annual report and accounts 2003

Mothercare plc

mothercare

Together, we will build the world's leading and most profitable brand for babies, young children and their parents.

To us Mothercare is about the unique joy of parenting:

We help parents to nurture, protect and develop their children by giving unrivalled products, services and expertise.

contents

1 chairman's statement
2 chief executive's review
8 financial review
12 board of directors
13 directors' report
18 remuneration report
24 directors' responsibilities for the accounts
25 independent auditors' report
26 group profit and loss account
group statement of total recognised gains and losses
27 group and company balance sheets
reconciliation of movement in shareholders' funds
28 group cash flow statement
29 accounting policies
31 notes to the accounts
42 five year record
43 shareholder information

Group sales up 1.1 per cent to £431.7 million (2002 – £426.9 million)

Gross margins up 0.2 percentage points to 41.8 per cent, with a 1.3 percentage point improvement in the second half year

Adjusted operating loss* £10.4 million (2002 – £3.0 million profit)

Exceptional charges and one-off items totalling £14.5 million

Loss before tax of £24.8 million (2002 – £0.1 million profit)

Balance sheet cash positive: operating cash inflow of £8.3 million (2002 – outflow of £10.5 million)

Strong performances from Mothercare Direct and Mothercare International

Basic loss per share 22.0p (2002 – earnings per share 0.2p)

No dividend (2002 – 2.5p per share)

current trading

The start to the financial year 2003/04 has been encouraging with UK Stores like-for-like sales in the seven weeks to 16 May 2003 up 2.8 per cent. Gross margins have continued the improvement in performance experienced in the second half year, reflecting the benefits of better availability and the focus on full price trading.

* Adjusted operating loss refers to the operating loss excluding exceptional charges and one-off items of £14.5 million details of which are provided in the financial review

Good progress has already been made in a number of areas. Distribution costs have reduced and product availability in store significantly improved. The group's cash position has been strengthened. There have also been improvements in both product desirability and sourcing.

Ian Peacock
Chairman

Dear fellow investor,

It was a privilege to be appointed your chairman last November. I joined Mothercare because it is a great brand with enormous potential. However, the results for the last financial year demonstrate that we still have much more to do to offer the customer what she wants, at the right price, delivered in a cost-effective and predictable way, in a store she enjoys. Ben Gordon was appointed as chief executive in December 2002. The priority of Ben and his management team has been to stabilise the business and focus on five key areas to restore Mothercare to proper levels of profitability.

Good progress has already been made in a number of areas. Distribution costs have reduced and product availability in store significantly improved. The group's cash position has been strengthened. There have also been improvements in both product desirability and sourcing. During the fourth quarter of the year trading strengthened. We have continued to build on this performance in the current year and, whilst it is too early to say that it is the start of a sustained improvement, the first seven weeks of the new financial year have also been encouraging.

Results

Group sales for the year rose by 1.1 per cent to £431.7 million (2002 – £426.9 million). The gross margin before exceptional and one-off items increased by 0.2 percentage points to 41.8 per cent. The loss before tax was £24.8 million (2002 – £0.1 million profit). The group adjusted operating loss before exceptional and one-off items was £10.4 million. The adjustments relate to a number of one-off items incurred by the business during the year. Details of these adjustments and a full review of the results for the year are set out in the financial review.

Whilst it was a particularly difficult year for UK stores, our International and Direct businesses reported continued growth. Mothercare International achieved a strong sales and profit performance despite a short-term setback in the last quarter due to the impact of the Gulf War and Mothercare Direct reported its first operating profit of £0.7 million following breakeven last year.

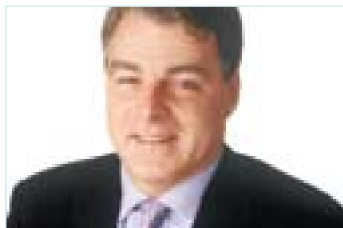
The basic loss per share for the business was 22.0p per share (2002 – 0.2p earnings per share). The board have recommended the payment of no final dividend for the year (2002 – 1.5p). However, when the business returns to sustained profitability, it is our intention to resume the payment of dividends.

The Mothercare Team

Following Ben Gordon's appointment as chief executive in December 2002 Steven Glew joined as finance director and Bernard Cragg as non-executive director in March 2003. I am delighted to welcome Ben, Steven and Bernard to the business. During the year Alan Smith, Chris Martin and Mark McMenemy all left the business. I would like to thank them for their efforts. Our staff have experienced one of their most difficult of years and have again risen to the challenge. The board would like to thank them for their continued effort, commitment and dedication.

It is important in this critical phase of the business that appropriate incentive schemes are in place to retain and motivate our people and to align the interests of employees to shareholders. Therefore, in addition to the revised executive incentive scheme (details of which are set out in the documents that accompany this report and accounts), the board has decided to implement a profit share scheme to enable all staff to participate in the future success of the business. Further details are given in the remuneration report.

Improvements in distribution, cash management and trading have helped to stabilise the business which now allows us to focus on delivering the turnaround.



Ben Gordon
Chief executive

Business stabilisation

The Mothercare brand has enormous potential due to its heritage and strong customer recognition. However in December 2002 there were key areas of the business that required urgent action as the business was still suffering from the poor performance of the distribution centre, working capital was not being managed sufficiently tightly and the underlying strategy had fragmented, with the UK stores business delivering unacceptable returns. In addition, the supply chain was generating significant availability problems and costs were unacceptably high.

Urgent priorities were identified to stabilise the business and to provide the foundation for delivery of the necessary turnaround. These were:

1. Address the distribution issues

The warehouse issues had been damaging, impacting sales and costs in other areas of the business and creating a sense of uncertainty.

A review of our Daventry warehouse was carried out from which we quickly identified areas for significant performance improvement. A new contract was negotiated with Tibbett & Britten which closely aligns their goals with our own, increasing our flexibility and driving down costs. In the light of the improved performance, we have decided to remain at Daventry, giving the business stability now and the time to reassess our longer term warehousing needs. Product availability has improved by some 10 per cent, however our latest measurements show that availability on our top 100 lines is still below industry average at 75 per cent.

Distribution costs for the year ended March 2003 represented 8 per cent of sales. As a result of the actions taken the current running rate is some 7 per cent of sales and we anticipate achieving a further reduction to some 6.5 per cent by March 2004.

2. Strengthen the cash position

Changes to cash management were introduced quickly, resulting in a significant uplift in our cash position together with a much tighter control over costs. In addition, we renegotiated terms with our suppliers to bring us in line with market practice. The effect of these initiatives has been to improve our cash position by some £12 million since December 2002, resulting in net cash balances at the year end of £7.7 million.

3. Reinvigorate trading

In January new ranges were introduced that, coupled with availability improvements and our enhanced sourcing relationships, improved performance. The focus on full price trading has resulted in like-for-like sales increases and improved margins which we have reported for the first four months of the calendar year.

These are still early days. However, the improvements have helped to stabilise trading which now allows us to focus on delivering the turnaround.

new store formats

In order to establish the correct proposition we have initiated a series of trials which have evolved from the Hammersmith refit completed last year. These trials are called ‘Mother & Baby’ and ‘Mothercare Lite’. In addition to testing these range and merchandising options, a variety of refurbishment levels are being trialled in the same stores.

Turnaround

An operational review was instigated. The review looked at every aspect of the business in order to define the turnaround programme that is now fully underway. The plans are focused on five key priorities: store proposition, product and sourcing, supply chain, customer service and infrastructure.

Store proposition

Mothercare has a very diverse portfolio, with store sizes ranging from 1,400 to 32,000 square feet. Over the last few years Mothercare has invested time and resources in the development of an out-of-town portfolio, which has performed well. However, at the same time, the high street stores have suffered from a lack of attention and clarity in terms of what the customer proposition should be in those stores.

In order to establish the correct proposition we have initiated a series of trials which have evolved from the Hammersmith refit completed last year. These trials are called ‘Mother & Baby’ and ‘Mothercare Lite’. ‘Mother & Baby’ focuses on offering the widest range of maternity and nursery products on the High Street catering for the complete needs of children up to the age of two. In contrast, ‘Mothercare Lite’ retains the existing age profile for babies and children from 0–8 years. Sixty per cent of the space is dedicated to clothing, enabling the store to provide the full clothing range, which currently is only found in our largest stores. In addition to testing these range and merchandising options, a variety of refurbishment levels are being trialled in the same stores.

Stores – at 29 March 2003

	Stores	Total selling area (000s sq ft)
Out-of-town	68	1,107
High Street	173	815
Total UK stores	**241**	**1,922**
International (franchise stores)*	174	413
Total	**415**	**2,335**

	Europe	Middle East	Far East	Other	Total
*International franchise stores	71	65	35	3	174

Stores – at 30 March 2002

	Stores	Total selling area (000s sq ft)
Total UK stores	245	1,927
Total (incl. International)	402	

focused range

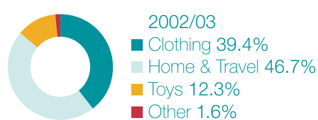
We are continuing the work already started on narrowing the range which has resulted in a 30 per cent reduction in options. We have also continued to focus on buying our best sellers in greater depth. This strategy, together with improving availability is giving greater choice and clarity to the customer.

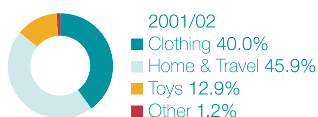
In January new ranges were introduced that, coupled with availability improvements and our enhanced sourcing relationships, improved performance.

Although the trials only started in April, customer feedback has been positive and from a financial perspective the signs are also encouraging. A full evaluation of the trials will be carried out before finally deciding on the customer proposition and store refit level to roll-out. We would anticipate investing some £4 million this year on the second stage of the trials programme this Summer and the start of the roll-out next Spring. We anticipate that the cost of the high street refit programme will cost some £15 million over the next three years. This amount is included in the capital expenditure plans.

Our out-of-town stores remain a key part of our store portfolio. Whilst our current focus is on improving the high street, we do not need to invest significant further capital in our out-of-town portfolio in the short term. However, we expect the improvements we are making in the areas of product and supply chain to lead to an improved performance in both the high street and out-of-town stores.

Product
% of total UK sales


2002/03
- Clothing 39.4%
- Home & Travel 46.7%
- Toys 12.3%
- Other 1.6%


2001/02
- Clothing 40.0%
- Home & Travel 45.9%
- Toys 12.9%
- Other 1.2%

product sourcing

We have taken urgent steps to improve our offer to meet customer needs in design, quality and ensuring that the pricing strategy is right. Our aim is to ensure that we provide high quality basic items whilst reinvigorating the contemporary and premium element of the range.

