guadalajara, Mexico.

5. Lee Ginsberg A R N F
Non-executive Director

Appointed in July 2012.
Chief Financial Officer of Domino's Pizza Group plc, a position he has held for over eight years. Previously Group Finance Director of Holmes Place plc.

6. Amanda Mackenzie A R N F
Non-executive Director

Appointed in January 2011.
Chief Marketing and Communications Officer of Aviva plc. A member of Aviva's Executive Committee and Executive sponsor for diversity. A member of Lord Davies' steering group to increase the number of women on boards; President of the Marketing Society and a board member of the National Youth Orchestra.

7. Richard Rivers A R N F
Non-executive Director

Appointed in 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.

8. David Williams A R N F
Non-executive Director

Appointed in August 2004. Chair of Operating Partners of Duke Street 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 the London Business School.

Executive committee

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5.

7.

4.

6.

8.


1. Simon Calver
Chief Executive Officer

(See opposite page for biography)

2. Matt Smith
Chief Financial Officer

(See opposite page for biography)

3. 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.

4. Jude Bridge
Group Brand and Marketing Director

Appointed December 2012
Formerly Director of Marketing, Campaigns and Communications at Save the Children; Director of marketing communications at M&S; Board Account Director at Publicis; International Brands Director at United Biscuits.

5. Philippe Dayraud
Group Product Development and Sourcing Director

Appointed September 2012
Formerly Chief Product Officer of Pimkie International (international ladies fashion chain with over 750 shops globally); Chief Product Officer of Kiabi for six years; together with various product and sourcing executive roles.

6. Louise Palmer
Group People Director

Appointed November 2012
Formerly a partner at The Inzito Partnership (premium executive search firm), and a founder of 7days (specialist organisational improvement consultancy); Head of Organisation Design at British Airways.

7. 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.

8. Matt Stringer
UK Commercial Director

Appointed February 2013
Formerly Managing Director of Carphone Warehouse; various roles at M&S including International Operations Director and Head of GM Stock Management and New Buying.

Corporate governance

"Good corporate governance is critical. We have used last year's board evaluation, and Simon Calver's arrival, to be clear on our objectives and to provide appropriate guidance to the Company."

Alan Parker CBE
Chairman

The Company believes that establishing and maintaining a high standard of corporate governance in all of the group's activities will enhance its reputation and performance, and promote and benefit the interests of investors, customers, staff, franchise partners and other stakeholders. To this end, and save as described below, the Company considers that it has complied throughout the 52-week period ended on 30 March 2013 with the relevant provisions set out in the UK Corporate Governance Code published by the Financial Reporting Council (FRC) (www.frc.org.uk) in 2010, having applied the main and supporting principles set out in Sections A to E of the Code. The Company is aware that changes have been proposed by the 2012 UK Corporate Governance Code but these do not apply to this year's annual report. The Financial Reporting Council is encouraging early compliance of the new Code and consequently certain elements of the 2012 Code have been applied in this report.

The board

The leadership of the Mothercare plc business is provided by the Mothercare plc board. The board operates on a unitary basis and ordinarily comprises the non-executive chairman, five independent non-executive directors, and two full-time executive directors, being the Chief Executive Officer and the Chief Financial Officer. During the past year, and for the reasons set out in last year's annual report, Alan Parker operated as Executive Chairman until 30 April 2012, when Simon Calver arrived as the Chief Executive on the same date. In his time as Executive Chairman, Alan Parker worked three days a week for, and did not become chief executive of, the Company. 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. Upon Simon Calver's arrival, the board agreed the process by which the Chairman returned to his non-executive role and defined the separate roles and responsibilities of the Chairman and Chief Executive. The Chairman is responsible for leadership of the board, with particular emphasis on its effective operation, the highest standards of corporate governance and the board's oversight of the business and delivery of its strategy. The role of Simon Calver as the Chief Executive Officer is to lead the business and manage it within the authorities delegated by the board.

There were several changes to the board during the year. Lee Ginsberg became a non-executive director on 2 July 2012. Bernard Cragg stepped down as the Senior Independent Director and Chair of the Audit Committee on 23 November 2012, and retired on 31 December 2012 after nine years as a non-executive director. Consequently, on 23 November 2012, Lee Ginsberg became Chair of the Audit Committee and Richard Rivers became the Senior Independent Director. Angela Brav joined the Company as a non-executive director on 1 January 2013, and Matt Smith joined the Company as its Chief Financial Officer on 25 March 2013. The Company has also announced that (1) after serving nine years as a non-executive director, David Williams is stepping down as Chair of the Remuneration Committee and will be retiring on 31 May 2013; and (2) Imelda Walsh is appointed as a new non-executive director with effect from 1 June 2013, and will assume the role of Chair of the Remuneration Committee following completion of the Company's annual general meeting in July.

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.

During the previous year, the Chairman instigated a detailed externally facilitated evaluation of the board, and its effectiveness and operation. The conclusions of the review (presented to the board in March 2012) were positive. In addition, the review provided recommendations to improve further the overall effectiveness of the board, its composition and its interaction with the business. These included:

- Promoting greater interaction between the board and the executive committee
- reflecting the international (and global) nature of the business
- ensuring that there is a clear transition of the Chairman from executive to non-executive following Simon Calver's appointment
- increasing the number of women on the board, particularly to reflect the nature of the Mothercare and ELC business.

The board has implemented these changes: it receives more frequent presentations from the members of the executive committee, there is a more formal strategy process attended by all members of the executive committee and the board, and individual members of the board and executive committee meet throughout the year outside the structure of board meetings. The Chairman has made several visits to the group's international franchise partners including trips to the Middle East and China, and members of the board will attend this year's international franchise partner meeting in Singapore. The board ensured that the roles of the Chairman and the new group Chief Executive were clear and distinct following Simon Calver's arrival.

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 24 to 27. 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.

Diversity

The importance of improving the diversity balance (including gender) on boards of UK listed companies is recognised. Following Imelda Walsh's appointment on 1 June 2013, the Mothercare plc board (including the executive directors) comprises three women and five men, and the executive committee (excluding the executive directors) has two women and four men. The Company believes it is well positioned to support gender diversity at all senior levels and, as at 30 March 2013, 49% of the senior management positions (the two grades below executive committee) were held by women (2012: 53 per cent).

Board evaluation – recommendations included:

- Greater interaction between the board and the executive committee
- Reflect the International and global nature of the business
- Clear transition of the Chairman from executive to non-executive
- Increase the number of women on the board

"In addition to the formal recommendations, I am pleased with the quality of information, discussion and debate that we have at our board meetings."
Alan Parker

Corporate governance continued

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. UK retail sales have declined year on year due to store closures and declining like-for-like sales across the store estate partially offset by increases in our Direct in Home business. Profit has benefited from the property strategy, with the continued exit from loss-making stores and tight cost control. The International business continues to expand generating an underlying profit for the period of £42.0m (FY2012: £34.9m)

The group continues to implement the conclusions of the structural and operational review of the size and scope of its business that was carried out in early 2012 and announced as the three-year Transformation and Growth plan. The focus remains to stabilise like-for-like sales and margin, reduce the UK central costs, close additional UK stores to focus on 200 profitable stores, accelerate international expansion (with more store openings in both new and existing countries), and launch combined online and in store customer options with a new website in the UK and 30 new overseas websites. The resulting strategy will deliver a transformation of the UK business, together with increased International growth over the same period.

At the year end the group had committed secured bank facilities with HSBC and Barclays of £90 million (at an interest rate range of 3.5 per cent to 4.0 per cent above LIBOR) until 31 May 2015 (see note 21). These facilities provide sufficient liquidity and covenant headroom to accommodate the three-year strategy. The covenants in the facilities are tested quarterly and are based around gearing, fixed charge cover and guarantor cover.

The maximum net debt balance during the period was £55.2 million and at the year end the group had a net debt balance of £32.4 million funded by a drawdown against the loan facility of £50 million, net of £17.6 million of cash.

The continued challenging economic conditions, particularly the difficult consumer and retail environment, create uncertainty around the level of demand for the group's products. However, after one year of the Transformation and Growth plan which is supported by 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 continued execution of the Transformation and Growth plan, assume a stabilisation of gross margin and like-for-like revenues within UK stores, continued retail sales growth within the International business and an improvement in working capital, 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 would 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/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 30 to 32.

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.

For many years, the Company has applied its risk management principles to its International business, for example by carrying out audits of its franchise partners, and taking out trade insurance against key franchise receivables. The Company has additional controls in place with its joint venture partners. However, in January 2013, the Company's associate in Australia, Mothercare Australia Limited, in which the group held 23 per cent of the share capital, was placed in voluntary administration by its directors. The administrators did not find a buyer of the business as a going concern and consequently sold the stock in the business in an orderly manner at the same time as winding down the business. Mothercare Australia Limited operated 74 stores in Australia and New Zealand.

The group sources its products primarily from India, China and Bangladesh, and the group has sourcing offices in each of these countries. In addition, some furniture products are supplied from Vietnam. The sourcing offices are responsible for ensuring that appropriate governance standards are observed by the suppliers used by the group, and has a dedicated corporate responsibility team. More details are set out in the corporate responsibility section of this report on pages 33 to 37.

The board believes that the system of internal control described can provide only reasonable and not absolute assurance against material misstatement 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 actions has not been considered necessary.

Bribery Act 2010

The Bribery Act 2010, which came into force on 1 July 2011, consolidated previous legislation and introduced (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 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 and is reviewed on an annual basis. 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 four times a year following the announcement of the half and full year results and trading statements at the AGM and post Christmas. During such meetings the board is able to put forward its objectives for the business and discuss performance against those objectives and develop an understanding of the views of major shareholders. The outcome of meetings with major shareholders is reported by the Chief Executive at board meetings on a periodic basis.

The Company seeks to reach a wider audience by the use of its website (www.mothercareplc.com) and, with a view to encouraging full participation of those unable to attend the AGM, provides an opportunity for shareholders to ask questions of their board through the internet at www.mothercareplc.com or by email to investorrelations@mothercare.com. 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,

Corporate governance continued

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 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. 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 38. Notwithstanding such commitments, each member of the board is able to allocate sufficient time to the Company to discharge his or 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 including the remuneration, audit and nomination committees as set out below. These committees comprised the five 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 47.

The board has established a disclosure committee which is responsible for the establishment and maintenance of disclosure controls and procedures in the Company (and their evaluation), for the appropriateness of the disclosures made and for compliance with the group's share trading rules. It reports to the board through the Chief Executive.

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 Chief Executive, Chief Financial Officer, the Managing director of the International businesses and the UK Commercial Director, a Global Product and Sourcing Director, the Global Brand and Marketing Director, the Group People Director and the Group General Counsel/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/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 (including meetings with principal advisers to the Company) and have a formal induction process which continues following their appointment. 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 UK Corporate Governance Code, from 2013 the board has resolved that all directors should offer themselves for re-election each 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 reappointed. During the year, Richard Rivers as the senior independent director evaluated the performance review of the Chairman, having taken the opinions of the other directors before doing so, and the Chairman and the board together evaluated the performance of the group Chief Executive.

Directors' interests and indemnity arrangements

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

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

Directors' conflicts of interest

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

Committees

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 the executive committee and other 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 52 to 61 and in the appendices on pages 62 to 66. During the period no director was, and procedures are in place to ensure that no director is, involved in deciding or determining his or her own remuneration.

The nomination committee, chaired by Alan Parker, 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. An external search agency is ordinarily used to assist in the identification of suitable candidates for board appointments. The nomination committee reviews succession planning of board members and the executive committee on an annual basis. The Company's position on diversity balance is set out earlier in this report.

The audit committee was chaired during the year by Bernard Cragg until 23 November 2012, and by Lee Ginsberg from that date. 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 five non-executive directors. The Group General Counsel/Company Secretary acts as secretary to the committee. Both Bernard Cragg and Lee Ginsberg are chartered accountants with considerable financial and varied commercial experience.

The committee met three times during the period, with a fourth meeting (deferred from March) taking place in early April 2013. No specific remuneration of the non-executive directors is ascribed to membership of the audit committee other than a supplement of £5,000 per annum paid to Bernard Cragg and Lee Ginsberg pro rated for the period in respect of which they acted as chair of the committee.

The main activities of the audit committee in the 52 weeks ended 30 March 2013

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.

In addition, the audit committee has reviewed the contents of this year's annual report and accounts and advised the board that, in its view, taken as a whole, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy. 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. This rotation occurred last year and this is the first year the current lead audit partner has been in place.

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.

The audit committee considered its effectiveness and that of the external auditors. 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 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 at meetings for the 52-week period ended 30 March 2013.

Director	Board	Audit	Nomination	Remuneration
				Committee
Maximum number of meetings	**8**	**3**	**2**	**6**
Alan Parker	8	3	2	6
Bernard Cragg*	4 (5)	3 (3)	1 (1)	4 (4)
Richard Rivers	8	3	2	6
David Williams	6	3	2	5
Amanda Mackenzie	7	3	2	5
Angela Brav*	3 (3)	0 (0)	1 (1)	2 (2)
Lee Ginsberg*	5 (5)	1 (1)	2 (2)	3 (3)
Simon Calver	8	3	2	6
Matt Smith*	0 (0)	0 (0)	0 (0)	0 (0)
Neil Harrington*	2 (2)	1 (1)	0 (0)	1 (1)

* Denotes that the director was appointed or retired/resigned during the year and thus was not eligible to attend all meetings. The numbers in brackets show the maximum number of meetings which could have been attended by those who were not appointed for the full year.

