Mothercare plc

# Annual Report and Accounts 2002

mothercare

## Highlights

Mothercare aims to be the leading specialist retailer offering the widest range of clothing, hardware and toys for mothers-to-be and young children through its chain of UK and international stores, catalogue and website.

Sales up 1.9% to £426.9m (£419.1m), UK stores' sales like-for-like growth 2.0%

Gross margin growth of 1.5 percentage points

Profit before tax and exceptionals £4.2m (£10.2m)

Final proposed dividend per share 1.5p (1.5p), total dividend per share for the year 2.5p (1.5p)

Out-of-town stores' sales up 5.5%. New format roll-out under way

Product availability returned to pre-warehouse move levels of 90%

Strong performance from International and Direct businesses

Management team strengthened

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We remain firmly committed to returning Mothercare to its pre-eminent position in the marketplace. The Mothercare team is focused, energised and back on track to continue the recovery and we are confident that success will be achieved.

Alan Smith
Chairman

The first half of the year showed a strong performance as the benefits of the recovery programme started to flow. However, performance in the second half was severely impacted by problems with the implementation of the new warehouse, which opened in August, leading to disappointing results for the full year.

## Results

Group sales increased by 1.9 per cent to £426.9 million (£419.1 million). The gross margin increased by 1.5 percentage points and after an 8.6 per cent increase in costs, group operating profits before exceptional items were £3.0 million compared with £7.1 million last year.

Sales in the UK stores increased by 1.2 per cent to £374.7 million (£370.1 million), 2.0 per cent on a like-for-like basis. UK stores made an operating loss of £1.0 million, compared with a profit of £4.7 million last year.

Mothercare International sales reduced by 3.0 per cent to £38.9 million (£40.0 million), and operating profits rose to £4.0 million from £3.4 million.

The catalogue and website business, Mothercare Direct, continued to grow strongly, with sales up by 48.8 per cent to £13.3 million (£9.0 million), and achieved break-even a year ahead of plan (last year a loss of £1.0 million).

Earnings per share before exceptional items were 6.3p (6.5p). The board has recommended a final dividend of 1.5p (1.5p), making a total of 2.5p (1.5p), underlining its confidence in the successful recovery of the business.

The balance sheet remains strong with cash of £12.3 million and continues to support the investment required to develop the business. This includes the roll-out of the large store format, which commenced in the second half.

## The Mothercare team

It would be impossible to speak too highly of the achievements of the Mothercare team in responding to the significant challenges of the past year. Despite the pressures, improvement in product, service and store environment continued to be delivered.

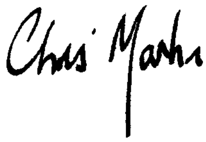
The board would like to register its special appreciation to everyone for their great efforts and commitment, demonstrating a level of capability and dedication to the business which gives us real confidence for the future.

During the year the operating board has been strengthened substantially. To further secure the future leadership of the business we are now looking at succession on the plc board. To that end searches have been commissioned to identify two new non-executive directors, one of whom will be nominated to succeed me as chairman.

## Looking ahead

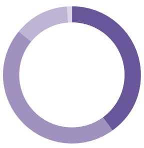
The progress of the recovery programme in the first half confirmed our strategic direction. We have a clear aim of becoming the leading specialist retailer for mothers-to-be and parents of young children, and we are confident that with the recovery programme back on track, Mothercare will go from strength to strength to the benefit of its customers, its shareholders and its employees.

## Our vision remains clear – to be the leading specialist retailer for mothers-to-be and parents of young children. The year has seen improvements in key areas, driving the business forward – the creation of innovative products, improvements in customer service, the development of the new format for stores, growth in transactions in Direct and new International store openings.

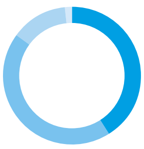


Chris Martin
Chief executive

**Product**
% of total UK sales



2001/02
Clothing **40.0**
Home and travel **45.9**
Toys **12.9**
Other **1.2**



2000/01
Clothing **41.0**
Home and travel **44.0**
Toys **13.3**
Other **1.7**

### Mothercare's vision and recovery programme

Mothercare's phased recovery programme 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 service and expertise at the heart of the offer. In working towards this vision, the overall aim is to increase Mothercare's share of the UK's £3.4 billion maternity and pre-school market by renewing the Mothercare brand and delivering its full potential.

Since setting out on the recovery programme in Summer 2000, the business has been focused on addressing a number of fundamental operational issues and basic service and operating standards. Over that time, a new senior management team has been established and significant progress made in a number of priority areas. We have relaunched our clothing ranges, reduced employee turnover, and completed the reinvention of the out-of-town store format. In Direct, we have produced an exciting new catalogue, which reflects the new out-of-town store format, providing customers with specialist advice and information. The International business has continued to be on schedule with its store opening programme. By building on this progress we will be able to fulfil our ambition of growing market share, increasing average customer spend, improving the sales density of our stores, thereby building back sales and profit growth.

Following the disappointing set back in our recovery programme, we turned the corner with product availability, which is currently at 90 per cent across all product areas. This is considerably higher than levels seen at the start of the recovery programme. It is a top priority to improve our availability and to reduce distribution costs, turning what has been an historic business weakness into a strength.

We anticipate that the first half of the current year will see the business getting back on track and building momentum, with the second half giving the opportunity to really drive the full potential of the Mothercare brand.

- Improvements in customer service and operating standards
- Mothercare named 'Retailer of the Year' by readers of *Mother & Baby* magazine
- Training days trebled for 4,500 employees
- Employee turnover reduced from 55 per cent to 36 per cent

- Specialist product innovations
- Clothing range relaunched in Autumn 2001
- Positive sales gains in maternity
- Tommy's award for maternity range

- In-store enhancements and exciting new stores
- New large format stores opened in 2001/02 at Rotherham and Bristol
- Further nine large stores to open in 2002/03
- Work on the next generation high street store format under way

The continued focus of our recovery programme is to drive sales through product, service, channels and formats. We are making good progress in providing our customers with the right store environment, the right people to give them the advice they need and the right product at the right time.

## Building a strong supply chain

In mid-August 2001, Mothercare moved to a new warehouse in Daventry, which is owned and operated by Tibbett & Britten. Initial implementation problems with the warehouse led to severe stock availability problems in stores during the Autumn and impacted on sales. In December, stock flow through the warehouse was rebuilt and, since the beginning of January 2002, the facility has consistently achieved its targets.

As announced in January, although the Daventry warehouse will be the main distribution facility for Mothercare, the business will continue to be supported by an additional site in Coventry. The facility is operated by Exel Logistics on a renewable one-year contract basis for up to three years, and is now fully operational, mainly handling large hardware items such as pushchairs and car seats. This will increase annual costs by £3.0 million in 2002/03.

Alongside this, we have a major project headed by Mark McMenemy, finance director, to address the important issues of availability and distribution costs. Our aim is to achieve best in industry availability levels.

## Creating products that inspire

Our objective is to provide a specialist product offer targeted at the mother, from pregnancy to pre-school. We have made significant changes and improvements to our ranges based on talking to our customers as well as health professionals, such as midwives and health visitors, about the things that are important to them.

This has led to the development of new innovative products such as the 'go anywhere high chair', the 'flo-control' feeding bottle, a unique hospital bag for pregnant mothers, improved fit in babywear and new maternity products. These are all own brand products, which are exclusive to Mothercare and reflect our expertise in our field.

We have made key progress this year in improving our clothing range by working on the design, fit and quality of our products. The ranges have been tightened by reducing options and we have seen successes in our maternity, baby sleepwear and the boys and girls ranges. Clothing performance has improved, and in the first half, we arrested three years of decline. In the second half, despite availability issues, sales were consistent with last year. We are including more direct sourcing in the purchasing mix with 30 per cent of the Spring 2002 clothing range being bought directly from manufacturers. We anticipate this will increase to 50 per cent in the next two years, providing opportunity for further margin improvement.

The full year performance in the home, travel and toy product areas was impacted by the availability issues.

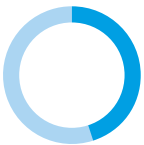
## Through pregnancy and the early years of a child's life, Mothercare understands the needs of parents and their children…



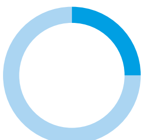

**1** From the early stages of pregnancy, a mother-to-be will seek the support she needs to make the best product choices for her and her baby by visiting Mothercare.

**2** The best comfort and support is essential as the body changes during pregnancy. Mothercare offers a professional maternity bra fitting service in all stores.

**UK stores**
Changing the portfolio
% of total selling area



2002
High street **45**
Out-of-town **55**



2005 (projected)
High street **25**
Out-of-town **75**

Growth was achieved in home and travel continuing the strong performances seen in the previous four years. In an intensely competitive market, Mothercare continues to be the market leader in many home and travel product areas, offering innovative and exclusive ranges, supported by the expert product knowledge and after sales service expected by parents making these purchases.

### Improving service to meet customer needs

A key part of the recovery programme has been to support the revitalisation of the brand by transforming the Mothercare shopping experience. Foremost is to bring the Mothercare brand to life, by improving and maintaining standards and levels of service, while at the same time being specialists in our field, constantly demonstrating that we are 'caring for our customer'.

Investing in our people is essential to improving our service offer. Staff training and development remains a key priority with over 1,100 days of training undertaken during the year, compared with 300 in 2000/01. This investment is

Employees – full time equivalents at 30 March 2002

| | |
|---|---|
| UK stores | 2,752 |
| Support (Watford) | 305 |
| Direct | 87 |
| International | 18 |
| Total | 3,162 |

**3** Casual, smart or sporty, Mothercare's clothing ranges cater for all lifestyles, providing great fashion and fit throughout pregnancy.

**4** Everything for mother when baby arrives contained in Mothercare's exclusive hospital bag.

**5** Choosing the right pushchair or travel system to suit budget and lifestyle is an important decision. Mothercare has the widest choice with many innovative design features.

**6** A mother will want to dress her new baby in the safest and softest garments. Mothercare pays great attention to detail in designing its baby clothing.

already driving benefits in customer service. Employee turnover has reduced from 55 per cent to 36 per cent, with a significant improvement in our full time employee numbers providing a stronger base on which to give specialist service. Improvements in store service have led to Mothercare being voted 'Retailer of the Year' by the readers of *Mother & Baby* magazine and receiving four awards from Tommy's, the baby charity, in its annual 'Parent Friendly' awards.

With improved levels of service we are confident that we will encourage customers to shop more at Mothercare. Enhanced performance levels will increase transactions, raise our average customer spend and grow market share.

## Developing customer focused shopping experiences

### UK out-of-town stores

We are pleased that the 63 out-of-town stores continued to perform well having generated a 5.5 per cent sales growth. The new 12,000-14,000 sq ft format provides a clearer layout and additional facilities for customers, including a café and play area, and nursing lounges. The café area can also be used to develop the Mothercare 'Community', encouraging in-store activities for customers that build on Mothercare's specialist care and advice. New in-store fittings for stronger visual merchandising and flexibility are also enhancing sales growth. Our goal is to bring more customers into store, increase their time with us and increase sales per customer.