Product and sourcing

Mothercare has lost market share over the last eight years, particularly in clothing where competition has increased significantly. Improving our clothing ranges is critical to ensuring our growth of the business. We have taken urgent steps to improve our offer to meet customer needs in design, quality and ensuring that the pricing strategy is right. Our aim is to ensure that we provide high quality basic items whilst reinvigorating the contemporary and premium element of the range.

We are continuing the work already started on narrowing the range which has resulted in a 30 per cent reduction in options. We have also continued to focus on buying our best sellers in greater depth. This strategy, together with improving availability is giving greater choice and clarity to the customer. The nature of the clothing business with its seasonal ranges and lengthy lead times between design of product and its delivery to customers means that this process will take some time to have its full impact.

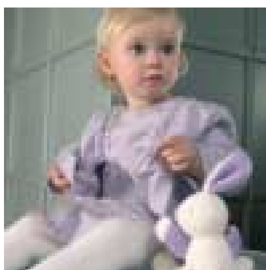
In Home and Travel, we are continuing the focus on improving quality. Whilst Mothercare has performed better against the competition in this sector, we have identified areas where there is the potential to develop this business much further. Toys remain an important part of the product offer.

With over 200 suppliers in 45 countries, Mothercare currently has overly complex sourcing arrangements. In order to simplify the process and improve efficiency we plan to reduce our global supply base progressively over the next three years.

Employees – full time equivalents at 29 March 2003	
UK stores	2,667
Support	307
Direct	85
International	16
Total	3,075
Total at 30 March 2002	3,162

customer care

Significantly improving our customer service is vital in turning around the Mothercare performance, as we meet our customers at one of the most emotionally charged and exciting times in their lives.



Supply chain

We have already taken urgent action to resolve the short-term distribution issues. Our focus now is on designing and implementing a supply chain which will support the future development of the business and significantly and consistently improve our availability.

Mothercare has a diverse product mix and as a result has developed a complex supply chain. The priority is to simplify the chain from factory gate to store so that we can achieve seamless and cost-effective delivery of products to stores in order to meet customers' demand. Once this review is complete we will then design a supply chain to meet these requirements. This will be a challenging change programme as it will involve changes to our core logistics infrastructure and therefore we expect it will take three years to fully implement. However in the meantime we are addressing the cost base through efficiency and productivity improvements and implementing measures to increase product availability and enhance data integrity.

Customer service

Significantly improving our customer service is vital in turning around the Mothercare performance, as we meet our customers at one of the most emotionally charged and exciting times in their lives. We have undertaken a very wide-ranging review of what matters to customers and now have a clear view of the service they want.

To address this we are now developing and putting in place the tools and the training our staff need to ensure that we deliver the service our customers want in a consistent way. Our objective is to provide enhanced customer service levels without additional staff costs. Our analysis shows that our staff spend only some 40 per cent of their time on 'customer facing' tasks. To address this imbalance we will eliminate unnecessary tasks and improve their work processes. In the short term however we will need to invest in staff costs to make a difference to our customers whilst the improvements in our underlying processes are made. These new processes will be supported by a further investment in training and a new approach to the recruitment and career development of our critical store management team and staff.

prepared to meet demand

We have already taken urgent action to resolve the short-term distribution issues. Our focus now is on designing and implementing a supply chain which will support the future development of the business and significantly and consistently improve our availability.

The priority is to simplify the supply chain from factory gate to store to achieve seamless and cost-effective deliveries.

We will measure our performance through a new set of performance criteria for stores, including ‘mystery shopping’. We aim to deliver consistent improvements in customer service through these processes and the measurement and assessment of the results.

Our customers rely on our expertise. Offering them the customer service that they want will enable us to capture more of the new baby spend of the 80 per cent of first-time pregnant women who visit us.

Infrastructure and cost base

Underpinning all these areas is the need to support the business through appropriate management practices. We need to ensure they are best in class and to upgrade our management disciplines to achieve consistent performance levels. As part of this process we are looking at ways to apply the right resources and management focus to the turnaround programme to ensure that the changes are fully delivered to plan. In addition, because our core systems have lacked investment, we are investing in new systems and planning to improve data accuracy and to support the changes we need to make our business operate more effectively.

To achieve a successful turnaround the business has to be more cost-effective. We are conducting a full review of the cost base of our business. Central costs have already been reduced by some £2 million on a full-year basis and further savings will come as we challenge all that we spend. In addition, we have reviewed our store portfolio and identified a limited number of stores that are loss making and, despite all the improvements to trading we are making, will not achieve acceptable levels of profitability. These stores are to be closed, further reducing our cost base. The cost of making these changes, together with the ongoing support of our turnaround programme is expected to result in further restructuring costs of approximately £1 million in the year.

We anticipate that it will take up to three years to realise the full benefits of the turnaround programme. We are confident that decisions we have taken will lead to sustainable business performance improvement in the long term. Whilst our focus in the medium term is on the turnaround, looking ahead, we believe there is considerable opportunity to improve the profitability of the UK portfolio and drive the potential of our International and Direct businesses.

The results for the year show the scale of the issues that existed, mainly caused by the distribution problems in the core UK retail business.

Steven Glew
Finance Director

Results summary

Group sales for the year rose by 1.1 per cent to £431.7 million (2002 – £426.9 million). The gross margin before exceptional and one-off items for the year increased by 0.2 percentage points to 41.8 per cent. The loss before tax was £24.8 million (2002 – £0.1 million profit). The group adjusted operating loss before exceptional and one-off items was £10.4 million. The reduction in adjusted operating performance of £13.4 million, from a profit of £3.0 million in 2002 to a loss of £10.4 million in 2003 was primarily caused by an £11 million increase in distribution costs due to the problems encountered with the distribution network in the year.

The results for the second half of the year showed an operating loss of £1.5 million before exceptional and one-off items, compared to an operating loss of £8.9 million before exceptional and one-off items in the first half. The gross margin before exceptional and one-off items in the second half year was up 1.3 percentage points to 42.7 per cent. Mothercare had a disappointing start to the second half, leading to the profits warning in January 2003. However performance improved in the final quarter with like-for-like sales up 2.4 per cent. The sales performance, combined with margin improvements and reducing distribution costs, were the major causes of the adjusted operating performance being ahead of our expectations in January.

The results can be summarised as follows:

	2003 £ million	2002 £ million
Turnover (ex VAT)	431.7	426.9
Adjusted operating (loss)/profit	(10.4)	3.0
One-off items	(9.3)	–
Exceptional operating charges	(2.8)	–
Operating (loss)/profit (after exceptional operating charges)	(22.5)	3.0
Non-operating exceptional charges	(2.4)	(4.1)
Interest	0.1	1.2
(Loss)/profit on ordinary activities before tax	(24.8)	0.1

Group turnover and operating (loss)/profit before exceptional operating charges and one-off items:

	Turnover		Operating (Loss)/Profit	
	2003 £ million	2002 £ million	2003 £ million	2002 £ million
UK Stores	369.3	374.7	(15.9)	(1.0)
Mothercare Direct	16.2	13.3	0.7	–
Mothercare International	46.2	38.9	4.8	4.0
Total	431.7	426.9	(10.4)	3.0

UK Stores

Turnover was 1.4 per cent down on last year at £369.3 million. There was a 1.0 per cent reduction in like-for-like sales. The primary cause of this reduction was the poor product availability to customers caused by the distribution problems during the year.

Five new stores opened in the year adding 2.1 per cent to sales. However this was offset by nine closures in the year to give a net 0.5 per cent sales decline due to space changes. The operating loss (before exceptional operating charges and one-off items) was £15.9 million compared to a loss of £1.0 million last year.

Mothercare Direct

Mothercare Direct, which includes our catalogue and website businesses, had a successful year generating its first operating profit in its third year of operation. Sales grew by 21.9 per cent to £16.2 million with an operating profit of £0.7 million compared to breakeven last year.

The Direct platform is also being used to support stores by providing a home delivery service for larger products, and offering a wider range to customers served by smaller Mothercare stores. Sales of £8.5 million were ordered through stores for home delivery.

Mothercare International

Mothercare International achieved another strong sales and profit performance, despite a short-term setback in the last quarter due to the impact of the Gulf War, with sales up 18.8 per cent to £46.2 million and operating profit up 20.0 per cent to £4.8 million.

The franchise model continues to work successfully with all our core partners investing in the brand either with refurbishments or new stores during the coming year. We currently have 173 franchise stores open, of which 19 were opened in the year, and a further 20 are planned to open in the current financial year.

Adjusted operating loss (before exceptional charges)

The reported operating loss (before exceptional charges) of £19.7 million includes a number of one-off items which do not fall within the accounting definition of exceptional items and have therefore been included within the operating loss. These one-off items amount to £9.3 million and are analysed as follows:

	£ million
Pensions	3.0
Fixed asset impairment	2.5
Clearance stock	1.7
Business stabilisation costs	1.1
Other	1.0
Total	9.3

Additional pension costs of £3.0 million are described in more detail under 'Pension accounting' below. The fixed asset impairment provision of £2.5 million resulted from a review of the accounting policies and practices of the group. This review did not identify any accounting policies that were considered materially inappropriate. A provision of £1.7 million has been taken against the value of exceptional levels of old season clothing stock held for clearance. Business stabilisation costs of £1.1 million are principally the cost of consulting services provided to support stabilisation of the business and the start of the turnaround. Other items of £1.0 million comprise a number of smaller items including an adjustment to the stock valuation methodology.

Adjusting for the above items reduces the operating loss to £10.4 million.

Exceptional items

Exceptional operating charges of £2.8 million comprise redundancy costs of £2.0 million and exceptional distribution costs of £0.8 million. The redundancy costs of £2.0 million represent the severance payments made to board members and other employees including the redundancy costs arising from store closures in the year. The exceptional distribution costs relate to one-off costs incurred in renegotiating the group's warehouse and distribution contract during the year.

Net non-operating exceptional charges of £2.4 million have also been incurred. These comprise provisions for losses on disposal of stores of £3.1 million, offset by a £0.7 million profit on stores closed during the year.

Interest
Net interest income decreased to £0.1 million from £1.2 million last year, as a result of lower average cash balances.

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 carried forward at the end of the year were approximately £58 million.

The £10.0 million exceptional tax credit relates to lease back arrangements made in 1996/97. The treatment for tax purposes was finally agreed during the year, resulting in the release of the prior year provision.

Earnings per share
The loss per share was 22.0p (2002 – earnings per share 0.2p).

The loss per share before exceptional items was 29.2p, compared to earnings per share of 6.3p last year. Details of the calculations are given in note 7 to the accounts.

Dividends
The board have recommended no final dividend for the year be paid (2002 – 1.5p per share).