Notes:

- Simon Calver attended meetings of the audit, nomination and remuneration committees upon the invitation of the respective chairmen of those committees.
- Alan Parker attended meetings of the audit committee upon the invitation of the chair of that committee.
- 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.

Directors' report

The directors present their report on the affairs of the group, together with the financial statements and auditors' report for the 52-week period ended 30 March 2013. The corporate governance statement set out on pages 40 to 47 forms part of this report. The Chairman's statement at page 14 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.

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.

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, risks, 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.

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). 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, the business review and financial review on pages 2 to 29. The principal risks and uncertainties facing the business are detailed in the corporate governance report at page 40 and the section on risks at page 30. These disclosures form part of this report.

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 40.

Going concern

The accounts have been prepared under the going concern principle. For full details please see the corporate governance report on page 41.

Dividend

The directors are not recommending the payment of a final dividend for the year and no interim dividend was paid during the year (FY2012: interim dividend 2 pence per share, final dividend nil; total for the year: 2 pence per share).

Shares

As at 22 May 2013, the Company's issued share capital was 88,664,380 ordinary shares of 50p each all carrying voting rights. Details of the change in the Company's issued share capital during the year is set out in note 25. No shares were held in Treasury.

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

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

Substantial shareholdings

As at 30 April 2013, the Company has been advised by or is aware of the following interests above 3% in the Company's ordinary share capital:

Holder	Number of shares	Percentage of issued share capital
M&G Investment Management Ltd	14,187,334	16.00%
FIL Limited / FMR LLC	10,148,676	11.45%
Allianz Global Investors	9,370,317	10.57%
D C Thomson	9,313,522	10.50%
Capital Group Companies Inc	5,248,433	5.92%
Aberdeen Asset Management Group	3,738,146	4.22%
Financiere de L'Echiquier (FR)	3,550,448	4.00%
Aberforth Partners	3,133,141	3.53%

Acquisition of own shares

The Company was given a general approval at the AGM in July 2012 to purchase up to 10 per cent of its shares in the market. This authority expires after the AGM on 18 July 2013. 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 amended and restated 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 2006 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 52-week period ended 30 March 2013:

Name	Appointment
Alan Parker	Executive Chairman (17 November 2011 to 30 April 2012); chairman and non-executive director from 30 April 2012; chairman of the nomination committee
Angela Brav	Independent non-executive director (from 1 January 2013)
Simon Calver	Executive director (from 30 April 2012)
Bernard Cragg	Senior independent non-executive director until 23 November 2012 and chairman of the audit committee until 23 November 2012
Lee Ginsberg	Independent non-executive director (from 2 July 2012) and chairman of the audit committee from 23 November 2012
Neil Harrington	Executive director (until 20 July 2012)
Amanda Mackenzie	Independent non-executive director
Richard Rivers	Independent non-executive director and Senior Independent Director with effect from 23 November 2012
Matt Smith	Executive director (from 25 March 2013)
David Williams	Independent non-executive director and chairman of the remuneration committee (due to retire on 31 May 2013)

In accordance with the requirement of the UK Corporate Governance Code for FTSE 350 companies, at the Annual General Meeting of the Company in July 2013 all the directors currently appointed shall retire and offer themselves for re-election.

Details of directors' service arrangements are set out in the remuneration report on page 58.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 60 and 63 respectively. A statement of directors' interests in contracts and indemnity arrangements is set out on page 44.

Directors' report
continued

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 performance, as well as the economic environments in which the Company trades through its business sectors. This is achieved through the Company employee website 'Small Talk', regular briefings by the Chief Executive and other executive committee members, bulletins, email 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 under review, 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. A further organisation review is underway resulting in another consultation process at the Watford office and the Company has engaged with those employees affected. The Company recognises the impact of such processes on its employees and each process was carried out thoroughly and professionally, and in compliance with relevant laws and regulations.

In FY2012/13, following a period of consultation with the membership, the Company closed its two defined benefit pension schemes, the Mothercare Staff Pension Scheme and the Mothercare Executive Pension Schemes, to future accrual from 31 March 2013. Details of the pension charge are set out in note 29.

A new defined contribution scheme, the Legal & General WorkSave Mastertrust, was made available to all employees from 31 March 2013 and is the designated scheme for auto-enrolment of workers from 1 May 2013 (the 'auto-enrolment staging date' for the Mothercare group). The two existing Stakeholder schemes were closed to future contributions from 31 March 2013.

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 (2012: nil days) of average daily purchases during the year for the Company and 57 days (2012: 53 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 £2,269,413.

Corporate citizenship

The group's corporate responsibility ethos and details of the programmes that it runs in its business relationships around the world are set out on pages 33 to 37. During the year, the group reissued its Global Code of Conduct to all its office employees, both in the UK and overseas, and obtained certificates of compliance from its employees.

Global Code of Conduct – key themes:

- Relations with employees, customers, suppliers and franchise partners
- Shareholders and corporate governance
- Responsible sourcing

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 made by the Mothercare Group Foundation for the year ended 30 March 2013 were £30,000 (2012: £32,324).

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 2013 Annual General Meeting will be held on Thursday, 18 July 2013 at 3.00pm 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/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
22 May 2013

Remuneration report

"The Company now has a new and powerful remuneration framework that will underpin its future growth."

David Williams
Remuneration Committee Chairman

Remuneration Committee Chairman's statement

In last year's annual report we announced the details of our three-year Transformation and Growth plan which addressed the challenges faced by the group following a significant reduction in its profitability the previous year. Our performance against this plan is set out elsewhere in this annual report.

Since his arrival as CEO, Simon Calver has made significant changes to his executive committee and senior management and has recruited the team that will deliver the targets set out in the plan. The remuneration committee has worked closely with Simon Calver as he assembled this team to ensure that the remuneration arrangements are in line with its remuneration policy.

I said last year that the change in the Company's financial position, the considerable changes required at executive committee level, and the current environment surrounding executive remuneration, meant that it was the right time to reassess and put in place a new remuneration policy.

During the year we proposed a new long term incentive plan (LTIP) which was radically different from the previous schemes. Performance would be linked much more directly to the Company's performance and would incorporate far more stretching targets before payments are received, and reduce materially the total amount that could be received under the schemes. Most importantly, any new policy would reflect Mothercare's plans under the Transformation and Growth plan.

We consulted widely with shareholders in the development of the new LTIP, following which we made a number of alterations to the scheme before putting it to all shareholders for approval. We held a general meeting in December 2012, at which the new long term incentive plan was put to shareholders. I am delighted to say that we received support from approximately 87% of the shares voted (which in turn represented about 75% of the share capital of the Company). For the first awards, the performance targets relate to share price and group profit before tax at the end of the three-year performance period which expires at the end of March 2015.

We believe that to attract and retain the best talent, and to foster the long term growth and success of any business in the right way, it is critical that there should be a clear remuneration strategy that is attractive both to shareholders and to the group's management and its employees.

We now have such a strategy supporting Mothercare's aspirations for the foreseeable future and specifically to deliver the Transformation and Growth plan.

This is my last year as Chairman of the Remuneration Committee. I have been a director of Mothercare plc now for nine years and I am retiring at the end of May 2013. With the new LTIP and short term incentive plan structure, the Company now has a new and powerful remuneration framework that will underpin its growth in the future, and allow Simon Calver to deliver results.

Last year we received strong support from shareholders for the remuneration report at the general meeting with 94% of proxy votes cast in favour. We look forward to receiving your endorsement of this year's 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 and senior management 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.

The most important development during the year was the introduction of the new long term incentive plan which was approved by shareholders at general meeting in December 2012. The committee consulted with shareholders as part of this process, and made a number of alterations to the scheme before putting it to all shareholders for approval. At the general meeting, the Company received support from approximately 87 per cent of the shares voted (which in turn represented about 75 per cent of the share capital of the Company). In relation to the first awards, the performance targets relate to share price and group profit before tax at the end of the three-year performance period which expires at the end of March 2015.

The revised LTIP will be applied to support the Company's progress against the Transformation and Growth plan in such a way that:

- 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 is able to attract and retain 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 are 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.

This report will address both the policy applicable to the coming year and plans that have been in place during the year under review.

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 2010. At the Annual General Meeting on 18 July 2013 shareholders will be asked to approve this report. The Company is aware that changes have been proposed by the Department for Business, Innovation and Skills in terms of the construct of, and disclosures to be included in, remuneration reports. Whilst these changes will apply to the Company's 2014 remuneration report, rather than this current report, the Company is committed to the principle of transparency in remuneration disclosure and regard has been given to the spirit of the draft regulations in preparing this report.

The relevant sections 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 elements include directors' share options, the PSP and EIP awards (including that set out in Appendix A on pages 62 to 66), LTIP awards, 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 was chairman of the committee during the year. The other committee members during the year were:

Angela Brav (from 1 January 2013)
Bernard Cragg (until 31 December 2012)
Lee Ginsberg (from 2 July 2012)
Amanda Mackenzie
Richard Rivers

It should be noted that David Williams is retiring as a non-executive director of the Company on 31 May 2013 and will retire as chairman of the remuneration committee on the same date. Richard Rivers will act as the interim chair of the remuneration committee pending the arrival of Imelda Walsh as the new non-executive director to assume the role. Also, the board has agreed in principle to establish a remuneration committee which comprises some but not all the non-executive members of the board and this will be put in place during FY2013/14.

Remuneration report continued

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 senior management below executive director and executive committee members, to ensure that such remuneration is consistent with the delivery of the business strategy and value creation for shareholders. The committee met six times during the year, and each member's attendance at these meetings is set out on page 47 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, Group People Director and Group General Counsel/Company Secretary as appropriate. No executive was present for discussions of their own remuneration.

As at 30 March 2013, the committee's advisers were:

Person or organisation	Services provided
PricewaterhouseCoopers LLP (PwC)	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

All the advisers are considered to be independent.

Lane Clark & Peacock LLP does not provide any other services to the Company and does not have any other connections with the Company. DLA Piper LLP provides general legal advice to the group, and PwC LLP provides certain other advice and non-audit services to the group. PwC is a member of the Remuneration Consultants Group and adheres to the voluntary Code of Practice in relation to the advice it provides to the committee.

Directors' remuneration

Non-executive directors: The remuneration of the non-executive directors comprises fixed annual fees. Expenses incurred on group business are reimbursed when claimed in accordance with the group's business expenses policy. 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. There were no changes to the non-executive fees during the year. 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.

Executive directors: The executive directors' fixed annual remuneration comprises a base salary, which is normally reviewed in April each year, and benefits. The variable elements of remuneration will be delivered through a short term incentive plan and a long term incentive plan. All elements of the variable remuneration are, and will continue to be, assessed against both financial and non-financial performance criteria. As noted already in this report, there have been significant changes to the structure of both the short and long term incentive plans over the past year, which have been coupled with the arrival of Simon Calver and Matt Smith as the CEO and CFO respectively.

Remuneration

The table below summarises the key elements of the remuneration package applicable to the executive directors. It describes the applicable policy as well as how that policy was implemented during 2012/13. To the extent that any changes in implementation of the policy will be made in 2013/14, this is also noted:

Component	Policy	Operation in 2012/13
Salary	Level fixed annually by remuneration committee taking into account number of factors: ■ Individual performance and potential ■ Median rate paid by retailer led comparator group ■ Pay elsewhere in the group ■ Advice from remuneration consultants	Both executive directors joined the group during the year. Their annual salary levels are: ■ Simon Calver £500,000 ■ Matt Smith £325,000
Pension contribution	To provide a competitive retirement benefit. Base salary is the only element of remuneration used to determine pensionable earnings	For 2012/13: ■ Simon Calver – 15% base salary ■ Matt Smith – 15% base salary
STIP/annual bonus	The STIP applies to all non-store employees Incorporates both financial (75%) and strategic (25%) measures aligned to the Transformation and Growth plan Payment under the STIP is subject to an overriding financial measure based on the Company's net quarterly cash/debt position to ensure that payments are not made where the underlying financial position of the Company does not support it Simon Calver can earn up to 125% of base salary and Matt Smith can earn up to 100% of base salary for achievement of annual performance metrics For executive directors and members of the executive committee, 30% of any payment earned will be deferred into shares in the Company for 3 years and subject to a risk of forfeiture in the case of resignation during this period, and to claw back in exceptional circumstances (such as financial misstatement)	For 2012/13: ■ 75% of the bonus is based on internal financial measures ■ 25% of the bonus is based on strategic measures such as customer satisfaction survey results ■ a bonus payment of 11% of bonusable salary was approved by the Remuneration Committee and paid to the executive committee, senior management and non-store employees of the Company ■ This resulted in a payment to Simon Calver of £68,750 (of which £20,625 is deferred into shares). Matt Smith (who joined on 25 March 2013) received no bonus for the year

Remuneration report continued

Component	Policy	Operation in 2012/13
LTIP	A mechanism to attract, retain and motivate executive directors and other senior management over the long term Annual awards to be granted under the LTIP Initial award: ■ Simon Calver – 300% base salary ■ Matt Smith – 200% base salary Ongoing award levels:	Performance conditions for 2012/13 LTIP: Participants in the LTIP will earn up to 50% of the award if the share price reaches the targets shown in the table below It will earn up to 50% of the award if the 2014/15 group profit before tax reaches the targets shown in the table below:

Level	% of Salary
CEO	200%
CFO	175%
Executive Committee	150%
Senior Executives	55%
Key Employees	40%

Stretching corporate performance metrics over the 3 year performance period ending on 28 March 2015 which supports the execution of the Transformation and Growth plan

Vesting:

- 50% after 3 years
- 50% after 4 years
- conditional upon the executive building up a minimum shareholding requirement, failing which the vesting level will be reduced

FY15 Share Price	Vesting (% of max)	FY15 Group PBT	Vesting (% of max)
£3	0%	£23m	0%
£4	30%	£34m	30%
£5	60%	£45m	60%
£6	90%	£60m	90%
£7	100%	£70m	100%

In addition, the UK business must break even in the financial year ending on 28 March 2015 or 27 March 2016

The share price and group profit before tax elements will be measured independently

2012/13 LTIP Grants:

- Simon Calver 778,816 shares
- Matt Smith 224,991 shares

These shares will vest to the extent that the performance conditions and shareholding requirements are met, and the other conditions of the award are achieved

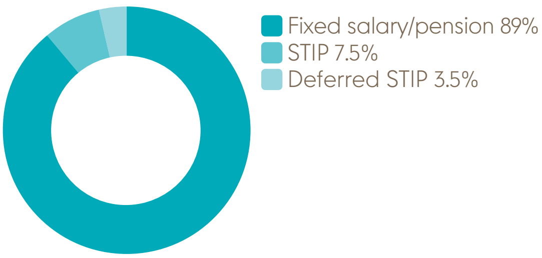
Total compensation to executive directors

Details of the remuneration received by the executive directors in 2012/13 is set out in Appendix A to this remuneration report. In 2012/13, Simon Calver received approximately 89 per cent of his remuneration as fixed salary and pension contribution and approximately 11 per cent (of which 30 per cent is deferred) as variable salary; Matt Smith (who joined on 25 March 2013) received 100% of his remuneration as fixed salary.

