

# mothercare



annual report and accounts 2004

[www.mothercare.com](http://www.mothercare.com)

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It has been a year of good progress for Mothercare. The business is responding well to the actions we are taking in our turnaround plan.

Much remains to be done to complete this plan and position the Company for sustained profit growth over the longer term. We are well on track to turn Mothercare into an efficient specialty retailer with an internationally respected brand.

The front cover photograph and large photographs in this annual report are displayed in our stores and can be seen in the Summer 2004 Mothercare catalogue. Please see photograph captions for more details.

# Performance highlights

Group sales up 3.5% to £446.9 million (2003 – £431.7 million)

Like-for-like UK store sales up 5.9% (2003 – down 1.0%). See financial review for definition of like-for-like sales

Gross margins up 6.2 percentage points

Profit before non-operating exceptional items and taxation of £17.3 million (2003 – loss £22.4 million)

Non-operating exceptional credit of £6.6 million (2003 – charge of £2.4 million)

Profit before tax £23.9 million (2003 – loss before tax of £24.8 million)

Basic earnings per share 46.5p (2003 – loss per share 22.0p)

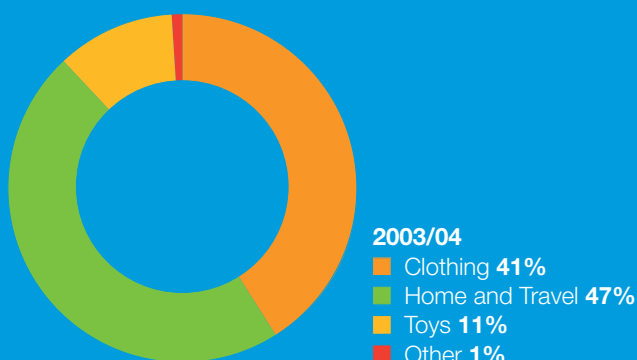
Adjusted earnings per share (before exceptional items) 24.4p – see note 7 (2003 – loss per share 29.2p)

Final dividend 4.0p (2003 – nil)

Strong cash generation with net cash balances of £40.3 million (2003 – £7.7 million)

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

## Product % of total UK sales



## Breakdown of sales

	£m
UK stores	381.3
International stores	47.8
Direct	17.8

## Stores at 27 March 2004

	Stores	Total selling area (000s sq ft)
Out-of-town	68	1,107
High street	165	756
<b>Total UK stores</b>	<b>233</b>	<b>1,863</b>
International (franchise stores)*	190	428
<b>Total</b>	<b>423</b>	<b>2,291</b>

	Europe	Middle East	Far East	Other	Total
*International franchise stores	86	66	35	3	190

### Franchise stores:

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



## Chairman's statement



A handwritten signature in black ink, appearing to read 'Ian Peacock', written over a white background.

Ian Peacock  
Chairman

£23.9m  
profit  
before tax

4p  
final  
dividend

**This has been an extraordinary year for Mothercare. Profit before tax exceeded £23.9 million for the year under review, a much stronger outcome than anyone predicted at the beginning of the period.**

It compares with a loss of £24.8 million in 2002–03. Underlying this profit improvement is a Company which is beginning to transform. Product is of higher quality and greater appeal than before and is more available on the shelves. More stores look bright and exciting and sales staff have become confident in our ability to provide the customer with what they want at the right price.

Credit for these improvements goes principally to Ben Gordon, and to the skilled and energetic management team which he has brought together. It is also due to the enthusiasm of the staff who have responded so well to their leadership. I should like to thank Ben and everyone in the Company who has worked so hard to produce these most encouraging results.

Last year was the first year of a three year turnaround and much remains to be done. I urge you to read the description of risk factors on page 19 of this report and to balance these risks against the huge opportunities which exist for Mothercare.

At the annual general meeting last summer we said that we would resume dividend payments when we had reached a position of sustained profitability. Barring unexpected events, your board judges that this point has been reached. Accordingly we are pleased to recommend a final dividend of 4.0 pence. Our intention, subject of course to trading performance, is to provide investors with a dividend growing strongly and steadily. In normal circumstances we would expect that any final dividend would be twice the interim dividend.

During the last two years we have been fortunate to have the backing of some major institutional shareholders. I should like to thank them for their support during this difficult period.

# Investing in the business



**Hawaiian print sundress**  
• See page 18 of our Summer catalogue

Planned £60 million investment in stores, infrastructure and systems to support long-term growth.

## Chief executive's review



*Ben Gordon*

**Ben Gordon**  
Chief executive

5.9%  
like-for-like UK  
store sales

+6.2  
percentage  
points  
gross margin  
improvement

### **Last year we outlined a three year turnaround programme with the objective of rebuilding Mothercare and progressing plans for longer-term growth.**

We have now completed the first year of the turnaround programme and are encouraged by the progress we have made. In the year trading started to recover with like-for-like store sales up by 5.9 per cent and gross margins up by 6.2 percentage points.

Clothing sales and margins have grown especially strongly as our focus on this area, particularly on the high street, has paid off. Home and Travel continues to be a strong part of our product mix and has provided solid sales and margin growth. Our strategy to concentrate on higher margin educational/development toys has meant that toy sales have declined but overall toy profitability has increased.

Our performance has been driven by the actions we have taken throughout the year. It is also a reflection of the strength of the Mothercare brand and the loyalty of our customer base, and is a credit to our teams across the business.

In the new financial year, we will continue to take the actions necessary to revitalise Mothercare fully and position the Company for long-term growth. As previously indicated, we need to support the business for the long term and this will

involve significant revenue and capital investment, in particular in central infrastructure and customer service standards.

Delivery of the turnaround is now well established and we are beginning to look ahead to the next phase of growth for Mothercare, with particular focus on new store development in the UK and growing our International business.

#### **Turnaround**

Our plan to rebuild the business is focused on five key projects: store proposition, product and sourcing, supply chain, our infrastructure and customer service. Throughout the year, we have made progress with these initiatives.

#### **Store proposition**

One of our key priorities during the year has been to define the Mothercare proposition for our 165 high street stores with the aim of providing a modern, inviting environment with product ranges which exceed customer expectations. Early in the year we carried out trials of both new store environment and merchandise mix. As a result of these trials we identified the most successful format, known as 'Superlite'. We commenced roll-out of this format in January 2004 and by the financial year end 35 of our high street stores were refitted. These refitted stores continue to perform well, achieving sales growth of some 12 per cent above the average of our high street stores, generating a cash return on investment on an annualised basis in excess of 20 per cent.

# Improving quality and availability



**Frog print  
T-shirt**  
• See page 8  
of our Summer  
catalogue

Improvements to design, quality and fashionability of ranges have increased product appeal.

Distribution performing well with greater availability and further cost reductions achieved.



# Chief executive's review

continued



**Touring Trike**  
See page 212  
of our Summer  
catalogue

Building on the success of the new format, a further 17 stores have been refitted since the year end, so that 35 per cent of our high street space has now been refitted. We plan to convert a further 40 stores by March 2005, with the result that over half of our high street space will then have been refitted. The balance will be converted in the following financial year. The cost of refitting high street stores in the year was £3.5 million. Our estimate of total capital expenditure required over the three years for our high street refit programme remains unchanged at £20 million.

