mothercare

Interim report 2006
www.mothercare.com

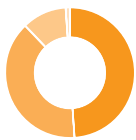
Our mission is to meet the needs and aspirations of parents for their children, worldwide

Mothercare at a glance

Sales breakdown

	£m
UK	220.2
International	44.1
Total	264.3

Product breakdown



Home and travel	49%
Clothing	39%
Toys and gifts	11%
Other	1%

Stores at 14 October 2006

	Number
UK out-of-town	73
UK in town	156
UK total	229
International	298
Total	527

Chief executive's review

2006/07 interim results

Group sales for the 28 weeks to 14 October 2006 rose by 5.6 per cent to £264.3 million (2005: £250.4 million). Underlying profit before taxation increased by 8.7 per cent to £11.2 million (2005: £10.3 million). Underlying profit before taxation excludes exceptional items and the impact of the volatile non-cash elements of IAS 19 and IAS 39 (pension costs and the marking to market of financial instruments). Refer to the Financial Review for segmental profit detail.

Against the backdrop of a continuing difficult UK retail market we have grown sales in the UK by 2 per cent to £220.2 million. This includes Direct in Home sales (web in home and telephone), up 15 per cent to £11.5 million. UK store like-for-like sales were up by 1.9 per cent in the first half. UK gross margin increased by 30 basis points.

Growth has been strong in our International markets. International revenue increased by 27.8 per cent to £44.1 million and franchisee like-for-like sales increased by an estimated 9 per cent.

Strategic development

We continue to work to our three-part strategy to build Mothercare into a world-class speciality brand – focusing on our specialist proposition, best in class efficiency and growing the business around the world – both in store and on-line.

We have continued our drive to develop Mothercare's full potential, through our Specialism, Efficiency and Reach strategies.

Specialism

Our focus remains firmly on strengthening Mothercare's proposition as the leading specialist brand worldwide for parenting. The combination of innovative and comprehensive product ranges in great stores and on our website, underpinned by outstanding service, are ensuring that Mothercare remains truly differentiated from our competitors.

Product

We have further improved the quality, design and value of our baby and childrenswear ranges and continue to drive through our good, better, best pricing strategy. This has driven an increase in our market share in the UK over the past two years.

Our home and travel business benefited from a one-off peak in sales during September following the introduction of the new car seat legislation in the UK, which affects children up to 12 years old. We also focused on product development in the half, extending our own brand bottles and other feeding ranges – a direct move to maximise the strength of Mothercare's brand in terms of expertise and specialism.

+5.6%

Group sales up 5.6% to £264.3 million (2005: £250.4 million)

£220.2m

UK sales up 2% to £220.2 million (2005: £215.9 million)

+27.8%

International sales up 27.8% to £44.1 million (2005: £34.5 million)

Stores

In March we launched a new out-of-town format in two trial stores in Watford and Basingstoke. The new format offers more comprehensive product ranges augmented through our web in store 'available to order only' lines and the introduction of additional footwear and other specialist concessions.

The shopping environment in these stores is improved with better layout, visual merchandising and in-store navigation. Early customer feedback has been very encouraging and performance in these stores is exceeding our investment criteria. As a result five further out-of-town stores were refitted in October in Southampton, Oxford, Stevenage, Ipswich and Torquay. Assuming that the success we have seen continues, we will roll out the new format to the wider out-of-town estate next year.

Service and people

The expertise and specialism of our staff remains one of our key differentiators. We have set higher standards of customer service and product knowledge to underpin our position as a speciality retailer. In the UK our independently procured mystery shopper programme now ranks Mothercare in the top two UK retailers for customer service in our market.

Efficiency

Mothercare is continuing to invest in a highly efficient and cost effective supply chain and state-of-the-art sourcing capability, to enable us to operate as a world-class speciality retailer.

Sourcing

The first full season of the operation of our own direct sourcing office in India has contributed to UK gross margin gains of 30 basis points in the first half year. We see further opportunity to make efficiency, quality and design improvements through these activities to further support our store roll out in India. We also now have plans to open a direct sourcing office in China.