The Company did not make any payments or grant any awards during the year to compensate Simon Calver for any loss of benefits that he may have received at his previous employment. However, the Company agreed to compensate Matt Smith for an amount equal to the value of the bonus he would have received from his former employer in his final year of employment. A payment of £255,000 will be made in FY2013/14 (of which 30 per cent will be deferred into nil cost share options which vest after three years subject to the conditions of the STIP scheme). This payment is subject to a clawback provision which will be repaid by Matt Smith on a pro rata basis if he leaves the Company within two years.

Simon Calver

Total compensation



Matt Smith

Total compensation

Short-term incentive plan (STIP)

Under the STIP:

- The maximum bonus potential for the CEO is 125 per cent of salary and for the CFO (and other members of the executive committee) is 100 per cent of salary; the maximum bonus potential for other members of the Company above store level range from 5 per cent to 50 per cent of salary.
- The performance metrics are aligned to the Company's Transformation and Growth plan and include both financial and strategic measures (weighting 75 per cent financial; 25 per cent strategic). Strategic measures include such measures as customer satisfaction surveys.
- Payment under the STIP during the year was subject to an overriding financial measure based on the Company's net quarterly cash/debt position so that STIP payments would not be paid where the underlying financial position of the Company does not support it.
- 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

Remuneration report continued

for a three-year period. These shares will be forfeited by any member of the executive committee who resigns during the deferral 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 clawback in exceptional circumstances, such as financial misstatement.

In order for the STIP to pay out in full, the Company must achieve stretch targets for each of the performance measures. In FY2012/13, the Company did not achieve in full its internal targets, but it did meet the measures in part and accordingly a 11 per cent bonus was approved by the remuneration committee.

Long term incentive plan (LTIP)

Last year the Company introduced a new LTIP as a recognisable and competitive reward structure with which to attract, retain and motivate the executive committee and senior management, and this was approved by shareholders in general meeting in December 2012. The scheme comprises an annual award of nil-cost options which vest based on the achievement of stretching corporate performance metrics supporting the execution of the Transformation and Growth plan. The vesting of share awards is conditional upon the achievement of the performance conditions, a minimum shareholding requirement being met by members of the executive committee and sustainable corporate performance over the longer term. All awards under the LTIP will be settled in shares. The Remuneration Committee has the power to reduce the vesting levels of awards in certain circumstances.

In the first year of the award, the maximum award granted to Simon Calver was 300 per cent of salary, and to Matt Smith 200 per cent of salary. Both of these awards were considered necessary in order for the Company to recruit these two key executive directors. Matt Smith's award is pro rated to reflect his joining date as a percentage of the three-year performance period. The following table sets out the proposed award levels for subsequent years:

Level	% of Salary
CEO	200%
CFO	175%
Executive Committee	150%
Senior Executives	55%
Key Employees	40%

Performance conditions: Participants in the FY2012/13 LTIP will earn up to 50 per cent of the award if the share price reaches the targets shown in the table below, and will earn up to 50 per cent of the award if the FY2014/15 group profit before tax reaches the targets shown in the table below:

FY15 Share Price	Vesting (% of max)	FY15 Group PBT	Vesting (% of max)
£3	0%	£23m	0%
£4	30%	£34m	30%
£5	60%	£45m	60%
£6	90%	£60m	90%
£7	100%	£70m	100%

In addition, the UK business must break even in the financial year ending on 28 March 2015 or 27 March 2016

The share price and group profit before tax elements will be measured independently.

Vesting of awards for the CEO, CFO and Executive Committee members is conditional upon the executive building up a minimum shareholding requirement within three years from the commencement of the scheme (100 per cent of salary for the CEO, 50 per cent for CFO, and 25 per cent for executive committee members). Where shareholding requirements are not met, then the vesting level will be reduced. For full vesting, the shareholding requirement must be met in full.

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.

Service contracts and payments on termination

Non-executive directors

Non-executive directors receive a fee of £50,000 per annum. Additional fees are paid to the Senior Independent Director and chairs of the audit and remuneration committee as detailed in the table opposite.

Alan Parker is entitled to six months' salary on termination by the Company of his service agreement dated 2 August 2011. Angela Brav, Lee Ginsberg, Amanda Mackenzie, Richard Rivers and David Williams have service agreements with the Company that may be terminated upon one month's notice.

As at 30 March 2013, the annual salary/fees payable to the Chairman and the non-executive directors are as follows:

Name	Start Date	Notice Period	Fees per annum (at 30 March 2013)
Alan Parker	2 August 2011	6 months	£200,000
Angela Brav	1 January 2013	1 month	£50,000
Lee Ginsberg	2 July 2012	1 month	£55,000 (note 1)
Amanda Mackenzie	1 January 2011	1 month	£50,000
Richard Rivers	27 May 2008	1 month	£55,000 (note 2)
David Williams	2 July 2004	1 month	£55,000 (note 3)

Notes:
1 Lee Ginsberg receives a supplement of £5,000 per annum as Chair of the Audit Committee.
2 Richard Rivers receives a supplement of £5,000 per annum as Senior Independent Director.
3 David Williams receives a supplement of £5,000 per annum as Chair of the Remuneration Committee.

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 match the shares purchased by Alan Parker on a 1:1 basis (up to a maximum value of £200,000). The Chairman purchased shares to the maximum value 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 (TSR) 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 the TSR index, the award will not vest. The Chairman must retain his shareholding for the performance period. As reported last year, the Company agreed to an extension of this share matching arrangement awarded to the Chairman on his appointment as Executive Chairman, a position held on an interim basis until the appointment of Simon Calver as CEO. 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. This plan was approved by 83 per cent of proxy votes cast by shareholders at the Company's Annual General Meeting in July 2012.

Executive directors

Simon Calver was appointed as CEO with effect from 30 April 2012; Matt Smith was appointed as CFO with effect from 25 March 2013. Executive directors' service contracts are rolling contracts that require 12 months' notice by either the Company or executive to terminate the contract. In the case of termination, the service contracts provide for payment in lieu of notice and include mitigation provisions that apply to the executive director.

In July 2012, Neil Harrington left the Company having resigned as a director. Details of the emoluments earned by Neil Harrington are set out in the Appendices to this report on pages 62 to 66. Neil Harrington received no payment following his resignation and any unvested share awards lapsed.

External appointments and other commitments of the directors

The other business commitments of the directors are set out within their biographical details on page 38. 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. Currently, neither Simon Calver nor Matt Smith are non-executive directors with another organisation.

Pension arrangements

The committee regularly reviews the financial impact to the Company of pension provision. Given the regulatory changes in October 2012 a further review of the effect of these changes on the Company pension schemes was carried out.

In FY2011/12, in order to control the cost of pensions, the group agreed with the Trustees of the Executive Pension Scheme the introduction of a capped accrual section which limited annual accrual in excess of CPI inflation to £3,125 per annum and agreed with the individuals affected to pay a salary supplement of up to £16,000 per annum to compensate for their reduced accrual.

In FY2012/13, following a period of consultation with the membership, the Company closed its two defined benefit pension schemes, the Mothercare Staff Pension Scheme and the Mothercare Executive Pension

Remuneration report continued

Schemes, to future accrual from 31 March 2013. Details of the pension charge are set out in note 29.

A new defined contribution scheme, the Legal & General WorkSave Mastertrust, was made available to all employees from 31 March 2013 and is the designated scheme for auto-enrolment of workers from 1 May 2013 (the 'auto-enrolment staging date' for the Mothercare group). The two existing Stakeholder schemes were closed to future contributions from 31 March 2013.

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 63. This information is still relevant because Neil Harrington was a director during the year.

Simon Calver and Matt Smith receive 15 per cent of their base salary as a pension contribution from the Company which is paid into a personal pension plan. They do not participate in any FURBS arrangements.

For further details of the pension provision within the group during the year, see the directors' report on page 50.

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 30 March 2013 and the salaries paid to the management level below the board are set out in Tables 1A and 1B of Appendix A on pages 62 and 63.

Shareholding guidelines

Executive directors are expected to build up a shareholding in the Company, and this is reflected in the terms of the LTIP. After three years, the CEO and CFO (as the executive directors) should hold a shareholding equal to 100 per cent and 50 per cent of their basic salaries respectively (rising to 150 per cent and 100 per cent respectively thereafter). Shares can be purchased directly or through a nominee. Also 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. The deferred shares are subject to clawback and risk of forfeiture.

Details of the shares held by the directors as at 30 March 2013 are provided later in this report.

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 30 March 2013 (number)	Interest held at 31 March 2012 (or date of appointment if later) (number)
Alan Parker	232,554	210,400
Richard Rivers	29,000	29,000
David Williams	71,300	71,300
Amanda Mackenzie	25,760	25,760
Simon Calver	188,310	–
Matt Smith	0	–
Lee Ginsberg	0	–
Angela Brav	0	–

Tim Ashby and David Williams are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 3,151 Mothercare shares in trust on 30 March 2013 (31 March 2012: 3,151 shares). A separate trust, The Mothercare Employee Trust, held 105,346 shares on 30 March 2013 (31 March 2012: 440,394 shares).

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.

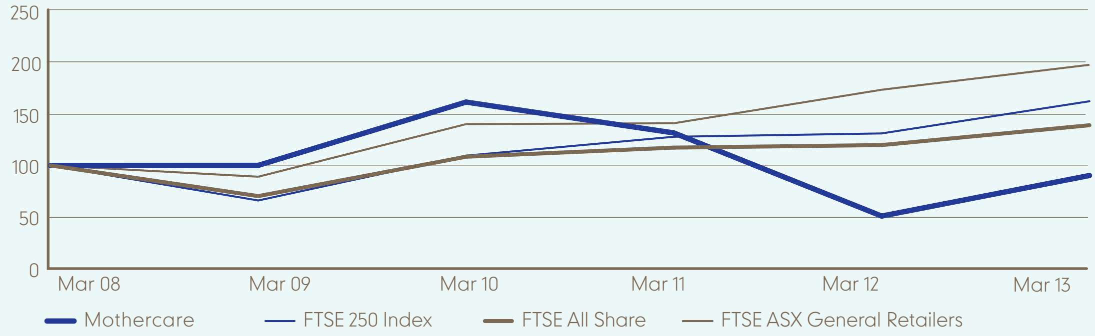
There have been no movements in directors' interests, beneficial or non-beneficial, between 30 March 2013 and 22 May 2013.

Performance graph

The performance graph below shows the group's TSR against the return achieved by the FTSE250 index. Mothercare plc entered the FTSE250 on 30 June 2008, but returned to the FTSE SmallCap Index on 19 December 2011. The performance graph below shows performance against the FTSE250 Index and the FTSE All Share General Retailers Index. The graph shows the five financial years to 30 March 2013.

The indices were chosen on the basis that Mothercare was a constituent of both the FTSE250 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.

TSR performance over the last five years (rebased to 100)



Source: Datastream

Approved by the board on 22 May 2013 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 52 weeks ended 30 March 2013 were £1,613,000 (2012: £7,460,000).

