Mothercare plc

Interim Report 2001

Through our recovery programme, we are building the foundations for Mothercare to achieve its longer-term vision – to be the leading specialist retailer for mothers-to-be and parents of young children, with expertise and service at the heart of the offer.

- Sales up 6.8 per cent to £226.2 million
- Profit before tax and exceptional items £4.8 million (£4.0 million)
- Margin growth of 2.1 percentage points
- Exceptional charge of £4.1 million relating to warehouse issues
- Interim dividend 1.0p

Operating review

Financial results

An encouraging performance and key successes in the first half clearly demonstrate that the business is continuing to respond to the recovery programme. Disappointingly, start-up problems at the new warehouse impacted the performance of the business in the last four weeks of the first half and the start of the second half.

The business achieved an operating profit of £3.9 million (2000 – £1.8 million), with profit before tax and exceptional items up by 20 per cent to £4.8 million (2000 – £4.0 million). Sales increased by 6.8 per cent to £226.2 million, an increase of 5.9 per cent on a like-for-like basis. Gross margin increased by 2.1 percentage points.

Operating profit from UK stores was £2.1 million (2000 – £1.4 million) on sales of £199.8 million. The overseas franchise business, Mothercare International, increased sales by 4.7 per cent to £19.1 million and achieved an operating profit of £1.9 million (2000 – £1.0 million). Mothercare Direct, comprising the catalogue and website, achieved strong growth, with sales up by 87.9 per cent to £7.3 million. The Direct business, as expected, made an operating loss of £0.1 million (2000 – £0.6 million loss) in the first half and will move into profit in the second half.

Due to the major difficulties experienced with the transition to the new warehouse, additional costs associated with the operation of temporary warehousing

Mothercare profile

Stores – at 13 October 2001

	Stores	Total selling area (000's sq ft)
Mothercare	185	887
Mothercare World	63	1,059
Total UK stores	**248**	**1,946**

	Europe	Middle East	Far East	Other	**Total**
Franchise stores	54	81	30	2	**167**

and deliveries direct from suppliers to stores have been incurred. An exceptional charge of £4.1 million has been taken in the half year to cover the cost of operating these contingencies through the Christmas trading period, a longer period than had been previously anticipated.

During the first half, the business continued to invest in staffing levels and training to drive improvements in standards and service. Together with higher rent and rates, and the running costs of Mothercare.com, this contributed to an increase in cost growth as planned, of 10.2 per cent. Cost growth is expected to be lower in the second half.

Earnings per share for the continuing business before exceptional items was 7.1p (2000 – 1.4p). The board has recommended an interim dividend of 1.0p.

The balance sheet remains strong and continues to support the investment required to rebuild the business, including the roll-out of the large store format which will start in March 2002.

Recovery programme – phase two

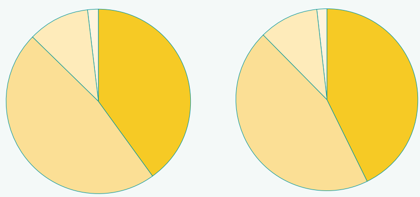
Mothercare is part way through its phased recovery programme, which is building the foundations for the business to achieve its vision: to be the leading specialist retailer for mothers-to-be and parents of young children, with expertise and service at the heart of the offer.

Progress in the first half re-affirms that the business is responding to the recovery programme, despite the temporary adverse impact of the new warehouse. Supported by an ongoing drive to improve service and operating standards, the priority actions behind

People – full time equivalents at 13 October 2001

Support (Watford head office)	301
Direct	101
International	19
UK stores	2,683
Total	**3,104**

Product – UK turnover by category (%)*



2001/02		2000/01	
Clothing	**40.0**	Clothing	**42.7**
Home & Travel	**47.3**	Home & Travel	**44.9**
Toys	**10.8**	Toys	**10.6**
Other	**1.9**	Other	**1.8**

*28 weeks ended 13 October 2001

the year-long second phase of the recovery programme, which commenced in March 2001, have been:

- the launch and performance of the Autumn/Winter 2001 clothing range
- the roll-out of the large store Mothercare World format from 2002
- moving to the new warehouse in August 2001.