Our 68 out-of-town stores have continued to perform well as they benefited from the improvements in our customer offer and other turnaround initiatives. Now that the roll-out of the new high street format is fully underway, we are turning our attention to our out-of-town stores as we believe that there are opportunities for further improvements particularly in the largest ones. We have allocated some £8 million of capital expenditure over the next two years for this programme.

## Product and sourcing

We continue to make strong progress in improving the design, quality, fashionability and price of our product ranges. We have rebalanced our ranges with the introduction of a good,

better, best pricing policy to ensure that we have the right breadth of product offer to meet the requirements of all our customers and that we can compete effectively in each segment of the market. In addition, we believe product innovation will be an important growth driver and during the year we have introduced a number of new products, particularly in our Home and Travel area. These factors will ensure that we continue to differentiate Mothercare's product ranges from our competitors.

Effective sourcing is fundamental to providing good quality, good value product. During the year we undertook a comprehensive review of our sourcing capability and made some early progress implementing changes. We have consolidated our supplier base from some 80 to 60 countries, shifting production locations and providing quality products at better margins. We increased our direct sourcing of clothing to 30 per cent in the year, compared to 10 per cent two years ago. Our target is to move towards 50 per cent direct sourcing in this area.



# Offering a better customer experience

35 high street stores refitted by the end of March and continue to outperform the chain.

New customer service standards introduced.

For our swimming range  
• See page 7 of our Summer catalogue

# Chief executive's review

continued



**Check bibshorts**  
See page 19  
of our Summer  
catalogue

## Supply chain

Our logistics network has performed increasingly well throughout the year. This has been achieved by making tactical changes within the current supply chain to drive up productivity and reduce costs. Distribution costs as a percentage to sales are now 6.5 per cent compared to 8.1 per cent last year. In the short term we will continue to improve the efficiency of our current operations with a target run-rate of 6 per cent to sales by March 2005.

We are undertaking a detailed analysis of our entire logistics network to determine the most appropriate and cost effective supply chain for Mothercare. Part of the work has been to understand which is the best route for our wide range of products to reach our customers and from that analysis to determine what our supply chain of the future should be. We are making good progress with this project and will provide a full update on our plans in November.

Improved product availability has also been a key factor in driving sales growth during the year. Availability is now over 80 per cent compared to 65 per cent in January 2003. Whilst this is a big improvement it is still not good enough and going forward our target is to secure availability in

excess of 90 per cent by the end of the turnaround phase. To achieve this we have identified a range of actions from significant systems enhancements to small procedural changes, which we will undertake during the coming year. However, improvements will be gradual and will also be dependent on the work we are carrying out to define the longer-term supply chain requirements for Mothercare.

## Infrastructure

The lack of investment in the infrastructure of the business has been a significant factor in the historic under-performance of Mothercare. Our first priority has been to implement a modern merchandise planning system which will allow us to plan and manage our product ranges more effectively. This major project was implemented on schedule in April 2004 and will be of substantial benefit as we plan our ranges for Spring/Summer 2005.



# Chief executive's review

continued



The replacement of our ageing store EPOS systems is also a key priority as it is an essential part of improving customer service. The development of the system is approaching completion with a trial due to start in July and roll-out is scheduled to commence in the Autumn. We plan that the roll-out will be completed by March 2006.

As indicated at our interim results in November, we expect that the investment in these systems, together with further enhancements to central and distribution systems, will be some £15 million over the three years of the turnaround programme.

## Customer service

Given the nature of our products and the life stage of our customers, the delivery of excellent customer service is vital to the success of Mothercare. As a specialty retailer, customer service is a key differentiator and an opportunity to gain real competitive advantage.

Our immediate priority has been to reinstate basic retailing disciplines and then to introduce a number of initiatives to raise store and service standards across the chain. We have introduced new standards, roles, processes, communications and performance measurement with the aim of changing the culture of the business so it becomes

genuinely customer-driven. We have created stores of excellence to help cascade this best practice and ensure consistency throughout the portfolio. Whilst we have made good progress in this area there is much more work to be done in the coming year and it will require further investment, particularly in training and rewards.

## Long-term growth

The priority last year was to get the turnaround programme fully underway and we have now completed one full year of our three-year programme. The next phase includes a focus on new store development and our International and Direct businesses to help drive long-term growth.

## New store development

We have now completed a review of our store portfolio in the UK. This review has examined market sizes, customer catchments, existing store locations and potential new locations, taking into account potential store sales, operating performance and rent levels. The review demonstrated that overall our existing portfolio is in good locations. However, it also identified areas where our store portfolio needs rebalancing to achieve optimal size and locations. In addition, it identified some 40 further high street and 20 out-of-town locations where Mothercare could trade successfully.

# Chief executive's review

continued



**3 Wheeler**  
See page 150  
of our Summer  
catalogue

We have therefore initiated a store opening programme. Once established we plan to open new stores, of different sizes depending on their location, at a rate of some five to ten per annum. Our focus is to obtain locations which meet our returns targets. It will take time to establish a pipeline of suitable sites so we would not expect the programme to commence fully until 2005. We have however already secured one new out-of-town location at Thurrock Lakeside, Essex, where a new 10,000 sq ft store is planned to open in September 2004. We expect the capital expenditure on new stores will be some £10 million over the next two years.

## International

Our International franchise business continues to perform well. It is benefiting from the improvements we are making in product quality, design and availability and its performance demonstrates the popularity of the Mothercare brand overseas.

During the year 26 new stores were opened in a number of countries where Mothercare already has a presence including Greece, Spain and Russia. We have identified the potential for a significant number of new stores in existing territories over the next three years. Our analysis shows that the potential exists to open some 30 stores per annum and 21 are already scheduled to open in the coming year. A vital element of our business model is the partnership between Mothercare and the franchisee in developing these territories.

## Mothercare Direct

Our Direct business is an important element of our strategy to be a multi-channel retailer. Direct does this in two ways; firstly, through in-store web ordering, it allows smaller stores to offer a wider catalogue range to their customers. Future plans will see this capability rolled out to more stores, and Direct carrying a wider range.

Secondly, Direct provides Mothercare with the potentially powerful capability to develop further customer relationships. Over the next two to three years we will be enhancing these capabilities to better understand and target our customers' needs.



# Financial review



**Steven Glew**  
Finance director

## Results summary

Total group sales have increased by 3.5 per cent to £446.9 million (2003 – £431.7 million) with like-for-like UK store sales up by 5.9 per cent. Operating profit improved significantly from a loss of £22.5 million last year to a profit of £16.6 million this year.

## Sales

### UK Stores

UK store sales increased by 3.3 per cent to £381.3 million. Like-for-like sales (defined as sales growth on the previous year for stores that have been trading continuously from the same selling space for at least 13 financial periods) increased by 5.9 per cent. The sales loss due to net store closures was 2.6 per cent. Of the 15 store closures announced with our results in May last year, eight were closed in the year. We have conducted a further review of our store portfolio and confirmed a closure programme which now comprises some ten stores, principally smaller stores of marginal profitability.