Cash flow
The group had a net cash inflow from trading of £8.3 million (2002 – outflow £10.5 million). This net inflow arose from the operating loss before exceptional items of £19.7 million, plus exceptional cash outflows of £3.8 million, adjusted for depreciation of £14.3 million, and favourable working capital improvements of £17.5 million. The working capital improvement was due to a reduction in stock levels of £3.8 million, a reduction in debtors of £4.7 million, offset by a creditor reduction of £9.0 million.

Capital expenditure in the year was £13.4 million (2002 – £10.7 million). The largest element of capital expenditure related mainly to the five new stores opened in the early part of the year at a cost of £4.3 million.

Taking account of the payment of the final dividend for 2002 of £1.0 million, this resulted in a net cash outflow of £4.6 million (2002 – outflow £22.5 million).

Financing
In May 2003 the group agreed a new three-year committed bank facility of £20.0 million which is secured by a fixed and floating charge over the assets of the group. We anticipate that this facility, combined with the underlying cash generation of the business, will provide sufficient funding to complete the turnaround of the business and commence the future development.

Treasury policy and financial risk management
The board approves treasury policies and senior management directly controls day-to-day operations within these policies.

The major financial risks to which the group is exposed relate to movements in exchange rates and interest rates. Where appropriate, cost-effective and practicable the group uses financial instruments and derivatives to manage these risks. No speculative use of derivatives, currency or other instruments is permitted.

Foreign currency risk
All export sales to franchise operations are invoiced in sterling. Export sales represent approximately 11 per cent of group sales. The group therefore has no currency exposure on these sales.

The group purchases product in foreign currency, representing some 9 per cent of purchases. The group policy is that all material exposures are hedged by using forward currency contracts.

Interest rate risk
The group does not anticipate holding substantial cash balances or incurring substantial sustained levels of debt in the short term. In this situation interest rate hedging is not considered necessary.

The board will keep this situation under review.

Shareholders' funds
Shareholders' funds amount to £110.6 million, a decrease of £14.8 million in the year. This is equivalent to £1.65 per share compared to £1.84 per share at the previous year end.

Accounting policies and standards

The principal accounting policies used by the group are shown on pages 29 and 30. There has been no material change to the accounting policies in the year.

No new accounting standards came into effect during the year.

Implementation of FRS 17 'Retirement Benefits' has been delayed by the Accounting Standards Board. Preliminary disclosures are required under the transitional arrangements and these are set out in note 18 to the financial statements on pages 38 to 40.

Pension accounting

A full actuarial valuation of the group defined benefit pension schemes is being undertaken as at 31 March 2003. The previous full valuation was at 31 March 2000 which showed a net surplus of £24.1 million. The results of the 31 March 2003 valuation are not yet known but early estimates suggest that the schemes will be close to 100 per cent funded. In accordance with SSAP 24, the board considers it appropriate for the last valuation to be adjusted for this change in the valuation of the scheme's assets. This has given rise to the £3.0 million pension charge in the year due to the elimination of the prepayment held on the balance sheet. The group is planning to increase its cash pension contributions to some £2.0 million per annum from £1.5 million in 2002 to ensure that the pension fund continues to be adequately funded.

A valuation on an FRS 17 basis has also been prepared at 31 March 2003. This showed a net deficit at 31 March 2003 of £31.7 million. On an FRS 17 basis the charge to profits would be £1.2 million. At 31 March 2002 the FRS 17 basis showed a net surplus of £9.4 million.

Steven Glew
Finance director
22 May 2003

Franchise stores

Bahrain	Lanzarote	Saudi Arabia
Belgium	Lebanon	Singapore
Brunei	Malaysia	Slovenia
Cyprus	Malta	Spain
Czech Republic	Nigeria	Taiwan
Gibraltar	Oman	Thailand
Greece	Philippines	Turkey
Hong Kong	Poland	U.A.E.
Ireland	Qatar	Uzbekistan
Kuwait	Russia	

Ian Peacock • • •
Non-executive chairman

Appointed chairman on 1 November 2002 having joined the board as chairman elect on 1 August 2002.

Chairman of MFI Furniture Group plc, and a non-executive director of Lombard Risk Management plc, Norwich and Peterborough Building Society and a Trustee of the Women's Royal Voluntary Service (WRVS).

Formerly held senior management positions in the banking industry in London, New York and Asia, including BZW and Kleinwort Benson. From 1998–2000 was a special adviser to the Bank of England.

Aged 55.

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 59.

Ben Gordon
Chief executive

Appointed chief executive in December 2002. Formerly senior vice president and managing director, Disney Store Europe and Asia Pacific. Has also held senior management positions with the WH Smith Group in Europe and the USA and L'Oreal S.A., Paris.

Aged 43.

Bernard Cragg • • •
Non-executive director

Appointed in March 2003. Currently chairman of Datamonitor and a non-executive director of Bank of Ireland, UK Financial Services and Bristol & West plc. Formerly group finance director and chief financial officer of Carlton Communications plc and a non-executive director of Arcadia plc.

Aged 48.

Steven Glew
Finance director

Appointed finance director in March 2003. Former group finance director of Crown Sports plc, and of Booker plc. Also held senior financial roles with Tesco Stores plc in the UK and Ireland. Chartered accountant.

Aged 46.

Brian Hardy • • •
Senior non-executive director

Appointed in 1994. Non-executive chairman of Boltblue Limited and, until December 2000, was for 10 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 61.

• Audit committee
• Remuneration committee
• Nomination committee

Business review

The principal companies within the Mothercare group for the period under review were Mothercare plc, (the 'Company') and Mothercare UK Limited. The business and assets of Childrens World Limited were transferred to Mothercare UK Limited during the year. A review of the business strategy and a commentary on the performance of the Mothercare business is set out in the chairman's statement and chief executive's and finance director's reviews on pages 1 to 11.

Dividend

The directors recommend no final dividend. No interim dividend was paid.

Substantial shareholdings

As at 22 May 2003, 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
M&G Investment Management Ltd	10,598,811	14.99
Fidelity Investment Services Ltd	8,930,639	12.63
Legal & General Investment Management	3,145,931	4.45
A. Holding SA	2,500,000	3.54

Directors

The following directors served during the 52 weeks ended 29 March 2003.

		During the 52 weeks ended 29 March 2003	
Name	Appointment	Appointed	Resigned
Ian Peacock	Chairman and independent non-executive director	1 August 2002 (independent non-executive director) 1 November 2002 (chairman)	
Brian Hardy	Senior independent non-executive director and chairman of the Audit Committee		
Angela Heylin	Independent non-executive director and chairman of the Remuneration and Nomination Committees		
Ben Gordon	Chief executive	2 December 2002	
Steven Glew	Finance director	4 March 2003	
Bernard Cragg	Independent non-executive director	28 March 2003	
Alan Smith			31 October 2002
Chris Martin			14 July 2002
Mark McMenemy			3 March 2003

Ian Peacock was appointed chairman on 1 November 2002.

Having been appointed since the last Annual General Meeting, Ian Peacock, Ben Gordon, Steven Glew and Bernard Cragg offer themselves for re-election in accordance with the Company's articles of association. Biographical details of the directors indicating their experience and qualifications, are set out on page 12.

Brian Hardy, the senior independent non-executive director, retires by rotation from the board following the conclusion of the AGM on 18 July 2003 following nearly nine years' service and is not seeking re-election. The board would like to thank him for his guidance and counsel during this period.

Details of directors' service arrangements are set out in the remuneration report on page 21.

A statement of directors' interests in the shares of Mothercare plc is set out on page 22 and details of their remuneration are set out on pages 18 to 23.

Corporate governance

The Company considers that it has complied with the Combined Code as determined by the Committee on Corporate Governance and as defined in the Listing Rules of the UK Listing Authority, ('The Code') throughout the 52 weeks ended 29 March 2003.

The board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. 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.

The board recognises that the management of risk in accordance with Turnbull Committee principles is key to ensuring that a robust system of internal control is monitored by the business. The executive committee has overall responsibility for ensuring that a rolling programme of structured risk assessments of those areas that may have a significant effect on the future of the business is carried out. The programme, which has been refocused during the year ensures so far as practicably possible, that the appropriate risk management processes are identified, appropriate controls established, residual risks evaluated and that the necessary action and risk avoidance measures taken or monitoring undertaken. The board also considers and reviews at each board meeting key business performance indicators.

In addition to the evaluation of business risk referred to above, specific risk management activity during the year has included individual stores being tested against a risk assessment model with particular emphasis on health and safety, disability discrimination, fire safety and internal process compliance. The internal audit function (using internal resource augmented by specialist external agencies as required), supplements the risk based approach set out above.

The Company has adopted guidelines to ensure auditor independence. This policy will be kept under review to ensure the Company complies with good governance. The general principle of the guidelines being that the audit firm should not be requested to carry out non-audit services on any activity of the Company where they may, in the future, be required to give an audit opinion. The Company has, however, recognised that taxation advice is an acceptable derogation from this principle.

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 misstatement 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

The board of Mothercare plc currently comprises four independent non-executive directors (reducing to three upon the retirement of Brian Hardy in July) and two executive directors. The full board, which meets regularly, maintains overall control of the group's affairs through a schedule of matters reserved for its decision. These include setting the group strategy, the approval of the annual budget and financial statements, major acquisitions and disposals, authority limits for capital and other expenditure and material treasury matters.

The non-executive directors are independent and free from any business or other relationship that could materially interfere with their judgement. The non-executive directors do not participate in any bonus, share option or pension scheme of the Company. Ian Peacock has an equity-based incentive, details of which are set out in the remuneration report on page 21.

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. The audit, remuneration and nomination committees are 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 executive committee. The executive committee consists of the directors of Mothercare UK Limited and the company secretary.

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, one third of the directors are required to offer themselves for re-election every year.

The remuneration committee, chaired by Angela Heylin, establishes the remuneration policy and arrangements for the executive directors. 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 18 to 23. 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.

The audit committee, which was chaired during the year 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 maintains regular dialogue with institutional shareholders following presentation of the financial performance of the business to the investing communities. This dialogue takes place at least four times a year following the announcement of the interim and full year results and trading statement 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 least twice annually. Internal control (other than internal financial control) is reserved to the board as a whole.

Employees

The Company communicates, and reviews with all its employees, corporate objectives and performance and economic activity relevant to its business. This is achieved through 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 Company are attained.

In addition to its incentive plans, the Company operates various share schemes, details of which are set out on page 20. The board is proposing changes to the basis of the incentive schemes for senior executives in the Company, the intent of which is to fully ally the performance and reward of those executives with shareholder interests. Full details are set out in the documents that accompany the Notice of the Annual General Meeting.

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 45 days from the date of invoice.

The amount owed to trade creditors at the end of the financial year represented nil days (2002 – nil days) of average daily purchases during the year for the Company.