Supply chain

In November 2004 we announced our new distribution strategy which included a plan to move the bulk of our operation to a brand new 450,000 square foot bespoke National Distribution Centre (NDC). This transition has now been completed successfully, on plan and on budget.

We have continued to make significant progress on product availability, now around 93 per cent, up from 88 per cent last year. With the completion of the move to the new NDC we are now concentrating on delivering further efficiencies from our distribution operations and reducing the distribution cost to our UK stores.

+12.3%	13.0p	+15.8%
Profit before tax up 12.3% to £12.8 million (2005: £11.4 million)	Earnings per share up 15% to 13.0p (2005: 11.3p)	Dividend up 15.8% to 3.30p (2005: 2.85p)

Infrastructure

With the successful roll out of our new EPOS system to all UK stores last year we are now proceeding to the next phase of the project to deliver further efficiencies within the stores network, reducing paper based administration in stores, releasing management time from back office tasks and improving customer service.

We have continued to address the issue of the rising occupancy, energy and fuel costs faced by all retailers. Our store resiting and resizing programme is contributing to offsetting those costs, as is the move to our new NDC. Inflation in fuel costs is being offset by refining the frequency and timing of deliveries to stores and making greater use of rail services to our stores.

Reach

Our reach initiatives, which focus on the UK store portfolio, our internet offer and our international business, are supporting a world-class franchisee network and in the UK, an integrated multi-channel catalogue and internet operation.

UK stores

With the success of our Direct in Store offer and a more efficient use of space, Mothercare can now offer much wider ranges in less space. In the first half year we have opened one new store, resited two stores, closed three stores and we have also downsized two of our largest stores, Cardiff and Reading. This rightsizing activity has resulted in like-for-like sales growth in the first half being higher than total UK stores growth. The stores that have been rightsized are seeing a significant reduction in space, but only a small decrease in overall sales. With a significant increase in sales per square foot and a much reduced rent, store profitability is much improved. We will continue to optimise our store portfolio and we currently have plans to close five more stores and rightsize a further ten stores during the next 18 months. All of this store activity now incorporates the key features of our new out-of-town format.

One of the resites we are planning is to move our store on Oxford Street. We have agreed terms to relocate our current 17,000 square foot store to a new 8,000 square foot store across the road. We are excited by the opportunities that this will bring to showcase the Mothercare brand in a more contemporary store, on a smaller more efficient footprint. The costs are covered by the exit premium from the existing store and an exceptional profit of £1.6 million arising from the disposal of the old store has been recognised in the first half. It is expected that the new store will commence trading in mid 2007.

Mothercare Direct

We have grown a very successful multi-channel business through Mothercare Direct which comprises Direct in Home (web in home and telephone catalogue ordering) and Direct in Store (web-enabled stores). On average, one million customers visit our website each month. Overall UK sales from our Direct in Home channel grew by 15 per cent to £11.5 million during the first half.

The success of our multi-channel offer allows us to develop further the range available in our smaller stores by the addition of 'available to order only' lines. We are therefore able to significantly increase the options available without increasing total stockholding in store.

International

Our International business continues to provide substantial growth. At the end of the half we were trading in 38 countries through 298 stores and as of today we trade in 307 stores. Total retail sales made by our franchisees in the first half were £100.1 million. Overall franchisee like-for-like sales grew by an estimated 9 per cent. Our income from franchisees increased by 27.8 per cent during the first half to £44.1 million.

We now expect to open approximately 70 stores in this financial year in total, the majority of which will be in existing markets. Our India franchise has started well with eight stores opened in the first half year, meaning we are on track for our target of ten stores by the year end.

Outlook

Notwithstanding the difficult and at times volatile UK trading conditions, our multi-channel UK business has performed well. We are delighted with the performance of our International business, which as of today comprises 307 stores. We expect International to continue to grow strongly and despite an ongoing challenging UK market we believe we are well placed as we look to the second half.

We will provide a trading statement for the third quarter on 18 January 2007.