Operating profit has increased to £8.3 million from a loss of £15.9 million last year.

### Mothercare Direct

Mothercare Direct, our catalogue and website business, had another successful year with sales growing by 9.9 per cent to £17.8 million and operating profit growing by 108.8 per cent to £1.4 million. The sales growth achieved was impacted by the improved availability in the UK stores, as in the past Direct was seen as a last resort for product not available in stores. This business has also benefited from the margin growth achieved across the group.

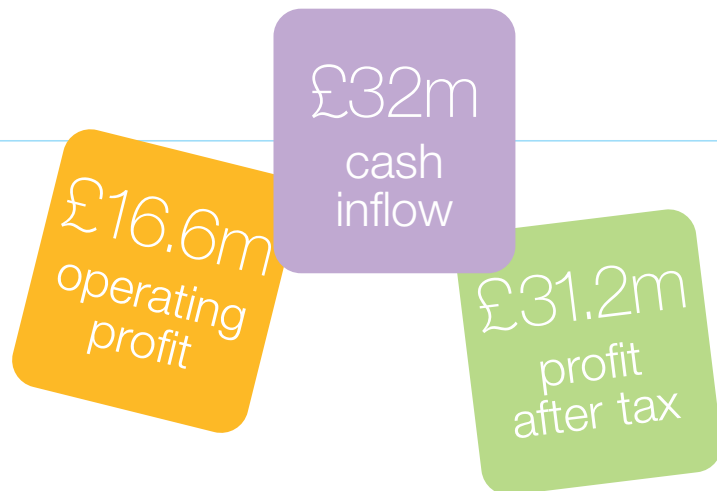
## The results can be summarised as follows:

	2004 £ million	2003 £ million
Turnover (ex VAT)	<b>446.9</b>	431.7
Operating profit/(loss) (before exceptional operating items)	<b>15.8</b>	(19.7)
Exceptional operating items	<b>0.8</b>	(2.8)
Operating profit/(loss)	<b>16.6</b>	(22.5)
Non-operating exceptional items	<b>6.6</b>	(2.4)
Interest	<b>0.7</b>	0.1
Taxation	<b>7.3</b>	10.0
Profit/(loss) after tax	<b>31.2</b>	(14.8)

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

	Turnover		Operating profit/(loss)*	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
UK Stores	<b>381.3</b>	369.3	<b>8.3</b>	(15.9)
Mothercare Direct	<b>17.8</b>	16.2	<b>1.4</b>	0.7
Mothercare International	<b>47.8</b>	46.2	<b>6.1</b>	4.8
Total	<b>446.9</b>	431.7	<b>15.8</b>	(10.4)

\*Operating loss of £19.7 million in 2003 was after charging one-off items of £9.3 million, giving an operating loss before one-off items of £10.4 million.



### Mothercare International

Mothercare International, our overseas franchise business, also performed well with sales growing by 3.4 per cent to £47.8 million and operating profit growing 26.1 per cent to £6.1 million.

The sales growth in our franchisee stores is up 22 per cent with 26 new franchise stores opened in the year taking the total to 190.

Franchisee store sales have increased above the growth of our International business itself partly due to the fact that Mothercare International sales in 2003 were boosted by delayed shipments from 2002 (due to availability issues). The move to royalty based agreements whereby Mothercare receive the profit element of our sales based on franchisee sales rather than shipments to the franchisee has also been a factor. This delays our income as there is a delay between date of shipment and the date of sale by our franchisee. The proportion of sales through royalty agreements has increased by 20 percentage points to 70 per cent for the year.

### Operating profit

Group operating profit, was £16.6 million compared to a loss of £22.5 million last year. Operating profit before exceptional items was £15.8 million (2003 – loss of £19.7 million). The key factors driving this improvement in operating profit were an increase in sales and gross margin together with a reduction in distribution costs.

Gross margin increased by 6.2 percentage points. This was achieved by a better flow of product through our business leading to improved availability to customers and allowing greater full price trading. The gross margin also benefited from a more effective management of markdowns throughout the year. The improvements in our product range and the early benefits of our sourcing initiatives also played a major role in the increase.

Distribution costs reduced from 8.1 per cent to sales last year to 6.5 per cent to sales this year, resulting in a £5.2 million improvement to operating profit.

Operating profit also includes a credit of £0.9 million relating to the release of the unused element of a provision against clearance stock, and business stabilisation costs of £2.5 million principally relating to our turnaround programme.

The operating profit for the current year includes an operating exceptional credit of £0.8 million relating to VAT, primarily due to the successful outcome of an outstanding VAT claim.

### Non-operating exceptional items

The non-operating exceptional credit of £6.6 million relates to property items of £4.6 million and a £2.0 million profit on the sale of a subsidiary. The property credit includes lease premiums received on the sale of a number of stores which realised £2.5 million and the release of amounts accrued and provided for within the loss on sale of Bhs of £2.6 million following the early surrender of a vacant leasehold property. This has been offset by further provisions for losses on disposal of stores of £0.5 million which have arisen in the year.

The non-operating exceptional credit of £2.0 million relates to the sale of a subsidiary undertaking. The group has capital tax losses in excess of likely future requirements and has taken advantage of an opportunity to sell one of the group's subsidiary undertakings with capital tax losses attached to a third party giving rise to a profit on disposal of £2.0 million net of costs.

### Pensions

The Company has reviewed its pension arrangements in the year and introduced a number of changes. The Company operated defined benefit, final salary schemes which were open to all employees. Following a full review of options the Company decided that defined benefit pension schemes are an important differentiating benefit to attract and retain employees. We have however closed the final salary schemes to new entrants and introduced an average salary scheme to contain the future liability and increased employee and employer contributions.

# Financial review

continued

The total cost of the pension scheme charged to the profit and loss account in the year was £2.7 million (2003 – £3.0 million). The prior year charge reflected the elimination of the prepayment held on the balance sheet at that time following a change in the valuation of the scheme's assets. The valuation of the schemes under FRS 17 at 31 March 2004 gave rise to a net pension deficit of £16.9 million (2003 – deficit of £22.2 million) after the benefit of potential deferred taxation at 30 per cent amounting to £7.2 million (2003 – £9.5 million). On an FRS 17 basis the net charge to profits would have been £3.8 million (2003 – £1.2 million) after the benefit of net finance income of £1.1 million (2003 – £2.9 million).

## Interest and taxation

Net interest income increased to £0.7 million from £0.1 million last year as a result of the higher average cash balances resulting from the positive cash flow of the business.

The group had tax losses carried forward of approximately £58 million as at 29 March 2003. £22 million of these losses have been utilised against the taxable profit arising in the year. A net deferred tax asset of £6.4 million has been recognised in respect of the remaining available trading losses after taking account of any deferred tax liabilities. The recognition of the deferred tax asset in connection with tax losses, together with the release of tax provisions brought forward no longer required, has given rise to an exceptional tax credit of £7.3 million in the profit and loss account in the year.

As a result of these changes in the future a normalised tax charge will be made to profit.