Fixed assets

Changes in fixed assets are shown in note 8 to the accounts. A valuation of the group's freehold and long leasehold properties, excluding rack rented properties, was carried out by external valuers, primarily Messrs Cushman & Wakefield Healey & Baker, as at 28 March 2003. 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 £14 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.

Mothercare is committed to the welfare of its customers, the people making, delivering and selling its products as well as to the environment. With Mothercare's primary customers being pregnant women, mothers and young children, the Company is mindful of its responsibilities in ensuring that the quality of everything it does meets their stringent and demanding requirements.

To this end the Company has started a continuing appraisal process of our suppliers' quality and factory standards to ensure that products are manufactured to a consistently high standard and in compliance with Mothercare's ethical code. The ethical code was first published in April 2001 and is the Company's commitment to business ethics, corporate responsibility and key labour and human rights practices, including those relating to the employment of children. To this end therefore, the Company has continued its support of the Ethical Trading Initiative, an alliance of businesses, non-governmental organisations and trade unions committed to working together to promote ethical trade.

Recognising that the Company has a part to play in the community, wherever practicable facilities are provided to various organisations such as the NCT, St John Ambulance Brigade and other national and local self help groups so that they may carry out various parenting, baby and childcare activities and courses.

Charitable and political donations

The Company has continued to support charities with activities closely aligned to the business.

Charitable donations for the year ending 29 March 2003 were £85,000 (2002 – £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 financial statements are therefore prepared on a going concern basis.

Annual General Meeting

The 2003 AGM will be held on Friday, 18 July 2003 at 10.30am at the Hilton National Hotel, Elton Way, Watford, Hertfordshire 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 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 and on the website.

The following paragraphs give explanatory notes on the business to be proposed at the meeting:

Resolution 1: To receive the report and accounts for the 52 weeks ended 29 March 2003. The directors will present the report and accounts and shareholders may raise any questions on it at the meeting.

Resolution 2: To approve the remuneration report. Regulations introduced in August 2002 now require all 'quoted' companies to put the remuneration report to shareholders for approval.

Resolutions 3 to 6: Reappointment of directors. The Company's Articles of Association require that (a) one third of the directors that are required to retire by rotation must retire and (b) that directors who have been appointed since the last AGM must offer themselves for re-election. Separate resolutions will be proposed on each of these appointments.

Resolution 7: Appointment of auditors. Deloitte & Touche have indicated their willingness to act as auditors to the Company and accordingly an ordinary resolution to reappoint them, and for the directors to fix their remuneration, will be proposed.

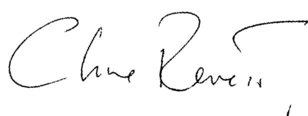
The meeting will also be asked to consider the following matters of Special Business:

Resolutions 8 and 9: Incentive Schemes. Ordinary resolutions are to be proposed authorising the establishment of a long term incentive plan ('LTIP') and a share matching scheme. The board consider that these schemes are appropriate as they ally both executive and shareholder interests. Full details are given in the separate circular enclosed with the Notice of Meeting.

Resolution 10: Purchase of own shares. The Company was authorised at the 2002 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. This resolution 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.

Resolution 11: Alteration to Article 84 of the Company's Articles of Association. This article sets out the maximum amount of fees that may be paid to directors, other than the chairman. In practice therefore it applies to the non-executive directors. The maximum amount of fees, which has not been reviewed since the formation of the Company in 1986, is limited to £30,000 per non-executive director. A resolution will be proposed to increase the amount to £60,000 per non-executive director. Whilst there is no current intention to pay fees at this level, the Company considers that the increase will give the Company flexibility to pay fees to non-executive directors commensurate with their future roles and responsibilities and with the amounts paid to non-executive directors in comparable companies.

By order of the board



Clive E Revett
Company secretary
22 May 2003

The directors present their remuneration report for the 52 weeks ended 29 March 2003. The report has been prepared in accordance with the Directors' Remuneration Regulations 2002. The report also meets the requirements of the Listing Rules of the UK Listing Authority and describes how the board has applied the principles of good governance relating to directors' remuneration. An ordinary resolution proposing to approve its adoption at the Annual General Meeting is set out at item 2 on the notice of meeting.

The Regulations require the auditors to report on the 'auditable part' of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The details of directors' share options, equity incentive awards, emoluments and compensation payments as set out in Table 1 and pension arrangements as set out in Table 2 have therefore been audited.

The remuneration committee

Composition of the remuneration committee

The remuneration committee comprised the non-executive directors with Angela Heylin as chairman and Brian Hardy serving throughout the year. Alan Smith served until 31 October 2002 and Ian Peacock from 1 August 2002.

The committee, which makes recommendations to the board on executive directors' service arrangements, met five times during the year.

Advisors to the remuneration committee

The organisations listed below have provided material assistance to the remuneration committee. Deloitte & Touche (Executive Compensation Practice) and Hyman Associates, both of which were appointed by the remuneration committee, have provided remuneration advice both to the committee and the Company. New Bridge Street Consultants have provided services solely to the remuneration committee. Deloitte & Touche are the Company's auditors, and Hyman Associates has provided the Company with general business strategic consultancy. DLA provide general legal advice to the Company. In making its determination of directors' remuneration, the remuneration committee also consulted the chief executive, the Human Resources director and the company secretary as appropriate.

Person or organisation	Services provided
Deloitte & Touche (Executive Compensation Practice)	Executive remuneration and share scheme consultancy
New Bridge Street Consultants	Pensions and executive remuneration and incentive scheme design
Hyman Associates	Remuneration structure
DLA	Legal services in respect of employment contracts

Remuneration policy statement

The Company's policy is to provide competitive remuneration packages that will recruit, retain and motivate directors and individuals of the required calibre to meet the Company's objectives. The intent is to ensure, so far as is reasonably practicable, that the remuneration policy is in line with market practice and appropriate to the Company's needs. The committee monitors the Company's compliance with the Combined Code provisions for directors' remuneration and with best practice in applying performance related remuneration.

The remuneration policy is to apply an appropriate balance between the fixed salary and performance related elements of remuneration. The latter element is achieved through a short-term, annual, cash bonus scheme targeted at the achievement of Company profit and personal performance objectives. Longer-term performance remuneration is achieved through equity-based incentives. The performance criteria for the vesting of the current equity incentives, primarily the share option schemes, are dealt with in the relevant section below. In each case the performance-based elements are allied with shareholders' interests.

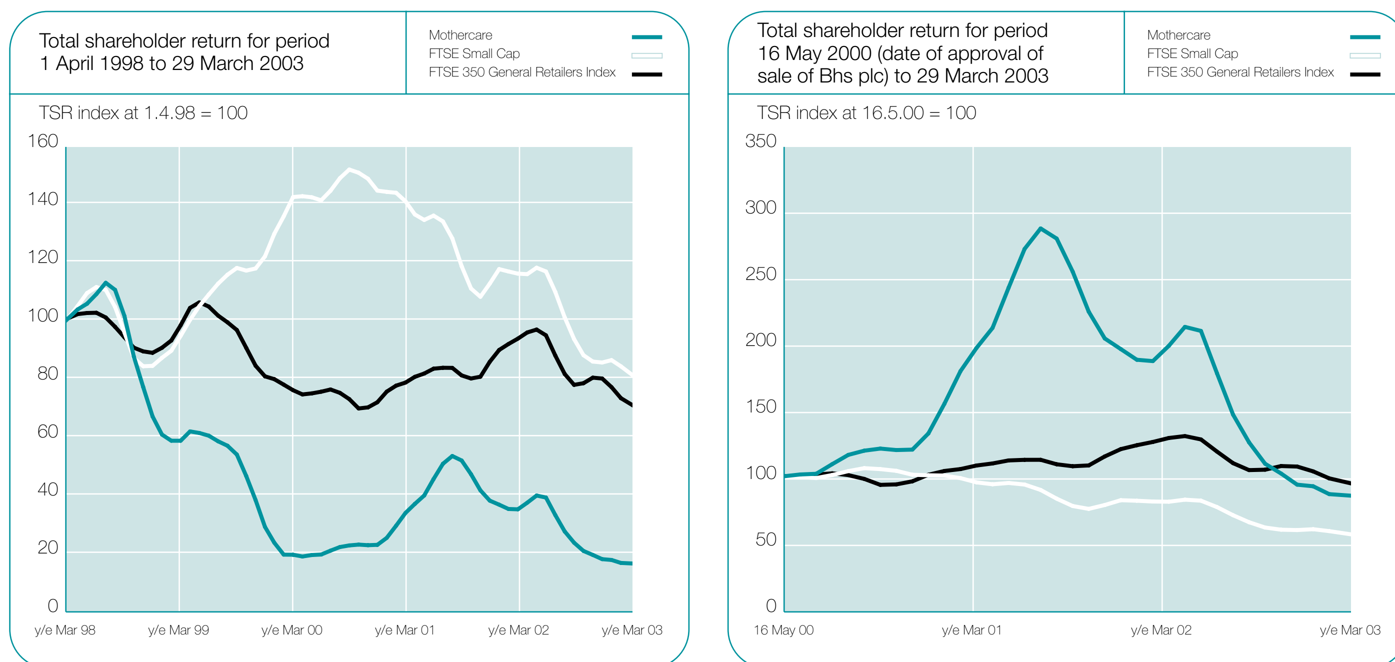
The committee normally reviews the executive directors' remuneration annually. With the appointment of a new chief executive and finance director during the year, the committee advised the board that future policy should position base salaries around the median of the market, as measured against the Company's comparator peer group of companies similar in sector size and complexity. Variable elements of the package, designed to attract and motivate outstanding performance and delivery, should provide the opportunity for executive directors to earn an overall upper quartile total remuneration package, thus further aligning pay more directly with shareholders' interests. Details of the individual executive directors' remuneration, reflecting this policy are set out below.

The committee considers that the remuneration strategy would be enhanced by the adoption of a Long Term Incentive Plan and Share Matching Scheme. The committee considers that these schemes have the benefit of being less volatile in nature than the current share option scheme and will encourage executives to retain shares in the Company. Full details of the proposed schemes are set out in the circular accompanying this annual report. Participants in these schemes would not receive further awards under the share option scheme, other than in exceptional circumstances such as a board appointment.

Performance Graph

The performance graphs below set out the comparison of the Company's Total Shareholder Return (TSR) against the return achieved by the FTSE Small Cap and the FTSE 350 General Retailers Indices being the indices considered most appropriate. Two graphs are shown, the first for the five financial years to 29 March 2003 and the second for the period from 16 May 2000 being the date when the Company's activities significantly changed following the approval of the sale of Bhs plc.

TSR has been calculated by reference to the relevant share price for each constituent company assuming that dividends have been reinvested on a gross of tax basis on the ex-dividend date.