Ben Gordon
Chief executive

Financial review

Results summary

Total group sales increased by 5.6 per cent to £264.3 million (2005: £250.4 million). Profit before tax improved by 12.3 per cent to £12.8 million (2005: £11.4 million). Underlying profit before taxation was up 8.7 per cent to £11.2 million (2005: £10.3 million). The results can be summarised as follows:

Income statement

	28 weeks ended	
	14 October 2006 £m	8 October 2005 restated (note 1) £m
Revenue	**264.3**	250.4
Profit from retail operations	**10.5**	10.0
Profit on disposal of property interests (exceptional)	**1.6**	0.7
Profit from operations	**12.1**	10.7
Investment income and finance costs	**0.7**	0.7
Profit before taxation	**12.8**	11.4
Taxation	**(3.8)**	(3.7)
Profit after taxation	**9.0**	7.7
Earnings per share	**13.0p**	11.3p
Dividend per share	**3.30p**	2.85p

Underlying profit before taxation

In our 2006 financial statements, following our transition to IFRS, we referred to a new underlying profit measure. Underlying profit before taxation excludes exceptional items. It also excludes the impact of two of the standards adopted, IAS 19 (Employee Benefits) and IAS 39 (Financial Instruments: Recognition and Measurement) which give rise to non-cash adjustments to the income statement, which can be highly volatile and not reflective of the underlying profit or cash flow of the business. Further details are set out in note 1d. Underlying profit before taxation is derived as follows:

	28 weeks ended	
	14 October 2006 £m	8 October 2005 £m
Profit before taxation	**12.8**	11.4
Exceptional profit on disposal of property interests	**(1.6)**	(0.7)
Profit before exceptional items and taxation	**11.2**	10.7
IAS 19 non-cash charge	**(0.9)**	0.2
IAS 39 adjustment	**0.9**	(0.6)
Underlying profit before taxation	**11.2**	10.3

Results by segment

The primary segments for Mothercare are the UK (which includes the Direct business) and International businesses. Last year we reported the profits of our International division on a contribution basis after allocating direct costs only. We now report underlying profit before tax on a fully absorbed basis, in accordance with IAS 14, with shared costs now allocated between the two segments on a more comprehensive basis:

HY 2006/07 **£m**	**Revenue**	**Underlying profit Old basis**	**Underlying profit New basis**
UK	**220.2**	**4.5**	**9.4**
International	**44.1**	**6.0**	**3.9**
Corporate	**–**	**–**	**(2.8)**
Financing	**–**	**0.7**	**0.7**
	264.3	**11.2**	**11.2**

HY 2005/06 £m			
UK	215.9	5.0	9.9
International	34.5	4.6	2.9
Corporate	–	–	(3.2)
Financing	–	0.7	0.7
	250.4	10.3	10.3

Corporate expenses represent head office costs, board and senior management costs, audit and reporting, insurance and professional fees.

Results by category and channel

Sales in the first half have increased in each of our key product categories and also across each channel to market. Sales increased by 1.4 per cent in UK stores, 27.8 per cent in International and 15.0 per cent in Direct in Home.

Like-for-like sales are defined as sales growth on the previous year for stores that have been trading continuously from the same selling space for at least a year. UK like-for-like sales were up an estimated 1.5 per cent in the half (after adjusting for the timing of Easter). International franchisee like-for-like sales were up an estimated 9 per cent in the half year.

Underlying profit before taxation

Underlying profit before taxation increased by 8.7 per cent or £0.9 million in the first half. A 2 per cent increase in UK sales and a 30 basis point increase in UK gross margin, together with a strong performance from International more than offset rises in the cost base.

Although the UK gross margin improved as a result of better buying and an increase in direct sourcing, the overall gross margin percentage was slightly lower than last year due to the rapid growth of the International business which, whilst profit enhancing, is dilutive at a gross margin level.

The upward pressure on occupancy, staff and energy costs in the UK retail market has continued in the current year. However, we expect to continue to mitigate this by reducing operational gearing in the UK through focusing on controllable costs, optimising the store portfolio (rightsizing, relocating stores to reduce rent and increase sales densities), growing the gross margin through more direct sourcing and expanding the Direct business.

The net margin based on underlying profit before taxation increased by 0.1 per cent in the half year and the net margin based on profit before taxation increased by 0.2 per cent in the half year.