	Salary/fees £000		Performance bonus £000		Benefits £000		Incentive Schemes' vesting £000		Compensation for loss of office £000		Total remuneration (excl. pensions)		Pension contributions £000	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Executive Directors														
Alan Parker[i]	251	272	–	–	–	–	–	–	–	–	251	272	–	–
Simon Calver[ii]	462	–	48	–	1	–	–	–	–	–	511	–	69	–
Matt Smith[iii]	6	–	–	–	–	–	–	–	–	–	185	–	1	–
Neil Harrington[v]	96	265	–	–	4	12	206	1,411	–	–	306	1,688	17	34
Ben Gordon[iv]	–	380	–	–	–	9	–	3,968	–	658	–	5,015	–	23
Ian Peacock	–	108	–	–	–	–	–	–	–	–	–	108	–	–
Non-executive directors														
Angela Brav	13	–	–	–	–	–	–	–	–	–	13	–	–	–
Bernard Cragg	45	60	–	–	–	–	–	–	–	–	45	60	–	–
Lee Ginsberg	43	–	–	–	–	–	–	–	–	–	43	–	–	–
Amanda Mackenzie	50	50	–	–	–	–	–	–	–	–	50	50	–	–
Richard Rivers	50	50	–	–	–	–	–	–	–	–	50	50	–	–
David Williams	55	55	–	–	–	–	–	–	–	–	55	55	–	–

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

(i) 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 Alan Parker reverted to the role of Non-Executive Chairman and his fee reverted back to £200,000 per annum.

(ii) In addition to the bonus paid to Simon Calver set out above, a further amount of £20,625 (representing 30 per cent of the total bonus of £68,750 to be paid to Simon Calver) was deferred into nil cost share options which vest after three years subject to the conditions of the STIP scheme.

(iii) Included within his total remuneration, Matt Smith will receive a payment of £178,500 as compensation for the value of the bonus he would have received from his former employer in his final year of employment. A further amount of £76,500 (representing 30 per cent of the total compensation of £255,000) will be deferred into nil cost share options which vest after three years subject to the conditions of the STIP scheme.

(iv) Ben Gordon resigned as Chief Executive with effect from 17 November 2011. Ben Gordon's salary was £600,000 per annum and the amount in the table shows the salary payable in FY12 up to the date of his resignation, together with the amount paid by way of compensation for loss of office. In addition to the pension contribution set out above in FY12, a sum of £63,810 was paid to Ben Gordon for the 53 weeks ended 31 March 2012 as a salary supplement following the discontinuance of the FURBS scheme. Ben Gordon's Incentive Scheme Vesting in FY12 includes £441,000 relating to early vesting as a result of his resignation.

(v) In addition to the pension contributions for Neil Harrington set out above, a sum of £16,510 is paid for the 52 weeks ended 30 March 2013 and £40,854 was paid to Neil Harrington for the 53 weeks ended 31 March 2012 as an employer contribution directly to a SIPP following the discontinuance of the FURBS scheme. Included within this payment is an amount paid as a supplement of £16,000 per annum given in return for voluntarily capping the pension accrual at £140,625.

Governance

Table 1B
Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2013 £000	2012 £000
Emoluments	**1,303**	1,261
Compensation for loss of office	**0**	658
Amounts receivable under long term incentive schemes	**206**	5,379
Money Purchase pension contributions	**104**	162
Total	**1,613**	7,460

Table 1C

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

Salary Band	2013	2012
250,001 – 300,000	**0**	0
200,001 – 250,000	**3**	2
150,001 – 200,000	**3**	2
100,000 – 150,000	**0**	0
50,001 – 100,000	**0**	0
0 – 50,000	**0**	0

Table 2
Pensions

The disclosure of the director's 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 contributions
	At 31 March 2012	Change during year	As at 30 March 2013	Change during year net of inflation	Transfer value of change in year net of inflation	31 March 2012	Change during year	Director contributions	30 March 2013	
Neil Harrington	24.7	1.8	26.5	1.3	44.7	309	51	0	360	16.6

* 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.

Appendix to the Remuneration report continued

Performance Share Plan

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

Director	31 March 2012 (number)	Granted during year (number)	(Lapsed) during year (number)	Grant date	Lapse date	Vested during year (number)	Gains on exercise 2013 £	30 March 2013 (number)
Neil Harrington	38,278	–	(38,278)	25 May 2010	20 July 2012	–	–	–
	44,831	–	(44,831)	24 May 2011	20 July 2012	–	–	–
Total	83,109	–	(83,109)			–	–	–

Note:
1 The above awards were granted as nil-cost options.
2 Neil Harrington left the Company on 20 July 2012.

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	Neil Harrington
£0m to £50m	0.4%
£50m to £75m	0.6%[1]
Over £75m	0.8%[2]

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

EIP cash determinations made during the year

The 2010 Cycle did not vest as the performance conditions were not met during the reference period ending 30 March 2013.

2008 Cycle: Total Surplus Value created £128.98 million.

Name	Vesting date	Cash amount paid £	Deferred shares vested (number)	Reference share price
Neil Harrington[1]	6 June 2012	192,850	91,290	211.25

1 The 2008 Cycle vested in 2011 and the details of the award were disclosed in last year's annual report. In accordance with the scheme rules, 50 per cent of the award was deferred into shares which vested on 6 June 2012. The table above sets out the value of the deferred shares which were sold by Neil Harrington on 7 June 2012.

LTIP

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

Director	31 March 2012 (number)	Granted during year (number)	(Lapsed) during year (number)	Grant date	Vesting / (lapse) date	Vested during year (number)	Gains on exercise 2013 £	30 March 2013 (number)
Simon Calver	–	778,816	–	11 March 2013	31 March 2015	–	–	778,816
Matt Smith	–	224,991	–	25 March 2013	31 March 2015	–	–	224,991
Total	–	1,003,807	–			–	–	1,003,807

The above awards were granted as nil-cost options.

Directors' share matching award

Director	31 March 2012 Number of shares	Granted	Grant date	Vest date	30 March 2013 Number of shares
Alan Parker	60,000	60,000[1]	2 August 2011	1 August 2014	60,000
	54,997	54,997[2]	17 November 2011	16 November 2014	54,997

Notes:

1 During FY2012 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 £0.2m. At 30 March 2013 the Chairman had purchased the required value of shares.

2 Upon assuming the role of Executive Chairman in FY2012, 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 £0.4m. At 30 March 2013 the Chairman had purchased £0.3m of shares in the Company.

Appendix to the Remuneration report continued

Appendix B

Neil Harrington resigned as Group Finance Director and left the Company on 20 July 2012. Consequently, this report contains the following information regarding the Performance Share Plan and Executive Incentive Plan which were approved by shareholders in 2006 as Neil Harrington was a participant during the year. The current executive directors have not been granted awards under the PSP or EIP. Following Neil Harrington's resignation, any unvested awards due to him under the PSP or EIP schemes have lapsed. Details of historical awards held by Neil Harrington are set out in Appendix A on page 64.

(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. Vesting of shares to an individual is conditional upon the achievement of the cumulative three-year growth in group PBT. 20 per cent of an award vests if Mothercare's three-year PBT growth is 5 per cent per annum and 100 per cent of an award will vest if Mothercare's three-year PBT per share growth is at least 15 per cent each year, with straight-line vesting in between. Dividends accrue and are paid on shares that vest. If the performance threshold of 5 per cent per annum PBT per share growth is not met the award lapses.

For the three-year performance period to 30 March 2013, Mothercare's profit before tax decreased. Accordingly, the awards granted in FY2009/10 did not vest.

(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.

No EIP Awards vested in relation to the performance ended 30 March 2013.

Pension

Neil Harrington was a member of the Mothercare Executive Pension Scheme and participated in the pension builder career average section of the Mothercare Executive Pension Scheme. Pension accrued 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 were set at 8 per cent of pensionable salary.

Financial statements

Contents

68 Directors’ responsibility statement

69 Independent auditor’s report to the members of Mothercare plc

70 Consolidated income statement

70 Consolidated statement of comprehensive income

71 Consolidated balance sheet

72 Consolidated statement of changes in equity

73 Consolidated cash flow statement

74 Notes to the consolidated financial statements

Company financial statements

115 Independent auditor’s report on the Company financial statements

116 Company balance sheet

117 Notes to the Company financial statements

120 Five-year record

121 Shareholder information

Directors' responsibilities statement

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 Chairman's Statement, Chief Executive's Statement, Business Review, Financial Review and the Directors' Report include 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; and
- the directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the group's performance, business model and strategy.

By order of the Board on 22 May 2013 and signed on its behalf by:

Simon Calver
Chief Executive Officer

Matt Smith
Chief Financial Officer

Independent auditor's report to the members of Mothercare plc

We have audited the group financial statements of Mothercare plc for the 52 weeks ended 30 March 2013 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 30 March 2013 and of its loss for the 52 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other 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 52 weeks ended 30 March 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ian Waller

Ian Waller (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
22 May 2013

Consolidated income statement
For the 52 weeks ended 30 March 2013

	Note	52 weeks ended 30 March 2013 Underlying[1] £ million	Non-underlying[2] £ million	Total £ million	53 weeks ended 31 March 2012 Underlying[1] £ million	Non-underlying[2] £ million	Total £ million
Revenue	4, 5	**749.4**	**–**	**749.4**	812.7	–	812.7
Cost of sales		**(702.0)**	**5.7**	**(696.3)**	(768.4)	(2.0)	(770.4)
Gross profit		**47.4**	**5.7**	**53.1**	44.3	(2.0)	42.3
Administrative expenses		**(34.4)**	**(5.9)**	**(40.3)**	(39.1)	(10.1)	(49.2)
Profit/(loss) from retail operations	7	**13.0**	**(0.2)**	**12.8**	5.2	(12.1)	(6.9)
Loss on disposal/termination of property interests	6	**–**	**(13.8)**	**(13.8)**	–	(22.6)	(22.6)
Other exceptional items	6	**–**	**(15.4)**	**(15.4)**	–	(69.3)	(69.3)
Share of results of joint ventures and associates	13,14	**(1.4)**	**–**	**(1.4)**	(3.2)	(0.4)	(3.6)
Loss from operations		**11.6**	**(29.4)**	**(17.8)**	2.0	(104.4)	(102.4)
Net finance costs	8	**(3.3)**	**(0.4)**	**(3.7)**	(0.4)	(0.1)	(0.5)
Loss before taxation		**8.3**	**(29.8)**	**(21.5)**	1.6	(104.5)	(102.9)
Taxation	9	**(2.8)**	**2.3**	**(0.5)**	–	11.1	11.1
Loss for the period attributable to equity holders of the parent		**5.5**	**(27.5)**	**(22.0)**	1.6	(93.4)	(91.8)
(Loss)/earnings per share							
Basic	11	**6.2p**		**(24.9p)**	1.8p		(105.2p)
Diluted	11	**6.1p**		**(24.9p)**	1.8p		(105.2p)

1 Before items described in note 2 below.
2 Includes exceptional items (profit/(loss) on disposal/termination of property interests, restructuring costs, impairment charges and 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/(expense)
For the 52 weeks ended 30 March 2013

	Note	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Other comprehensive expense – actuarial loss on defined benefit pension schemes	29	**(16.0)**	(21.2)
Cash flow hedges: losses arising in the period		**(0.3)**	–
Tax relating to components of other comprehensive income	9	**3.0**	4.1
Exchange differences on translation of foreign operations		**0.6**	(0.1)
Net loss recognised in other comprehensive income/(expense)		**(12.7)**	(17.2)
Loss for the period		**(22.0)**	(91.8)
Total comprehensive expense for the period attributable to equity holders of the parent		**(34.7)**	(109.0)

Consolidated balance sheet
As at 30 March 2013

	Note	30 March 2013 £ million	31 March 2012 £ million
Non-current assets			
Goodwill	15	**26.8**	26.8
Intangible assets	15	**19.7**	22.1
Property, plant and equipment	16	**69.6**	86.3
Investments in joint ventures	13	**8.0**	6.8
Investment in associate	14	**–**	3.2
Deferred tax asset	17	**21.7**	17.6
		145.8	162.8
Current assets			
Inventories	18	**110.6**	99.1
Trade and other receivables	19	**58.1**	74.7
Current tax assets		**1.0**	–
Derivative financial instruments	22	**7.3**	–
Cash and cash equivalents	20	**17.6**	1.8
		194.6	175.6
Total assets		**340.4**	338.4
Current liabilities			
Trade and other payables	23	**(123.3)**	(123.8)
Borrowings	21	**(3.5)**	(1.9)
Current tax liabilities		**(0.5)**	(0.1)
Derivative financial instruments	22	**(0.3)**	(1.3)
Short term provisions	24	**(21.4)**	(24.5)
		(149.0)	(151.6)
Non-current liabilities			
Trade and other payables	23	**(28.1)**	(29.0)
Borrowings	21	**(46.5)**	(20.0)
Retirement benefit obligations	29	**(61.6)**	(52.7)
Long term provisions	24	**(16.4)**	(12.4)
		(152.6)	(114.1)
Total liabilities		**(301.6)**	(265.7)
Net assets		**38.8**	72.7
Equity attributable to equity holders of the parent			
Share capital	25	**44.3**	44.3
Share premium account		**6.2**	6.2
Other reserve		**6.2**	50.8
Own shares	25	**(0.6)**	(2.1)
Translation and hedging reserve		**0.3**	–
Retained deficit		**(17.6)**	(26.5)
Total equity		**38.8**	72.7

Approved by the board and authorised for issue on 22 May 2013 and signed on its behalf by:

Simon Calver
Chief Executive Officer

Matt Smith
Chief Financial Officer

Consolidated statement of changes in equity
For the 52 weeks ended 30 March 2013

	Equity attributable to equity holders of the parent						
	Share capital £ million	Share premium account £ million	Other reserve[1] £ million	Own shares £ million	Translation and hedging reserve £ million	Retained earnings £ million	**Total equity £ million**
Balance at 1 April 2012	44.3	6.2	50.8	(2.1)	–	(26.5)	72.7
Other comprehensive expense for the period	–	–	–	–	0.3	(13.0)	(12.7)
Loss for the period	–	–	–	–	–	(22.0)	(22.0)
Total comprehensive income/(expense) for the period	–	–	–	–	0.3	(35.0)	(34.7)
Transfer between reserves	–	–	(44.6)	–	–	44.6	–
Credit to equity for equity-settled share-based payments	–	–	–	–	–	0.8	0.8
Shares transferred to employees on vesting	–	–	–	1.5	–	(1.5)	–
Balance at 30 March 2013	**44.3**	**6.2**	**6.2**	**(0.6)**	**0.3**	**(17.6)**	**38.8**

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
Other comprehensive expense for the period	–	–	–	–	(0.1)	(17.1)	(17.2)
Loss for the period	–	–	–	–	–	(91.8)	(91.8)
Total comprehensive expense 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**

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

Consolidated cash flow statement
For the 52 weeks ended 30 March 2013

	Note	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 Restated* £ million
Net cash flow from operating activities	26	**6.8**	5.6
Cash flows from investing activities			
Interest received		–	0.9
Purchase of property, plant and equipment		**(13.2)**	(21.7)
Purchase of intangibles – software		**(3.0)**	(3.2)
Proceeds from sale of property, plant and equipment		**2.2**	2.3
Investments in joint ventures and associates		**(1.8)**	(5.7)
Net cash used in investing activities		**(15.8)**	(27.4)
Cash flows from financing activities			
Interest paid		**(2.8)**	(1.3)
Facility fees paid		**(1.4)**	–
Bank loans raised		**30.0**	20.0
Equity dividends paid		–	(11.9)
Issue of ordinary share capital		–	0.3
Net cash raised in financing activities		**25.8**	7.1
Net increase/(decrease) in cash and cash equivalents		**16.8**	(14.7)
Cash and cash equivalents at beginning of period		**(0.1)**	15.3
Effect of foreign exchange rate changes		**0.9**	(0.7)
Net cash and cash equivalents/(debt) at end of period		**17.6**	(0.1)

* The cash flow statement for the 53 weeks ended 31 March 2012 has been restated to give a better understanding of the movement in provisions and their impact on exceptional items.

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 121. The nature of the group's operations and its principal activities are set out in note 5 and in the business review on pages 22 to 39.

These financial statements are presented in UK pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out in note 2.

2. Significant accounting policies

Basis of presentation

The group's accounting period covers the 52 weeks ended 30 March 2013. The comparative period covered the 53 weeks ended 31 March 2012.

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.

Adoption of new and revised Standards

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

New standards affecting presentation and disclosure

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.

- Amendments to IAS 12 'Deferred Tax: Recovery of Underlying Assets'
- IFRS 7 (amended): 'Financial instruments disclosures'

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 IAS 1 'Presentation of items of other comprehensive income'
- Annual improvements to IFRSs – (2009-2011) Cycle
- Amendments to IFRS 7 and IAS 32 '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'
- Amendments to IFRS 10, IFRS 12 and IAS 27 'Investment entities'
- IAS 19 (Revised) 'Employee benefits'
- IAS 27 (Revised) 'Separate Financial Statements'
- IAS 28 (Revised) 'Investments in Associates and Joint Ventures'

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 impact of these changes is shown within the financial review.

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 40. The principal accounting policies are set out on the following pages.

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 30 March 2013. 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 despatch.

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.

Notes to the consolidated financial statements continued

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, provision for onerous leases, 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.

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.

Hedge accounting

The group designates its interest rate swaps as cash flow hedges. At the inception of the hedge relationship, the group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Changes in the fair value of financial instruments designated as effective are recognised in the comprehensive income statement and any ineffective portion is recognised immediately in the income statement. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item.

Movements in the hedging reserve in equity are detailed in note 22.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in other comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

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

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

Financial liabilities and equity

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

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective 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.

2. Significant accounting policies continued

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 and interest rate swaps to mitigate the risk of movements in interest rates. The group's financial risk management policy prohibits the use of derivative financial instruments for speculative or trading purposes and the group does not therefore hold or issue any such instruments for such purposes. Derivative financial instruments that are economic hedges that do not meet the strict IAS 39 'Financial Instruments: Recognition and Measurement' hedge accounting rules are accounted for as financial assets or liabilities at fair value through profit or loss and hedge accounting is not applied. Forward foreign currency contracts are recognised initially at fair value, which is updated at each balance sheet date. Changes in the fair values are recognised in the income statement. The interest rate swaps in place are considered an effective cashflow hedge and are accounted for by recognising the gain/loss on the hedge through reserves rather than the income statement, removing volatility within 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.

Interest rate risk

The group has drawn down on its term borrowing facility. Following the group refinancing the group now hedges all of the floating interest rate on this term facility using interest rate swaps.

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 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 30 March 2013, the group's pension liability was £61.6 million (2012: £52.7 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 (2012: £26.8 million).

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

Property provisions

Descriptions of the provisions held at the balance sheet date are given in 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

Provision 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. 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:

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Revenue	**749.4**	812.7
Interest revenue (note 8)	**0.2**	0.9
Total revenue	**749.6**	813.6

Financial statements

5. Segmental information

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

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

	52 weeks ended 30 March 2013			
	UK £ million	International £ million	Unallocated corporate expenses £ million	Consolidated £ million
Revenue				
External sales	499.7	249.7	–	749.4
Result				
Segment result (underlying)	(21.7)	42.0	(7.8)	12.5
Share-based payments				(0.9)
Non-cash foreign currency adjustments (non-underlying)				6.9
Amortisation of intangible assets (non-underlying)				(1.0)
Exceptional items (note 6)				(35.3)
Loss from operations				(17.8)
Net finance costs (including £0.4 million non-underlying)				(3.7)
Loss before taxation				(21.5)
Taxation				(0.5)
Loss for the period				(22.0)

	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				(0.6)
Non-cash foreign currency adjustments (non-underlying)				2.0
Amortisation of intangible assets (non-underlying)				(2.0)
Exceptional items (note 6)				(104.4)
Loss from operations				(102.4)
Net finance costs (including £0.1 million non-underlying)				(0.5)
Loss before taxation				(102.9)
Taxation				11.1
Loss for the period				(91.8)

5. Segmental information continued

Revenues are attributed to countries on the basis of the customer's location. The largest international customer represents approximately 15.2% (2012: 13.8%) of group sales.

	52 weeks ended 30 March 2013		
	UK £ million	International £ million	Consolidated £ million
Other information			
Capital additions	10.6	1.9	12.5
Depreciation and amortisation	17.5	3.9	21.4
Balance sheet			
Assets			
Segment assets	204.7	96.4	301.1
Unallocated corporate assets			39.3
Consolidated total assets			340.4
Liabilities			
Segment liabilities	232.3	3.4	235.7
Unallocated corporate liabilities			65.9
Consolidated total liabilities			301.6

In addition to the depreciation and amortisation reported above, impairment losses of £4.0 million, £nil million and £0.1 million (2012: impairment losses of £9.4 million, £41.8 million and £13.2 million) were recognised in respect of property, plant and equipment, goodwill and intangible assets respectively. These impairment losses were attributable to the UK segment.

	53 weeks ended 31 March 2012		
	UK Restated* £ million	International Restated* £ 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

* 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:

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Exceptional items:		
Restructuring costs in cost of sales	**(0.2)**	(2.0)
Restructuring costs included in administrative expenses	**(4.0)**	(7.1)
Store property, plant and equipment impairment included in administrative expenses	**(1.8)**	(3.8)
Share-based payment (charge)/credit included in administrative expenses	**(0.1)**	0.8
Onerous lease provision	**(4.3)**	(11.5)
Loss on disposal/termination of property interests	**(13.8)**	(22.6)
Goodwill and intangible assets impairment (see note 15)	**–**	(55.0)
Impairment of investment in and receivables due from associate	**(11.1)**	(2.8)
Restructuring cost in associate	**–**	(0.4)
Restructuring costs in finance costs	**(0.4)**	–
Total exceptional items:	**(35.7)**	(104.4)
Other non-underlying items:		
Non-cash foreign currency adjustments under IAS 39 and IAS 21[1]	**6.9**	2.0
Amortisation of intangibles[1]	**(1.0)**	(2.0)
Unwinding of discount on exceptional property provisions included in finance costs	**–**	(0.1)
Exceptional and other non-underlying items	**(29.8)**	(104.5)

1 Included in non-underlying cost of sales is a credit of £ 5.9 million (2012: £nil million).

Restructuring costs in cost of sales
During the 52 weeks ended 30 March 2013 further costs of £0.2 million have been incurred in respect of the rationalisation in the prior year of the group's online warehousing operations (2012: £2.0 million was incurred in relation to the same rationalisation).

Restructuring costs in administration expenses
During the 52 weeks ended 30 March 2013 a charge of £4.0 million (2012: £7.1 million) was recognised relating to further head office restructuring, the impact of the write-off of redundant IT system assets, partly offset by a curtailment gain arising on the closure of the group's defined pension scheme (see note 29).

Store property, plant and equipment impairment included in administration expenses
During the 52 weeks ended 30 March 2013 the group has made provision of £1.8 million (2012: £3.8 million) 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 charge included in administrative expenses
During the 52 weeks ended 30 March 2013 a £0.1 million charge was recognised in respect of leavers from the executive incentive share schemes (2012: credit of £0.8 million).

Onerous lease provision
A provision of £4.3 million has been made for onerous leases relating to vacant, sub-let and trading properties having taken into consideration the results for the year, and the continued pressure on the UK store portfolio (2012: £11.5 million). 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 1.8% has been used in calculating the provision, being the risk-free rate.

Loss on disposal/termination of property interests
During the 52 weeks ended 30 March 2013 a net charge of £13.8 million (2012: £22.6 million) has been recognised in loss from operations relating to losses on disposal/termination of property interests relating to the store reduction programme announced in April 2012.

6. Exceptional and other non-underlying items continued

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 no further impairment is required (2012: £55.0 million).

Impairment of investment in associate

Mothercare owned approximately 23% in Mothercare Australia Limited, a listed company in Australia which was treated as an associate in the consolidated accounts of Mothercare plc. Following a significant and sustained deterioration of local trading conditions in Australia, the group made a provision of £10.6 million at the time of the interim statement, covering the remaining value of its investment in and other receivables due from Mothercare Australia Limited. Following unsuccessful negotiations with potential buyers the directors of Mothercare Australia Limited placed the business into voluntary administration in January 2013. Since then further costs of £0.5 million have been incurred in respect of storage, additional freight and additional legal costs.

7. Profit/(loss) from retail operations

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

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Net total foreign exchange gains	**(12.0)**	(5.2)
Cost of inventories recognised as an expense	**458.7**	491.8
Write down/(release) of inventories to net realisable value	**1.7**	(0.5)
Depreciation of property, plant and equipment	**15.8**	16.2
Amortisation of intangible assets – software	**4.6**	4.6
Amortisation of intangible assets – other included in non-underlying cost of sales	**1.0**	2.0
Impairment of property, plant and equipment	**1.8**	3.8
Loss on disposal of property, plant and equipment	**0.4**	0.7
Net rent of properties	**54.2**	65.4
Amortisation of lease incentives	**(4.9)**	(5.2)
Hire of plant and equipment	**1.3**	1.9
Staff costs (including directors):		
Wages and salaries (including cash bonuses, excluding share-based payment charges)	**77.2**	85.8
Social security costs	**4.5**	5.3
Pension costs (see note 29)	**4.1**	2.5
Share-based payment charges/(credit) (see note 28)	**0.9**	(0.2)
Exceptional costs included in cost of sales (see note 6)	**0.2**	2.0
Exceptional costs included in administrative expenses (see note 6)	**4.0**	7.1

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

	52 weeks ended 30 March 2013 number	53 weeks ended 31 March 2012 number
Number of employees comprising:		
UK stores	**5,264**	5,890
Head office	**711**	779
Overseas	**251**	274
	6,226	6,943
Full time equivalents	**3,959**	4,350

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 52 to 66.

For the 52 weeks ended 30 March 2013, profit from retail operations is stated after a non-underlying net credit of £6.9 million (2012: £2.0 million credit) to cost of sales as a result of non-cash foreign currency adjustments under IAS 39 and IAS 21.

The analysis of auditor's remuneration is as follows:

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ 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
Tax compliance services	**0.1**	–
Other services	**–**	0.2
Total non-audit fees	**0.1**	0.2

Other services were £nil million (2012: £0.2 million includes 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 46, in the corporate governance report.