Directors' remuneration

The fixed annual remuneration of the executive directors of the Company comprises a base annual salary normally reviewed in April each year and benefits. A variable remuneration element is achieved through an annual bonus scheme and participation in the executive share option scheme. With the exception of the Save As You Earn share option scheme, that is open to all employees including executive directors, and the share incentive awards made to Ian Peacock and Ben Gordon, the Company operates no other long-term incentive schemes.

The remuneration of the non-executive directors comprises fixed annual fees. Expenses incurred on Company business are reimbursed. The annual fees payable to a non-executive director (other than the chairman, Ian Peacock) are limited to £30,000 per annum under the Company's articles of association. This limit was set in 1986 and has not subsequently been amended. A resolution is to be put to the AGM to increase the limit to £60,000. Whilst there is no current intention to set fees at this level, it will give the Company flexibility to pay fees to non-executive directors commensurate with their future roles and responsibilities and with the amounts paid to non-executive directors in comparable companies.

Salary

It is the policy to set each director's salary at or about the market median. Each executive director's salary is considered individually by the remuneration committee following advice from independent remuneration consultants. Base salary is the only element of remuneration used in determining pensionable earnings under the Mothercare Executive Pension Scheme.

Annual and other bonuses

The annual bonus scheme for executive directors is paid upon the achievement of Company financial targets set annually by the remuneration committee. In addition, personal targets linked to key business objectives must also be met if an executive director is to achieve the maximum cash bonus. The maximum annual bonus that may be ordinarily paid to an executive director is 85 per cent of base salary (Ben Gordon, 100 per cent of base salary). The maximum bonus would be payable only in the event of exceptional performance. Executive directors will be expected to invest any bonus in excess of 50 per cent of salary under the proposed share matching scheme. Ben Gordon received a performance-related bonus of £85,000 in respect of the year ended 29 March 2003.

Profit share scheme

The Company has introduced a profit share scheme that will be effective for the first time in 2003/04. Under this scheme, all Company employees other than participants in the annual bonus scheme with at least six months' service would be eligible to participate. A proportion of pre-tax profit will be used limited to a maximum of 5 per cent on up to £10 million profit reducing on a sliding scale to 3 per cent on profits of £25 million or more. The maximum payment to an individual under this scheme would be £3,000.

Other payments

As part of the terms of his appointment, Ben Gordon was paid a sum of £100,000 on 2 December 2002. The payment was made on the condition that Mr Gordon reinvested 60 per cent of the net amount received after tax in shares of the Company. Mr Gordon purchased 41,159 ordinary shares at a price of 89p per share on 15 January 2003.

Executive Share Option Scheme

The Company has granted executive share options under two schemes: The Mothercare (formerly Storehouse) plc 1995 Executive Share Option Scheme and the Mothercare plc 2000 Share Option Plan. These are dealt with in more detail below:

The Mothercare plc 2000 Share Option Plan

Options under the Mothercare plc 2000 Share Option Plan are granted at market value and a significant improvement in the underlying performance of the Company is required before the options may be exercised by participating executives.

The remuneration committee regularly reviews the performance criteria for the Mothercare plc 2000 Share Option Plan. The criteria were chosen after examining similar schemes, and were agreed following extensive discussions between the Company, its advisors and a number of institutional investors. They were set at a level that was intended to ally shareholder and employee interests for the long-term future of the Company. The performance criteria to be met before an option can be exercised demand that earnings per share growth over a three-year performance period must equal or exceed the growth in the Retail Prices Index by nine per cent. If the performance criteria are not met over the performance period, the option grant will lapse.

Annual option grants may be made to executive directors and senior employees of up to two times base salary, although it is not expected that the annual level of grant will normally be as high as this. Whilst the remuneration committee has discretion to make grants in excess of this level in exceptional circumstances such as recruitment, it has not done so during the year.

Annual grants in excess of two times base salary have a performance criteria of earnings per share growth over a three-year performance period that equals or exceeds the growth in the Retail Price Index by 20 per cent. No such awards were made in 2002/03.

The Mothercare (formerly Storehouse) plc 1995 Executive Share Option Scheme

No further awards are to be made under this scheme. The only awards that remain outstanding are those in respect of the grant dated 1 June 2000. No director has an award under this scheme.

Directors' share options

Director	30 March 2002	Granted/(lapsed) during year	Grant/(lapse) date	Exercise price (pence)	First exercise date	Last exercise date	29 March 2003
Ben Gordon		312,500	2 December 2002	104.00	2 December 2005	2 December 2012	312,500
Total		312,500					312,500
Steven Glew		402,011	26 March 2003	99.50	26 March 2006	26 March 2013	402,011
Total		402,011					402,011
Mark McMenemy	280,000	(280,000)	(3 March 2003)				–
	3,799[1]	(3,799)	(3 March 2003)				–
		107,488	19 June 2002				–
		(107,488)	(3 March 2003)				–
Total	283,799	(283,799)					–
Chris Martin	460,737	(460,737)	(15 July 2002)				–
	400,000	(400,000)	(15 July 2002)				–
	1,550	(1,550)	(15 July 2002)				–
	106,667	(106,667)	(15 July 2002)				–
	3,039[1]	(3,039)	(15 July 2002)				–
Total	971,993	(971,993)					–

Notes
1. Options granted under the three-year SAYE option scheme.
2. The options set out above are granted without payment from a participant.
3. Share price details are shown on page 43.
4. Performance conditions are set out in the narrative above. The award to Mark McMenemy dated 31 May 2001 included 140,000 options with a performance criteria of EPS growth of RPI plus 20 per cent.
5. No variations have been made to the terms and conditions of existing options in the year.
6. No options were exercised in the year.

Equity incentive awards

Following the appointments of the chairman and the chief executive on 1 November 2002 and 2 December 2002 respectively, Ian Peacock and Ben Gordon were awarded equity-based incentives, as set out below.

The award to Ian Peacock, made on 21 November 2002, was in respect of 95,694 ordinary shares in the Company which, in aggregate, amounted to £100,000 as at the time that the award was made. The award will vest in three tranches of 31,898 shares on 1 November in each year (or the nearest date following 1 November if the Company is in a close period) commencing in 2003. No payment is required from Mr Peacock in respect of the award. The award may only vest in the event that he remains employed by the Company on the relevant vesting date or, pro rata subject to a minimum of one third of the award vesting, in the event that there is a change in control of the Company.

The award to Ben Gordon was in respect of 500,000 ordinary shares in the Company, for which no payment is required from him. The award will vest in respect of tranches of 100,000 shares, subject to the achievement of the performance conditions. The vesting performance conditions for three of the tranches of shares are in respect of share price growth. For each of the tranches of shares to vest, the Company's share price must have remained at levels of 200p, 300p and 400p (respectively) per share for a period of at least three months. For the remaining two tranches of shares to vest, performance conditions in respect of profit before tax and exceptional items of £15 million and £30 million must be achieved by the end of the Company's financial year in 2007.

Having vested on the achievement of a performance condition, that element of the award will be released to Mr Gordon in tranches, on the second, third, fourth and fifth anniversaries of 2 December 2002 (as appropriate) in proportions calculated to release the entirety of any tranche of shares attached to a performance condition so achieved by the fifth anniversary. Furthermore, varying proportions of the award will vest and be released to the extent that performance conditions have been met, if there is a change in control of the Company before 2 December 2007. Mr Gordon will also be able to retain that proportion of the award that has vested, in the event that the Company terminates his employment (other than for cause) or the Company is in fundamental breach of his employment contract. Where any share price or share price performance condition is not met generally within four years, then that element of the award will lapse.

Service contracts

The general principle applied is that directors' service contracts should not contain termination provisions that necessitate the Company giving in excess of 12 months' notice. In appointing Ben Gordon as chief executive, the remuneration committee considered it appropriate to make a short-term exception to that principle in the initial phase of his appointment, as set out below.

Ben Gordon, who commenced employment with the Company on 2 December 2002, has a service agreement dated 20 September 2002 that may be terminated on 24 months' notice in the first 12 months, reducing on a straight line basis thereafter so that after 24 months it may be terminated on 12 months' notice. The agreement provides for liquidated damages on termination by the Company in respect of basic salary equivalent to the unexpired portion of the notice period and the fair value of the benefits to which he may be entitled including pension credits but not bonus or share options. Separate provisions govern the entitlement to the equity incentive award and are disclosed in the section above.

Steven Glew commenced employment with the Company on 4 March 2003. His service agreement may be terminated on 12 months' written notice by the Company. For the first 12 months only, his service agreement provides for the payment of liquidated damages in respect of his salary where he does not accept any comparable alternative employment should there be a change in control of the Company.

Ian Peacock is entitled to three months' salary on termination of his employment contract dated 31 October 2002 by the Company. Angela Heylin and Brian Hardy do not have service arrangements with the Company that provide for payment on termination of their engagement. Their service arrangements were entered into on 21 and 25 January 2000 respectively. Angela Heylin's service arrangements will be reviewed following the AGM in July this year. Brian Hardy will retire from the board following the AGM. Bernard Cragg's service arrangements may be terminated on one month's notice.

Alan Smith, Chris Martin and Mark McMenemy left the business during the year. Alan Smith's terms of appointment were set out in a service agreement dated 27 May 1999, and provided for one year's salary and benefits upon termination by the Company. Chris Martin was reappointed and Mark McMenemy was appointed under service agreements dated 31 March 2001 and 17 April 2001 respectively. Both service agreements provided for liquidated damages on termination by the Company of one year's base salary, benefits, pension credits and the average of the last three years' annual bonus and for exercisable executive share options to be retained for up to six months from the notice date. Details of the amounts paid to Alan Smith, Chris Martin and Mark McMenemy for loss of office are set out in Table 1 on page 23.

External appointments

An executive director may take one external appointment as a non-executive director, subject to the approval of the board. The director may retain any fees. Neither of the executive directors currently has such an appointment.

Pension arrangements

Ben Gordon and Steven Glew 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 years. Contributions are five per cent of pensionable salary for Ben Gordon and Steven Glew.

In addition to membership of the Mothercare Executive Pension Scheme, pension benefits on earnings in excess of the Inland Revenue earnings cap for Ben Gordon and Steven Glew are provided through a Funded Unapproved Retirement Benefit Scheme. The contribution rates for Ben Gordon and Steven Glew are 17.5 per cent and 17.0 per cent respectively. Further pension detail is given in Table 2.

For further detail on the cost of pensions to the Company, including the statements required by FRS 17, see pages 38 to 40.

Emoluments and compensation payments

The emoluments (including pension contributions) in the 52 weeks ended 29 March 2003 are set out in Table 1 on page 23.

Details of the payments for loss of office made during the year to Alan Smith, Chris Martin and Mark McMenemy, being in each case their individual contractual entitlements, are set out in Table 1.

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 the Company pension, annual bonus plan or share option schemes.