Profit on disposal of property interests (exceptional)

The exceptional profit of £1.6 million has arisen on the agreed disposal of our Oxford Street store which is to be resited to a new location on Oxford Street in 2007.

Investment income, finance costs and taxation

Investment income represents interest receivable on bank deposits and interest payable on rent reviews. The tax charge of £3.8 million represents an effective tax rate of 30 per cent. The group still has unused tax losses of £7.5 million (2005: £11.5 million) available to set off against future profits.

Pensions

We continue to operate a defined benefit pension scheme for our staff. The total charge to the income statement in respect of the pension scheme in the half year was £0.7 million (2005: £1.5 million).

Previously the service costs were included within profit from operations, the return on assets were included in investment income and the interest on pension liabilities were included in finance costs. These three elements of the total pension expense are now all included within profit from operations. This presentation is considered more appropriate as it ensures that the presentational impact of ongoing variability between the individual components of net pension expense is reduced. Further details are set out in note 1.

The valuation of the schemes under IAS 19 at 14 October 2006 gave rise to a further reduction in the pension deficit. The deficit has reduced from £33.6 million this time last year to £17.5 million at the year end – and is now down to £14.3 million. After deferred taxation the deficit has reduced from £23.5 million last year to £10.0 million this year. The IFRS deficit is a volatile figure based as it is on a corporate bond yield on a specific date. However, the underlying downward trend in the deficit is real and reflects the actions we have taken including the payment of special contributions to the scheme in the last two financial years. We are comfortable with the current level of funding in the scheme, however, we will continue to keep the structure and level of benefit of the group's pension scheme under active review.

Balance sheet and cash flow

The cash balance at the end of the half year was £30.6 million (2005: £34.4 million).

The working capital outflow in the half year was £5.7 million. £1.9 million of the increase was due to higher inventory levels resulting from the rapid growth of International and Direct, together with a planned increase in direct sourcing which increases stock levels as ownership is taken earlier in the supply chain. The balance of the working capital increase, £3.8 million, includes a £2.8 million increase in International receivables in line with the rapid growth of this business and it also includes proceeds receivable from the relocation of the Oxford Street store.

Capital expenditure

Capital expenditure in the half year was £10.5 million (2005: £8.8 million). £6.1 million was invested in UK stores, £2.9 million was invested in the distribution network and £1.2 million was invested in systems infrastructure including the new EPOS tills. Capital expenditure for the full year is expected to be approximately £24 million.

Earnings per share and dividend

Basic earnings per share were 13.0p for the half (2005: 11.3p). Underlying earnings per share were 10.6p (2005: 9.7p). Further details are set out in note 8. The directors recommend a 15.8 per cent increase in the interim dividend to 3.3p (2005: 2.85p). The percentage increase reflects the relatively low increase in the interim dividend last year of 5.6 per cent. This brings the expected interim:final ratio back in line with our more usual 1:2 split. The interim dividend will be payable on 9 February 2007 to shareholders registered on 5 January 2007. The latest date for election to join the dividend re-investment plan is 19 January 2007.

Neil Harrington
Finance director

Consolidated income statement

For the 28 weeks ended 14 October 2006
(unaudited)

	Note	**28 weeks ended 14 October 2006 £ million**	28 weeks ended 8 October 2005 restated (note 1) £ million	53 weeks ended 1 April 2006 restated (note 1) £ million
Revenue		**264.3**	250.4	482.7
Cost of sales		**(239.0)**	(225.5)	(431.8)
Gross profit		**25.3**	24.9	50.9
Administrative expenses		**(14.8)**	(14.9)	(31.1)
Profit from retail operations	2	**10.5**	10.0	19.8
Profit on disposal of property interests (exceptional)	3	**1.6**	0.7	2.9
Profit from operations		**12.1**	10.7	22.7
Investment income	4	**0.8**	0.8	1.8
Finance costs	5	**(0.1)**	(0.1)	(0.3)
Profit before taxation		**12.8**	11.4	24.2
Taxation	6	**(3.8)**	(3.7)	(6.7)
Profit for the period attributable to equity holders of the parent		**9.0**	7.7	17.5
Earnings per share				
Basic	8	**13.0p**	11.3p	25.5p
Diluted	8	**12.9p**	11.1p	25.0p

All results relate to continuing operations.