The new out-of-town format is now being rolled out with a new store in Rotherham having opened in October, and one in Bristol in March. Since the year-end, the programme has begun to accelerate with new stores opening in Eccles, near Manchester and Walsall, in May. A further seven stores are due to open in the remainder of the current financial year. In the next 3-4 years, the out-of-town chain is planned to expand to at least 100 sites and will account for 75 per cent of space, compared to 55 per cent today.

As part of the business focus on rebuilding the core brand, the new out-of-town stores are being branded Mothercare, rather than Mothercare World.

### UK high street stores

The performance of the high street chain was down 3.4 per cent during the year having been badly impacted by availability issues. With the out-of-town store roll-out now under way, designing the next generation blueprint for the high street stores is a top priority. The next stage is to apply the lessons learnt from the new out-of-town model to the development of the high street stores. We will also look at linking up with the catalogue and website to ensure a full product offering from the limited space of the high street stores. Vince Gunn, retail operations director, is leading the team trialling the new concepts during the second half of the year.

### Direct

Mothercare Direct, which includes the catalogue and website business, achieved excellent sales growth of 48.8 per cent and broke even for the full year. The Direct business allows us to offer shopping flexibility and enhance our

## ...providing products, services and advice at every stage along their journey.



**1** Choosing the right car seat at each stage of a child's development is vital. Mothercare's advisers are trained in all aspects of child car seat safety.

**2** Mothercare offers everything parents need to create their dream nursery, from stylish cots and furniture to colourful, co-ordinated bedding ranges.

**3** Parents need clear and concise information to help make key buying decisions. Mothercare's catalogue is a handy reference guide packed with advice and information.

**4** Comfort, practicality and style are key features of Mothercare's exclusive clothing ranges for baby and toddler.

### Stores – at 30 March 2002

| | Stores | Total selling area (000's sq ft) |
|---|---|---|
| Out-of-town | 63 | 1,053 |
| High street | 182 | 874 |
| **Total UK stores** | **245** | **1,927** |
| International (franchise stores)* | 157 | |
| **Total** | **402** | |

| *International | Europe | Middle East | Far East | Other | Total |
|---|---|---|---|---|---|
| Franchise stores | 59 | 64 | 32 | 2 | 157 |

ability to give fuller information to help customers make key purchasing decisions.

The launch of the newly designed catalogue has seen circulation grow to over half a million. The catalogue, developed in a convenient handbag size, is a useful reference book, not only showing the full range of product, but also providing customers with plenty of advice and guidance covering pre-birth, birth and the early childhood years.

The Direct business is now making a real contribution to the earnings of the business, with the combined Mothercare.com and catalogue business achieving break-even a year earlier than planned.

The data from Direct is also giving us further insight into our customers' spending patterns. Combined with our in-store sales information, this helps us to continue to develop and enhance our ranges.

### International growth continues

Mothercare International achieved a strong profit performance. With a continued focus on building relationships with key franchise partners, 26 new stores were opened, with another 11 stores planned for the current financial year. These partnerships are increasingly moving to royalty-based arrangements in order to drive sales more effectively. The overseas business presents a significant opportunity for further growth.

### Being a responsible business

As a responsible retailer, we are committed to ensuring that the welfare of our customers, the people making our products and the environment are front of mind when operating our business. With our primary customers being pregnant women, mothers, babies and children, we have a particular responsibility to ensure we aim for world-class standards in all our activities and products.

In April 2001, Mothercare published its Ethical Sourcing Policy and Code of Practice. This is our commitment to business ethics and corporate responsibility, and outlines our position on a number of key labour and human rights practices, including the employment of children, freedom

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**5** Parents can meet friends, come along to in-store classes and discussion groups, or just take a moment to relax in the café at selected larger stores.

**6** Mothercare's wide range of toys is designed to entertain and encourage development from birth and throughout the pre-school years.

**7** Convenient shopping is particularly important for parents with young children. Mothercare.com offers customers the choice to browse and shop on-line at any time.

of association, equality of treatment, and working hours and compensation.

During the past year, Mothercare became a member of the Ethical Trading Initiative (ETI), an alliance of businesses, non-governmental organisations and trade unions committed to working together to identify and promote ethical trade. ETI members meet regularly to share experience about implementing international labour standards in factories throughout the world.

Alongside this, we are continually gathering information about the many factories that are used to manufacture our products. Mothercare technologists carry out factory audits to monitor working practices, and to help ensure that our products are manufactured to a consistently high standard.

The company has continued to support charities whose activities are closely aligned to the business. Recent fundraising activities have benefited the Tommy's baby charity and the Variety Club Gold Hearts Appeal.

Mothercare remains financially robust and continues to invest in the fundamentals that will drive our success – stores, products and service.

Mark McMenemy
Finance director

### Results for the year

The results for the year to 30 March 2002 were significantly impacted by the transition to the new warehouse. The resultant operational difficulties and disruption to the flow of stock have now been resolved enabling the business to look forward to the next financial year.

### Operating results

Sales for the Mothercare business were £426.9 million compared to £419.1 million for the year to 31 March 2001, an increase of 1.9 per cent.

UK stores' sales increased by 1.2 per cent to £374.7 million from £370.1 million within which particular success was achieved on maternitywear and home and travel. The results for the previous year include stores closed during that year and therefore the ongoing business had sales growth of 2.0 per cent. International sales decreased by 3.0 per cent to £38.9 million from £40.0 million due to the closure of a number of underperforming stores which resulted in increased profits. Direct sales increased by 48.8 per cent to £13.3 million from £9.0 million as the website and catalogue business continues to develop. Gross margin before operating costs for the business as a whole has improved to 41.6 per cent from 40.1 per cent.

Overall this sales growth was disappointing against our aspirations for the year. However, the group took the decision to continue its revenue investment in order to look beyond the short-term issues encountered this year and plan for the long-term growth of the business. The group has invested further in training and store payroll to improve store service standards and ensure these reach the levels expected by our customers. The skills of our staff are regarded as a key asset and therefore it is vital these are improved to, and maintained at, the excellent standard required. This investment impacted on operating profit in the year.

In addition to the investment undertaken in the year other costs have also increased. Distribution costs were expected to increase with the separation from Bhs and the consequent new distribution facility. However, costs were in excess of expectations and this contributed additional operating costs of £7.5 million before consideration of the exceptional costs which are separately discussed in this review. There is now a major cost reduction programme under way.

Operating profit was £3.0 million compared to £7.1 million, a decrease of 57.0 per cent. Within this UK stores' operating profit decreased to a loss of £1.0 million from a profit of £4.7 million, International operating profit increased to £4.0 million from £3.4 million and Direct improved to break-even from a loss of £1.0 million.

### Interest

Net interest received was £1.2 million compared to £3.1 million for the year to 31 March 2001. Interest last year benefited

from the receipt of £208.9 million from the disposal of Bhs in May 2000 prior to the return of capital to shareholders of £105.1 million in August 2000, thereby increasing cash balances during this period. In addition interest rates have been lower over the course of the year and cash balances have reduced.

Overall profit before tax and exceptional items has decreased to £4.2 million from £10.2 million in the prior year.

### Exceptional items

The last stage of the re-organisation following the disposal of Bhs was the move to a new warehouse, operated by a contractor, Tibbett & Britten, which began operations in May 2001 and despatches to stores in August 2001.

Significant difficulties were experienced with the transition to the new warehouse and, as a result, additional costs were incurred through the need to operate temporary warehousing and to deliver goods directly from suppliers to stores. The group charged £4.1 million as exceptional costs in the first half of the year in relation to additional costs arising from the transition to the new warehouse.

These temporary solutions were maintained until the end of 2001. During this time a review of warehousing was undertaken and a decision was taken that a second warehouse facility was required on a one-year renewable contract. This decision will ensure that the combined warehouse facilities can meet the ongoing requirements of the business.

A single temporary facility has been maintained in the final three months of the financial year allowing a robust tender process to take place for the second warehouse. The costs of this temporary facility are included in operating profit and have not been classed as exceptional items as a second warehouse will now be operated for the foreseeable future.

### Taxation

There was no overall tax charge in either year due to the tax losses brought forward from prior years. The effective rate of tax will therefore remain below the standard rate of corporation tax until the group has used all of these losses. The losses remaining are approximately £35 million.

The group has implemented FRS 19 'Deferred tax' in these accounts and its impact is set out in detail in note 5.

### Dividends

The group paid an interim dividend of 1.0p per share (£0.7 million). A final dividend is proposed of 1.5p per share (£1.0 million). In the year to 31 March 2001 there was no interim dividend but a final dividend of 1.5p per share was paid (£1.0 million).

The dividends paid and proposed in the year to 30 March 2002 are in line with the group's dividend policy and therefore reflect the board's confidence in future trading.

## Earnings per share

Earnings per share for the continuing Mothercare business before exceptional items were 6.3p compared to 6.5p last year. The weighted average number of shares in issue fell from 138.8 million to 67.2 million due to the capital reduction and subsequent share consolidation that took place in 2001.

## Balance sheet

The group balance sheet is set out on page 24 and shows net assets decreasing to £125.4 million from £127.0 million. Stocks have increased to £55.1 million from £43.6 million in order to ensure improved availability for the Spring/ Summer season and of core Mothercare product. This has contributed to the cash outflow in the year.

## Cash flow

The cash outflow in the year was £22.5 million, reducing net cash to £12.3 million from £34.8 million (cash of £36.8 million net of finance lease creditors of £2.0 million).

This outflow is the result of a number of factors including expenditure this year of £9.5 million on exceptional costs provided last year (in relation to the re-organisation following the sale of Bhs and the store disposal programme) and the exceptional costs of £4.1 million in the current year. In addition there has been investment in new stores and other capital expenditure of £10.7 million and working capital has increased by £11.5 million representing the increased stocks.

In 2002/03 the group plans to open nine new stores as part of the roll-out programme subject to the availability of suitable sites. It is anticipated that this capital expenditure will be funded by existing cash balances.

## Accounting policies

The group has adopted FRS 19 'Deferred tax' during the year as discussed above. The group has complied with the transitional arrangements of FRS 17 'Retirement benefits' and appropriate disclosure is made in note 16.

## Treasury operations

The group's funding, liquidity, currency and interest rate risks are managed within a framework of policies authorised by the board. These policies ensure that adequate, cost-effective funding is available to the group at all times and that exposure to financial risks is minimised. Control and monitoring of the policies is delegated to the Treasury Committee which is chaired by the finance director. The overall treasury policy is reviewed annually by the board.

## Funding and liquidity

The funding position is reported to the board on a regular basis. The group has a £20.0 million committed bank facility which is secured by a fixed charge over the group's properties and a floating charge over its assets.

The group is currently undertaking a tender process for the provision of all banking services and this is expected to be concluded in June 2002.