Beneficial interests of the directors

The beneficial interests of the directors in the share capital of the Company are set out in the table below. This table does not show option or incentive awards. These are dealt with elsewhere in the report.

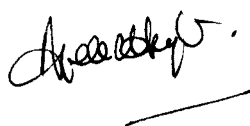
	Interest held at 29 March 2003 (number)	Interest held at 30 March 2002 (number)
Ian Peacock	30,000	–
Ben Gordon	60,571	–
Steven Glew	20,000	–
Brian Hardy	11,495	11,495
Angela Heylin	4,451	4,438
Bernard Cragg	–	–

Ian Peacock and Angela Heylin are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 13,151 (2002 – 13,151) Mothercare shares in trust on 29 March 2003. A separate trust, The Mothercare Employee Trust, held 3,523,434 shares on 29 March 2003 (2002 – 3,523,434).

The executive directors are technically deemed to be interested in all of the shares held by Mothercare Employees' Share Trustee Limited and The Mothercare Employee Trust as potential beneficiaries.

There have been no movements in directors' interests, beneficial or non-beneficial, between 29 March 2003 and 22 May 2003.

Approved by the board on 22 May 2003 and signed on its behalf by:



Angela Heylin, OBE
Chairman, remuneration committee.

Table 1: Directors' emoluments

Total emoluments (including pension contributions) in the year ended 29 March 2003 were £1,856,000 (2002 – £1,191,000).

	Salary/fees £000		Retention/ sign-on bonus £000		Performance bonus £000		Compensation for loss of office £000		Benefits[1] £000		Total remuneration (excl. pensions) £000		Pension contributions £000	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Executive directors														
Ben Gordon	106	–	100	–	85	–	–	–	4	–	295	–	18	–
Steven Glew	15	–	–	–	–	–	–	–	1	–	16	–	2	–
Mark McMenemy	245	200	–	–	–	–	339	–	13	9	597	209	63	28
Chris Martin	95	320	–	–	–	–	488	–	4	16	587	336	17	56
Non-executive directors														
Ian Peacock	48	–	–	–	–	–	–	–	–	–	48	–	–	–
Angela Heylin	29	29	–	–	–	–	–	–	–	–	29	29	–	–
Brian Hardy	29	29	–	–	–	–	–	–	–	–	29	29	–	–
Bernard Cragg	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Alan Smith	92	175	–	315[2]	–	–	58	–	5	14	155	504	–	–

1 Benefits typically comprise company car, medical, dental insurance and other similar benefits.
2 Alan Smith was awarded a one-off bonus as executive chairman of Storehouse three years ago. This was payable in two instalments, the final instalment being in June 2001. The bonus was invested wholly in Mothercare shares.

Table 2: Pensions

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

	Defined benefits							Money purchase
	Accrued benefits in Mothercare Executive Pension Scheme[1]			Transfer value				Company contributions
	30 March 2002 £000	Change during year £000	29 March 2003 £000	30 March 2002 £000	Change during year £000	Director's contributions £000	29 March 2003 £000	£000
Ben Gordon	–	1	1	–	5	2	7	18
Steven Glew	–	–	–	–	–	–	–	2
Chris Martin	22	5	27	193	(28)	2	167	17
Mark McMenemy	3	3	6	29	4	7	40	63

1 Accrued benefits refer to the deferred pension payable from normal retirement date.

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 25.

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.

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 weeks ended 29 March 2003 which comprise the group profit and loss account, group statement of total recognised gains and losses, balance sheets, reconciliation of movements in shareholders' funds, group cash flow statement, notes to the group cash flow statement, the accounting policies and the related notes numbered 1 to 19. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the accounts and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the directors' remuneration report described as having been audited have been 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 regarding directors' remuneration and transactions with the Company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does 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 directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

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 and the part of the directors' remuneration report described as having been audited. 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 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the accounts give a true and fair view of the state of affairs of the Company and the group as at 29 March 2003 and of the loss of the group for the 52 weeks then ended; and
- the accounts and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants and Registered Auditors
London
22 May 2003

group profit and loss account
for the 52 weeks ended 29 March 2003

	Note	52 weeks ended 29 March 2003 Before exceptional items £ million	52 weeks ended 29 March 2003 Exceptional items (note 3) £ million	52 weeks ended 29 March 2003 Total £ million	52 weeks ended 30 March 2002 Before exceptional items £ million	52 weeks ended 30 March 2002 Exceptional items (note 3) £ million	52 weeks ended 30 March 2002 Total £ million
Turnover	2	431.7	–	431.7	426.9	–	426.9
Cost of sales		(425.9)	(0.9)	(426.8)	(401.9)	–	(401.9)
Gross profit		5.8	(0.9)	4.9	25.0	–	25.0
Administrative expenses		(25.5)	(1.9)	(27.4)	(22.0)	–	(22.0)
(Loss)/profit from retail operations	2	(19.7)	(2.8)	(22.5)	3.0	–	3.0
Exceptional items:	3						
Loss on disposal of stores		–	(2.4)	(2.4)	–	–	–
Provision for costs of separation		–	–	–	–	(4.1)	(4.1)
Interest (net)	4	0.1	–	0.1	1.2	–	1.2
(Loss)/profit on ordinary activities before taxation		(19.6)	(5.2)	(24.8)	4.2	(4.1)	0.1
Taxation	5	–	10.0	10.0	–	–	–
(Loss)/profit on ordinary activities after taxation		(19.6)	4.8	(14.8)	4.2	(4.1)	0.1
Dividends	6			–			(1.7)
Retained loss for the financial year				(14.8)			(1.6)
(Loss)/earnings per share	7			(22.0p)			0.2p
(Loss)/earnings per share diluted	7			(22.0p)			0.2p

All results relate to continuing operations.

group statement of total recognised gains and losses
for the 52 weeks ended 29 March 2003

	2003 £ million	2002 £ million
(Loss)/profit for the financial year being total recognised gains and losses relating to the year	(14.8)	0.1

A statement of the movement in reserves is shown in note 16.

The accounting policies on pages 29 and 30 and the notes on pages 31 to 41 form an integral part of these statements.

group and company balance sheets

as at 29 March 2003

	Note	Group		Company	
		2003 £ million	2002 £ million	2003 £ million	2002 £ million
Fixed assets					
Tangible assets	8	85.6	88.6	–	–
Investments	9	4.9	5.0	113.2	113.3
		90.5	93.6	113.2	113.3
Current assets					
Stocks	10	48.0	55.1	–	–
Debtors	11	25.6	35.2	7.7	11.1
Cash at bank and in hand		7.7	12.3	47.9	44.3
		81.3	102.6	55.6	55.4
Creditors – amounts falling due within one year	12	(54.3)	(65.3)	(86.4)	(88.0)
Net current assets/(liabilities)		27.0	37.3	(30.8)	(32.6)
Total assets less current liabilities		117.5	130.9	82.4	80.7
Creditors – amounts falling due after one year	12	(2.2)	(2.8)	–	–
Provisions for liabilities and charges	14	(4.7)	(2.7)	–	–
Net assets		110.6	125.4	82.4	80.7
Capital and reserves attributable to equity interests					
Called up share capital	15	35.3	35.3	35.3	35.3
Profit and loss account	16	75.3	90.1	47.1	45.4
		110.6	125.4	82.4	80.7

Approved by the board on 22 May 2003

B Gordon
S Glew

reconciliation of movement in shareholders' funds

for the 52 weeks ended 29 March 2003

	2003 £ million	2002 £ million
(Loss)/profit for the financial year	(14.8)	0.1
Dividends	–	(1.7)
Net decrease in shareholders' funds	(14.8)	(1.6)
Shareholders' funds at beginning of the year	125.4	127.0
Shareholders' funds at end of the year	110.6	125.4

The accounting policies on pages 29 and 30 and the notes on pages 31 to 41 form an integral part of these statements.

group cash flow statement

for the 52 weeks ended 29 March 2003

	Note	2003 £ million	2003 £ million	2002 £ million	2002 £ million
Reconciliation of net cash inflow/(outflow) from operating activities					
(Loss)/profit from retail operations before exceptional items		(19.7)		3.0	
Depreciation		14.3		11.6	
Decrease/(increase) in stocks		3.8		(11.5)	
Decrease/(increase) in debtors		4.7		(2.8)	
Increase in creditors		9.0		2.8	
Net cash outflow in respect of exceptional costs		(3.8)		(13.6)	
Net cash inflow/(outflow) from operating activities			8.3		(10.5)
Net cash inflow/(outflow) from operating activities			8.3		(10.5)
Returns on investments and servicing of finance					
Interest received		0.5		1.3	
Interest paid		(0.4)		(0.1)	
			0.1		1.2
Taxation					
Corporation tax			–		(0.1)
Capital expenditure					
Purchase of tangible fixed assets		(13.4)		(10.7)	
Sale of tangible fixed assets		1.4		–	
			(12.0)		(10.7)
Trading cash outflow			(3.6)		(20.1)
Acquisitions and disposals					
Acquisition of own shares			–		(0.7)
Equity dividends paid			(1.0)		(1.7)
Management of liquid resources	a		6.1		3.9
Financing					
Decrease in debt	b		–		(2.0)
Increase/(decrease) in cash in the year			1.5		(20.6)
Reconciliation of net cash flow to movement in net funds					
Increase/(decrease) in cash in the year			1.5		(20.6)
Cash flow from management of liquid resources	a		(6.1)		(3.9)
Cash flow from financing	b		–		2.0
Movement in net funds in the year			(4.6)		(22.5)
Net cash at the beginning of the year			12.3		34.8
Net cash at the end of the year			7.7		12.3

notes to the group cash flow statement

for the 52 weeks ended 29 March 2003

a Analysis of net cash	2001 £ million	Cash flow £ million	2002 £ million	Cash flow £ million	2003 £ million
Cash	26.8	(20.6)	6.2	1.5	7.7
Overdrafts	–	–	–	–	–
Net cash	26.8	(20.6)	6.2	1.5	7.7
Cash flow from management of liquid resources					
Time deposits*	10.0	(3.9)	6.1	(6.1)	–
Decrease in debt					
Obligations under finance leases					
Due within one year	(2.0)	2.0	–	–	–
Net cash	34.8	(22.5)	12.3	(4.6)	7.7

*Cash on the balance sheet represents the total cash of £7.7 million (2002 – £6.2 million) and time deposits of £nil (2002 – £6.1 million).

b Obligations under finance leases

The capital element of lease payments made during the year was £nil (2002 – £2.0 million). Interest paid includes £nil (2002 – £0.1 million) in relation to obligations under finance leases.

accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the 52 weeks ended 29 March 2003 and the preceding 52 weeks ended 30 March 2002.

Basis of accounting
The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Basis of consolidation
The group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 29 March 2003.