Consolidated statement of recognised income and expense

For the 28 weeks ended 14 October 2006
(unaudited)

	28 weeks ended 14 October 2006 £ million	28 weeks ended 8 October 2005 £ million	53 weeks ended 1 April 2006 £ million
Actuarial gain/(losses) on defined benefit pension schemes	**2.3**	(11.0)	(0.8)
IAS 39 transfers to income statement	**–**	–	0.1
Tax on items taken directly to equity	**(0.7)**	3.3	0.7
Net income/(expense) recognised directly in equity	**1.6**	(7.7)	–
Profit for the period	**9.0**	7.7	17.5
Total recognised income and expense for the period attributable to equity holders of the parent	**10.6**	–	17.5
Changes in accounting policy to adopt IAS 32 and 39. Attributable to equity holders of the parent	**–**	–	(0.1)

Consolidated balance sheet

As at 14 October 2006
(unaudited)

	Note	14 October 2006 £ million	8 October 2005 £ million	1 April 2006 £ million
Non-current assets				
Property, plant and equipment		**84.7**	85.8	83.7
Intangible assets – software		**4.9**	3.2	4.0
Deferred tax asset		**4.4**	13.3	8.5
		94.0	102.3	96.2
Current assets				
Inventories		**52.7**	48.7	50.8
Trade and other receivables	9	**40.4**	32.4	32.0
Cash and cash equivalents		**30.6**	34.4	35.9
		123.7	115.5	118.7
Total assets		**217.7**	217.8	214.9
Current liabilities				
Trade and other payables	10	**(54.0)**	(52.8)	(51.3)
Current tax liabilities		**–**	–	(0.9)
Short term provisions	11	**(2.2)**	(4.9)	(3.7)
		(56.2)	(57.7)	(55.9)
Non-current liabilities				
Trade and other payables	10	**(10.0)**	(8.9)	(8.9)
Retirement benefit obligations		**(14.3)**	(33.6)	(17.5)
Long term provisions	11	**(0.4)**	(1.4)	(0.9)
		(24.7)	(43.9)	(27.3)
Total liabilities		**(80.9)**	(101.6)	(83.2)
Net assets		**136.8**	116.2	131.7
Equity attributable to equity holders of the parent				
Called up share capital		**36.4**	35.9	36.3
Share premium account		**2.3**	1.4	2.2
Own shares		**(7.2)**	(4.8)	(6.5)
Retained earnings		**105.3**	83.7	99.7
Total equity		**136.8**	116.2	131.7

Consolidated cash flow statement

For the 28 weeks ended 14 October 2006
(unaudited)

	28 weeks ended 14 October 2006 £ million	28 weeks ended 8 October 2005 restated (note 1) £ million	53 weeks ended 1 April 2006 restated (note 1) £ million
Net cash flow from operating activities	**8.8**	8.5	13.3
Cash flows from investing activities			
Interest received	**0.8**	0.8	1.8
Interest paid	**(0.1)**	(0.1)	(0.3)
Purchase of property, plant and equipment	**(10.5)**	(8.8)	(16.7)
Proceeds from sale of property, plant and equipment	**1.6**	0.4	6.0
Net cash used in investing activities	**(8.2)**	(7.7)	(9.2)
Cash flows from financing activities			
Equity dividends paid	**(4.3)**	(3.6)	(5.5)
Issue of ordinary share capital	**0.2**	0.2	1.4
Purchase of own shares	**(1.8)**	–	(1.1)
Net cash used in financing activities	**(5.9)**	(3.4)	(5.2)
Net decrease in cash and cash equivalents	**(5.3)**	(2.6)	(1.1)
Cash and cash equivalents at beginning of period	**35.9**	37.0	37.0
Cash and cash equivalents at end of period	**30.6**	34.4	35.9

Reconciliation of cash flow from operating activities

For the 28 weeks ended 14 October 2006
(unaudited)