## Cash flow

The group had a net cash inflow of £32.6 million in the year, leading to the cash balance at the end of the year of £40.3 million (2003 – £7.7 million). The increase in cash has resulted from improved trading, the benefits of a working capital reduction of £8.0 million and a reduced level of capital expenditure in the period.

Capital expenditure for the period was £8.5 million (2003 – £13.4 million), principally relating to the cost of store refurbishment and information technology. Over the three years of our turnaround programme we expect that capital expenditure excluding new stores will be some £50 million. We anticipate that capital expenditure on new stores over the next two years will be some £10 million.

## Dividend

The Directors are pleased to recommend a final dividend for the year of 4.0 pence (2003 – nil pence).

The final dividend will be payable on 30 July 2004 to shareholders registered on 18 June 2004. The latest date for election to join the dividend re-investment plan is 9 July 2004.

## 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 10.7 per cent of group sales. The group therefore has no currency exposure on these sales.

The group purchases product in foreign currency, representing some 6 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 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 £135.7 million, an increase of £30.0 million in the year. This is equivalent to £1.91 per share compared to £1.50 per share at the previous year end.

## Accounting policies and standards

The principal accounting policies used by the group are shown on pages 33 and 34. 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 43 to 45.

UITF 38 was adopted during the year, the impact of this is detailed in note 16.

Mothercare plc, in line with other UK listed companies will be required to prepare its financial statements under international financial reporting standards (IFRS) for the full year ending 1 April 2006 and its results in October 2005.

Mothercare is well advanced in its plans to implement the necessary changes required by IFRS.



## Board of directors



- Audit committee
- Remuneration committee
- Nomination committee

### 1 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 56.

### 2 Karren Brady • • •

#### Non-executive director

Appointed in July 2003. Managing director of Birmingham City Football Club plc. Chairman and non-executive director of Kerrang! Radio (West Midlands).

Aged 35.

### 3 Bernard Cragg • • •

#### Senior non-executive director

Appointed in March 2003. Chairman of Datamonitor and a non-executive director of Bank of Ireland UK Financial Services, Bristol & West plc, Workspace Group Plc and of Astro All Asia Networks Plc. Formerly group finance director and chief financial officer of Carlton Communications plc and a non-executive director of Arcadia plc. Chartered accountant.

Aged 49.

### 4 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 plc in the UK and Ireland. Chartered accountant.

Aged 47.

### 5 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 44.

### 6 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 60.

# Directors' report

## Business review

The principal companies within the Mothercare group for the period under review were Mothercare plc (the 'Company') and Mothercare UK Limited. A review of the business strategy and a commentary on the performance of the Mothercare business is set out in the chairman's statement and chief executive's and finance director's reviews on pages 3 to 14.

## Dividend

The directors recommend a final dividend of 4.0p per share, a total of 4.0p per share, no interim dividend having been paid during the year (2003 – total of nil pence per share).

The final dividend will be payable on 30 July 2004 to shareholders registered on 18 June 2004. Shareholders may choose to receive shares in lieu of cash dividend through the dividend re-investment plan. The plan purchases existing shares using the cash dividend. A dealing fee (of 0.5 per cent) and stamp duty (currently 0.5 per cent) is charged. The shares will be acquired on the dividend payment day. Existing mandates will continue to apply unless the Company's registrars are advised to the contrary by 9 July 2004. Notifications of application or withdrawal from the plan should be sent to Lloyds TSB Registrars, Share Dividend Team, The Causeway, Worthing, West Sussex BN99 6DA. The latest date for election to the plan in relation to the final dividend is 9 July 2004.

## Substantial shareholdings

As at 17 May 2004, the Company has been advised by the following companies of notifiable interests in its ordinary share capital:

Holder	Number of shares	Percentage of issued capital
Fidelity Investment Services Limited	9,012,819	12.68%
M&G Investment Management Limited	8,932,291	12.59%
Legal & General Investment Management Limited	2,876,944	4.07%

## Directors

The following directors served during the year ended 27 March 2004.

Name	Appointment
Ian Peacock	Chairman and independent non-executive director, chairman of the nomination committee
Karren Brady	Independent non-executive director (appointed 30 July 2003)
Bernard Cragg	Senior independent non-executive director and (from 18 July 2003) chairman of the audit committee
Angela Heylin	Independent non-executive director and chairman of the remuneration committee
Steven Glew	Executive director
Ben Gordon	Executive director
Brian Hardy	Senior independent non-executive director and chairman of the audit committee (resigned 18 July 2003)

Having been appointed since the last Annual General Meeting, Karren Brady, offers herself for re-election in accordance with the Company's articles of association. Angela Heylin and Ian Peacock retire by rotation from the board following the conclusion of the

AGM on 15 July 2004 and stand for re-election at the AGM. Biographical details of the directors, indicating their experience and qualifications, are set out on page 15.

Details of directors' service arrangements are set out in the directors' remuneration report on pages 22 to 27. The terms and conditions of their appointment are available for inspection upon request to the company secretary.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out in the directors' remuneration report on pages 22 to 27. The terms and conditions of their appointment are available for inspection upon request to the company secretary.

## Employees

The Company communicates, and reviews with all its employees, its corporate objectives, performance and economic activity relevant to its business. This is achieved through briefings, bulletins, e-mails 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 business are attained. The group's remuneration strategy is set out in the directors' remuneration report on pages 22 to 27. That report includes details of the various incentive schemes and share plans operated by the group.

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.

## Pensions

During the year the Company carried out a review of its final salary pension arrangements. The review resulted in changes that came into effect on 28 March 2004 following a comprehensive programme of consultation with the schemes' trustees and dialogue with employees. In summary, the changes are:

- the closure of the existing final salary schemes to new members with effect from 29 February 2004;
- existing membership of the final salary schemes as at 29 February 2004 may be retained in return for an increased contribution by members of 2 per cent;
- members who do not wish to increase contributions, and new employees, will join a new pension builder scheme that operates on a career average basis; that is benefits are calculated on a percentage of actual salary each year rather than by reference to final salary at retirement;
- benefits earned before 28 March 2004 are unaffected.

Following that consultation exercise, membership of the pension schemes operated by the group is as follows:

	Staff scheme		Executive scheme	
	Final salary	Pension builder	Final salary	Pension builder
Membership	54%	46%	78%	22%

### 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 (2003 – 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 valuation was updated by a desk top exercise during the year. This adjusted valuation of the properties resulted in a surplus over their net book value of £13 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.

Further details are set out on pages 18 and 19.

### Charitable and political donations

Charitable donations for the 52 weeks ended 27 March 2004 were £150,000 (2003 – £85,000).

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.

### Auditors

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of Section 26(5) of the Companies Act 1989.

In accordance with Section 385 of the Companies Act 1985 a resolution proposing the re-election of Deloitte & Touche LLP as the auditors of the Company will be put to the Annual General Meeting.

### Annual General Meeting

The 2004 Annual General Meeting will be held on Thursday 15 July 2004 at 10.30am at the Hilton National Hotel, Elton Way, Watford WD2 8HA.

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

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 27 March 2004. The directors will present the report and accounts and shareholders may raise any questions on it at the meeting.