8. Net finance costs

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Interest receivable	**(0.2)**	(0.9)
Interest and bank fees on bank loans and overdrafts	**3.9**	1.3
Unwinding of discounts on provisions	**–**	0.1
Net finance costs	**3.7**	0.5

9. Taxation

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

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Current tax:		
Current year	**1.4**	(2.1)
Adjustment in respect of prior periods	**0.3**	(2.4)
	1.7	(4.5)
Deferred tax: (see note 17)		
Current year	**(1.1)**	(6.5)
Change in tax rate in respect of prior periods	**–**	(0.5)
Adjustment in respect of prior periods	**(0.1)**	0.4
	(1.2)	(6.6)
Charge/(credit) for taxation on loss for the period	**0.5**	(11.1)

UK corporation tax is calculated at 24% (2012: 26%) of the estimated assessable loss for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Loss for the period before taxation	**(21.5)**	(102.9)
Loss for the period before taxation multiplied by the standard rate of corporation tax in the UK of 24% (2012: 26%)	**(5.2)**	(26.7)
Effects of:		
Expenses not deductible for tax purposes	**5.1**	15.4
Change in tax rate	**0.1**	0.2
Impact of overseas tax rates	**(0.5)**	(0.2)
Utilisation of tax losses not previously recognised against capital gains	**–**	0.3
Adjustment in respect of prior periods	**0.2**	(2.0)
Impact of write-off of prior year deferred tax asset	**0.8**	1.9
Charge/(credit) for taxation on loss for the period	**0.5**	(11.1)

In addition to the amount charged to the income statement, deferred tax relating to retirement benefit obligations amounting to £3.0 million has been credited directly to other comprehensive income (2012: £4.1 million).

10. Dividends

	52 weeks ended 30 March 2013		53 weeks ended 31 March 2012	
	pence per share	£ million	pence per share	£ million
Amounts recognised as distributions to equity holders in the period				
Final dividend for the prior period	**Nil**	**–**	11.9p	10.1
Interim dividend for the current period	**Nil**	**–**	2.0p	1.8
		–		11.9

The directors are not recommending the payment of a final dividend for the year (2012: £nil) and no interim dividend was paid during the year (2012: 2.0 pence per share).

Notes to the consolidated financial statements
continued

11. Earnings per share

	52 weeks ended 30 March 2013 million	53 weeks ended 31 March 2012 million
Weighted average number of shares in issue	**88.5**	87.2
Dilution – option schemes (for underlying results only)	**1.1**	1.7
Diluted weighted average number of shares in issue	**89.6**	88.9
	£ million	£ million
Loss for basic and diluted earnings per share	**(22.0)**	(91.8)
Exceptional and other non-underlying items (note 6)	**29.8**	104.5
Tax effect of above items	**(2.3)**	(11.1)
Underlying earnings	**5.5**	1.6
	pence	pence
Basic loss per share	**(24.9)**	(105.2)
Basic underlying earnings per share	**6.2**	1.8
Diluted loss per share	**(24.9)**	(105.2)
Diluted underlying earnings per share	**6.1**	1.8

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

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Investments at start of period	**6.8**	3.2
Additions	**1.8**	4.5
Share of loss	**(0.6)**	(0.9)
Investments at end of period	**8.0**	6.8
Summary aggregate financial results and position of joint ventures:		
Current assets	**22.5**	14.9
Non-current assets	**7.2**	4.8
Total assets	**29.7**	19.7
Current liabilities	**(13.3)**	(8.2)
Non-current liabilities	**–**	–
Total liabilities	**(13.3)**	(8.2)
Total joint venture revenue	**45.3**	25.5
Total loss for the period	**(2.0)**	(3.1)

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

During the year the group made additional investments in Mothercare-Goodbaby China Retail Limited of (£1.1 million), Rhea Retail Private Limited (£0.5 million) and Juno Retail Private Limited (£0.2 million).

14. Investments in associate

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Investment at start of period	**3.2**	7.2
Additions	–	1.5
Share of loss	**(0.8)**	(2.7)
Impairment	**(2.4)**	(2.8)
Investment at end of period	–	3.2
Summary financial results and position of associates:		
Current assets	–	17.9
Non-current assets	–	15.6
Total assets	–	33.5
Current liabilities	–	(17.7)
Non-current liabilities	–	(3.4)
Total liabilities	–	(21.1)
Total revenue for the period	**14.8**	51.1
Total loss for the period	**(2.7)**	(11.3)

Details of the associate are as follows:

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

Mothercare owned approximately 23% in Mothercare Australia Limited, a listed company in Australia which was treated as an associate in the consolidated accounts of Mothercare plc. Following a significant and sustained deterioration of local trading conditions in Australia, the group made a provision of £10.6 million at the time of the interim statement, covering the remaining value of its investment in and other receivables due from Mothercare Australia Limited. Following unsuccessful negotiations with potential buyers the directors of Mothercare Australia Limited placed the business into voluntary administration in January 2013.

As at 30 March 2013, Mothercare Australia Limited was being managed by the administrators and the Company does not have access to the financial information of Mothercare Australia Limited and therefore the summary financial position has not been provided.

15. Goodwill and intangible assets

		Intangible assets				
	Goodwill £ million	Trade name £ million	Customer relationships £ million	Software £ million	Software under development £ million	Total £ million
Cost						
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 1 April 2012	68.6	28.8	5.7	29.6	–	64.1
Transfers from property, plant and equipment	–	–	–	4.1	–	4.1
Additions	–	–	–	2.8	0.2	3.0
Disposals	–	–	–	(10.1)	–	(10.1)
As at 30 March 2013	**68.6**	**28.8**	**5.7**	**26.4**	**0.2**	**61.1**
Amortisation and impairment losses						
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 1 April 2012	41.8	18.3	5.0	18.7	–	42.0
Impairment losses	–	0.1	–	–	–	0.1
Amortisation	–	0.9	0.1	4.6	–	5.6
Disposals	–	–	–	(6.3)	–	(6.3)
As at 30 March 2013	**41.8**	**19.3**	**5.1**	**17.0**	**–**	**41.4**
Net book value						
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
As at 30 March 2013	**26.8**	**9.5**	**0.6**	**9.4**	**0.2**	**19.7**

Goodwill, trade name and customer relationships relate to the acquisition of 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, 2012: nil) and International (£26.8 million, 2012: £26.8 million). These segments 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 8.8% (2012: 9.83%) 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 (2012: 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.

Notes to the consolidated financial statements continued

15. Goodwill and intangible assets continued

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 and intangible assets would be reduced to a lower amount.

Software

Software additions include £0.9 million (2012: £1.5 million) of internally generated intangible assets.

At 30 March 2013, the group had entered into contractual commitments for the acquisition of software amounting to £0.4 million (2012: £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 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 1 April 2012	10.2	121.7	209.7	10.8	352.4
Transfers	–	–	6.8	(6.8)	–
Transfers to software	–	–	–	(4.1)	(4.1)
Additions	–	4.7	3.5	1.3	9.5
Disposals	(2.3)	(25.9)	(113.1)	–	(141.3)
As at 30 March 2013	**7.9**	**100.5**	**106.9**	**1.2**	**216.5**
Accumulated depreciation and impairment					
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 1 April 2012	2.6	93.8	169.7	–	266.1
Charge for period	–	4.3	11.5	–	15.8
Impairment	–	2.1	1.9	–	4.0
Disposals	(0.1)	(25.8)	(113.1)	–	(139.0)
As at 30 March 2013	**2.5**	**74.4**	**70.0**	**–**	**146.9**
Net book value					
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
As at 30 March 2013	**5.4**	**26.1**	**36.9**	**1.2**	**69.6**

The net book value of leasehold properties includes £25.6 million (2012: £27.5 million) in respect of short leasehold properties. £1.8 million of the impairment on property, plant and equipment has been included within non-underlying administration expenses and the remaining £2.2 million is included within loss on disposal/termination of property interests.

At 31 March 2013, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.7 million (2012: £3.6 million).

Freehold land and buildings with a carrying amount of £5.4 million (2012: £7.6 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 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
Credit to other comprehensive income	–	–	4.1	–	–	–	4.1
At 1 April 2012	(1.6)	7.9	12.6	–	(2.0)	0.7	17.6
Credit/(charge) to income	2.4	(0.4)	(1.4)	0.2	0.2	0.2	1.2
Transfer to current tax	–	–	–	–	–	(0.1)	(0.1)
Credit to other comprehensive income	–	–	3.0	–	–	–	3.0
At 30 March 2013	**0.8**	**7.5**	**14.2**	**0.2**	**(1.8)**	**0.8**	**21.7**

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:

	30 March 2013 £ million	31 March 2012 £ million
Deferred tax assets	**27.1**	23.4
Deferred tax liabilities	**(5.4)**	(5.8)
	21.7	17.6

At the balance sheet date the group has unused tax losses of £3.6 million (2012: £2.8 million) available for offset against future profits. A deferred tax asset has been recognised of £0.8 million in respect of £3.6 million (2012: £0.7 million in respect of £2.8 million) of such losses.

At the reporting date, deferred tax liabilities of £0.2 million (2012: £0.8 million) relating to withholding taxes have not been provided in respect of the aggregate amount of unremitted earnings of £11.0 million (2012: £5.9 million) in respect of subsidiaries and joint ventures. 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 30 March 2013, the group has unused capital losses of £636.0 million (2012: £662.5 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

	30 March 2013 £ million	31 March 2012 £ million
Gross value	**117.2**	104.0
Allowance against carrying value of inventories	**(6.6)**	(4.9)
Finished goods and goods for resale	**110.6**	99.1

The amount of write-down of inventories to net realisable value recognised within net income in the period is £1.7 million (2012: net income of £0.5 million).

19. Trade and other receivables

	30 March 2013 £ million	31 March 2012 £ million
Trade receivables gross	**38.9**	48.8
Allowance for doubtful debts	**(1.8)**	(1.6)
Trade receivables net	**37.1**	47.2
Prepayments and accrued income	**17.4**	19.0
Other receivables	**3.6**	7.1
Trade and other receivables due within one year	**58.1**	73.3

	30 March 2013 £ million	31 March 2012 £ million
Trade and other receivables due after more than one year	**–**	1.4

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

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Balance at beginning of period	**(1.6)**	(1.4)
Charged in the period	**(0.2)**	(0.2)
Balance at end of period	**(1.8)**	(1.6)

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.

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

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

	30 March 2013 £ million	31 March 2012 £ million
Trade receivables gross	**38.9**	50.2
Allowance for doubtful debts	**(1.8)**	(1.6)
Trade receivables net	**37.1**	48.6
Of which trade receivables gross comprise:		
Amounts not past due on the reporting date	**35.2**	44.1
Amounts past due:		
Less than one month	**2.0**	1.3
Between one and three months	**0.7**	2.2
Between three and six months	**0.6**	1.2
Greater than six months	**0.4**	1.4
Allowance for doubtful debts:		
Amounts not past due on the reporting date	**(0.5)**	(0.3)
Less than one month	**(0.2)**	–
Between one and three months	**–**	–
Between three and six months	**(0.5)**	(0.3)
Greater than six months	**(0.6)**	(1.0)
Trade accounts receivable net carrying amount	**37.1**	48.6

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 30 March 2013 of £50.0 million (2012: £21.9 million).

Committed borrowing facilities

The group 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 comprise a £50 million term loan and a £40 million revolving credit facility of which £10 million is available to be utilised in the form of an overdraft. At the year end £50 million had been drawn down against the facility as a term loan. The term loan carries a fixed interest rate at 4.0% per annum over LIBOR. The group hedges all of this floating interest rate risk using an interest rate swap exchanging variable rate interest for fixed rate interest.

	30 March 2013 £ million	31 March 2012 £ million
Borrowings:		
Unsecured borrowings at amortised cost:		
Bank overdrafts (net of cash in transit)	**–**	(1.9)
Secured borrowings at amortised cost:		
Committed facility	**(50.0)**	(20.0)
Amount due for settlement within one year	**(3.5)**	(1.9)
Amount due for settlement after one year	**(46.5)**	(20.0)
Total borrowings	**(50.0)**	(21.9)
Weighted average interest rate paid (%)	**4.68**	2.24

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 group manages its capital to ensure that entities in the group will be able to continue as a going concern 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.

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 and through the natural offset of sales and purchases denominated in foreign currency.

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 33% (2012: 31%) of group sales. Of these sales, 35% (2012: 23%) were invoiced in foreign currency. The group purchases product in foreign currencies, representing approximately 51% (2012: 46%) of purchases.

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

	30 March 2013 £ million	31 March 2012 £ million
Foreign currency forward exchange contracts:		
Not later than one year	118.5	110.7
After one year but not more than five years	6.1	9.5
	124.6	120.2

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

	Liabilities		Assets	
	30 March 2013 £ million	31 March 2012 £ million	30 March 2013 £ million	31 March 2012 £ million
US dollar	(4.0)	(5.0)	6.2	14.4
Euro	–	(0.2)	0.4	2.4
Hong Kong dollar	(3.7)	(2.0)	0.7	0.4
Indian rupee	(1.0)	(0.2)	1.9	1.2
Chinese renminbi	(0.3)	(0.6)	0.2	0.2
Bangladeshi taka	–	–	0.2	–
Australian dollar	–	–	0.3	–
Singapore dollar	–	–	0.1	0.1
	(9.0)	(8.0)	10.0	18.7

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

	30 March 2013 £ million	31 March 2012 £ million
At notional value	124.6	120.2
At fair value – less than one year	6.9	(1.1)
At fair value – more than one year	0.4	(0.1)
Total fair value	7.3	(1.2)

At 30 March 2013, the average hedged rate for outstanding forward foreign currency contracts is 1.61 for US dollars. There were no forward contracts in place for any other currencies at the year end. These contracts mature between April 2013 and April 2014. 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 £nil million (2012: £0.1 million below notional value).

Notes to the consolidated financial statements continued

22. Risks arising from financial instruments continued

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.

	30 March 2013 £ million	31 March 2012 £ million
US dollar impact	**(6.9)**	(9.9)

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 £17.6 million and derivative financial assets.