## Currency risk

About nine per cent of Mothercare's sales are to franchisees overseas which are all billed in sterling. The group therefore has no currency exposure on these sales. Less than five per cent of the group's purchases are made in a foreign currency and the exchange risk is hedged by using forward contracts. The group's policy is to cover all material exposures.

## Share price

The share price on 29 March 2002, the last trading day of the year, was 232.5p (30 March 2001 – 206.75p) with a high in the year of 336.0p and a low of 177.0p.

# Board of directors


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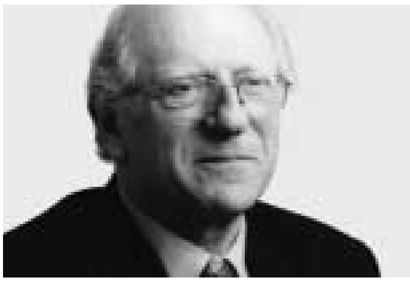
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• Audit committee
• Remuneration committee
• Nomination committee

1 Alan Smith
Non-executive chairman •••
Appointed chairman in July 1996, having joined the board as a non-executive director and chairman-elect in January 1996. Previously a director of Marks & Spencer plc for 15 years and chief executive of Kingfisher plc 1993-1995. Non-executive director of The Big Food Group plc, Colefax and Fowler plc, Space N K Ltd, The Health Clinic plc and Whitehead Mann Group Plc. Aged 61.

2 Chris Martin
Chief executive
Appointed CEO in May 2000 and was previously group finance director from January 1997. Initially joined the group in April 1995 as a director in Mothercare. Former finance director of Pizza Hut (UK). Aged 41.

3 Brian Hardy
Non-executive director •••
Appointed in November 1994. Non-executive chairman of Boltblue Limited and, until December 2000, was for ten years director, finance, of Burmah Castrol plc. A chartered accountant, graduate of the London School of Economics and MBA from Stanford Business School, California. Aged 60.

4 Angela Heylin OBE
Non-executive director •••
Appointed in March 1997. Was UK president of BSMG Worldwide. Is a non-executive director of Provident Financial plc, Austin Reed plc, a trustee of Historic Royal Palaces and chairman of The House of St Barnabas, a hostel for homeless women in Soho. Aged 58.

5 Mark McMenemy
Finance director
Appointed finance director in April 2001. Former group finance director of Clarks Shoes and financial controller for UK and European Stores Marks & Spencer plc. CIMA. Aged 44.

## Business review

The principal companies within the Mothercare group for the year under review were Mothercare plc (the 'Company'), Mothercare UK Limited and Childrens World Limited. A review of the business strategy and a commentary on the performance of the Mothercare business is set out in the chairman's statement, chief executive's review and financial review on pages 1 to 10.

## Dividend

The directors recommend a final dividend of 1.5p per share. An interim dividend of 1.0p was paid on 12 February 2002. The total dividend of 2.5p per share compares with 1.5p paid during 2001.

The final dividend will be payable on 16 August 2002 to shareholders registered on 28 June. Shareholders may continue to choose to receive shares in lieu of cash dividend through the dividend re-investment plan. The plan purchases existing shares using the cash dividend. A dealing fee (of 0.5 per cent) and stamp duty (currently 0.5 per cent) is charged. The shares will be acquired on the dividend payment day. Existing mandates will continue to apply unless the Company's registrars are advised to the contrary by 26 July 2002. Notifications of application or withdrawal from the plan should be sent to Lloyds TSB Registrars, Share Dividend Team, The Causeway, Worthing, West Sussex BN99 6DA. The latest date for election to the plan in relation to the final dividend is 26 July 2002.

## Substantial shareholdings

As at 16 May 2002, the Company has been advised by the following companies of notifiable interests in its ordinary share capital:

| Holder | Number of shares | Percentage of issued capital |
|---|---|---|
| Fidelity Investments | 9,092,537 | 12.9 |
| Prudential plc | 8,572,217 | 12.1 |
| Legal & General | 2,596,114 | 3.7 |

## Directors

Details of the directors of the Company are shown on page 11. Alan Smith was non-executive chairman throughout the year ended 30 March 2002. Brian Hardy (senior non-executive director), Angela Heylin OBE and Chris Martin served as directors throughout the year. Mark McMenemy was appointed to the board on 17 April 2001.

Angela Heylin and Chris Martin retire by rotation and stand for re-election at the Annual General Meeting. Biographical details of Angela Heylin and Chris Martin indicating their experience and qualifications are set out on page 11.

Details of directors' service contracts are set out in the remuneration report on page 18. Brian Hardy and Angela Heylin do not have a service contract.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 17 to 19.

## Corporate governance

The Company has complied with the Combined Code as determined by the Committee on Corporate Governance and as defined in the Listing Rules of the Financial Services Authority ('The Code').

The board has overall responsibility for the Company's system of internal control. The Company has established and maintained 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 Company's system of internal control is based on financial, operational, compliance and risk control policies and procedures together with regular reporting of financial performance. Planning, budgeting and forecasting procedures are also in place together with formal capital investment and appraisal arrangements.

In accordance with Turnbull Committee principles, the board places considerable emphasis on the identification and monitoring of the risks which may affect the continuance of the business. The Company has in place a programme to ensure that key business risks are ranked in importance and that risk avoidance measures are identified. These risks are reviewed on a periodic basis.

The Company moved its warehousing and distribution to a new site in Daventry in May 2001. Store deliveries started on 18 August 2001 as scheduled. The planning activity for the warehouse transition incorporated a risk assessment and control programme with regular board review. When, in early September, it became apparent that productivity levels were below that expected, additional distribution arrangements were put in place. The one-off costs of those additional arrangements to January 2002 are set out in note 3 to the accounts under exceptional items. Following a review of the processes for distribution, the Company announced in January that it had decided to continue with one additional facility in support of the Daventry warehouse. Further details are contained within the chief executive's review on page 3.

Risk management activity during the year has included individual stores being tested against a risk assessment model with particular emphasis on health and safety, fire safety and internal process compliance. A revised information technology disaster recovery plan has also been compiled. The board also considers, and reviews at each board meeting, key business performance indicators.

The Company has, for a number of years, undertaken activities that in other organisations are performed by an internal audit function. During the year the Company moved further towards establishing an internal audit function with specific process reviews including accounts payable, work on stock integrity and other compliance testing. The internal audit function will be further developed in the forthcoming year.

Consideration has been given to the policy and procedures to be adopted in the appointment of the Company's auditors to non-audit work. In the light of the recent debate concerning auditor independence, the Company has established guidelines under which the auditors may or may not be employed to provide non-audit services. As a general principle the auditors will not be requested to carry out non-audit services upon any activity of the Company on which they may, in the future, be required to give an audit opinion. This policy will be kept under review to ensure the Company complies with good governance.

The board believes that the system of internal control described above is appropriate to the business. It can, however, only provide reasonable and not absolute assurance against material mis-statement or loss. The audit committee periodically reviews the system of internal control on behalf of the board.

The Code sets out principles of good governance and these are briefly commented on below:

**The board and directors** Following the appointment of Mark McMenemy on 17 April 2001, the board of Mothercare plc comprises three independent non-executive directors and two executive directors. The chairman Alan Smith reverted to non-executive status on 1 April 2001. The full board, which meets regularly, at least 10 times during the financial year, maintains overall control of the group's affairs through a schedule of matters reserved for its decision. These include setting the group strategy, the approval of the annual budget and accounts, major acquisitions and disposals, authority limits for capital and other expenditure and treasury matters.

The non-executive directors are independent and free from any business or other relationship which could materially interfere with their judgement. They do not participate in any bonus, share option or pension scheme of the Company.

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

The board is assisted by committees which it has established with written terms of reference. The roles of the remuneration and audit committees are set out below. During the year, the audit, remuneration and nomination committees were comprised of the three non-executive directors. The nomination committee is responsible for making recommendations to the board on the appointment of directors at Mothercare plc board level.

The board has delegated day-to-day and business management control of the Mothercare business to the Mothercare UK Limited operating board.

Throughout the year, the board has been supplied with information and papers submitted at each board meeting which ensures that all 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 company secretary and executives within the businesses on any matter of concern to them in respect of their duties.
In addition, new directors are offered appropriate training on appointment to the board and subsequently as necessary. Furthermore, the Company has undertaken to reimburse legal fees to the directors if circumstances should arise in which it is necessary for them to seek separate, independent, legal

advice in furtherance of their duties. In accordance with the Articles of Association, all directors are required to offer themselves for re-election every three years.

The remuneration committee, chaired by Angela Heylin, establishes the remuneration policy and arrangements for the executive directors. The group pursues a policy of performance related benefits for both directors and other executives within the group. During the year no director was, and procedures are in place to ensure that no director is, involved in deciding or determining his or her own remuneration. Full disclosure of the Company's remuneration policy and details of the remuneration of each director are set out in the remuneration report on pages 16 to 19.

The audit committee, which is chaired by Brian Hardy, the senior non-executive director, reviews 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.

**Shareholder relations** The Company has a programme of regular dialogue with institutional shareholders following presentation of the financial performance of the business to the investing communities. This takes place four times a year following the announcement of the interim and full year results, and the 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. Mindful always of its obligations to the investing community as a whole, the Company reaches a wider audience by the use of its website (at www.mothercare.com/investorinfo) 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 by the provision of a reply-paid question service to the chairman.

**Accountability and audit** Internal financial control is addressed by the audit committee at lease twice annually. Internal control (other than internal financial control) is reserved to the board as a whole. The board considers that full compliance with all provisions of The Code was achieved this year.

## Employees

The group communicates, and reviews with all its employees, corporate objectives and performance and economic activity relevant to its businesses. This is achieved through corporate briefings, bulletins, e-mail and video presentations.

The capabilities of the group's employees are measured periodically, their development needs ascertained and programmes designed to ensure that the critical skills required for the development of both the individual and the group are attained.

In addition to its incentive plans, the group operates various share schemes, details of which are set out on page 41.

Mothercare is an equal opportunities employer and ensures that recruitment and promotion decisions 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 employment aids.

## Payment of suppliers

Payments to merchandise suppliers are made in accordance with the 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 30 days from the date of invoice.

The amount owed to trade creditors at the end of the financial year represented nil days (2001 – nil days) of average daily purchases during the year for the Company and 26 days (2001 – 17 days) for the group.

## Fixed assets

Changes in fixed assets are shown in note 8 to the accounts. Although the group does not adopt a policy of revaluing property a valuation of the group's freehold and long leasehold properties, excluding rack rented properties, was carried out by external valuers, primarily Messrs Healey & Baker, as at 1 April 2000. This was further updated on a 'desktop' basis during the year. The basis of the valuation is Existing Use Value in respect of properties primarily occupied by the group and on the basis of Open Market Value in respect of investment properties, both bases being in accordance with the Practice Statements contained in the RICS Appraisal and Valuation Manual. The updated valuation of the properties resulted in a surplus over their net book value of £10.2 million.

## Corporate citizenship

The board recognises that corporate citizenship, or social responsibility, is an important factor in managing the reputation of a business such as Mothercare.