**Resolution 2:** To declare a final dividend of 4.0p per share.

**Resolution 3:** To approve the directors' remuneration report.

**Resolutions 4 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:** Reappointment of auditors. Deloitte & Touche LLP has indicated its willingness to act as auditors to the Company and accordingly an ordinary resolution to reappoint them will be proposed.

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

**Resolution 8:** Purchase of own shares. The Company was authorised at the 2003 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 be expected to result in an increase in earnings per share and be in the best interests of the Company at the time.

By order of the board



Clive E Revett Company secretary  
20 May 2004

# Corporate social responsibility and environment

The Company recognises that corporate citizenship, or social responsibility, is an important aspect of its role in the community and is, therefore, 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 strives to ensure that the safety and quality of our products meets their stringent requirements. Furthermore, in promoting the part that the Company has to play in the community, we provide facilities in local stores wherever practicable for national and local self-help groups so they may carry out parenting, baby and childcare activities and courses.

Given the challenges that faced the Company during the year and the need to focus on the turnaround programme, the programmes set out below will be developed further over the coming years.

## Charity

The Mothercare Foundation Limited was formed during the year with the intention that it should receive donations from group profit. It will also be the route through which funds raised from store and staff charitable activities are channelled to appropriate causes linked to parenting. An application for charitable status has been made to the Charities Commission in respect of The Mothercare Foundation Limited.

An initial donation of £150,000 was made prior to the year end. Following the incorporation of The Mothercare Foundation Limited, the charity policy is being revised and will be made public in the coming year.

## Environment

The Company has a key role in managing the impact of the business activities on the environment, by making efficient use of raw materials, optimising energy consumption, and by encouraging recycling and sustainability. Our commitment in this area was re-affirmed by publishing an environmental policy in February 2003.

Examples of where positive action has been taken include:

### Recycling

Fifty per cent of the cardboard and other waste is recycled where we are responsible for collecting trade waste. We also participate in schemes operated by the shopping centres in which we are represented. It is intended that recycling will be increased where opportunities permit.

### Energy consumption

There are energy management systems in all of our stores that control the time switching of lighting and heating to reduce wastage. An external consultant has been retained to report on efficient energy consumption. All new air conditioning equipment has been selected with a policy of CFC-free refrigerants and all lighting uses low-energy consumption lamps where possible.

In the last four electricity tenders issued by the Company, a request was made for greener energy but, to date, none of the suppliers approached have been able to provide an appreciable energy volume from renewable resources. A further contract is being offered in October 2004 and emphasis will again be placed on green energy. Suppliers will be asked whether they are able to provide 100 per cent of our electricity requirements from renewable sources on the basis of a revenue-neutral offset against the climate change levy.

## Logistics initiatives

New delivery schedules were implemented during the year that resulted in 3,376 fewer vehicle journeys made. Further transport initiatives have resulted in approximately one million fewer miles being driven, a 19 per cent reduction in annual mileage. This reduced mileage has resulted in the saving of almost 446,000 litres of fuel. All delivery drivers have been trained under the Government-sponsored safe & efficient driving scheme, which is expected to provide a further 3 per cent fuel savings in the coming year. All vehicle oils, batteries and tyres are sent for reprocessing and/or reclamation of materials. All packaging from both our warehouses is recycled.

## Suppliers

### Ethics

The programme of appraisal of our suppliers' quality and factory standards has continued to ensure that our 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 our 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, support of the Ethical Trading Initiative has continued. The Ethical Trading Initiative is an alliance of businesses, non-governmental organisations and trade unions committed to working together to promote ethical trade.

### Use of chemicals

The environmental policy, published in February 2003, pledged to phase out the use of materials that "may pose an unacceptable risk to our customers, the people making our products, or the environment". The complete substitution of PVC in our range of cot mattresses has been accomplished and we are continuing to seek substitutes for other materials.

### Quality

The quality control team has been strengthened. Additional resources have been dedicated to the process of auditing all factories that are used for the manufacture of Mothercare branded product with completion expected by the end of June 2004. Two companies have been engaged to manage this process on our behalf, one for home, travel and toys and another for clothing products.

## Community

As referred to above, given the early stage of the turnaround programme, the focus has been internal rather than on developing our community-based activities. It is recognised that this focus will need to be more outward-looking over the coming months and years. The incorporation of The Mothercare Foundation Limited, is a step in that direction.

## People

The Mothercare website ([www.mothercare.com](http://www.mothercare.com)) publishes details of employment benefits of working for the Company. This includes training and development, bonus and pension schemes, other flexible benefits, work/life balance, career breaks and retirement policies. Female/mother-friendly shifts are operated in our business. During the year enhanced maternity benefits and return to work bonuses have been introduced for staff after a qualifying period of employment.

# Corporate governance

## Corporate governance

The Company aspires to achieve high standards of corporate governance in order to promote the interests of investors, customers, staff and other stakeholders. The Company considers that it has complied during the 52 weeks ended 27 March 2004 with the both the Hampel Code on corporate governance published in June 1998, 'Hampel Code' and, since 1 November 2003, with Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003, 'The FRC 2003 Code', with the exception of provision A.6 (performance evaluation). Given that the board has worked together for only a relatively short period it is the intention to carry out a performance evaluation review of the board, its committees and individual directors during the calendar year 2004.

## The board

The board operates on a unitary basis and comprises the chairman, three independent non-executive directors, and two full time executive directors, being the chief executive and the finance director. 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.

## Risk management

The board recognises that the management of risk in accordance with both The Turnbull Guidance and The FRC 2003 Code principles is key to ensuring that a robust system of internal control is monitored by the business.

The chief executive's report sets out progress against the strategy for the turnaround of the Mothercare business. The board recognise that there is a considerable amount of work to be done to complete the programme of process and systems improvements to achieve the expected rewards within the demanding timeframe that the executive committee has set itself. This places high demands on the Mothercare team at all levels. In addition, the retail market environment within which the Company operates is characterised by its competitive pressures, volatility and, in recent years, clothing price deflation. Against this background, the system of internal controls is designed to manage rather than eliminate risks and, in particular the risks that face the group during the rebuild and grow phase of the turnaround process. Of particular note is the need to implement successfully and obtain the expected benefits from the following change programmes:

- introduction of new business systems infrastructure, particularly EPOS (including chip and pin technology), and merchandise planning systems, with their attendant training and implementation requirements;
- further supply chain improvements leading to greater efficiencies, greater product availability and lower distribution cost base;
- further merchandise improvements in sourcing, design and innovation, bringing quality and value to our customers;

- growing the store portfolio and leveraging the benefits of the high street Superlite format, developing the next generation of the out-of-town stores and implementing new customer service standards.

Other risk activity involves the executive committee having overall responsibility for ensuring that a rolling programme of structured risk assessments of those areas having a significant effect on the future of the business is carried out. The programme 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. Elements of the programme are reviewed by the internal audit function during the year. 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 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 (a combination of internal resources and external resource provided by PricewaterhouseCoopers) supplements the risk-based approach set out above. The Company has also adopted procedures to ensure auditor independence, the details of which are set out in the section below detailing the work of the audit committee.