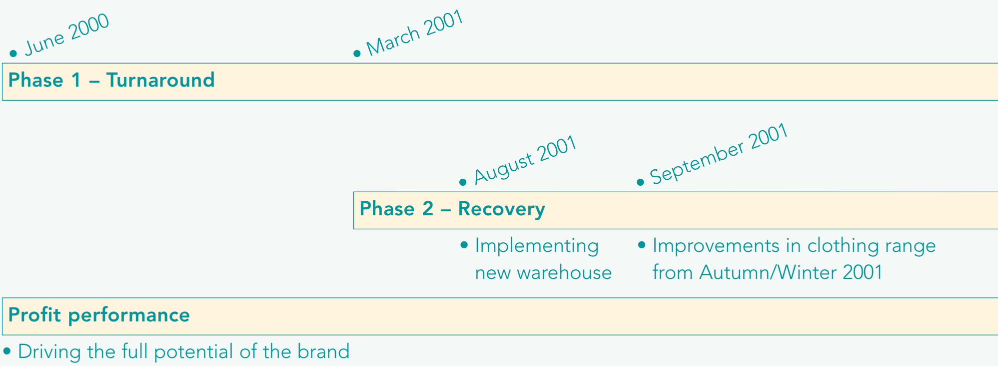
Warehouse

As highlighted at the trading update in early October, the move to the new warehouse in Daventry, operated by Tibbett & Britten, took place on 18 August 2001. However, in early September, it became apparent that productivity levels within the warehouse were well below those planned, leading to severe stock availability problems in stores. Contingency distribution routes were put in place.

As the senior teams of Mothercare and Tibbett & Britten worked through the problems, it became clear that errors in stock location within the warehouse had occurred, the extent of which were greater than first thought. Stock flow through the warehouse is gradually being rebuilt from a clean base. This process is taking time and consequently, within the plan presented by Tibbett & Britten, it is not expected that the warehouse will reach normal operational levels until January 2002.

Additional contingencies have been put in place to protect stock flow for Christmas, including direct deliveries from suppliers and additional warehouse facilities. These contingencies will remain in place throughout the Christmas trading period, a longer period than anticipated. The additional cost of these contingencies has been charged as an exceptional item in the first half.

Mothercare's recovery programme



Product

The customer response to the relaunch of Mothercare's clothing ranges this Autumn has been positive, with particularly encouraging trends and market share gains seen in maternity and children's fashion. Improvements have been and will continue to be driven through focusing on core lines, reducing the number of options within the range and more direct sourcing.

In the period to 28 September, the home, travel and toy product areas continued to perform well. Although performance in these areas has since been significantly impacted by availability issues arising from the problems at the new warehouse, the sales trend has improved in recent weeks with increased stock levels and availability.

Channels

UK stores

The Mothercare World chain continues to perform strongly. The development of a new generation of Mothercare World stores has been the focus at Milton Keynes and Kew, and the recently re-opened store at Rotherham. These model stores have achieved improved sales densities and provide the blueprint for Mothercare World to be rolled-out in the new financial year.

Four new out-of-town sites at Manchester, Bradford, Walsall and Bristol have been secured during the first half. These four new store openings in 2002/03 will represent the first stage of the roll-out programme, and work to identify further sites is continuing.

- From January 2002
- Rolling out Mothercare World

International

Mothercare International performed well in the first half. The business has continued to focus on developing a small number of core territories by consolidating and strengthening relationships with key franchise partners. Relationships with franchisees are moving increasingly to royalty-based arrangements in order to drive sales more effectively. There remains a significant opportunity to drive growth in the international business going forward.

Mothercare Direct

The Direct business has continued to grow very strongly and is on track to break even in the current year. Catalogue sales increased by 50.6 per cent in the first half while Mothercare.com is currently attracting up to 80,000 hits per week.

Operating standards and service

The benefits of an ongoing drive to improve operating standards and service throughout the business are starting to become evident. A strong emphasis continues to be placed on the training and development of people, as a result of which service standards have improved significantly. Labour turnover in stores has been reduced by 17 percentage points to 40 per cent and the proportion of full time staff in stores has increased from eight per cent to 30 per cent since May. This has been a major driver in increasing average customer spend by five per cent.

The progress being made in providing a better service to customers was recently recognised when Mothercare received three awards from Mother and Baby magazine, including that of

‘Retailer of the Year’ for 2001/02, as voted by the magazine’s readers.

Current trading

Stock availability problems arising from the operational issues at the warehouse have impacted sales in the current period. UK sales in the first four weeks of the second half declined by 4.3 per cent (4.5 per cent on a like-for-like basis).

Total sales for the period declined by 7.6 per cent. This was due to the slowing of shipments to overseas franchise stores.

In light of the impact of the warehouse on performance and costs, profits for the full year are expected to be lower than market expectations.