Details of the group's activities relating to charity, community, ethical trading and the environment are set out in the chief executive's review on pages 6 and 7.

## Charitable and political donations

Charitable donations for the year ended 30 March 2002 were £67,507 (2001 – £29,249).

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

## Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. The accounts are therefore prepared on a going concern basis.

## Annual General Meeting

The AGM will be held on Friday, 19 July 2002 at 10.30am at the Hilton National Hotel, Elton Way, Watford WD2 8HA.

The notice of the meeting and a pre-paid form of proxy for the use of shareholders unable to come to the AGM but who may wish to vote or to put any questions to the board of directors are enclosed with this annual report. The chairman will respond in writing to any such 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 company secretary at the Company's head office.

### Special Business at the Annual General Meeting

In addition to the ordinary business, the directors will propose resolutions covering the following two matters:

**Appointment of auditors** An ordinary resolution (resolution 5) will be proposed to appoint Deloitte & Touche as auditors of the Company from the conclusion of the AGM. This resolution is being proposed following notice having been given to the Company under sections 391A and 379 of the Companies Act 1985. The board are aware of recent events concerning the proposed transaction between Arthur Andersen and Deloitte & Touche, under which a number of partners and personnel will be joining Deloitte & Touche. The board have reviewed matters with representatives of the firm. Arthur Andersen have advised the board that they will not be seeking reappointment at the AGM and have confirmed to the Company that there are no representations or matters which they wish to make to Members or creditors in respect of their ceasing to act as auditors to the Company.

**Purchase of own shares** The Company was authorised at the 2001 AGM to purchase up to 10 per cent of its shares in the market. This authority has not been used and expires at the conclusion of this year's AGM. Resolution 6 seeks to renew the authority for a further year. Shares purchased (if any) will be cancelled. The directors have no present intention of using this authority, but wish to be in a position to act quickly in the interests of the Company and shareholders generally if circumstances so warrant. Purchases of the Company's shares would only be made if these would result in an increase in earnings per share and be in the best interests of the Company at the time.

By order of the board

Clive E Revett
Company secretary
23 May 2002

The directors present the remuneration report for the year ended 30 March 2002.

## Composition of the remuneration committee

The remuneration committee comprised the independent non-executive directors, Angela Heylin, Chairman of the remuneration committee, Brian Hardy and the Chairman, Alan Smith. The committee makes recommendations to the board on executive directors' service agreements and remuneration. In doing so it has taken independent advice during the year from external remuneration consultants New Bridge Street Consultants and Andersen and from its legal advisers, Garretts. The committee met six times during the year to 30 March 2002.

## Remuneration policy

It is the Company's policy to provide competitive remuneration packages in order to recruit, retain and motivate directors and employees of the required calibre to meet the Company's objectives. The remuneration committee ensures that policy remains consistent with current market practices and is appropriate for Mothercare given the current position in its recovery programme. The committee monitors the compliance of the Company with the Combined Code of Practice on directors' remuneration and follows best practice in applying performance-related remuneration. An element of variable pay, based on achievement of targets, is included in the remuneration package to strengthen the alignment of executive directors' interests with those of shareholders. No director is involved in decisions about his or her remuneration.

## Directors' remuneration

Executive directors' remuneration comprises a fixed annual salary, a variable annual bonus, other benefits and participation in the share option scheme. The Company does not operate any other long-term incentive scheme.

## Salary

The remuneration committee considers the salary of each executive director individually. As a general policy, salaries are positioned at or around the market median. Base salary is the only element of pay used in calculating pensionable earnings under the Mothercare pension arrangements.

## Annual bonus

An annual bonus is paid upon the achievement by executive directors of financial performance targets and also personal targets linked to the delivery of strategic and individual operational objectives.

The maximum bonus that may ordinarily be paid to an executive director is 50 per cent of base salary. The remuneration committee has been granted discretion by the board to approve bonus payments that exceed this level in exceptional circumstances.

No bonuses are payable in respect of the year ended 30 March 2002.

## Executive share option schemes

No further awards will be made under the 1995 executive share option scheme. The only awards still outstanding under it are those made on 1 June 2000. These options were granted at market value and will vest at the earliest in 2003 subject to the performance condition that growth in earnings per share has exceeded the growth in the Retail Price Index over a three-year period by at least six per cent. The directors exercised no options during the year.

Options under the Mothercare 2000 executive option plan are granted at market value and a significant improvement in the underlying performance of the Company is required before options can be exercised. Options will usually only be exercisable if earnings per share growth over a rolling three-year performance period equals or exceeds the Retail Price Index by nine per cent. Options will lapse if the performance condition is not achieved over the performance period.

Annual option grants may be made to executive directors and to senior employees of up to two times basic salary, although it is not expected that the annual level of grant will normally be as high as this. The remuneration committee has, however, been authorised by the board to exercise discretion to make grants above this level in exceptional circumstances such as recruitment. Annual grants in excess of two times basic salary have a performance condition of earnings per share growth over a rolling three-year performance period which equals or exceeds the Retail Price Index by 20 per cent.

A grant of four times salary was made to Mark McMenemy in May 2001, following his appointment as finance director on 17 April 2001. The options granted to Mark McMenemy have performance conditions of earnings per share growth over a rolling three-year period of RPI + 9% on 140,000 options, the remainder having a performance condition of earnings per share growth of RPI + 20%.

## Directors' share options

Directors' share options under all schemes are shown in the following table:

| | 31 March 2001 | Granted during year | Grant date | Exercise price (pence) | 30 March 2002 |
|---|---|---|---|---|---|
| Chris Martin | 460,737 | – | 1 June 2000 | 123.71 | **460,737** |
| | 400,000 | – | 22 January 2001 | 165.00 | **400,000** |
| | 1,550[1] | – | 22 December 2000 | 125.00 | **1,550** |
| | – | 106,667 | 31 May 2001 | 300.00 | **106,667** |
| | – | 3,039[1] | 6 July 2001 | 255.00 | **3,039** |
| Total | 862,287 | 109,706 | | | **971,993** |
| Mark McMenemy | – | 280,000 | 31 May 2001 | 300.00 | **280,000** |
| | – | 3,799[1] | 6 July 2001 | 255.00 | **3,799** |
| Total | – | 283,799 | | | **283,799** |

**Note**

1. Options granted under the three-year SAYE option scheme.
2. Share price details are shown on page 43.

## Service contracts

The executive directors have service contracts that can be terminated on 12 months' notice. These provide for liquidated damages on termination by the Company of one year's basic salary, benefits, pension credits and the average of the past three years' annual bonus, and for exercisable share options to be retained for up to six months from the notice date. Alan Smith is entitled to one year's salary and benefits upon termination of employment by the Company. Angela Heylin and Brian Hardy do not have service arrangements with the Company which provide for payment on termination of their engagement. Their service arrangements will next be reviewed following the Annual General Meeting in July 2003.

## External appointments

Typically, an executive director may take one external appointment as a non-executive director for which he may retain the fees, subject to the approval of the board. Neither of the executive directors currently has such appointments.

## Pensions

Chris Martin and Mark McMenemy are members of the Mothercare executive pension scheme. Pension accrues at the rate of one thirtieth of salary for each year of pensionable service up to Inland Revenue limits. The normal retirement age is 60. Employees' contributions are up to five per cent of pensionable salary.

In addition to the membership of the Mothercare executive pension scheme, pension benefits on earnings in excess of the Inland Revenue earnings cap are provided to Chris Martin and Mark McMenemy through a Funded Unapproved Retirement Benefits Scheme.

The contribution rate for the Company for Chris Martin and Mark McMenemy in relation to salary in excess of the earnings cap is 16.6 per cent of salary under age 40, rising in increments to 50 per cent at age 55–60.

The table below shows the annual pension earned or accrued at the beginning and end of the year by the two executive directors, the increase in the earned pension during the year and the capital value of that increase.

| | Annual pension accrued by 31 March 2001 £000 | Annual pension earned (in excess of inflation) during the year £000 | Capital value of increase in pension (in excess of inflation) £000 | Annual pension accrued by 30 March 2002 £000 | Company contributions £000 |
|---|---|---|---|---|---|
| Chris Martin | 18 | 4 | 27 | 22 | 56 |
| Mark McMenemy | – | 3 | 29 | 3 | 28 |

The capital value of the increase in pension represents a liability of the Company but not a sum paid or due to the individual. It cannot meaningfully be added to annual remuneration.

For further information on the cost of pensions to the Company, including the statements required under FRS 17, see pages 40 and 41.

## Directors' emoluments

Total emoluments (including pension contributions) in the year ended 30 March 2002 were £1,191,000 (2001 – £1,778,000).

| | Salary/ fees £000 2002 | Salary/ fees £000 2001 | Performance bonus £000 2002 | Performance bonus £000 2001 | Retention/ service bonus £000 2002 | Retention/ service bonus £000 2001 | Compensation for loss of office £000 2002 | Compensation for loss of office £000 2001 | Benefits £000 2002 | Benefits £000 2001 | Total remuneration (excl. pensions) £000 2002 | Total remuneration (excl. pensions) £000 2001 | Pension contributions £000 2002 | Pension contributions £000 2001 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | | | | | | | |
| Chris Martin | **320** | 290 | **–** | 114 | **–** | 131[1] | **–** | – | **16** | 16 | **336** | 551 | **56** | 20 |
| Mark McMenemy | **200** | – | **–** | – | **–** | – | **–** | – | **9** | – | **209** | – | **28** | – |
| Stephen Tague[2] | **–** | 41 | **–** | – | **–** | – | **–** | 381 | **–** | 16 | **–** | 438 | **–** | 2 |
| **Non-executive directors** | | | | | | | | | | | | | | |
| Alan Smith | **175** | 360 | **–** | – | **315[3]** | 315[3] | **–** | – | **14** | 25 | **504** | 700 | **–** | – |
| Brian Hardy | **29** | 29 | **–** | – | **–** | – | **–** | – | **–** | – | **29** | 29 | **–** | – |
| Angela Heylin | **29** | 29 | **–** | – | **–** | – | **–** | – | **–** | – | **29** | 29 | **–** | – |
| David Tagg[4] | **–** | 9 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 9 | **–** | – |

**Notes**

1. This bonus formed part of a Storehouse plc incentive linked to the restructuring of the business.
2. Stephen Tague was a former director of the Company (then Storehouse plc) who left the business on 25 May 2000.
3. Alan Smith was awarded a one-off bonus as executive chairman of Storehouse plc two years ago. This was payable in two instalments, the final instalment being in June 2001. The bonus was invested wholly in Mothercare shares.
4. David Tagg was a former director of the Company (then Storehouse plc) who left the business on 20 July 2000.

## Non-executive directors' fees

The fees of the non-executive directors are determined by the board with the non-executive directors abstaining from discussions on their own arrangements. The non-executive directors do not participate in any bonus, share option or pension scheme of the Company.