Non-audit fees incurred during the year amount to £772,000 (2003 – £172,000) as shown in note 2 to the financial statements. This exceptional increase in non-audit fees for the year relates principally to two transactions: a prior year taxation claim and the sale during the year of a subsidiary containing surplus tax losses. In each case it was concluded that to ensure the successful outcome, and resulting substantial cash inflows, of the claim or transaction, Deloitte & Touche LLP's specialist assistance and knowledge of the Company's tax affairs was required. In the circumstances the board consider that the fees paid are appropriate.

The board believes that the system of internal control described can provide only 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 Hampel Code and The FRC 2003 Code set out the principles of good governance and these are briefly commented on below:

## The board and directors

The board of Mothercare plc operates on a unitary basis, meets regularly and maintains overall control of the group's affairs through a schedule of matters reserved for its decision. These include setting the group strategy, the approval of the annual budget and financial statements, major acquisitions and disposals, authority limits for capital and other expenditure and material treasury matters. Details of the terms of reference of the board's committees are also set out in the corporate governance section of the Company's website at [www.mothercare.com/investorinfo](http://www.mothercare.com/investorinfo).

# Corporate governance

continued

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 on page 25 of the directors' remuneration report. This incentive scheme was designed to ensure that in the total remuneration of the chairman, an element was deferred and payable in shares so as to ally fully the chairman's and shareholders' interests. To enable this to be effective, a contract of employment was required. Given that Ian Peacock fulfils all remaining requirements of independence under code provision A.3.1, he is considered by the board to be independent. The chairman's other commitments are set out in the biographical details on page 15 and there have been no significant changes during the year relating to these commitments.

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 that it has established with written terms of reference. The roles of the remuneration, audit and nomination committees are set out below. The remuneration, audit and nomination committees are comprised of the three non-executive directors with Ian Peacock acting as chairman of the nomination committee. A record of the meetings held during the year, of the board, its committees and the attendance by individual directors is set out below.

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 during the year by Angela Heylin, establishes the remuneration policy generally, and specific arrangements for the executive directors. Full disclosure of the Company's remuneration policy and details of the remuneration of each director is set out in the directors' remuneration report on pages 22 to 27. 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*, was chaired by Brian Hardy (until 18 July 2003) and subsequently by Bernard Cragg, the senior non-executive director. A review of the work of the audit committee is set out in the relevant section below.

*The nomination committee*, chaired during the year by Ian Peacock comprises all the non-executive directors. The committee makes proposals on the size, structure, composition and appointments to the board. It carries out the selection process and agrees the terms of appointment of non-executive directors. It also reviews succession planning on an annual basis.

Karren Brady was appointed as a non-executive director during the year. An external search consultancy was used to identify candidates and Karren Brady was selected from the candidates put forward. The board consider that Karren Brady, Angela Heylin and Ian Peacock should be reappointed to the board as they continue to give effective counsel and commitment to the Company.

The company secretary acts as secretary to the board and its committees.

*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 statements at the AGM and post Christmas. During such meetings the board is able to put forward its objectives for the business and discuss performance against those objectives and develop an understanding of the views of major shareholders. 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](http://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. Eighty letters were received and responses sent last year.

The non-executive directors are aware of the dates of meetings with major shareholders and are given the opportunity to attend. The outcome of meetings with major shareholders are reported by the chief executive at board meetings on a periodic basis.

## The audit committee

The remit of the audit committee is to review the scope and issues arising from the audit and matters relating to financial control. It also assists the board in its review of corporate governance and in the presentation of the Company's financial results through its review of the interim and full year accounts before approval by the board, focusing in particular on compliance with accounting principles, changes in accounting practice and major areas of judgement.

The audit committee comprises the three non-executive directors and is chaired by Bernard Cragg. Bernard Cragg is a chartered accountant with considerable technical financial knowledge and, in common with the remainder of the committee, wide and varied commercial experience.

The committee met five times during the year. No specific remuneration of the non-executive directors is ascribed to membership of the audit committee other than a supplement of £5,000 paid to Bernard Cragg in respect of his chairmanship of the committee.

**The main activities of the audit committee in the 52 weeks ended 27 March 2004**

The audit committee's review of the financial statements is structured to ensure, so far as is reasonably practicable, that the financial statements as published present a true and fair view of the Company's affairs and the results for the year.

In preparing the accounts, the continued appropriateness and consistent application of the accounting policies adopted by the Company are reviewed in both the interim and final accounts for the year. The committee also reviews the reasonableness of the judgements and estimates that have been used by management in the preparation of those accounts and the application of the relevant accounting standards.

Following the completion of the audit of the accounts, the committee reviews with the auditors the report of their findings and the contents of any management letter. An assessment of the effectiveness of the audit process will be carried out.

Whilst the board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness, the audit committee addresses internal financial control on behalf of the board at least twice annually through reviewing the output of the internal audit function and risk management activities.

The audit committee reviews annually the independence of the external audit firm and the individuals carrying out the audit by receiving assurances from, and assessing, the audit firm against best practice principles. The committee seeks to balance the benefits of continuity of audit personnel and the need to assure independence through change of audit personnel by agreeing with the audit firm staff rotation policies. In addition, a policy

in respect of non-audit work by the audit firm has also been implemented, the general principle 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 audit committee has approved a work plan for the internal audit function and received during the year reports upon investigations carried out. The committee meets with the internal audit team leaders without management present at least once each year.

**Director attendance statistics for the 52 weeks ended 27 March 2004**

Director	Board	Committee		
		Audit	Nomination	Remuneration
Maximum number of meetings	9	5	1	5
Ian Peacock	9	5	1	5
Karren Brady*	6	2	1	2
Bernard Cragg	8	5	1	5
Steven Glew	9	5	1	2
Ben Gordon	9	5	1	3
Angela Heylin	9	4	1	5

\*Appointed 30 July 2003.

Notes:

Ian Peacock, Ben Gordon and Steven Glew attend meetings of the audit and remuneration committees upon the invitation of the respective chairman.

In addition to the board meetings referred to above there are two ad hoc board committee meetings to approve the full year and interim report and accounts. These meetings are constituted by the board from such members as are available at that time having considered the views of the entire board beforehand.

# Directors' remuneration report

The directors present their remuneration report for the 52 weeks ended 27 March 2004. The report has been prepared in accordance with The Directors' Remuneration Report Regulations 2002 (the Regulations). The report also meets the requirements of the Listing Rules of the UK Listing Authority and Schedule B to the Combined Code relating to directors' remuneration. An ordinary resolution proposing to approve its adoption at the Annual General Meeting is set out at item 3 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, long term incentive plan and share matching scheme conditional awards, equity incentive awards, emoluments and compensation payments as set out in Table 1 and pension arrangements set out in Table 2 have therefore been audited.

## The remuneration committee

### Composition of the remuneration committee

The remuneration committee comprised the independent non-executive directors with Angela Heylin as chairman and Bernard Cragg serving throughout the year. Brian Hardy served until 18 July 2003 and Karren Brady from 30 July 2003. Ian Peacock was a member of the committee until 1 November 2003 following which he has attended meetings at the invitation of the committee.