As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented for the Company.

Goodwill
Goodwill arising on acquisitions which took place prior to 29 March 1997 was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed 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 lease term
Fixtures, fittings and equipment	–	3 to 20 years

Residual value is calculated on prices prevailing at the date of acquisition.

Investments
Fixed asset investments are shown at cost less provision for impairment.

Investments in own shares through Employee Share Ownership Plans 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 substantively 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 at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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 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 the tax rates and laws that have been enacted or substantively 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 recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are taken directly to reserves.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are 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 lease to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that the assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

1 Basis of presentation

The Company's accounting period covers the 52 weeks ended 29 March 2003. The comparative period covered the 52 weeks ended 30 March 2002.

2 Supplementary profit and loss information

All turnover and retail profit is derived from one class of business in the UK.

Turnover by destination can be analysed as follows:

	2003 £ million	2002 £ million
UK including Channel Islands	385.5	388.0
Rest of Europe	21.6	16.7
Rest of World	24.6	22.2
	431.7	426.9

(Loss)/profit from retail operations has been determined after charging the following items:

	2003 £ million	2002 £ million
Depreciation of tangible assets	14.3	11.6
Net rent of properties	45.7	44.1
Hire of plant and equipment	0.9	1.2
Auditors' remuneration – audit	0.2	0.1
Staff costs:		
Wages and salaries (including bonuses)	47.1	44.8
Social security costs	2.3	2.5
Other pension costs	3.0	0.1

Deloitte & Touche were appointed auditors to the Company on 1 August 2002. Amounts payable to Deloitte & Touche in respect of non-audit services provided during the year were £139,000. Amounts payable to former auditors prior to 1 August 2002 were £33,000 (2002 – £1.1 million).

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:

	2003	2002
Number of employees	5,032	5,201
Full time equivalents	3,109	3,111

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 18 to 23.

3 Exceptional items

The group incurred £2.8 million exceptional costs charged to loss from retail operations during the year. These costs related to directors' and head office staff redundancy costs £1.9 million, store staff redundancies £0.1 million and £0.8 million one-off costs incurred in renegotiating the group's warehouse and distribution contract during the year.

The directors have conducted a full review of store profitability and identified a number of stores which are not expected to achieve acceptable levels of profitability. As a result, actions to close these stores commenced in February 2003. An exceptional charge of £3.1 million has been recognised to provide for the loss on disposal of these stores. This has been offset by £0.7 million profit on stores disposed during the year. The net exceptional cost of £2.4 million has been charged to loss before taxation.

In the 52 weeks ended 30 March 2002 exceptional costs of £4.1 million were charged to profit before taxation in relation to the additional costs incurred as a result of the warehouse transition. This was the last stage of the reorganisation in relation to the disposal of Bhs that occurred in May 2000.

The tax effect of the above exceptional items is £nil (2002 – £nil).

A corporation tax provision of £10.0 million made in a prior year has been released in the 52 weeks ended 29 March 2003 as an exceptional credit to the profit and loss account. This provision related to outstanding tax issues from the reorganisation of various property interests conducted in 1996/97. These have now been resolved with the Inland Revenue.

4 Interest (net)

	2003 £ million	2002 £ million
Interest payable:		
Bank loans and overdrafts (repayable within five years, not by instalments)	(0.4)	–
Obligations under finance leases (repayable within five years by instalments)	–	(0.1)
Interest receivable	0.5	1.3
	0.1	1.2

5 Taxation

The credit for tax on (loss)/profit on ordinary activities comprises:

	2003 £ million	2002 £ million
UK corporation tax at 30% (2002 – 30%)	–	–
Deferred tax	–	–
Exceptional release of prior year tax provision (note 3)	(10.0)	–
	(10.0)	–

Factors affecting tax charge for the period

	2003 £ million	2002 £ million
(Loss)/profit on ordinary activities before tax	(24.8)	0.1
(Loss)/profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2002 – 30%)	(7.4)	–
Effects of:		
Expenses not deductible for tax purposes	1.3	0.2
Capital allowances in excess of depreciation	(0.9)	(0.2)
Tax losses generated and carried forward to offset future profits	7.0	–
Exceptional release of prior year tax provision (note 3)	(10.0)	–
Current tax credit	(10.0)	–

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 £58 million as at 29 March 2003 (2002 – £35 million).

Deferred tax

A deferred tax asset in respect of tax losses has been recognised to the extent of any deferred tax liabilities. No further tax asset has been recognised for the remaining tax losses of £50 million (2002 – £19 million) as the directors are of the opinion that there is sufficient uncertainty over their recoverability at this time.

Deferred tax therefore comprises

	2003 £ million	2002 £ million
Accelerated capital allowances	(2.8)	(5.3)
Other timing differences	0.4	0.4
Tax losses	2.4	4.9
	–	–

6 Dividends

	2003 £ million	2002 £ million
Interim paid of nil pence per ordinary share (2002 – 1.0p)	–	0.7
Final proposed of nil pence per ordinary share (2002 – 1.5p)	–	1.0
	–	1.7

7 (Loss)/earnings per share

	2003	2002
Weighted average number of shares in issue	67.2m	67.2m
Dilution – option schemes	–	0.9m
Diluted weighted average number of shares in issue	67.2m	68.1m
(Loss)/profit after tax	(£14.8m)	£0.1m
Exceptional items (net of tax)	(£4.8m)	£4.1m
(Loss)/profit after tax before exceptional items	(£19.6m)	£4.2m
Basic (loss)/earnings per share	(22.0p)	0.2p
(Loss)/earnings per share before exceptional items	(29.2p)	6.3p
Diluted (loss)/earnings per share	(22.0p)	0.2p

FRS 14 requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. Since it seems inappropriate to assume that option holders would act irrationally, no adjustment has been made to diluted EPS for out-of-the-money share options.

Earnings per share before exceptional items has been calculated to provide further information.

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

	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	100.0	138.4	3.0	259.7
Transfers	–	–	3.0	(3.0)	–
Additions	–	7.4	3.8	2.2	13.4
Disposals	(0.4)	(3.2)	(3.6)	–	(7.2)
Balance at end of year	17.9	104.2	141.6	2.2	265.9
Accumulated depreciation					
Balance at beginning of year	1.7	57.0	112.4	–	171.1
Charge for year	0.1	5.9	8.3	–	14.3
Disposals	–	(2.1)	(3.0)	–	(5.1)
Balance at end of year	1.8	60.8	117.7	–	180.3
Net book value					
Balance at beginning of year	16.6	43.0	26.0	3.0	88.6
Balance at end of year	16.1	43.4	23.9	2.2	85.6

The net book value of leasehold properties includes £43.3 million (2002 – £42.9 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 (2002 – 3,536,585) with a market value at 29 March 2003 of £3,589,634.

	2003 £ million
Cost of shares at beginning of year	5.0
Transfer to participant	(0.1)
Cost of shares at end of year	**4.9**

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

The parent company and the group have investments in the ordinary share capital of the following wholly owned trading subsidiary undertakings which principally affected the profits or net assets of the group. To avoid a statement of excessive length, details of investments which are not significant have been omitted. All subsidiary undertakings have been included in the consolidation. The principal country of operation for the subsidiary undertakings is the United Kingdom.

	Business	Country of incorporation
Mothercare UK Limited	Retailing	England & Wales
Storehouse Finance plc*	Finance Company	England & Wales

*Direct subsidiary of Mothercare plc

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

	2003 £ million	2002 £ million
Cost of investments (less amounts written off £153.0 million)	43.3	43.3
Loans to subsidiary undertakings	(69.9)	(70.0)
	113.2	113.3

10 Stocks

	Group		Company	
	2003 £ million	2002 £ million	2003 £ million	2002 £ million
Finished goods and goods for resale	48.0	55.1	–	–

During the year there was a change in the basis of estimation of overhead expenditure attributable to stocks, such that an element of payroll cost is now excluded. This change reduced the overheads attributable to stocks by £0.5 million and increased cost of sales by £0.5 million.

11 Debtors

	Group		Company	
	2003 £ million	2002 £ million	2003 £ million	2002 £ million
Trade debtors	11.9	13.6	–	–
Amounts due from subsidiary undertakings	–	–	7.7	11.0
Other debtors	2.2	7.0	–	0.1
Prepayments and accrued income	11.5	14.6	–	–
	25.6	35.2	7.7	11.1

12 Creditors – amounts falling due within one year and after one year

	Group		Company	
	2003 £ million	2002 £ million	2003 £ million	2002 £ million
Amounts falling due within one year				
Trade creditors	27.8	27.0	–	–
Amounts due to subsidiary undertakings	–	–	86.4	86.4
Corporation tax	0.9	10.9	–	–
Payroll and other taxes, including social security	3.1	1.4	–	0.1
Other creditors	0.5	0.2	–	–
Accruals and deferred income	20.7	23.6	–	0.5
Landlords' contributions	1.3	1.2	–	–
Proposed dividend	–	1.0	–	1.0
	54.3	65.3	86.4	88.0
Amounts falling due after one year				
Landlords' contributions	2.2	2.8	–	–

13 Derivatives and other financial instruments

The disclosures in this note should be read in conjunction with the sections on treasury policy and financial risk management, foreign currency risk, and interest rate 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 to the group are interest rate risk and exchange rate risk. The board reviews and agrees the policies for managing these risks as summarised below. There has been no change since the year end to the major financial risks to the group or to the group's approach to the management of these risks.

Finance and interest rate risk

In the 52 weeks ended 30 March 2002, the group maintained a cash balance in order to finance its investment strategy and achieved short-term funding flexibility by using overdraft facilities to meet the peak requirements of the group before Christmas.

During the 52 weeks ended 29 March 2003, the cash balance had decreased primarily as a result of the loss from retail operations. As a result, the short-term funding flexibility provided by the group's overdraft facilities was required both before and after Christmas, although at the end of the year the group had no outstanding borrowings.

Cash balances and time deposits are 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 £0.5 million was 7.4 per cent when measured against average gross borrowings of £5.5 million (2002 – 9.6 per cent on borrowings of £0.8 million) excluding time deposits.

Foreign currency risk

About 11 per cent of the sales of Mothercare's UK businesses in 2003 were to franchisees overseas which are all billed in sterling. The group therefore has no currency exposure on these sales. Less than 9 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 while foregoing the benefit of any upward movements.

Analysis of borrowing by interest rate, currency and maturity

The group had no outstanding borrowings at 29 March 2003 and 30 March 2002.

Borrowing facilities

The group had £20.0 million committed borrowing facilities available to it at 29 March 2003 (2002 – £20.0 million).