Outlook

There is a significant opportunity for Mothercare to continue to deliver sustainable profit growth as the business responds to the recovery programme. The impact of the difficulties at the new warehouse has been significant and the clear focus for the business in the second half is to continue to drive sales and to work with Tibbett & Britten to restore the flow of stock through the new warehouse to normal levels by January.

The underlying performance and progress made in the first half in spite of these difficulties is a credit to the Mothercare team, both in the stores and at the Watford head office. Their energy and dedication will drive the business forward into the next phase of recovery in the new financial year.

Group profit statement

	Note	28 weeks ended 13 October 2001 Continuing Mothercare before exceptional items £ million	Exceptional items £ million	Total £ million
Turnover		226.2	–	226.2
Profit/(loss) from retail operations		3.9	–	3.9
Exceptional items	2	–	(4.1)	(4.1)
Interest	3	0.9	–	0.9
Profit/(loss) before taxation		4.8	(4.1)	0.7
Taxation	4	–	–	–
Profit/(loss) after taxation		4.8	(4.1)	0.7
Dividends	5			(0.7)
Retained profit/(loss)				–
Dividend per share	5			1.0p
Earnings per share – continuing pre-exceptional	6	7.1p		
Earnings per share	6			1.0p
Earnings per share diluted	6			1.0p

Reconciliation of movement in shareholders' funds

	28 weeks ended 13 October 2001 £ million
Profit for the financial period	0.7
Dividend	(0.7)
Movement in shareholders' funds	–
Opening shareholders' funds	127.0
Scheme of arrangement – reduction of share capital	–
Closing shareholders' funds	127.0

	28 weeks ended 14 October 2000					
	Continuing Mothercare £ million	Discontinued Bhs £ million	Total before exceptional items £ million	Exceptional items £ million	Total £ million	52 weeks ended 31 March 2001 £ million
	211.8	89.9	301.7	–	301.7	509.0
	1.8	(6.7)	(4.9)	(7.4)	(12.3)	(7.0)
	–	–	–	12.3	12.3	12.3
	2.2	–	2.2	–	2.2	3.1
	4.0	(6.7)	(2.7)	4.9	2.2	8.4
	(1.2)	–	(1.2)	1.2	–	–
	2.8	(6.7)	(3.9)	6.1	2.2	8.4
					–	(1.0)
					2.2	7.4
					nil p	1.5p
	1.4p					6.5p
					1.1p	6.0p
					1.1p	6.0p

	28 weeks ended 14 October 2000 £ million
	2.2
	–
	2.2
	225.6
	(106.0)
	121.8

	Note	13 October 2001 £ million	14 October 2000 £ million	31 March 2001 £ million
Fixed assets				
Tangible fixed assets		**85.3**	86.5	87.7
Investments		**4.9**	4.3	4.3
		90.2	90.8	92.0
Current assets				
Stocks		**43.7**	38.4	43.6
Debtors		**27.4**	30.6	32.4
Cash at bank and time deposits		**32.6**	42.3	36.8
Creditors – amounts falling due within one year	7	**(57.1)**	(71.2)	(71.0)
Net current assets		**46.6**	40.1	41.8
Creditors – amounts falling due after more than one year	7	**(2.6)**	(2.6)	(2.4)
Provisions for liabilities and charges	8	**(7.2)**	(6.5)	(4.4)
Net assets		**127.0**	121.8	127.0
Capital and reserves attributable to equity interests				
Called-up share capital		**35.3**	35.3	35.3
Profit and loss account		**91.7**	86.5	91.7
		127.0	121.8	127.0
Net equity/cash %		**25.3%**	32.7%	27.4%

	28 weeks ended 13 October 2001 £ million	28 weeks ended 14 October 2000 £ million	52 weeks ended 31 March 2001 £ million
Profit/(loss) from retail operations	**3.9**	(4.9)	0.4
Depreciation	**6.2**	13.4	18.5
Working capital	**(0.6)**	9.6	13.5
Exceptional costs/other	**(6.9)**	(14.9)	(28.3)
Net cash flow from operating activities	**2.6**	3.2	4.1
Returns on investments and servicing of finance	**0.9**	2.2	3.1
Taxation	**0.1**	2.3	2.9
Capital expenditure	**(4.8)**	0.2	(5.9)
Trading cash flow	**(1.2)**	7.9	4.2
Acquisition and disposals			
Disposal of Bhs	**–**	208.9	208.9
Acquisition of own shares by Employee Trust	**(0.5)**	(2.5)	(3.8)
	(0.5)	206.4	205.1
Equity dividends paid	**(1.0)**	–	–
	(2.7)	214.3	209.3
Management of liquid resources	**10.0**	36.3	26.3
Financing			
Reduction in share capital	**–**	(105.1)	(105.1)
Other	**(1.5)**	(10.3)	(98.0)
	(1.5)	(115.4)	(203.1)
Increase in cash in the period	**5.8**	135.2	32.5