## Beneficial interests of the directors

The beneficial interests of the directors in the share capital of the Company (excluding option awards which are set out on page 17) are as follows:

| | **Interest held at 30 March 2002 (Number)** | Interest held at 31 March 2001 (Number) |
|---|---|---|
| Alan Smith | **221,787** | 77,079 |
| Chris Martin | **8,723** | 8,636 |
| Mark McMenemy | **–** | – |
| Brian Hardy | **11,495** | 11,440 |
| Angela Heylin | **4,438** | 3,426 |

Alan Smith and Angela Heylin are the shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 13,151 (2001 – 29,174) Mothercare shares in trust on 30 March 2002. A separate trust, the Mothercare Employee Trust, held 3,523,434 shares on 30 March 2002 (2001 – 3,524,071).

The executive directors of the Company are technically deemed to be interested in all of the shares held by Mothercare Employees' Share Trustee Limited and by the Mothercare Employee Trust as potential beneficiaries. There have been no movements in directors' interests, beneficial or non-beneficial, between 30 March 2002 and 23 May 2002.

# Directors' responsibilities for the accounts

This statement has been prepared in compliance with the Combined Code of Best Practice in order to explain the responsibilities of the directors in preparing the accounts. It should be read in conjunction with the auditors' report on page 21.

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the group and of the profit or loss of the group for that period.

After making enquiries, the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In preparing the accounts, the directors are required to: select suitable accounting policies and then apply them consistently; make judgements and estimates that are reasonable and prudent; and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent auditors' report

## To the shareholders of Mothercare plc

We have audited the accounts of Mothercare plc for the 52 week period ended 30 March 2002 which comprise the group profit and loss account, balance sheets, group cash flow statement, notes to the group cash flow statement, statement of total recognised gains and losses, reconciliation of movement in shareholders' funds, the accounting policies and the related notes numbered 1 to 18. These accounts have been prepared under the accounting policies set out therein.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of directors' responsibilities. Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the group is not disclosed.

We review whether the Directors' report on corporate governance reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if they do not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report, and consider whether it is consistent with the audited accounts. This other information comprises only the Chairman's statement, Chief Executive's review, financial review, Directors' report, remuneration report, Directors' responsibilities, five year record and the shareholder information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

## Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the group at 30 March 2002 and of the group's profit for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered accountants and registered auditors
180 Strand, London WC2R 1BL
23 May 2002

# Group profit and loss account

For the 52 weeks ended 30 March 2002

| | Note |
|---|---|
| Turnover | 2 |
| Cost of sales | |
| Gross profit/(loss) | |
| Administrative expenses | |
| Profit/(loss) from retail operations | 2 |
| Exceptional items: | 3 |
| Profit on disposal of stores (continuing) | |
| Provision for costs of separation (continuing) | |
| Disposal of Bhs (discontinued) | |
| Interest (net) | 4 |
| Profit/(loss) before taxation | |
| Taxation | 5 |
| Profit/(loss) for the financial year | |
| Dividends | 6 |
| Retained (loss)/profit for the financial year | |

| | Note |
|---|---|
| Earnings per share – continuing business before exceptional items | 7 |
| Earnings per share | 7 |
| Earnings per share diluted | 7 |

# Statement of total recognised gains and losses

For the 52 weeks ended 30 March 2002

| | 2002<br>£ million | 2001<br>£ million |
|---|---|---|
| Profit for the financial year being total recognised gains and losses relating to the year | **0.1** | 8.4 |

A statement of the movement in reserves is shown in note 15.

The accounting policies on pages 28 and 29 and the notes on pages 30 to 41 form an integral part of these statements.

| 52 weeks ended 30 March 2002 | | | 52 weeks ended 31 March 2001 | | | | | |
|---|---|---|---|---|---|---|---|---|
| Continuing Mothercare before exceptional items £ million | Exceptional items (note 3) £ million | Total £ million | Continuing Mothercare £ million | Discontinued Bhs £ million | Total before exceptional items £ million | Exceptional items (note 3) £ million | Total £ million |
| **426.9** | **–** | **426.9** | 419.1 | 89.9 | 509.0 | – | 509.0 |
| **(401.9)** | **–** | **(401.9)** | (389.4) | (94.7) | (484.1) | (7.4) | (491.5) |
| **25.0** | **–** | **25.0** | 29.7 | (4.8) | 24.9 | (7.4) | 17.5 |
| **(22.0)** | **–** | **(22.0)** | (22.6) | (1.9) | (24.5) | – | (24.5) |
| **3.0** | **–** | **3.0** | 7.1 | (6.7) | 0.4 | (7.4) | (7.0) |
| **–** | **–** | **–** | – | – | – | 3.5 | 3.5 |
| **–** | **(4.1)** | **(4.1)** | – | – | – | (9.9) | (9.9) |
| **–** | **–** | **–** | – | – | – | 18.7 | 18.7 |
| **1.2** | **–** | **1.2** | 3.1 | – | 3.1 | – | 3.1 |
| **4.2** | **(4.1)** | **0.1** | 10.2 | (6.7) | 3.5 | 4.9 | 8.4 |
| **–** | **–** | **–** | (1.2) | – | (1.2) | 1.2 | – |
| **4.2** | **(4.1)** | **0.1** | 9.0 | (6.7) | 2.3 | 6.1 | 8.4 |
| | | **(1.7)** | | | | | (1.0) |
| | | **(1.6)** | | | | | 7.4 |
| | | **6.3p** | | | | | 6.5p |
| | | **0.2p** | | | | | 6.0p |
| | | **0.2p** | | | | | 6.0p |

# Group and Company balance sheets
## As at 30 March 2002

| | Note | Group 2002 £ million | Group 2001 £ million | Company 2002 £ million | Company 2001 £ million |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | 8 | **88.6** | 87.7 | **–** | – |
| Investments | 9 | **5.0** | 4.3 | **113.3** | 113.3 |
| | | **93.6** | 92.0 | **113.3** | 113.3 |
| **Current assets** | | | | | |
| Stocks | | **55.1** | 43.6 | **–** | – |
| Debtors | 10 | **35.2** | 32.4 | **11.1** | 13.0 |
| Cash at bank and in hand and time deposits | | **12.3** | 36.8 | **44.3** | 43.2 |
| | | **102.6** | 112.8 | **55.4** | 56.2 |
| Creditors – amounts falling due within one year | 11 | **(65.3)** | (71.0) | **(88.0)** | (89.0) |
| **Net current assets/(liabilities)** | | **37.3** | 41.8 | **(32.6)** | (32.8) |
| **Total assets less current liabilities** | | **130.9** | 133.8 | **80.7** | 80.5 |
| Creditors – amounts falling due after one year | 11 | **(2.8)** | (2.4) | **–** | – |
| Provisions for liabilities and charges | 13 | **(2.7)** | (4.4) | **–** | – |
| **Net assets** | | **125.4** | 127.0 | **80.7** | 80.5 |
| **Capital and reserves attributable to equity interests** | | | | | |
| Called-up share capital | 14 | **35.3** | 35.3 | **35.3** | 35.3 |
| Profit and loss account | 15 | **90.1** | 91.7 | **45.4** | 45.2 |
| | | **125.4** | 127.0 | **80.7** | 80.5 |

Approved by the board on 23 May 2002
C N Martin
M McMenemy

# Reconciliation of movement in shareholders' funds
## For the 52 weeks ended 30 March 2002

| | 2002 £ million | 2001 £ million |
|---|---|---|
| Profit for the financial year | **0.1** | 8.4 |
| Dividends | **(1.7)** | (1.0) |
| **Net (decrease)/increase in shareholders' funds** | **(1.6)** | 7.4 |
| Scheme of arrangement – reduction of share capital | **–** | (106.0) |
| Shareholders' funds at beginning of the year | **127.0** | 225.6 |
| **Shareholders' funds at end of the year** | **125.4** | 127.0 |

The accounting policies on pages 28 and 29 and the notes on pages 30 to 41 form an integral part of these statements.

# Group cash flow statement
For the 52 weeks ended 30 March 2002

| | Note | 2002 £ million | 2002 £ million | 2001 £ million | 2001 £ million |
|---|---|---|---|---|---|
| **Reconciliation of net cash (outflow)/inflow from operating activities** | | | | | |
| Profit from retail operations before exceptional items | | 3.0 | | 0.4 | |
| Depreciation | | 11.6 | | 18.5 | |
| (Increase) in stocks | | (11.5) | | (5.5) | |
| (Increase)/decrease in debtors | | (2.8) | | 18.8 | |
| Increase in creditors | | 2.8 | | 0.2 | |
| Net cash (outflow) in respect of exceptional costs | | (13.6) | | (28.3) | |
| **Net cash (outflow)/inflow from operating activities** | | | (10.5) | | 4.1 |

| | Note | 2002 £ million | 2002 £ million | 2001 £ million | 2001 £ million |
|---|---|---|---|---|---|
| **Net cash (outflow)/inflow from operating activities** | | | (10.5) | | 4.1 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | 1.3 | | 4.3 | |
| Interest paid | | (0.1) | | (1.2) | |
| | | | 1.2 | | 3.1 |
| **Taxation** | | | | | |
| Corporation tax | | | (0.1) | | 2.9 |
| **Capital expenditure** | | | | | |
| Purchase of tangible fixed assets | | (10.7) | | (17.5) | |
| Sale of tangible fixed assets | | – | | 11.6 | |
| | | | (10.7) | | (5.9) |
| **Trading cash (outflow)/inflow** | | | (20.1) | | 4.2 |
| **Acquisitions and disposals** | | | | | |
| Disposal of Bhs | c | – | | 208.9 | |
| Acquisition of own shares | | (0.7) | | (3.8) | |
| | | | (0.7) | | 205.1 |
| **Equity dividends paid** | | | (1.7) | | – |
| **Management of liquid resources** | a | | 3.9 | | 26.3 |
| **Financing** | | | | | |
| Scheme of arrangement – reduction in share capital | | – | | (105.1) | |
| Decrease in debt | a | (2.0) | | (98.0) | |
| | | | (2.0) | | (203.1) |
| **(Decrease)/increase in cash in the year** | | | (20.6) | | 32.5 |
| **Reconciliation of net cash flow to movement in net cash** | | | | | |
| (Decrease)/increase in cash in the year | | | (20.6) | | 32.5 |
| Cash flow from liquid resources | | | (3.9) | | (26.3) |
| Cash flow from financing | | | 2.0 | | 98.0 |
| **Movement in net cash/(debt) in the year** | a | | (22.5) | | 104.2 |
| Net cash/(debt) at the beginning of the year | | | 34.8 | | (69.4) |
| **Net cash at the end of the year** | | | 12.3 | | 34.8 |

# Notes to the group cash flow statement

For the 52 weeks ended 30 March 2002

## a Analysis of net cash

| | 2000 £ million | Cash flow £ million | 2001 £ million | Cash flow £ million | **2002 £ million** |
|---|---|---|---|---|---|
| Cash | 15.0 | 11.8 | 26.8 | (20.6) | **6.2** |
| Overdrafts | (20.7) | 20.7 | – | – | **–** |
| **Net cash** | (5.7) | 32.5 | 26.8 | (20.6) | **6.2** |
| Cash flow from management of liquid resources | | | | | |
| Time deposits* | 36.3 | (26.3) | 10.0 | (3.9) | **6.1** |
| Decrease in debt | | | | | |
| Bills of exchange and bank loans | | | | | |
| Due within one year | (93.5) | 93.5 | – | – | **–** |
| Due after one year | (2.5) | 2.5 | – | – | **–** |
| Obligations under finance leases | | | | | |
| Due within one year | (2.0) | – | (2.0) | 2.0 | **–** |
| Due after one year | (2.0) | 2.0 | – | – | **–** |
| | (100.0) | 98.0 | (2.0) | 2.0 | **–** |
| **Net cash/(debt)** | (69.4) | 104.2 | 34.8 | (22.5) | **12.3** |

* Cash on the balance sheet represents the total of cash of £6.2 million (2001 – £26.8 million) and time deposits of £6.1 million (2001 – £10.0 million).