Currency analysis of net assets

The group's net assets by currency at 29 March 2003 were:

Currency	2003 Net assets by currency of operation £ million	2002 Net assets by currency of operation £ million
Sterling	108.8	124.3
US dollar	1.7	1.1
Euro	0.1	–
	110.6	125.4

Fair values

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

14 Provisions for liabilities and charges

	Group 2003 £ million	Group 2002 £ million
Deferred taxation (note 5)	–	–
Property provisions	4.7	2.7
	4.7	2.7

The movement on property provisions can be analysed as follows:

	Property provisions £ million
Balance at 31 March 2002	2.7
Utilised in year	(0.8)
Charged in year	2.8
Balance at 29 March 2003	4.7

Property provisions principally reflect the costs of store disposals. Details of the amount charged during the year are given in note 3.

15 Called-up share capital

	2003 £ million	2002 £ million
Authorised		
95,767,413 ordinary shares of 50p each	47.9	47.9
Allotted, called-up and fully paid		
70,684,962 ordinary shares of 50p each	35.3	35.3

16 Reserves

	Group Profit and loss account £ million	Company Profit and loss account £ million
Balance at beginning of year	90.1	45.4
(Loss)/profit for the financial year	(14.8)	1.7
Balance at end of year	75.3	47.1

The Company profit for the financial year was £1.7 million (2002 – loss of £1.9 million). As permitted by section 230 of the Companies Act 1985 no separate profit and loss account is presented in respect of the parent company.

The cumulative amount of goodwill written off against reserves is £30.1 million (2002 – £30.1 million). This goodwill arose on acquisitions, net of amounts written back on subsequent disposals.

17 Commitments

	Group 2003 £ million	Group 2002 £ million
Contracts for capital expenditure	–	5.2

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

	Buildings 2003 £ million	Buildings 2002 £ million	Other 2003 £ million	Other 2002 £ million
Leases which expire:				
Within one year	0.4	1.5	0.3	0.7
Between two and five years	5.2	4.0	0.7	0.6
After five years	42.0	38.9	–	–
	47.6	44.4	1.0	1.3

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

18 Pension arrangements

a) SSAP 24 disclosures

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

The pension costs of 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

Recent actuarial advice has indicated that the pension surplus on a SSAP 24 basis has now been eliminated. In accordance with SSAP 24, this advice has been taken into account when determining the appropriate pensions charge for the year. A brought forward pension prepayment of £1.5 million has therefore been written off as a result of the latest actuarial view. In addition, contributions made during the year of £1.5 million have been expensed.

In the 52 weeks ended 29 March 2002, the total pension cost to the group was £0.1 million and included a credit of £2.8 million in respect of amortisation of pension surpluses arising in earlier years which were being allocated to the remaining estimated service lives of members.

Total contributions made to the pension schemes in the year were £1.5 million and the contribution rate for 2003/04 currently continues at 6.75 per cent of pensionable earnings although this is expected to be revised to an estimated 10–12 per cent when the actuarial valuations as at 31 March 2003 have been concluded.

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

b) FRS 17 disclosures

Additional disclosures regarding the group's defined benefit pension schemes are required under the transitional provisions of FRS 17 'Retirement Benefits' and these are set out below. The disclosures relate to the second year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 in the 52 weeks ending 1 April 2006.

The full actuarial valuation described above was updated at 29 March 2003 and 30 March 2002 by qualified actuaries using revised assumptions that were consistent with the requirements of FRS 17. Investments were valued, for this purpose, at fair value.

The major assumptions used for the updated actuarial valuations were:

	2003	2002
Rate of increase in salaries	4.4–5.4 per cent	4.8–5.8 per cent
Rate of increase in pensions	2.4 per cent	2.8 per cent
Discount rate	5.4 per cent	6.1 per cent
Inflation assumption	2.4 per cent	2.8 per cent

The fair value of the assets in the schemes, the present value of the liabilities in the schemes and the expected rate of return at each balance sheet date were:

	2003 per cent	2003 £ million	2002 per cent	2002 £ million
Equities	9.0	67.7	8.0	98.8
Bonds	5.4	8.7	6.1	8.1
Property	7.5	20.4	7.5	16.6
Total fair value of assets		96.8		123.5
Present value of scheme liabilities		(128.5)		(110.0)
(Deficit)/surplus in the schemes		(31.7)		13.5
Related deferred tax asset/(liability)		9.5		(4.1)
Net pension (liability)/asset		(22.2)		9.4

Movement in the (deficit)/surplus in the schemes during the year:

	£ million
Surplus at 30 March 2002	13.5
Operating costs	(4.1)
Contributions	1.4
Other finance income	2.9
Actuarial loss	(45.4)
Deficit at 29 March 2003	(31.7)

The contribution rate for the 52 weeks ended 29 March 2003 was 6.75 per cent of pensionable earnings and contributions currently continue at 6.75 per cent of pensionable earnings although this is expected to be revised to an estimated 10–12 per cent when the actuarial valuations as at 31 March 2003 have been concluded.

Analysis of the amount that would have been charged to operating profit under FRS 17:

	2003 £ million
Current service cost	4.1

18 Pension arrangements continued

Analysis of the amount that would have been credited to net finance income under FRS 17:

	2003 £ million
Expected return on pension scheme assets	9.6
Interest on pension scheme liabilities	(6.7)
	2.9

Analysis of the actuarial loss that would have been recognised in the statement of total recognised gains and losses under FRS 17:

	2003 £ million
Actual return less expected return on pension scheme assets	(36.4)
Experience gains and losses arising on the scheme liabilities	–
Changes in assumptions underlying the present value of the scheme liabilities	(9.0)
	(45.4)

History of experience gains and losses:

	2003
Difference between the expected and actual return on scheme assets	(£36.4m)
As a percentage of scheme assets	(37.6%)
Experience gains and losses on scheme liabilities	–
As a percentage of the present value of scheme liabilities	0.0%
Total actuarial loss recognised in the statement of total recognised gains and losses	(£45.4m)
As a percentage of the present value of scheme liabilities	(35.3%)

The analysis of reserves that would have arisen if FRS 17 had been fully implemented is as follows:

	Group 2003 £ million	Group 2002 £ million
Profit and loss account reserves excluding pension (liability)/asset	75.3	88.6
Amount relating to defined benefit pension schemes' (liability)/asset, net of deferred tax	(22.2)	9.4
Profit and loss account reserves	53.1	98.0

19 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.

The 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 29 March 2003 under the group's share option schemes were as follows:

	Ordinary shares 2003	Date of grant	Option price (p)
Mothercare 1995 Executive Share Option Scheme	299,883	Jun 00	123.71
Mothercare 2000 Executive Share Option Plan	145,454	Jan 01	165.00
	141,809	Feb 01	204.50
	298,995	May 01	300.00
	37,388	Jul 01	325.00
	27,778	Jul 01	324.00
	506,736	Jun 02	207.00
	312,500	Dec 02	104.00
	275,863	Jan 03	87.00
	402,011	Mar 03	99.50
Mothercare Sharesave Scheme	254,138	Dec 00	125.00
	205,506	Jun 01	255.00
	2,908,061		

five year record

Summary of turnover and profit	2003 £ million	2002 £ million	2001 £ million	2000 £ million	1999 £ million
Turnover					
Continuing – Mothercare	431.7	426.9	419.1	443.7	472.4
Discontinued	–	–	89.9	822.4	856.2
Total	431.7	426.9	509.0	1,266.1	1,328.6
(Loss)/profit from retail operations before exceptional items					
Continuing – Mothercare	(19.7)	3.0	7.1	0.4	17.9
Discontinued	–	–	(6.7)	13.1	86.4
Before exceptional items	(19.7)	3.0	0.4	13.5	104.3
Exceptional items	(5.2)	(4.1)	4.9	(396.4)	(18.3)
Interest and other items	0.1	1.2	3.1	(6.5)	(5.7)
(Loss)/profit before taxation	(24.8)	0.1	8.4	(389.4)	80.3
Taxation	10.0	–	–	26.5	(36.2)
(Loss)/profit for the financial year	(14.8)	0.1	8.4	(362.9)	44.1
(Loss)/earnings per share*	(22.0p)	0.2p	6.0p	(142.2)p	5.7p
Dividends per share	–	2.5p	1.5p	–	9.1p

Summary of balance sheets	2003	2002	2001	2000	1999
Fixed assets	90.5	93.6	92.0	321.1	665.2
Net current assets/(liabilities)	27.0	37.3	41.8	(22.2)	8.8
Creditors falling due after one year	(2.2)	(2.8)	(2.4)	(11.6)	(27.3)
Provisions for liabilities and charges	(4.7)	(2.7)	(4.4)	(61.7)	(58.1)
Total net assets	110.6	125.4	127.0	225.6	588.6

Other key statistics	2003	2002	2001	2000	1999
Share price at year end (p)	101.5	232.5	206.75	37.0	125.5
Net cash (debt)/equity (%)	7.0	9.8	27.4	(30.8)	(15.5)
Capital expenditure	13.4	10.7	11.2	92.5	140.2
Depreciation	14.3	11.6	11.4	66.6	63.2
Rents	45.7	44.1	41.3	111.0	108.0
Number of stores	241	245	252	427	494
Net selling space (000s sq ft)	1,922	1,927	1,980	6,423	6,774
Average number of employees	5,032	5,201	5,353	20,130	20,686
Average number of full-time equivalents	3,109	3,111	3,167	10,620	10,747

Key statistics for 2003, 2002 and 2001 represent the Mothercare business only and are not comparable with the previous years' statistics which 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 1999 to 2001 have been restated where necessary in accordance with FRS 19 'Deferred tax'.

shareholder information

Shareholder analysis

A summary of holdings as at 17 May 2003 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	0.6	13
Nominee companies	58.1	1,022
Other corporate holders	5.1	155
Individuals	6.9	29,179
	70.7	30,369

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	2003	2002
Share price at 28 March 2003 (29 March 2002)	101.5p	232.5p
Market capitalisation	£71.7m	£164.3m
Share price movement during the year		
High	265.0p	336.0p
Low	84.5p	177.0p

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.

Financial calendar

	2003
Annual General Meeting	18 July
Announcement of interim results	20 November

	2004
Payment of interim dividend (if declared)	February
Preliminary announcement of results for 52 weeks ending 27 March 2004	end-May
Issue of report and accounts	mid-June
Annual General Meeting	mid-July
Payment of final dividend (if proposed)	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 7588 2828

Designed and produced by CGI BrandSense.

Photography by Tim Barker and Ric Gemmell.

Printed by CTD Capita.

Printed on Revive Silk: Totally Chlorine Free, 75% produced from 100% de-inked post consumer waste, 25% produced from mill broke and virgin fibres.

Mothercare plc
Cherry Tree Road
Watford
Hertfordshire
WD24 6SH

T 01923 241000
F 01923 240944
www.mothercare.com

Registered in England number 1950509