The committee, which makes recommendations to the board on executive directors' service arrangements, met five times during the year. The terms of reference of the remuneration committee are set out on the Mothercare website at [www.mothercare.com/investorinfo](http://www.mothercare.com/investorinfo).

### Advisors to the remuneration committee

The organisations listed below have provided material assistance to the remuneration committee.

New Bridge Street Consultants LLP have been appointed by the remuneration committee and provided remuneration advisory services solely to the committee. The services of Hyman Associates and DLA LLP are used by the Company. Both organisations were also consulted by the remuneration committee during the year. The committee also consulted the chief executive, human resources director and company secretary as appropriate.

Person or organisation	Services provided
New Bridge Street Consultants LLP	Pensions and executive remuneration and incentive scheme design
Hyman Associates	Remuneration structure
DLA LLP	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 Revised Combined Code provisions for directors' and senior management remuneration and with best practice in applying performance related remuneration.

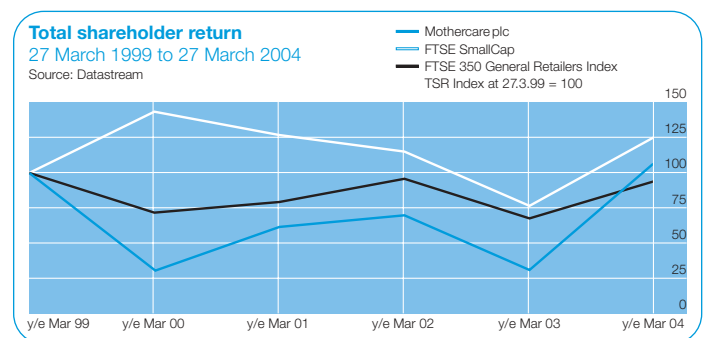
The remuneration policy is to apply an appropriate balance between the fixed salary and performance related elements of remuneration. The latter element is achieved through a short-term, annual, cash bonus scheme targeted at the achievement of Company profit and personal performance objectives. Longer-term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

The committee normally reviews the executive directors' remuneration annually, against a policy that positions base salaries around the median of the market as measured against the Company's comparator peer group similar in sector size and complexity. Variable elements of the package, designed to attract and motivate outstanding performance and delivery, 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.

Participants in the recently introduced long-term incentive plan and share matching schemes, which are less volatile in nature than the executive share option scheme and encourage executives to retain shares in the Company, have not received further awards under the executive share option schemes during the year.

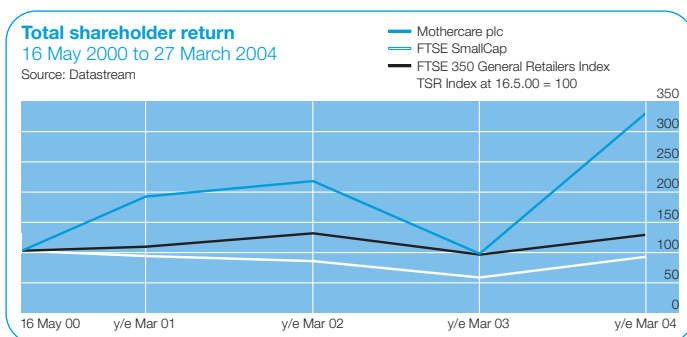
## Performance graph

The performance graphs below set out the comparison of the Company's total shareholder return (TSR) against the return achieved by the FTSE SmallCap and the FTSE General Retailers Indices. The indices were chosen on the basis that they closely matched the Company's peer group. Two graphs are shown, the first for the five financial years to 27 March 2004 and the second for the period from 16 May 2000 being the date when the Company's activities significantly changed following the sale of Bhs plc.



The above graph looks at the value, at 27 March 2004, of £100 invested in Mothercare plc on 27 March 1999 compared with the value of £100 invested in FTSE 350 General Retailers and FTSE SmallCap over the same period. The other points plotted are the values at the intermediate financial year ends.





The above graph looks at the value, at 27 March 2004, of £100 invested in Mothercare plc on 16 May 2000 (the date of sale of Bhs plc, after which the Company's activities significantly changed) compared with the value of £100 invested in FTSE 350 General Retailers and FTSE SmallCap over the same period. The other points plotted are the values at the intermediate financial year ends.

### 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, participation in the long-term incentive plan and share matching scheme and executive share option scheme. With the exception of the Save As You Earn share option scheme, which 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. In addition, expenses incurred on Company business are reimbursed when claimed.

### 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). Given the exceptional results this year under Ben Gordon's leadership, the remuneration committee have awarded him a bonus of 108 per cent. Executive directors are expected to invest any bonus in excess of 50 per cent of salary under the share matching scheme up to a maximum of 50 per cent of salary.

### Profit share scheme

In addition to the annual bonus scheme referred to above, the Company operates a profit share scheme. Under this scheme, all Company employees (other than participants in the annual bonus scheme) are eligible to participate.

### The Long Term Incentive Plan (LTIP) and Share Matching Scheme (SMS)

The LTIP and SMS were approved at the 2003 AGM and the first conditional awards were made in July 2003.

### The Long Term Incentive Plan

Under this scheme, conditional awards may be made to executives each year of up to 100 per cent of basic salary. Exceptionally in 2003, Ben Gordon received a conditional award of a further 100 per cent of salary in order to reflect his pivotal role in the leadership of the management team in the turnaround and recovery of the business.

The extent to which awards will vest will depend partly upon the Company's total shareholder return performance relative to all general retailers in the Mid 250 and SmallCap indices, and partly upon the achievement of EPS targets set out in the table below. The total shareholder return targets are averaged over six-month periods in order to minimise the impact of short-term price fluctuations. The targets are measured over a three-year period, with the first performance period commencing on 1 April 2003. If the performance criteria are not met over the three year period the award lapses. The performance targets for the awards made in 2003 are set out below. The committee considers that these are more challenging than those typically applied. TSR was chosen as it aligns the interests of directors with shareholders by requiring superior total shareholder return performance compared to the Company's competitors. However, to ensure that there is substantial improvement in the underlying performance of the Company it was decided that the award should be partly based on EPS.

### LTIP performance targets 2003 awards

Total shareholder return ranking percentage	% of award vesting
Top 20%	50%
Median	10%
Median to top 20%	10% to 50% (pro rata, on a straight-line basis)
Below median	Nil

Pre-tax EPS in 2005/06	% of award vesting
40p	50%
20p	10%
20p to 40p	10% to 50% (pro rata, on a straight-line basis)
Below 20p	Nil

Note: No part of the awards subject to EPS will vest unless the Company's TSR performance has been above median relative to general retailers.

### Share Matching Scheme

Under this scheme, executives who invest in the Company's shares and retain those shares for at least three years may receive matching shares if long-term performance targets are achieved.

Executives may invest up to 100 per cent of pre-tax basic salary under this scheme in any year, ie up to 50 per cent of pre-tax salary via a payment under the annual bonus scheme and up to 50 per cent of pre-tax salary via a payment under the long-term incentive plan. In addition, in 2003 only, executives were able to pledge shares they owned, irrespective of the size of the annual bonus, up to the overall limit of 50 per cent of salary.