## b Obligations under finance leases

The capital element of lease payments made in the year was £2.0 million (2001 – £2.0 million). Interest paid includes £0.1 million (2001 – £0.1 million) in relation to obligations under finance leases.

## c Disposal of Bhs

| | 2001 £ million |
|---|---|
| Fixed assets | 522.5 |
| Stocks | 80.7 |
| Debtors | 16.4 |
| Creditors | (77.2) |
| Provisions for liabilities | (51.6) |
| | 490.8 |
| Provision on disposal of Bhs | (300.6) |
| Net assets disposed | 190.2 |
| Cash received | 208.9 |
| **Net profit** | 18.7 |

The disposal of Bhs in May 2000 had the following effect on the group's trading cash flow in the year ended 31 March 2001:

| | Continuing Mothercare £ million | Discontinued Bhs £ million | Total £ million |
|---|---|---|---|
| Profit/(loss) from retail operations before exceptional items | 7.1 | (6.7) | 0.4 |
| Depreciation | 11.4 | 7.1 | 18.5 |
| Working capital | 9.9 | 3.6 | 13.5 |
| Exceptional costs | (24.3) | (4.0) | (28.3) |
| Net cash flow from operating activities | 4.1 | – | 4.1 |
| Returns on investments and servicing of finance | 3.1 | – | 3.1 |
| Taxation | 2.9 | – | 2.9 |
| Capital expenditure | | | |
| Purchase of tangible fixed assets | (11.2) | (6.3) | (17.5) |
| Sale of tangible fixed assets | 9.5 | 2.1 | 11.6 |
| | (1.7) | (4.2) | (5.9) |
| **Trading cash inflow/(outflow)** | 8.4 | (4.2) | 4.2 |

# Accounting policies

## Accounting convention
The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards. The accounting policies are consistent with the prior year except for accounting for deferred tax where the new accounting standard, FRS 19 'Deferred tax', has been adopted by the directors in the year ended 30 March 2002. There has been no financial impact on the group as a consequence of this change in accounting policy. See note 5 for more details.

## Basis of consolidation
The group accounts include the accounts of the Company and of all its subsidiary undertakings drawn up to the close of business on 30 March 2002. Intercompany transactions have been eliminated on consolidation. The results of companies acquired or disposed of in the year are included to the date of disposal or from the effective date of acquiring control. Goodwill arising on the acquisition of subsidiary undertakings before 29 March 1997 and representing the difference between the consideration given and the fair value of the net assets acquired, is written off to reserves but included in the calculation of the gain/loss on subsequent disposal. As provided by the Companies Act 1985, the Company does not disclose its own separate profit and loss account.

## Tangible fixed assets
Tangible fixed assets are included at cost, less accumulated depreciation and provision for impairment. Depreciation is provided on all assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

| | |
|---|---|
| Freehold buildings | – 50 years |
| Fixed equipment in freehold buildings | – 20 years |
| Leasehold improvements | – the period of the lease |
| Fixtures, fittings and equipment | – 3 to 20 years |

## Investments
The Company's investments in subsidiary undertakings are stated at cost less provision for impairment. Dividends receivable are credited to the Company's profit and loss account.

Investments in own shares through an Employee Share Ownership Plan are included in the group balance sheet at the cost of the shares less provision for impairment.

## Stocks
Stocks consist substantially of goods for resale and are stated at the lower of cost and net realisable value. Cost includes an appropriate element of overhead expenditure.

## 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 substantially enacted by the balance sheet date.

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. A net deferred tax asset is regarded as recoverable, and therefore recognised, only when on the basis of all available evidence it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

## Turnover
Group turnover comprises the value of sales (excluding sales taxes and net of discounts) of goods in the normal course of business.

## Pension costs
The cost of providing pensions is calculated using actuarial valuation methods which reflect the long-term costs. The amount charged to the profit and loss account is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Variations from the regular cost so calculated are allocated to the profit and loss account over the average remaining service lives of employees.

## Foreign currency
Transactions in foreign currencies are translated into local currency at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into local currency at the rates ruling at each balance sheet date. Resulting exchange gains or losses are included in trading profit. For the purposes of consolidation, the results of overseas subsidiary undertakings are translated at average rates of exchange during the year. Translation differences on the opening net assets and results at average rates for the year of overseas subsidiary undertakings, are dealt with through reserves.

## Leased assets
Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Operating leases are charged to profit and loss as incurred.

### 1 Basis of preparation
The Company's accounting period covers the 52 weeks ended 30 March 2002. The comparative period covered the 52 weeks ended 31 March 2001.

### 2 Supplementary profit and loss information
All turnover and retail profit is derived from businesses in the UK.

Turnover by destination can be analysed as follows:

| | 2002 £ million | Continuing Mothercare 2001 £ million | Discontinued Bhs 2001 £ million | Total 2001 £ million |
|---|---|---|---|---|
| UK including Channel Islands | **388.0** | 379.1 | 88.2 | 467.3 |
| Rest of Europe | **16.7** | 17.8 | 0.2 | 18.0 |
| Rest of World | **22.2** | 22.2 | 1.5 | 23.7 |
| | **426.9** | 419.1 | 89.9 | 509.0 |

Profit/(loss) from retail operations has been determined after charging the following items:

| | 2002 £ million | Continuing Mothercare 2001 £ million | Discontinued Bhs 2001 £ million | Total 2001 £ million |
|---|---|---|---|---|
| Depreciation of tangible assets | **11.6** | 11.4 | 7.1 | 18.5 |
| Net rent of properties | **44.1** | 41.3 | 8.8 | 50.1 |
| Hire of plant and equipment | **1.2** | 1.1 | – | 1.1 |
| Auditors' remuneration – audit | **0.1** | 0.1 | – | 0.1 |
| Staff costs | | | | |
| Wages and salaries (including bonuses) | **44.8** | 45.9 | 11.8 | 57.7 |
| Social security costs | **2.5** | 2.5 | 0.7 | 3.2 |
| Other pension costs | **0.1** | 0.1 | – | 0.1 |

The audit fee for the continuing Mothercare business was £132,000 (2001 – £145,000).

Non-audit fees were £1.1 million (2001 – £1.1 million) of which £1.0 million (2001 – £0.9 million) was in relation to work on the demerger and disposal of Bhs.

An analysis of the average number of full and part-time employees throughout the group, all of whom are employed in the UK, including executive directors, is as follows:

| | 2002 | 2001 |
|---|---|---|
| Number of employees | **5,201** | 6,441 |
| Full-time equivalents | **3,111** | 4,255 |

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 16 to 19.

### 3 Exceptional items

The group has undergone a fundamental re-organisation in relation to the disposal of Bhs, which occurred in May 2000. 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 were experienced with the transition to the new warehouse and, as a result, additional costs were incurred through the need to operate temporary warehousing and to deliver goods directly from suppliers to stores.

These additional costs resulted in an exceptional charge for the year of £4.1 million.

In the year ended 31 March 2001 exceptional costs of £7.4 million were charged to operating profit in relation to the start up of Mothercare.com. Other exceptional items represented net profit on disposal of stores of £3.5 million, the continuing costs of separation from Bhs of £9.9 million and adjustments in respect of the loss on disposal of Bhs of £18.7 million.

The tax effect of the exceptional items is £nil (2001 – credit £1.2 million).

### 4 Interest (net)

| | **2002**<br>**£ million** | 2001<br>£ million |
|---|---|---|
| Interest payable | | |
| Bank loans and overdrafts (repayable within five years, not by instalments) | **–** | (1.1) |
| Obligations under finance leases (repayable within five years by instalments) | **(0.1)** | (0.1) |
| Interest receivable | **1.3** | 4.3 |
| | **1.2** | 3.1 |

## 5 Taxation

The charge for tax on profit on ordinary activities comprises:

| | 2002 £ million | 2001 £ million |
|---|---|---|
| UK corporation tax at 30% (2001 – 30%) | – | – |
| Adjustment for prior years | – | (0.6) |
| Current tax charge | – | (0.6) |
| Deferred tax | – | 0.6 |
| | – | – |

As set out in the accounting policies, the directors have adopted FRS 19 'Deferred tax' in the year ended 30 March 2002. 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 a deferred tax asset in respect of tax losses has been recognised to the extent of any deferred tax liabilities. In accordance with FRS 19, no further deferred tax asset has been recognised for the remaining tax losses of £19 million (2001 – £23 million) as the directors are of the opinion that there is sufficient uncertainty over their recoverability at this time.

Deferred taxation therefore comprises:

| | Group | |
|---|---|---|
| | 2002 £ million | 2001 £ million |
| Accelerated capital allowances | (5.3) | (4.1) |
| Other timing differences | 0.4 | 0.4 |
| Tax losses | 4.9 | 3.7 |
| | – | – |

### Factors affecting tax charge for the year

| | 2002 £ million | 2001 £ million |
|---|---|---|
| Profit on ordinary activities before tax | 0.1 | 8.4 |
| Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2001 – 30%) | – | 2.5 |
| Effects of | | |
| Expenses not deductible for tax purposes | 0.2 | 0.3 |
| Capital allowances for period in excess of depreciation | (0.2) | (0.6) |
| Utilisation of tax losses | – | (2.2) |
| Adjustments to tax charge in respect of previous periods | – | (0.6) |
| **Current tax charge for the year** | – | (0.6) |

### Factors that may affect future tax charges

Based on current capital investment plans the group expects to continue to be able to claim capital allowances in excess of depreciation in future years.

The group had tax losses carried forward of approximately £35 million at 30 March 2002.