	28 weeks ended 14 October 2006 £ million	28 weeks ended 8 October 2005 restated (note 1) £ million	53 weeks ended 1 April 2006 restated (note 1) £ million
Profit from retail operations	**10.5**	10.0	19.8
Adjustments for:			
Depreciation of property, plant and equipment	**7.2**	6.7	12.1
Amortisation of intangible assets – software	**0.1**	–	0.7
Loss on disposal of property, plant and equipment	**–**	0.1	0.3
Losses/(gains) on currency derivatives	**0.3**	–	(0.2)
Cost of employee share schemes	**0.5**	0.7	0.5
Utilisation of provision for the costs of reorganisation of distribution network	**(1.8)**	(1.3)	(2.6)
Utilisation of property provisions	**(0.1)**	(0.2)	(0.5)
Utilisation of other provisions	**(0.1)**	–	(0.4)
Payments to retirement benefit schemes	**(1.6)**	(1.3)	(8.5)
Charge in respect of net pension costs	**0.7**	1.5	2.8
Operating cash flow before movements in working capital	**15.7**	16.2	24.0
Increase in inventories	**(1.9)**	(1.9)	(4.0)
Increase in receivables	**(8.6)**	(3.6)	(3.0)
Increase/(decrease) in payables	**4.8**	(2.2)	(3.7)
Cash generated from operations	**10.0**	8.5	13.3
Income taxes paid	**(1.2)**	–	–
Net cash flow from operating activities	**8.8**	8.5	13.3

Analysis of cash and cash equivalents

As at 14 October 2006
(unaudited)

	14 October 2006 £ million	8 October 2005 £ million	1 April 2006 £ million
Cash at bank and in hand	**30.6**	34.4	35.9

Notes

1. General information and accounting policies

a) The financial information contained in these interim accounts has been prepared in accordance with International Financial Reporting Standards (IFRS). The same accounting policies and methods of computation are followed in the interim financial report as published by the Company on 1 April 2006, except for a presentational adjustment in respect of IAS 19, Employee Benefits. The results for the 28 weeks ended 14 October 2006 include the components of net pension expense, being the service cost, interest cost and expected return on assets, within Administrative expenses and in arriving at Profit from operations. In prior periods, pension interest cost was presented within Finance costs and the expected return on assets was presented within Investment income, outside of Profit from operations. Both presentations are permitted under IAS 19.

The Company considers the presentation adopted in the results for the 28 weeks ended 14 October 2006 to be more appropriate as it ensures that the presentational impact of any ongoing variability between the individual components of net pension expense is reduced.

The impact of this presentational adjustment for the 53 weeks ended 1 April 2006 is to reduce Administrative expenses by £1.9 million (28 weeks ended 8 October 2005: £1.0 million), reduce Investment income by £10.9 million (28 weeks ended 8 October 2005: £5.7 million) and reduce Finance costs by £9.0 million (28 weeks ended 8 October 2005: £4.7 million). The impact on the balance sheet is nil (28 weeks ended 8 October 2005: nil).

b) The results for the 28 weeks ended 14 October 2006 are unaudited and were approved by the board of directors on 16 November 2006. The results for the 53 weeks ended 1 April 2006 included in this report do not constitute statutory accounts for the purpose of section 240 of the Companies Act 1985. A copy of the statutory accounts for the 53 weeks ended 1 April 2006 under IFRS, on which an unqualified report has been made by the auditors under section 235 of the Companies Act 1985, has been delivered to the Registrar of Companies.

c) 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, as the Company has not adopted hedge accounting (refer to d below).

d) Underlying earnings

The Company 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, or superior to, IFRS measures of profit. The adjustments made to reported profit to arrive at underlying earnings are disclosed in note 8.

The adjustments made to reported results are as follows:

Exceptional items: Due to their significance and one-off nature certain items have been classified as exceptional. The gains and losses on these discrete items, such as profits on the disposal of property interests, can have a material impact on the absolute amount of and trend in the result for the year.