The average credit period on trade receivables was 19 days (2012: 21 days) based on total group revenue. The average credit period on International trade receivables based on international revenue was 57 days (2012: 67 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 and monitoring covenant compliance and headroom. 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 term loan and the revolving credit facility. The group's sensitivity to interest rates has decreased during the current period, mainly due to the use of interest rates swaps to swap floating rate debt to fixed rate debt. Under interest rate swaps the group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contact and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The total amounts of term borrowings on which outstanding interest rate swap contracts have been taken out and to which the group is committed is as follows:

	30 March 2013 £ million	31 March 2012 £ million
Notional value of term borrowings	50.0	–
Interest rate swaps at fair value	(0.3)	–

	Average contract fixed interest rate		Notional principal value		Fair value	
	30 March 2013 %	31 March 2012 %	30 March 2013 £ million	31 March 2012 £ million	30 March 2013 £ million	31 March 2012 £ million
Tranche 1	1.131	–	20.0	–	(0.2)	–
Tranche 2	1.040	–	20.0	–	(0.1)	–
Tranche 3	0.69	–	10.0	–	–	–
			50.0	–	(0.3)	–

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months LIBOR. The group settles the difference between the fixed and floating rate on a net basis.

All interest rate swap contracts exchanging floating rate interest for fixed rate interest are designated and effective as cash flow hedges to reduce the group's cash flow exposure resulting from variable interest rates on the term loan. During the period the hedge was considered 100% effective in hedging the fair value exposure to interest rate movements.

23. Trade and other payables

	30 March 2013 £ million	31 March 2012 £ million
Current liabilities		
Trade payables	70.3	71.0
Payroll and other taxes including social security	1.8	2.3
Accruals and deferred income	43.4	43.7
VAT payable	2.8	2.0
Lease incentives	5.0	4.8
	123.3	123.8
Non-current liabilities		
Lease incentives	28.1	29.0

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 57 days (2012: 53 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

	30 March 2013 £ million	31 March 2012 £ million
Current liabilities		
Property provisions	**20.5**	24.1
Other provisions	**0.9**	0.4
Short term provisions	**21.4**	24.5
Non-current liabilities		
Property provisions	**15.4**	12.0
Other provisions	**1.0**	0.4
Long term provisions	**16.4**	12.4
Property provisions	**35.9**	36.1
Other provisions	**1.9**	0.8
Total provisions	**37.8**	36.9

The movement on total provisions is as follows:

	Property provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 1 April 2012	36.1	0.8	36.9
Utilised in period	(16.9)	(0.2)	(17.1)
Charged in period	20.8	1.3	22.1
Released in period	(4.1)	–	(4.1)
Balance at 30 March 2013	**35.9**	**1.9**	**37.8**

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 two financial years.

Other provisions represent provisions for uninsured losses (£1.5 million), hence the timing of the utilisation of these provisions is uncertain and provisions for an onerous support contract for a decommissioned IT project (£0.4 million) which is expected to be utilised over the next four financial years.

25. Share capital

	52 weeks ended 30 March 2013 Number of shares	53 weeks ended 31 March 2012 Number of shares	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Issued and fully paid				
Ordinary shares of 50 pence each:				
Balance at beginning of period	**88,636,762**	88,540,219	**44.3**	44.3
Issued under the Mothercare Sharesave Scheme	**16,655**	96,543	**–**	–
Balance at end of period	**88,653,417**	88,636,762	**44.3**	44.3

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

The own shares reserve of £0.6 million (2012: £2.1 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 108,497 (2012: 443,545) with a market value at 30 March 2013 of £0.3 million (2012: £0.7 million).

26. Reconciliation of cash flow from operating activities

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 Restated* £ million
Profit/(loss) from retail operations	**12.8**	(6.9)
Adjustments for:		
Depreciation of property, plant and equipment	**15.8**	16.2
Amortisation of intangible assets	**5.6**	6.6
Impairment of property, plant and equipment and intangible assets	**1.9**	3.8
Losses on disposal of property, plant and equipment and intangible assets	**4.2**	0.7
Profit on non-underlying non-cash foreign currency adjustments	**(6.9)**	(2.0)
Equity-settled share-based payments	**0.8**	0.5
Movement in provisions	**(15.4)**	(8.0)
Cash payments for non-underlying property disposals and other exceptional items	**–**	(0.7)
Amortisation of lease incentives	**(4.9)**	(5.2)
Lease incentives received	**3.5**	3.5
Payments to retirement benefit schemes	**(7.2)**	(8.0)
Charge to profit from operations in respect of retirement benefit schemes	**0.1**	1.9
Operating cash flow before movement in working capital	**10.3**	2.4
(Increase)/decrease in inventories	**(11.7)**	18.5
Decrease/(increase) in receivables	**8.5**	(9.8)
Increase/(decrease) in payables	**2.2**	(9.6)
Cash generated from operations	**9.3**	1.5
Income taxes (paid)/ received	**(2.5)**	4.1
Net cash inflow from operating activities	**6.8**	5.6

* The cash flow statement for the 53 weeks ended 31 March 2012 has been restated to give a better understanding of the movement in provisions and their impact on exceptional items.

Notes to the consolidated financial statements continued

26. Reconciliation of cash flow from operating activities continued

	1 April 2012 £ million	Cashflow £ million	Foreign exchange £ million	**30 March 2013 £ million**
Cash and cash equivalents	1.8	14.9	0.9	**17.6**
Net overdrafts	(1.9)	1.9	–	**–**
Cash and cash equivalents/(debt)	(0.1)	16.8	0.9	**17.6**

27. Operating lease arrangements

The group as lessee:

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Amounts recognised in cost of sales for the period:		
Minimum lease payments paid	**55.3**	67.4
Contingent rents	**0.4**	0.4
Minimum sub-lease payments received	**(0.2)**	(0.5)
Net rent expense for the period	**55.5**	67.3

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

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

	30 March 2013 £ million	31 March 2012 £ million
Not later than one year	**59.2**	65.2
After one year but not more than five years	**177.8**	195.6
After five years	**149.2**	185.7
Total future minimum lease payments	**386.2**	446.5

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

	30 March 2013 £ million	31 March 2012 £ million
Not later than one year	**1.4**	1.4
After one year but not more than five years	**2.7**	3.6
After five years	**1.4**	1.8
Total future minimum lease payments	**5.5**	6.8

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 £0.9 million (2012: £0.6 million), including national insurance, of which £0.8 million (2012: £0.5 million) was equity-settled. The exceptional charge for share-based payments of £0.1 million (2012: £0.8 million credit) arises in respect of leavers from the executive incentive share schemes. At 30 March 2013 the liability in the balance sheet is £0.2 million related to the expected national insurance charge when share-based payment schemes vest (2012: £0.1 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

G. Long Term Incentive Plan

Details of the share schemes that the group operates are provided in the directors' remuneration report on pages 52 to 66.

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	**52 weeks ended 30 March 2013 Number of shares**	53 weeks ended 31 March 2012 Number of shares
Balance at beginning of period	**326p**	**30,000**	30,000
Lapsed during the period	**335p**	**(7,500)**	–
Balance at end of period	**324p**	**22,500**	30,000

The options outstanding at 30 March 2013 had a weighted average remaining contractual life of 1.4 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 days prior to the offer date, less 20%.

The share options can be applied for during a two-week period in the year of invitation and savings are placed in an employee Save As You Earn bank account held on trust for a three-year period.

28. Share-based payments continued

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

	Weighted average exercise price	**52 weeks ended 30 March 2013 Number of shares**	53 weeks ended 31 March 2012 Number of shares
Balance at beginning of period	**139p**	**3,186,791**	768,613
Granted during period	**242p**	**299,407**	2,752,739
Forfeited during period	**126p**	**(234,320)**	(34,216)
Exercised during period	**123p**	**(16,655)**	(96,543)
Cancelled in the period	**130p**	**(197,200)**	(161,811)
Expired during period	**225p**	**(444,211)**	(41,991)
Balance at end of period	**138p**	**2,593,812**	3,186,791

The shares outstanding at 30 March 2013 had a weighted average remaining contractual life of 2.5 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 2012	December 2011	December 2009
Number of options granted	299,407	2,752,739	230,951
Share price at grant date	340p	159p	676p
Exercise price	242p	115p	497p
Expected volatility	50.0%	43.1%	30.0%
Risk-free rate	0.46%	0.58%	3.00%
Expected dividend yield	Nil	3.00%	3.00%
Time to expiry	3.25 years	3.25 years	3.25 years
Fair value of option	158.5p	56.4p	172.9p

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 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
Market capitalisation at award date	£449.0m	£562.7m
Expected Mothercare share price volatility	30.0%	30.0%
Expected Index volatility	30.0%	30.0%
Risk-free rate	2.38%	2.68%
Correlation between Mothercare and the Index	50.0%	50.0%
Time to expiry	3 years	3 years
Fair value at grant date	£1.8m	£3.0m
Fair value at 30 March 2013	£0.1m	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:

	52 weeks ended 30 March 2013 Number of shares	53 weeks ended 31 March 2012 Number of shares
Balance at beginning of period	**1,051,318**	1,332,889
Awarded during period	**–**	994,807
Lapsed during period	**(376,361)**	(1,276,378)
Balance at end of period	**674,957**	1,051,318

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 no cumulative charge has been recognised.

Grant date	November 2011	May 2011	November 2010	June 2010
Number of shares awarded	376,154	618,653	62,992	578,863
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:

	52 weeks ended 30 March 2013 Number of shares	53 weeks ended 31 March 2012 Number of shares
Balance at beginning of period	**109,709**	167,290
Lapsed during period	**(18,577)**	(57,581)
Vested during period	**(53,481)**	–
Balance at end of period	**37,651**	109,709

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	1 year	2 years

Notes to the consolidated financial statements continued

28. Share-based payments continued

F. Share Matching Scheme

During the year ended 31 March 2012, 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	December 2011	December 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	2 years	2 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.

G. Long Term Incentive Plan 2012

In March 2013 the group announced the first awards under the Mothercare plc 2012 Long Term Incentive Plan. This scheme provides the opportunity for executive directors and senior employees to earn awards which will vest in whole or part subject to the achievement of stretching corporate performance conditions supporting the Transformation and Growth plan. The performance conditions relate to the group profit before tax and share price performance. In addition the UK business must break even in the financial year ending 2015 or 2016. The performance period is from 1 April 2012 to 28 March 2015 and the performance conditions will be tested in relation to the financial year 2015 results to determine what percentage of the shares vest. No consideration is payable for the grant of these awards.

Grant date	March 2013	March 2013
	PBT awards	Share price awards
Number of shares awarded	1,152,153	1,152,154
Share price at date of grant	289p	289p
Exercise price	Nil	Nil
Expected volatility	57.8%	57.8%
Risk-free rate	0.28%	0.28%
Expected dividend yield	Nil	Nil
Fair value of shares granted	289p	130p
Average time to expiry	2.5 years	2.5 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 the income statement of £0.5 million (2012: £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.

On 1 October 2012 Mothercare began consultation with members of the Mothercare Staff Pension Scheme and the Mothercare Executive Pension Schemes to:

- Close the Mothercare Staff & Executive Pension Schemes to future accrual of benefits from 30 March 2013
- Break any final salary link so the pension will be based on pensionable salary (Staff scheme) or final pensionable salary (Executive scheme) as defined in the Scheme rules as at 30 March 2013
- Introduce a replacement pension scheme with a different contribution structure

This consultation ended on 18 January 2013. Having given all representations made due consideration, the Company felt it had no option but to make the changes above in order to best protect the benefits that members have already accumulated in the schemes. Therefore the Mothercare Staff Pension Scheme and the Mothercare Executive Pension Schemes have been closed with effect from 30 March 2013.

The most recent full actuarial valuations as at March 2011 were updated as at 30 March 2013 for the purpose of these disclosures with the advice of professionally qualified actuaries. The present value of the defined benefit obligation, the related current service cost and the past service cost were measured using the projected unit credit method.

The IAS 19 valuation conducted for the period ending 30 March 2013 disclosed a net defined pension deficit of £61.6 million (2012: £52.7 million).

The major assumptions used in the updated actuarial valuations were:

	30 March 2013	31 March 2012
Discount rate	**4.6%**	4.9%
Inflation rate – RPI	**3.4%**	3.3%
Inflation rate – CPI	**2.4%**	2.3%
Future pension increases	**3.3%**	3.2%
Expected rate of salary increases (note 1)	**n/a**	3.3%
Expected return on schemes' assets (note 2)	**n/a**	6.0%
Analysed between:		
Equities	**n/a**	7.3%
Bonds	**n/a**	4.7%
Property	**n/a**	5.3%
Alternative assets	**n/a**	6.3%
Other assets	**n/a**	4.7%

1 Following the closure of the Scheme to future benefit accrual, a salary increase assumption is not required.
2 As a result of changes to IAS 19 which will be effective for the year ended March 2014 an expected return assumption at 30 March 2013 is not applicable, as this will not be used to measure the return on assets going forward.

Notes to the consolidated financial statements
continued

29. Retirement benefit schemes continued

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

The mortality assumptions used are the SAPS tables published by the CMI allowing for future improvements in line with the CMI 2010 projections with a long term annual rate of improvement of 1%.

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%	–/+7.0
Rate of price inflation	+/– 0.1%	+/– 6.2
Life expectancy	+ 1 year	+ 9.3

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

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Current service cost	**2.4**	2.3
Interest cost	**13.2**	13.5
Expected return on schemes' assets	**(12.2)**	(13.7)
Gains on curtailment	**(3.3)**	(0.2)
	0.1	1.9

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 £12.2 million (2012: a gain of £13.7 million) with a resulting actuarial gain of £5.9 million (2012: loss of £8.5 million).