## 6 Dividends

| | 2002 £ million | 2001 £ million |
|---|---|---|
| Interim paid of 1.0p per ordinary share (2001 – nil p) | **0.7** | – |
| Final proposed of 1.5p per ordinary share (2001 – 1.5p) | **1.0** | 1.0 |
| | **1.7** | 1.0 |

## 7 Earnings per share

| | 2002 | 2001 |
|---|---|---|
| Weighted average number of shares in issue | **67.2m** | 138.8m |
| Dilution – Option Schemes | **0.9m** | 0.3m |
| **Diluted weighted average number of shares in issue** | **68.1m** | 139.1m |
| Profit after tax | **£0.1m** | £8.4m |
| Exceptional items (net of tax) | **£4.1m** | (£6.1m) |
| Discontinued operations | **–** | £6.7m |
| Continuing business profit after tax before exceptional items | **£4.2m** | £9.0m |
| Basic earnings per share | **0.2p** | 6.0p |
| Continuing business earnings per share before exceptional items | **6.3p** | 6.5p |
| Diluted earnings per share | **0.2p** | 6.0p |

The earnings per share calculations in 2001 were adjusted to take account of the impact of the capital reduction and subsequent share consolidation on 17 August 2000.

The earnings per share of the continuing business have been shown to eliminate the impact of the disposal of Bhs.

In accordance with the requirements of FRS 14 'Earnings per share', shares held by the Mothercare Employee Trust and by Mothercare Employees' Share Trustee Limited are excluded from the calculation of the weighted average number of shares in issue.

## 8 Tangible fixed assets

The net book value of tangible fixed assets shown in the group balance sheet comprises:

| | Properties including fixed equipment | | | | |
|---|---|---|---|---|---|
| | Freehold £ million | Leasehold £ million | Fixtures, fittings, equipment £ million | Assets in course of construction £ million | Total £ million |
| **Cost** | | | | | |
| Balance at beginning of year | 18.3 | 96.0 | 132.8 | 0.8 | 247.9 |
| Transfers | – | – | 0.8 | (0.8) | – |
| Additions | – | 4.5 | 5.4 | 3.0 | 12.9 |
| Disposals | – | (0.5) | (0.6) | – | (1.1) |
| **Balance at end of year** | 18.3 | 100.0 | 138.4 | 3.0 | 259.7 |
| **Accumulated depreciation** | | | | | |
| Balance at beginning of year | 1.6 | 53.4 | 105.2 | – | 160.2 |
| Charge for the year | 0.1 | 3.8 | 7.7 | – | 11.6 |
| Disposals | – | (0.2) | (0.5) | – | (0.7) |
| **Balance at end of year** | 1.7 | 57.0 | 112.4 | – | 171.1 |
| **Net book value** | | | | | |
| Balance at beginning of year | 16.7 | 42.6 | 27.6 | 0.8 | 87.7 |
| **Balance at end of year** | 16.6 | 43.0 | 26.0 | 3.0 | 88.6 |

The net book value of leasehold properties includes £42.9 million (2001 – £42.4 million) in respect of short leasehold properties.

The Company had no fixed assets at either year-end.

## 9 Investments

Investments in the group balance sheet consist of the group's interests in its own shares through an ESOP (Employee Share Ownership Plan). The total shareholding is 3,536,585 (2001 – 3,553,245) with a market value at 30 March 2002 of £8,222,560. The movement in the year is as follows:

| | 2002 £ million |
|---|---|
| Cost of shares at beginning of year | 4.3 |
| Acquisition of shares | 0.7 |
| **Cost of shares at end of year** | **5.0** |

Investments in the Company's balance sheet consist of its investments in subsidiary undertakings.

The trading subsidiary undertakings at 30 March 2002 (all wholly owned and all of which are consolidated in the accounts) and their respective countries of incorporation or registration, which in the opinion of the directors principally affected the profits or net assets of the group, are:

| | Business | Country of registration |
|---|---|---|
| Mothercare UK Limited | Retailing | England |
| Childrens World Limited | Retailing | England |
| Storehouse Finance plc* | Finance company | England |

* Direct subsidiary of Mothercare plc.

Issued share capital represents only ordinary shares or their equivalent.

The principal country of operation for the subsidiary undertakings is the UK. Details of investments which are not significant have been omitted to avoid a statement of excessive length.

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

| | 2002 £ million | 2001 £ million |
|---|---|---|
| Cost of investments (less amounts written off £153.0 million) | 43.3 | 43.3 |
| Loans to subsidiary undertakings | 70.0 | 70.0 |
| | 113.3 | 113.3 |

## 10 Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | 2002 £ million | 2001 £ million | 2002 £ million | 2001 £ million |
| Trade debtors | 13.6 | 13.2 | – | – |
| Amounts due from subsidiary undertakings | – | – | 11.0 | 10.4 |
| Prepayments and accrued income | 14.6 | 15.3 | – | – |
| Other debtors | 7.0 | 3.9 | 0.1 | 2.6 |
| | 35.2 | 32.4 | 11.1 | 13.0 |

## 11 Creditors (amounts due within one year and after one year)

| | Group | | Company | |
|---|---|---|---|---|
| | 2002 £ million | 2001 £ million | 2002 £ million | 2001 £ million |
| **Amounts falling due within one year** | | | | |
| Obligations under finance leases | – | 2.0 | – | 2.0 |
| Trade creditors | 27.0 | 22.3 | – | – |
| Proposed dividend | 1.0 | 1.0 | 1.0 | 1.0 |
| Corporation tax | 10.9 | 11.0 | – | – |
| Amounts due to subsidiary undertakings | – | – | 86.4 | 83.2 |
| Payroll and other taxes, including social security | 1.4 | 1.5 | 0.1 | 0.1 |
| Accruals and deferred income | 23.6 | 31.9 | 0.5 | 2.7 |
| Landlords' contributions | 1.2 | 1.1 | – | – |
| Other creditors | 0.2 | 0.2 | – | – |
| | 65.3 | 71.0 | 88.0 | 89.0 |

The corporation tax creditor relates to outstanding tax issues and the group is in discussions with the Inland Revenue to resolve these matters.

| | Group 2002 | Group 2001 | Company 2002 | Company 2001 |
|---|---|---|---|---|
| **Amounts falling due after one year** | | | | |
| Landlords' contributions | 2.8 | 2.4 | – | – |

| | Group 2002 | Group 2001 | Company 2002 | Company 2001 |
|---|---|---|---|---|
| Obligations under finance leases are analysed as follows: | | | | |
| Amounts payable within one year | – | 2.1 | – | 2.1 |
| Finance charges allocated to future periods | – | (0.1) | – | (0.1) |
| | – | 2.0 | – | 2.0 |

## 12 Derivatives and other financial instruments

The disclosures in this note should be read in conjunction with the sections on treasury operations, funding and liquidity, and currency risk included in the financial review on page 10.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in FRS 13 'Derivatives and other financial instrument disclosures'. Certain financial assets such as investments in subsidiary companies are excluded from the scope of these disclosures. As permitted by FRS 13, short-term debtors and creditors have also been excluded from the disclosures.

### Financial risk management

The group uses financial instruments to raise finance for its operations and to manage risk arising from those operations. All transactions in derivatives (principally forward foreign exchange contracts) are taken to manage the risks outlined below. No transactions of a speculative nature are undertaken, and no options are used.

The major financial risks faced by the group are interest risk and exchange rate risk. The board reviews and agrees the policies for managing each of these risks as summarised below. There has been no change since the year-end to the major financial risks faced by the group or to the group's approach to the management of these risks.

### Finance and interest rate risk

Following the disposal of Bhs and the repayment of its bank debt the group has maintained a cash balance in order to finance its current investment strategy. In both years, cash balances and time deposits were the group's only material financial assets and bear interest at commercial rates based on LIBID.

The interest charge for the year, excluding interest receivable, of £0.1 million was 9.6 per cent when measured against average gross borrowings of £0.8 million (2001 – 6.6 per cent on borrowings of £17.7 million) excluding time deposits.

At the end of the year the group had no outstanding borrowings. Short-term funding flexibility is achieved by overdraft facilities to meet the peak requirements of the group before Christmas.

### Foreign currency risk

About nine per cent of the sales of Mothercare's UK businesses in 2002 were to franchisees overseas which are all billed in sterling. The group therefore has no currency exposure on these sales. Less than five per cent of the group's purchases are made in a foreign currency and the exchange risk is hedged by using forward contracts. The group's policy is to cover all material exposures on such creditors that arise from time to time. All other purchases sourced from overseas are invoiced in sterling. In summary, the group manages the currency exposure by eliminating any adverse movements in sterling against the underlying currencies whilst foregoing the benefit of any upward movements.

### Analysis of borrowings by interest rate, currency and maturity

The group had no borrowings at 30 March 2002.

The gross borrowings of the group at 31 March 2001, represented obligations under finance leases of £2.1 million, all of which were in sterling at fixed rates of interest.

### Borrowing facilities

The group had £20.0 million committed borrowing facilities available to it at 30 March 2002 (2001 – £20.0 million).

## 12 Derivatives and other financial instruments continued

### Currency analysis of net assets

The group's borrowings and net assets (excluding gross borrowings) by currency at 30 March 2002 were:

| Currency | 2002 Net assets excluding gross borrowings by currency of operation £ million | 2002 Gross borrowings £ million | 2001 Net assets excluding gross borrowings by currency of operation £ million | 2001 Gross borrowings £ million |
|---|---|---|---|---|
| Sterling | **124.3** | **–** | 128.5 | 2.1 |
| US dollar | **1.1** | **–** | 0.6 | – |
| | **125.4** | **–** | 129.1 | 2.1 |

### Fair values

There are no material differences between the book values and fair values of the group's financial assets and liabilities.

## 13 Provisions for liabilities and charges

| | Group 2002 £ million | Group 2001 £ million |
|---|---|---|
| Deferred taxation (note 5) | **–** | – |
| Other provisions | **2.7** | 4.4 |
| | **2.7** | 4.4 |

The movement on other provisions can be analysed as follows:

| | Disposal provisions £ million | Re-organisation provisions £ million | Total £ million |
|---|---|---|---|
| Balance at 1 April 2001 | **0.1** | **4.3** | **4.4** |
| Utilised in year | **–** | **(5.8)** | **(5.8)** |
| Charged in year | **–** | **4.1** | **4.1** |
| **Balance at 30 March 2002** | **0.1** | **2.6** | **2.7** |

The disposal provisions arose on the disposal of Habitat in 1992 and Blazer in 1996. The provisions included the cost of disposing of leases which remained within the group and the balance represents the remaining costs under those leases where the group still has some exposure.

The re-organisation provisions principally represent the costs of the Mothercare store disposal programme provided in previous years. The exceptional costs charged to the re-organisation provision in the year in relation to the new warehouse have been fully utilised within the year.

## 14 Called-up share capital

The authorised share capital is represented by 95,767,413 ordinary shares of 50p each (2001 – 95,767,413 ordinary shares of 50p each). The called-up share capital, all fully paid, is as follows:

| | Number of shares | £ million |
|---|---|---|
| **Balance at 1 April 2001 and 30 March 2002** | **70,684,962** | **35.3** |

On 17 August 2000 under a court approved scheme, 70,662,935 shares were cancelled and 150p per cancelled share returned to shareholders. The total impact was to reduce shareholders' funds by £106.0 million and consolidated net cash by £105.1 million. The cost of this was charged firstly to share capital, then to share premium and the profit and loss account. Following the repayment, the nominal value of the shares was consolidated into one 50p share for every five 10p shares held.