IAS 39 adjustment: The Company has taken the decision not to adopt hedge accounting under IAS 39, financial instruments. 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 Company 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. The adjustment made by the Company therefore is to report its underlying performance on the basis described above.

IAS 19 non-cash adjustment: Various factors, including the variability in corporate bond yield rates, create volatility in the income statement and balance sheet, when accounting for pensions under IAS 19 Employee benefits, and when compared to the cash contributions the Company is required to make in order to fund all future liabilities. The underlying earnings measure therefore includes the ‘normal’ cash contributions which the Company is required to make but excludes the volatile IAS 19 charge as it is considered that this gives a fairer measure of the cost of providing post retirement benefits.

e) Retirement benefits

In consultation with the independent actuaries to the schemes, the valuation of the pension liability has been updated to reflect current market discount rates, current market values of investments and actual investment returns, 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 pension liability.

2. Profit from retail operations

For the 28 weeks ended 14 October 2006, Profit from retail operations is stated after charging a net loss of £0.9 million (2005: credit of £0.6 million) to Cost of sales as a result of the Company’s decision not to adopt hedge accounting under IAS 39.

3. Profit on disposal of property interests

For the 28 weeks ended 14 October 2006, a credit of £1.6 million (2005: credit of £0.7 million) has been recognised in Profit from operations relating to net disposal proceeds on the disposal of the leasehold interest in five closed stores in the period, and one future store closure that is now unconditional.

4. Investment income

	28 weeks ended 14 October 2006 £ million	28 weeks ended 8 October 2005 restated (note 1) £ million	53 weeks ended 1 April 2006 restated (note 1) £ million
Interest on bank deposits	**0.8**	0.8	1.8

5. Finance costs

	28 weeks ended 14 October 2006 £ million	28 weeks ended 8 October 2005 restated (note 1) £ million	53 weeks ended 1 April 2006 restated (note 1) £ million
Interest on bank loans and overdrafts	**0.1**	0.1	0.3

6. Taxation

	28 weeks ended 14 October 2006 £ million	28 weeks ended 8 October 2005 £ million	53 weeks ended 1 April 2006 £ million
Current tax: UK corporation tax	**0.4**	–	0.9
Deferred tax: reversal of deferred tax asset in respect of tax losses utilised against profits for the period	**3.4**	3.7	5.8
	3.8	3.7	6.7

The tax charge is comprised of current and deferred tax and is calculated at 30 per cent (2005: 32 per cent) after exceptional profits.

A deferred tax asset of £5.3 million was recognised in respect of trading losses carried forward at 1 April 2006, before taking into account any deferred tax liabilities, as the directors were of the opinion that it was probable that the benefit of the tax losses would be realised. This deferred tax asset has reduced to £2.3 million at 14 October 2006 reflecting utilisation of these losses against profits in the period. The group had tax losses carried forward of approximately £7.5 million as at 14 October 2006 (2005: approximately £11.5 million). The overall deferred tax asset at 14 October 2006 is £4.4 million including £5.4 million of deferred tax assets in relation to retirement benefit obligations.

7. Dividends

	28 weeks ended 14 October 2006 £ million	28 weeks ended 8 October 2005 £ million	53 weeks ended 1 April 2006 £ million
Amounts recognised as distributions to equity holders in the period			
Final dividend of 6.15p per share (2005: 5.30p per share)	**4.3**	3.6	3.6
Interim dividend of 2.85p per share	**–**	–	1.9
	4.3	3.6	5.5

The proposed interim dividend of 3.30p per share for the 28 weeks ended 14 October 2006 was approved by the board after 14 October 2006, on 16 November 2006, and so, in line with the requirements of IAS 10 'Events after the Balance Sheet Date', the related cost of £2.3 million has not been included as a liability as at 14 October 2006. This dividend will be paid on 9 February 2007 to shareholders on the register on 5 January 2007.