Reconciliation of net cash flow to movement in net funds

	28 weeks ended 13 October 2001 £ million	28 weeks ended 14 October 2000 £ million	52 weeks ended 31 March 2001 £ million
Increase in cash in the period	**5.8**	135.2	32.5
Cash flow from liquid resources	**(10.0)**	(36.3)	(26.3)
Cash flow from financing	**1.5**	10.3	98.0
Movement in net funds/(debt) in the period	**(2.7)**	109.2	104.2
Net funds/(debt) at the beginning of the period	**34.8**	(69.4)	(69.4)
Net funds at the end of the period	**32.1**	39.8	34.8

Analysis of cash flow from operations

	28 weeks ended 13 October 2001	28 weeks ended 14 October 2000		
	Continuing Mothercare £ million	Continuing Mothercare £ million	Discontinued Bhs £ million	Total £ million
Profit/(loss) from operations	**3.9**	1.8	(6.7)	(4.9)
Depreciation	**6.2**	6.3	7.1	13.4
Working capital	**(0.6)**	6.0	3.6	9.6
Exceptional costs/other	**(6.9)**	(10.9)	(4.0)	(14.9)
Net cash flow from operating activities	**2.6**	3.2	–	3.2

Capital expenditure

	28 weeks ended 13 October 2001	28 weeks ended 14 October 2000		
	Continuing Mothercare £ million	Continuing Mothercare £ million	Discontinued Bhs £ million	Total £ million
Purchase of tangible fixed assets	**(4.8)**	(4.9)	(6.3)	(11.2)
Sale of tangible fixed assets	**–**	9.3	2.1	11.4
	(4.8)	4.4	(4.2)	0.2

Analysis of net cash

	13 October 2001 £ million	14 October 2000 £ million	31 March 2001 £ million
Cash at bank	**32.6**	42.3	26.8
Time deposits	**–**	–	10.0
Obligations under finance leases:			
– short term	**(0.5)**	(2.0)	(2.0)
– long term	**–**	(0.5)	–
	32.1	39.8	34.8

1 Accounting policies

This interim report has been prepared under the historic cost convention and using accounting policies which are consistent with previous years, except for accounting for deferred tax where the new accounting standard, FRS 19 'Deferred tax' has been adopted by the directors in this interim report. This standard requires that deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Previously the group's accounting policy was to provide for the tax which was likely to be payable or recoverable.

There has been no financial impact on the results of the group as a consequence of this change in accounting policy as the group has tax losses which have previously not been recognised. See note 4 for more details.

2 Exceptional items

The group has undergone a fundamental re-organisation in relation to the disposal of Bhs, which occurred in May 2000. The final financial settlement in connection with this disposal was in line with expectations. The last stage of the re-organisation was the move to a new warehouse, operated by the contractor, Tibbett & Britten, which began despatching to stores in August 2001.

Significant difficulties have been experienced with the transition to the new warehouse and, as a result, additional costs have been incurred through the need to operate temporary warehousing and to deliver goods directly from suppliers to stores.

The additional costs provided (£4.1 million) are based on these temporary solutions being required until the end of 2001.

In the half year to 14 October 2000 exceptional items were charged to operating profit in relation to the start up of Mothercare.com (£7.4 million). The exceptional credit of £12.3 million represented the net profit on disposal of stores (£3.4 million) and the continuing costs of separation (£9.9 million) and adjustments (£18.8 million) in respect of the loss on the Bhs disposal.

The tax effect of the exceptional item is £nil (2000 – credit £1.2 million).

3 Interest

	28 weeks ended 13 October 2001 £ million	28 weeks ended 14 October 2000 £ million	52 weeks ended 31 March 2001 £ million
Interest comprises:			
Interest receivable	**1.0**	3.4	4.3
Interest payable	**–**	(1.1)	(1.1)
Obligations under finance leases	**(0.1)**	(0.1)	(0.1)
	0.9	2.2	3.1

4 Tax

As set out in note 1, the directors have adopted FRS 19 in this interim report. The only significant timing differences impacting the group are accelerated capital allowances and tax losses generated in prior years which are available to offset future profits. As a result of the adoption of FRS 19 the tax losses have been recognised to the extent of any deferred tax liabilities. No further deferred tax asset has been recognised for the remaining losses of £17 million (2000 – £23 million) as the directors are of the opinion, that there is sufficient uncertainty over the recoverability of these losses against future taxable profits such that in accordance with FRS 19 it is not appropriate to recognise any further asset at this time. This position will be reviewed at the year end and future balance sheet dates.