There was an actuarial loss of £21.9 million (2012: a loss of £12.7 million) relating to the defined benefit obligations.

The amount recognised in other comprehensive income for the period ended 30 March 2013 is a loss of £16.0 million (2012: a loss of £21.2 million).

The total cumulative actuarial loss recognised in other comprehensive income is £69.3 million (2012: £53.3 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:

	30 March 2013 £ million	31 March 2012 £ million
Present value of defined benefit obligations	**296.4**	270.0
Fair value of schemes' assets	**(234.8)**	(217.3)
Liability recognised in balance sheet	**61.6**	52.7

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

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
At beginning of period	270.0	246.0
Service cost	2.4	2.3
Gains on curtailments	(3.3)	(0.2)
Interest cost	13.2	13.5
Contribution from scheme members	1.2	1.5
Actuarial losses	21.9	12.7
Benefits paid	(9.0)	(5.8)
At end of period	296.4	270.0

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

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
At beginning of period	217.3	208.4
Expected return on schemes' assets	12.2	13.7
Actuarial gains/(losses)	5.9	(8.5)
Company contributions	7.2	8.0
Members' contributions	1.2	1.5
Benefits paid	(9.0)	(5.8)
At end of period	234.8	217.3

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

	30 March 2013 per cent	30 March 2013 £ million	31 March 2012 per cent	31 March 2012 £ million
Equities	n/a	84.7	7.3	84.6
Bonds	n/a	76.5	4.7	63.1
Property	n/a	21.1	5.3	24.5
Alternative assets	n/a	47.2	6.3	33.7
Other assets	n/a	5.3	4.7	11.4
		234.8		217.3

As a result of changes to IAS 19 which will be effective for the year ending March 2014, an expected return assumption at 30 March 2013 is not required.

29. Retirement benefit schemes continued

The history of experience adjustments is as follows:

	52 weeks ended 30 March 2013	53 weeks ended 31 March 2012	52 weeks ended 26 March 2011	52 weeks ended 27 March 2010	52 weeks ended 28 March 2009
Present value of defined benefit obligations	**£296.4m**	£270.0m	£246.0m	£252.1m	£175.6m
Fair value of schemes' assets	**(£234.8m)**	(£217.3m)	(£208.4m)	(£197.0m)	(£150.2m)
Deficit in the schemes	**£61.6m**	£52.7m	£37.6m	£55.1m	£25.4m
Experience adjustments on schemes' liabilities	**£21.9m**	£12.7m	(£19.0m)	£66.0m	(£1.9m)
Percentage of schemes' liabilities	**7.4%**	4.7%	7.7%	26.2%	1.1%
Experience adjustments on schemes' assets	**£5.9m**	(£8.5m)	(£2.5m)	£33.9m	(£44.9m)
Percentage of schemes' assets	**2.5%**	3.9%	1.2%	17.2%	29.9%

The estimated amount of cash contributions expected to be paid to the schemes during the 52 weeks ending 29 March 2014 is £6.2 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:

52 weeks ended 30 March 2013	Sales of goods £ million	Purchase of goods £ million	Amounts owed by related parties £ million	Amounts owed to related parties £ million
Joint ventures and associates	**21.5**	**–**	**5.8**	**–**

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	–

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 at the year end. A provision of £0.8 million (2012: £0.8 million) has been made for doubtful debts in respect of the amounts owed by related parties. An amount of £8.2 million (2012: £nil) has been written off in respect of amounts owed by related parties (see note 14).

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 52 to 66.

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Short-term employee benefits	**3.1**	3.6
Post employment benefits	**0.3**	0.5
Compensation for loss of office	**0.7**	2.2
Share-based payments	**0.4**	0.5
	4.5	6.8

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
As part of the Transformation and Growth plan an in-depth organisational review was conducted to streamline the group's structure and processes. As a result of the potential restructuring a number of employees in the head office in the UK and the overseas sourcing offices are in consultation. There are likely to be additional exceptional costs of approximately £5 million in respect of the implementation of this review and these will be charged in the next financial year.

There were no other events after the balance sheet date.

Company financial statements

Contents

115 Independent auditor's report on the Company financial statements

116 Company balance sheet

117 Notes to the Company financial statements

Independent auditor's report on the company financial statements

We have audited the parent company financial statements of Mothercare plc for the 52 weeks ended 30 March 2013 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 30 March 2013;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the group financial statements of Mothercare plc for the 52 weeks ended 30 March 2013.

Ian Waller

Ian Waller (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
22 May 2013

Company balance sheet
As at 30 March 2013

	Note	30 March 2013 £ million	31 March 2012 £ million
Fixed assets			
Investments in subsidiary undertakings	3	**171.1**	214.9
		171.1	214.9
Current assets			
Debtors	4	**80.1**	50.4
Cash at bank and in hand and time deposits		**58.0**	0.3
		138.1	50.7
Creditors – amounts falling due within one year	5	**(145.1)**	(74.1)
Net current liabilities		**(7.0)**	(23.4)
Total assets less current liabilities		**164.1**	191.5
Creditors – amounts falling due after more than one year	5	**(46.5)**	(20.0)
Net assets		**117.6**	171.5
Capital and reserves attributable to equity interests			
Called up share capital	6	**44.3**	44.3
Share premium	7	**6.2**	6.2
Other reserve	7	**6.2**	50.8
Own shares	7	**(0.6)**	(2.1)
Hedging reserve	7	**(0.3)**	–
Profit and loss account	7	**61.8**	72.3
Equity shareholders' funds	8	**117.6**	171.5

Approved by the Board on 22 May 2013 and signed on its behalf by:

Simon Calver
Chief Executive Officer

Matt Smith
Chief Financial Officer

Company Registration Number: 1950509

Notes to the company financial statements

1. Significant accounting policies

Basis of presentation

The Company's accounting period covers the 52 weeks ended 30 March 2013. The comparative period covered the 53 weeks ended 31 March 2012.

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and on the going concern basis as described in the going concern statement in the Corporate Governance Report and in accordance with applicable United Kingdom law and United Kingdom generally accepted accounting standards. The principal accounting policies are presented below and have been applied consistently throughout the 52 weeks ended 30 March 2013 and the preceding 53 weeks ended 31 March 2012.

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 73.

Financial instruments

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

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 loss for the 52 weeks ended 30 March 2013 was £54.4 million (2012: profit of £57.5 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:

	30 March 2013 £ million	31 March 2012 £ million
Cost of investments (less amounts written off £153.0 million (2012: £153.0 million))	**150.2**	149.4
Loans to subsidiary undertakings	**65.5**	65.5
	215.7	214.9

Notes to the company financial statements continued

3. Investments in subsidiary undertakings continued

	£ million
Cost	
At 1 April 2012	214.9
Share-based payments to employees of subsidiaries	0.8
At 30 March 2013	215.7
Impairment	
At 1 April 2012	–
Charged during the period	(44.6)
At 30 March 2013	(44.6)
Net book value	171.1

Following an impairment review of the carrying value of investments an impairment charge of £44.6 million has been recognised in relation to subsidiary undertakings. This charge has subsequently been transferred from the profit and loss account to the other reserve.

4. Debtors

	30 March 2013 £ million	31 March 2012 £ million
Amounts due from subsidiary undertakings	**79.2**	49.8
Other debtors	**0.9**	0.6
	80.1	50.4

5. Creditors

Creditors: amounts due within one year

	30 March 2013 £ million	31 March 2012 £ million
Amounts due to subsidiary undertakings	**140.7**	56.9
Bank loans and overdrafts	**3.5**	15.8
Derivative financial instruments	**0.3**	–
Accruals and other creditors	**0.6**	1.4
	145.1	74.1

Creditors: amounts due after more than one year

	30 March 2013 £ million	31 March 2012 £ million
Bank loans and overdrafts	**46.5**	20.0
	46.5	20.0

6. Called up share capital

	Number of shares	£ million
Issued and fully paid		
Ordinary shares of 50p each:		
Balance at 1 April 2012	88,636,762	44.3
Issued under the Mothercare Sharesave Scheme	16,655	–
Balance at 30 March 2013	**88,653,417**	**44.3**

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

7. Reserves

	Share premium £ million	Other reserve £ million	Own shares £ million	Hedging reserve £ million	Profit and loss account £ million
Balance at 1 April 2012	6.2	50.8	(2.1)	–	72.3
Transfer of reserves	–	(44.6)	–	–	44.6
Cash flow hedges: losses arising in the period	–	–	–	(0.3)	–
Fair value of share-based payments	–	–	–	–	0.8
Shares transferred to employees on vesting	–	–	1.5	–	(1.5)
Loss for the financial year	–	–	–	–	(54.4)
Balance at 30 March 2013	**6.2**	**6.2**	**(0.6)**	**(0.3)**	**61.8**

The own shares reserve of £0.6 million (2012: £2.1 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 108,497 (2012: 443,545) with a market value at 30 March 2013 of £0.3 million (2012: £0.7 million).

Included in the loss for the 52 weeks ended 30 March 2013 was an impairment charge against investments in subsidiary undertakings of £44.6 million and a provision against amounts due from subsidiary undertakings of £6.5 million.

8. Reconciliation of equity shareholders' funds

	52 weeks ended 30 March 2013 £ million	53 weeks ended 31 March 2012 £ million
Equity shareholders' funds brought forward	**171.5**	125.1
Cash flow hedges: losses arising in the period	**(0.3)**	–
Dividends	**–**	(11.9)
Shares issued	**–**	0.3
Fair value of share-based payments	**0.8**	0.5
Retained (loss)/profit for the period	**(54.4)**	57.5
Equity shareholders' funds carried forward	**117.6**	171.5

Five-year record (unaudited)

	2013 £ million	2012 £ million	2011 £ million	2010 £ million	2009 Restated[4] £ million
Summary of consolidated income statements					
Revenue	**749.4**	812.7	793.6	766.4	723.6
Underlying[1] profit from operations before interest	**11.6**	2.0	28.9	37.6	37.0
Non-underlying[2] items	**(29.4)**	(104.4)	(19.5)	(4.4)	6.1
Interest (net)	**(3.7)**	(0.5)	(0.6)	(0.7)	(1.1)
(Loss)/profit before taxation	**(21.5)**	(102.9)	8.8	32.5	42.0
Taxation	**(0.5)**	11.1	(2.3)	(8.9)	(11.8)
(Loss)/profit for the financial year	**(22.0)**	(91.8)	6.5	23.6	30.2
Basic (loss)/earnings per share	**(24.9p)**	(105.2p)	7.6p	28.0p	36.2p
Basic underlying earnings per share	**6.2p**	1.8p	24.7p	31.5p	32.0p
Summary of consolidated balance sheets					
Deferred tax asset	**21.7**	17.6	6.9	7.9	0.8
Other non-current assets	**124.1**	145.2	208.6	200.5	197.6
Net current assets	**45.6**	24.0	54.4	70.6	57.9
Retirement benefit obligations	**(61.6)**	(52.7)	(37.6)	(55.1)	(25.4)
Other non-current liabilities	**(91.0)**	(61.4)	(39.5)	(35.5)	(33.4)
Total net assets	**38.8**	72.7	192.8	188.4	197.5
Other key statistics					
Share price at year end	**315.0p**	166.0p	474.0p	601.0p	386.5p
Net (debt)/cash to equity	**(83.5%)**	(27.6%)	7.9%	20.4%	12.5%
Capital expenditure	**16.2**	24.9	21.8	24.2	22.8
Depreciation and amortisation	**21.4**	22.8	23.0	20.5	22.0
Rents	**54.2**	65.4	68.2	69.1	71.0
Number of UK stores	**255**	311	373	387	405
Number of International stores[3]	**1,069**	1,028	894	728	609
UK selling space (000's sq. ft.)	**1,805**	1,946	2,017	2,008	2,007
International selling space (000's sq. ft.)[3]	**2,347**	2,283	1,845	1,538	1,294
Average number of employees	**6,226**	6,943	7,440	7,452	7,715
Average number of full time equivalents	**3,959**	4,350	4,650	4,486	4,653

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.
3 International stores are owned by franchise partners, joint ventures and associates.
4 Restated for Amendments to IAS 38.

Shareholder information

Shareholder analysis

A summary of holdings as at 28 March 2013 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	63,530	5
Nominee companies	74,727,344	591
Other corporate holders	10,007,867	104
Individuals	3,854,676	22,754
	88,653,417	**23,454**

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.

Share price data

	2013	2012
Share price at 28 March 2013 (30 March 2012)	**315.00p**	166.00p
Market capitalisation	**£279.3m**	£147.1m
Share price movement during the year:		
High	**362.00p**	477.20p
Low	**152.00p**	127.30p

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

	2013
Annual General Meeting	18 July
Announcement of interim results	21 November
	2014
Preliminary announcement of results for the 52 weeks ending 29 March 2014	end May
Issue of report and accounts	mid-June
Annual General Meeting	mid-July

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 plus network extras).
Overseas +44(0)121 415 7042
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 plus network extras). Lines are open 8.30 am to 5.30 pm, Monday to Friday.

Stockbrokers
The Company's stockbrokers are:

JPMorgan Cazenove & Co
25 Bank Street
Canary Wharf
London E14 5JP
Telephone 020 7742 4000

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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