8. Earnings per share

	28 weeks ended 14 October 2006 £ million	28 weeks ended 8 October 2005 £ million	53 weeks ended 1 April 2006 £ million
Weighted average number of shares in issue	**69.1**	68.3	68.5
Dilution – option schemes	**0.6**	1.1	1.5
Diluted weighted average number of shares in issue	**69.7**	69.4	70.0

	£ million	£ million	£ million
Earnings for basic and diluted earnings per share	**9.0**	7.7	17.5
IAS 19 non-cash adjustment	**(0.9)**	0.2	(0.4)
IAS 39 adjustment	**0.9**	(0.6)	(0.3)
Profit on disposal of property interests (exceptional)	**(1.6)**	(0.7)	(2.9)
Tax effect of above items	**–**	0.1	0.2
Underlying earnings	**7.4**	6.7	14.1

	Pence	Pence	Pence
Basic earnings per share	**13.0**	11.3	25.5
Basic underlying earnings per share	**10.7**	9.8	20.6
Diluted earnings per share	**12.9**	11.1	25.0
Diluted underlying earnings per share	**10.6**	9.7	20.1

9. Trade and other receivables

	14 October 2006 £ million	8 October 2005 £ million	1 April 2006 £ million
Trade receivables	**17.3**	14.2	14.5
Prepayments and accrued income	**17.4**	15.0	14.3
Other receivables	**5.3**	1.6	3.0
Currency derivative assets	**–**	0.6	0.2
VAT receivable	**0.4**	1.0	–
	40.4	32.4	32.0

10. Trade and other payables

	14 October 2006 £ million	8 October 2005 £ million	1 April 2006 £ million
Current liabilities			
Trade payables	**29.0**	28.4	27.6
Payroll and other taxes, including social security	**2.8**	2.2	1.7
Accruals and deferred income	**20.7**	20.7	21.1
Lease incentives	**1.3**	0.8	0.9
Currency derivative liabilities	**0.2**	0.2	–
Other payables	**–**	0.5	–
	54.0	52.8	51.3
Non-current liabilities			
Lease incentives	**10.0**	8.9	8.9

11. Provisions

	14 October 2006 £ million	8 October 2005 £ million	1 April 2006 £ million
Current liabilities			
Property provisions	**0.8**	1.2	0.9
Distribution provisions	**1.2**	3.4	2.5
Other provisions	**0.2**	0.3	0.3
Short term provisions	**2.2**	4.9	3.7
Non-current liabilities			
Property provisions	**0.1**	0.1	0.1
Distribution provisions	–	0.9	0.5
Other provisions	**0.3**	0.4	0.3
Long term provisions	**0.4**	1.4	0.9
Total liabilities			
Property provisions	**0.9**	1.3	1.0
Distribution provisions	**1.2**	4.3	3.0
Other provisions	**0.5**	0.7	0.6
Total provisions	**2.6**	6.3	4.6

The movement on total provisions is as follows:

	Property provisions £ million	Distribution provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 1 April 2006	1.0	3.0	0.6	4.6
Utilised in period	(0.3)	(1.8)	(0.1)	(2.2)
Charged in period	0.2	–	–	0.2
Balance at 14 October 2006	**0.9**	**1.2**	**0.5**	**2.6**

Independent review report to Mothercare plc

Introduction

We have been instructed by the Company to review the financial information for the 28 weeks ended 14 October 2006 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 11. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 28 weeks ended 14 October 2006.

Deloitte + Touche LLP

Deloitte & Touche LLP
Chartered Accountants
London
16 November 2006

Shareholder information

Financial calendar	2007
Payment of interim dividend	9 February
Preliminary announcement of results for the 52 weeks ending 31 March 2007	end May
Issue of report and accounts	mid June
Annual General Meeting	mid July
Payment of final dividend	end July
Announcement of interim results for the 28 weeks ended 13 October 2007	mid November

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www.mothercare.com
Registered number 1950509

Company secretary

Clive E Revett

Registrars

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

Lloyds TSB Registrars
The Causeway, Worthing, West Sussex BN99 6DA
Telephone 0870 600 3965
www.lloydstsb-registrars.co.uk

Low cost dealing service

A postal share dealing service is available through the Company's stockbrokers for the purchase and sale of Mothercare plc shares. Further details may be obtained from:

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

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity via 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, Lloyds TSB Registrars.

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

For locations and your nearest store in the UK please visit our website www.mothercare.com

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