Current tax is calculated at nil per cent (2000 – nil per cent) being the estimated effective rate of tax on profit for the 52 weeks ending 30 March 2002. The tax charge has been reduced by the availability of tax losses that have arisen in prior periods.

5 Dividend

An interim dividend of 1.0p per share has been proposed (2000 – nil p). The dividend will be payable on 12 February 2002 to shareholders on the register on 11 January 2002. The cost of the dividend will be £0.7 million.

6 Earnings per share

	28 weeks ended 13 October 2001	28 weeks ended 14 October 2000	52 weeks ended 31 March 2001
Weighted average number of shares in issue	**67.2m**	197.8m	138.8m
Dilution:			
Option schemes	**1.1m**	–	0.3m
Diluted weighted average number of shares in issue	**68.3m**	197.8m	139.1m
Profit after tax	**£0.7m**	£2.2m	£8.4m
Continuing business profit after tax before exceptional items	**£4.8m**	£2.8m	£9.0m
Earnings per share:			
– Basic	**1.0p**	1.1p	6.0p
– Diluted	**1.0p**	1.1p	6.0p
– Continuing business before exceptional items	**7.1p**	1.4p	6.5p

The earnings per share of the continuing business before exceptional items has been shown to provide an indication of the underlying profitability of the business. It is calculated by dividing the profit after tax but before exceptional items of the continuing Mothercare business by the weighted average number of shares in issue during the period.

7 Creditors

	13 October 2001 £ million	14 October 2000 £ million	31 March 2001 £ million
Due within one year			
Obligations under finance leases	**0.5**	2.0	2.0
Trade creditors	**17.5**	19.2	22.3
Proposed dividend	**0.7**	–	1.0
Current taxation	**11.1**	12.9	11.0
Payroll and other taxes, including social security	**0.9**	0.8	1.5
Accruals and deferred income	**25.0**	35.0	31.9
Landlords' contributions	**1.3**	1.0	1.1
Other creditors	**0.1**	0.3	0.2
	57.1	71.2	71.0
Due after one year			
Obligations under finance leases	**–**	0.5	–
Landlords' contributions	**2.6**	2.1	2.4
	2.6	2.6	2.4

8 Provisions for liabilities and charges

	Disposal provisions £ million	Re-organisation provisions £ million	Total £ million
Opening balance	**0.1**	**4.3**	**4.4**
Charged in the period	**–**	**4.1**	**4.1**
Utilised	**–**	**(1.3)**	**(1.3)**
Closing balance	**0.1**	**7.1**	**7.2**

The re-organisation provisions principally represent the costs of the Mothercare store disposal programme and the additional provision charged in the period in relation to the new warehouse, as set out in note 2.

This interim report was approved by the directors on 16 November 2001. Results for the two half years have not been audited, but have been reviewed by the auditors. The financial information contained in the interim accounts does not constitute statutory accounts as defined in Section 240 of the Companies Act. The full year comparatives were extracted from the full group accounts which have been filed with the Registrar of Companies together with an unqualified auditors' report. All shareholders will receive a copy of this statement.

Introduction

We have been instructed by the Company to review the financial information for the 28 weeks ended 13 October 2001 which comprises the group profit statement, the group balance sheet, the group cash flow and related notes. 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.

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 should be 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 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 Mothercare plc 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 United Kingdom Auditing Standards 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 13 October 2001.

Arthur Andersen
Chartered Accountants, London
16 November 2001

Financial calendar

Financial calendar	2002
Payment of interim dividend	12 February
Preliminary results announcement for the year ended 30 March 2002	23 May
Mailing of Annual Report and Accounts	mid June
Annual General Meeting	mid July
Payment of final dividend	mid August
Announcement of results for the 28 weeks ended 12 October 2002	21 November

Registered office and head office

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Registered number 1950509

Company Secretary

Clive E Revett

Registrars

Administrative enquiries concerning shareholders in Mothercare plc such 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 share 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 can be obtained from:

Cazenove & Co. Ltd
12 Tokenhouse Yard, London EC2R 7AN
Telephone 020 7606 1768

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