## 15 Reserves

The movement on reserves is as follows:

| | Group | Company |
|---|---|---|
| | Profit and loss account £ million | Profit and loss account £ million |
| Balance at 1 April 2001 | 91.7 | 45.2 |
| Profit for the financial year | 0.1 | 1.9 |
| Dividends paid and proposed | (1.7) | (1.7) |
| **Balance at 30 March 2002** | **90.1** | **45.4** |

The cumulative amount of goodwill written off against reserves is £30.1 million (2001 – £30.1 million). This goodwill arose on acquisitions, net of amounts written back on subsequent disposals.

## 16 Commitments

| | Group | |
|---|---|---|
| | **2002 £ million** | 2001 £ million |
| Contracts for capital expenditure | **5.2** | 0.6 |

Current annual commitments of the group under operating leases are as follows:

| | Buildings | | Other | |
|---|---|---|---|---|
| | **2002 £ million** | 2001 £ million | **2002 £ million** | 2001 £ million |
| Leases which expire | | | | |
| Within one year | **1.5** | 0.2 | **0.7** | 0.6 |
| Between two and five years | **4.0** | 2.0 | **0.6** | 1.0 |
| Over five years | **38.9** | 40.3 | **–** | – |
| | **44.4** | 42.5 | **1.3** | 1.6 |

The Company has committed to support certain of its subsidiary undertakings and has banking cross guarantees with certain of its principal subsidiary undertakings.

### Pensions

The group has operated two defined benefit pension schemes for its employees during the year.

The pension costs relating to the schemes were assessed in accordance with the advice of qualified actuaries using primarily the projected unit and current unit methods. The latest valuations were carried out at 31 March 2000. The next actuarial valuations will be carried out as at 31 March 2003.

The assumptions which have the most significant effect on the results of the valuation are set out below:

| | |
|---|---|
| Rate of return on investments | 8.25 per cent |
| Rate of increase in salaries | 6.0 – 7.0 per cent |
| Rate of increase in pensions | 3.5 per cent |

The total pension cost to the group is £0.1 million (2001 – £0.1 million) and includes a credit of £2.8 million (2001 – £3.0 million) in respect of amortisation of pension surpluses arising in earlier years which are being allocated to the remaining estimated service lives of members. Total contributions made to the pension schemes in the year were £1.0 million and the contribution rate for 2002/03 will be 6.75 per cent.

For the protection of members' interest, the group has appointed three trustees, two of whom are independent of the Company. To maintain this independence, the trustees and not the Company are responsible for appointing their own successors.

The group has adopted the transitional arrangements of FRS 17 'Retirement benefits' in the year ended 30 March 2002 and makes the following additional disclosures which, in accordance with the transitional arrangements, are not recognised in the primary statements.

The full actuarial valuation carried out at 31 March 2000 has been updated to 30 March 2002 by a qualified independent actuary. The assumptions which have the most significant effect on this updated valuation are set out below:

| | |
|---|---|
| Rate of increase in salaries | 4.8 – 5.8 per cent |
| Rate of increase in pensions | 2.8 per cent |
| Discount rate | 6.1 per cent |
| Inflation assumption | 2.8 per cent |

The assets in the schemes and the expected rates of return were:

| | Rate of return | Value £ million |
|---|---|---|
| Equities | 8.0 per cent | 98.8 |
| Bonds | 6.1 per cent | 8.1 |
| Property | 7.5 per cent | 16.6 |
| Total market value of assets | | 123.5 |
| Present value of liabilities | | (110.0) |
| Surplus in the schemes | | 13.5 |
| Related deferred tax liability | | (4.1) |
| **Net pension asset** | | 9.4 |

### 17 Contingent liability

The warranty claim of £3.7 million asserted against the group by Measuremarket Limited in connection with their acquisition of Bhs from the Company in May 2000 has been settled without any liability to the group.

### 18 Employees' and executive share schemes

#### The Mothercare 1995 Executive Share Option Scheme

Under this scheme full-time executives were granted options to acquire shares in the Company. Further details of the scheme are given in the remuneration report. No further options are to be granted under this scheme.

#### The Mothercare Sharesave Scheme (SAYE)

This scheme enables all employees to acquire options over ordinary shares of the Company at 80 per cent of market price in conjunction with a save-as-you-earn contract. The options are exercisable firstly three years after the date of commencement (usually two months after the date of the grant) of the SAYE contract.

In accordance with UITF Abstract 17 'Employee share schemes', the group has taken advantage of the exemption in relation to the SAYE scheme.

#### The Mothercare 2000 Executive Share Option Plan

Under this scheme full time executives are granted options to acquire shares in the Company. Further details of the scheme are given in the remuneration report.

#### Mothercare Employee Trust

The Mothercare Employee Trust is a discretionary trust for the benefit of employees and former employees (and their dependants) of the Company and its subsidiaries. The trust may buy shares in the market or subscribe for new shares in the Company; for example it may buy shares for awards under any of the share schemes. The trust has waived the payment of any dividends.

Outstanding options at 30 March 2002 under the group's share option schemes were as follows:

| | Ordinary shares 2002 | Date of grant | Option price (p) |
|---|---|---|---|
| Mothercare 1995 Executive Share Option Scheme | 1,085,762 | Jun 00 | 123.71 |
| Mothercare 2000 Executive Share Option Plan | 545,454 | Jan 01 | 165.00 |
| | 141,809 | Feb 01 | 204.50 |
| | 870,309 | May 01 | 300.00 |
| | 44,205 | Jul 01 | 325.00 |
| | 58,642 | Jul 01 | 324.00 |
| | 134,483 | Sep 01 | 290.00 |
| Mothercare Sharesave Scheme | 354,144 | Dec 00 | 125.00 |
| | 324,829 | Jun 01 | 255.00 |
| | 3,559,637 | | |

# Five year record

## Summary of turnover and profit

| | **2002 £ million** | 2001 £ million | 2000 £ million | 1999 £ million | 1998 £ million |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Continuing – Mothercare | **426.9** | 419.1 | 443.7 | 472.4 | 481.3 |
| Discontinued | **–** | 89.9 | 822.4 | 856.2 | 853.7 |
| **Total** | **426.9** | 509.0 | 1,266.1 | 1,328.6 | 1,335.0 |
| **Profit/(loss) from retail operations before exceptional items** | | | | | |
| Continuing – Mothercare | **3.0** | 7.1 | 0.4 | 17.9 | 31.4 |
| Discontinued | **–** | (6.7) | 13.1 | 86.4 | 96.5 |
| Before exceptional items | **3.0** | 0.4 | 13.5 | 104.3 | 127.9 |
| Exceptional items | **(4.1)** | 4.9 | (396.4) | (18.3) | – |
| Interest and other items | **1.2** | 3.1 | (6.5) | (5.7) | (2.8) |
| Profit/(loss) before taxation | **0.1** | 8.4 | (389.4) | 80.3 | 125.1 |
| Taxation | **–** | – | 26.5 | (36.2) | (32.2) |
| **Profit/(loss) for the financial year** | **0.1** | 8.4 | (362.9) | 44.1 | 92.9 |
| Earnings per share* | **0.2p** | 6.0p | (142.2)p | 5.7p | 12.1p |
| Dividends per share | **2.5p** | 1.5p | – | 9.1p | 9.0p |

## Summary of balance sheets

| | | | | | |
|---|---|---|---|---|---|
| Fixed assets | **93.6** | 92.0 | 321.1 | 665.2 | 613.8 |
| Net current assets/(liabilities) | **37.3** | 41.8 | (22.2) | 8.8 | 33.7 |
| Creditors falling due after one year | **(2.8)** | (2.4) | (11.6) | (27.3) | (32.6) |
| Provisions for liabilities and charges | **(2.7)** | (4.4) | (61.7) | (58.1) | (33.4) |
| **Total net assets** | **125.4** | 127.0 | 225.6 | 588.6 | 581.5 |

## Other key statistics

| | | | | | |
|---|---|---|---|---|---|
| Share price at year-end (p) | **232.5** | 206.75 | 37.0 | 125.5 | 254.0 |
| Net cash (debt)/equity (%) | **9.8** | 27.4 | (30.8) | (15.5) | (8.9) |
| Capital expenditure | **10.7** | 11.2 | 92.5 | 140.2 | 124.1 |
| Depreciation | **11.6** | 11.4 | 66.6 | 63.2 | 55.1 |
| Rents | **44.1** | 41.3 | 111.0 | 108.0 | 98.5 |
| Number of stores | **245** | 252 | 427 | 494 | 485 |
| Net selling space (000s sq ft) | **1,927** | 1,980 | 6,423 | 6,774 | 6,520 |
| Average number of employees | **5,201** | 5,353 | 20,130 | 20,686 | 20,994 |
| Average number of full-time equivalents | **3,111** | 3,167 | 10,620 | 10,747 | 10,795 |

Key statistics for 2002 and 2001 represent the Mothercare business only and are not comparable with previous years. The statistics for earlier years include the results of Bhs, which was sold in May 2000.

* Earnings per share have been adjusted to take account of the impact of the capital reduction and subsequent consolidation on 17 August 2000.

The results for 1998 to 2001 have been restated where necessary in accordance with FRS 19 'Deferred tax'.

# Shareholder information

## Shareholder analysis

A summary of holdings as at 16 May 2002 is as follows:

| | Mothercare ordinary shares | |
|---|---|---|
| | Number million | Number of holders |
| Banks, insurance companies and pension funds | **0.1** | **12** |
| Nominee companies | **59.4** | **1,160** |
| Other corporate holders | **5.1** | **184** |
| Individuals | **6.1** | **29,309** |
| | **70.7** | **30,665** |

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

Individual shareholders owning 500 or more Mothercare shares are entitled to a 10 per cent discount in defined denominations on up to £500 of merchandise in Mothercare stores. If an individual shareholding of 500 or more shares is not on the share register but is held through a nominee or trustee, the book of vouchers can nevertheless be obtained by contacting the company secretary at the registered office.

## Share price data

| | 2002 | 2001 |
|---|---|---|
| Share price at 29 March 2002 (30 March 2001) | **232.5p** | 206.75p |
| Market capitalisation | **£164.3m** | £146.1m |
| Share price movement during the year | | |
| High | **336.0p** | 242.75p |
| Low | **177.0p** | 89.87p |

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

Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA.

# Shareholder information
continued

## Financial calendar

| | 2002 |
|---|---|
| Annual General Meeting | 19 July |
| Payment of final dividend | 16 August |
| Announcement of interim results | 21 November |

| | 2003 |
|---|---|
| Payment of interim dividend | February |
| Preliminary announcement of results for 52 weeks to end March 2003 | end-May |
| Issue of report and accounts | mid-June |
| Annual General Meeting | mid-July |
| Payment of final dividend | mid-August |

## Registered office and head office
Cherry Tree Road, Watford, Hertfordshire WD24 6SH
Telephone 01923 241000
www.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 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 Limited
12 Tokenhouse Yard, London EC2R 7AN
Telephone 020 7606 1768

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