As a minimum, senior executives are expected to invest under the scheme any annual bonus they receive in excess of 50 per cent of basic salary. Executives' investments will be matched on a 1:1 basis after three years, provided executives retain the shares they purchased for three years and performance targets (set out below) are achieved over a three-year period. If the performance criteria are not met over the three-year period the award lapses. The matching ratio will be calculated by reference to the pre-tax value of the purchased shares in the case of sums derived from the annual bonus or the long-term incentive plan, or the actual value of the shares pledged in 2003.

# Directors' remuneration report

continued

The performance targets for matching awards granted in 2003 are as follows:

Total shareholder return over three years ranking percentage (relative to general retailers in Mid 250 and SmallCap)	Ratio of free shares to purchased shares
Top 20%	5:10
Median	1:10
Median to top 20%	1:10 to 5:10 (pro rata, on a straight-line basis)
Below median	Nil

Pre-tax EPS in 2005/06	Ratio of free shares to purchased shares
40p	5:10
20p	1:10
20p to 40p	1:10 to 5:10 (pro rata, on a straight-line basis)
Below 20p	Nil

Note: No part of the Matching Awards subject to EPS targets will vest unless the Company's TSR performance has been above median relative to general retailers.

TSR was chosen as it aligns the interests of directors with shareholders by requiring superior total shareholder return performance compared to the Company's competitors. However, to ensure that there is substantial improvement in the underlying performance of the Company it was decided that the award should be partly based on EPS.

The conditional awards made to executive directors under the LTIP during the year are as follows:

Director	29 March 2003	Awards made during the year	27 March 2004	Initial share price (p)	Performance period
Ben Gordon	–	402,477	402,477	161.5	1 April 2003 – 31 March 2006
Steven Glew	–	105,264	105,264	161.5	1 April 2003 – 31 March 2006

Details of the directors' shares pledged under the SMS are as follows:

Director	Pledged shares held beneficially as at 29 March 2003	Pledged shares held beneficially as at 27 March 2004	Pledge period
Ben Gordon	–	100,619	1 April 2003 – 31 March 2006
Steven Glew	–	60,000	1 April 2003 – 31 March 2006

Details of the directors' shares matched under the SMS are as follows:

Director	Matched shares held beneficially as at 29 March 2003	Matched shares awarded during the year	Matched shares held beneficially as at 27 March 2004	Matching period
Ben Gordon	–	100,619	100,619	1 April 2003 – 31 March 2006
Steven Glew	–	60,000	60,000	1 April 2003 – 31 March 2006

## Executive Share Option Scheme

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

### The Mothercare plc 2000 Share Option Plan

Options under the Mothercare 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 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 grants were made under the scheme during the year under review. Following the adoption of the LTIP and SMS no further options will be granted to senior executives under the Share Option Scheme unless there are exceptional circumstances.

## The Mothercare 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	29 March 2003	Granted/(lapsed) during year	Grant/(lapse) date	Exercise price (pence)	First exercise date	Last exercise date	27 March 2004
Ben Gordon	312,500	–	9 December 2002	104.00	9 December 2005	9 December 2012	312,500
	–	5,951 <sup>1</sup>	1 December 2003	155.00	1 December 2006	1 December 2009	5,951
<b>Total</b>	<b>312,500</b>	<b>5,951</b>					<b>318,451</b>
Steven Glew	402,011	–	26 March 2003	99.50	26 March 2006	26 March 2013	402,011
	–	5,951 <sup>1</sup>	1 December 2003	155.00	1 December 2006	1 December 2009	5,951
<b>Total</b>	<b>402,011</b>	<b>5,951</b>					<b>407,962</b>

#### Notes

- Options granted under the three-year SAYE option scheme.
- The options set out above are granted without payment from a participant.
- Share price details are shown on page 48.
- Performance conditions are set out in the narrative above. The award to Steven Glew dated 26 March 2003 included 201,000 options with performance criteria of EPS growth of RPI plus 20 per cent.
- No variations have been made to the terms and conditions of existing options in the current or previous years.
- No options were exercised in the year.

### Equity incentive awards

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

The award to Ian Peacock 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 vests 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). The first tranche vested and was transferred on 27 November 2003. No payment is required from Ian Peacock in respect of the award. The awards 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 criterion, that element of the award will be released to Ben Gordon in tranches, on the second, third, fourth and fifth anniversaries of 2 December (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. Ben Gordon will also be able

to retain that proportion of the award that has vested, in the event that the Company terminate 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.

### Shareholding guidelines

Executive directors are expected to build up a shareholding equal to their basic salaries by retaining in shares at least half of the post-tax gains made either under the LTIP or the SMS.

### 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, dated 28 February 2003 may be terminated on 12 months' written notice by the Company.

Ian Peacock is entitled to three months' notice of termination of his employment contract dated 31 October 2002 by the Company. Angela Heylin, Karen Brady and Bernard Cragg have service arrangements with the Company that may be terminated upon

# Directors' remuneration report

continued

one month's notice. Their service arrangements were entered into on 5 August 2003, 29 July 2003 and 31 March 2003 respectively.

## External appointments and other commitments of the directors

The other business commitments of the directors are set out within their biographical details on page 15. 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 seven 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 individual Funded Unapproved Retirement Benefit Schemes. 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 detail of the changes made generally to pension provision within the Company during the year, see the directors' report on page 16.

The further detail on the cost of pensions to the Company, including the statements required by FRS 17, see pages 43 to 45.

## Emoluments and compensation payments

The emoluments (including pension contributions) in the 52 weeks ended 27 March 2004 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. Fees are reviewed periodically and set at levels to reflect the time, commitment and responsibilities of the individual non-executive director.

## 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.

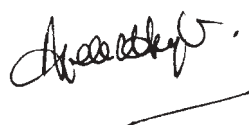
	Interest held at 29 March 2003 (number)	Interest held at 27 March 2004 (number)
Ian Peacock	30,000	<b>74,564</b>
Ben Gordon	60,571	<b>101,998</b>
Steven Glew	20,000	<b>60,000</b>
Karren Brady	–	<b>2,500</b>
Angela Heylin	4,451	<b>9,451</b>
Bernard Cragg	–	<b>20,000</b>

Ian Peacock and Angela Heylin are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 13,151 (2003 – 13,151) Mothercare shares in trust on 27 March 2004. A separate trust, The Mothercare Employee Trust, held 3,545,800 shares on 27 March 2004 (2003 – 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 27 March 2004 and 20 May 2004.

Approved by the board on 20 May 2004 and signed on its behalf by:



**Angela Heylin** OBE  
Chairman, remuneration committee.

### Table 1: Directors' emoluments

Total emoluments (including pension contributions) in the 52 weeks ended 27 March 2004 were £1,439,000 (2003 – £1,856,000).

	Salary/fees £000		Retention/ sign-on bonus £000		Performance bonus £000		Compensation for loss of office £000		Benefits <sup>1</sup> £000		Total remuneration (excl. pensions) £000		Pension contributions £000	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
<b>Executive directors</b>														
Ben Gordon	325	106	–	100	350	85	–	–	13	4	688	295	61	18
Steven Glew	200	15	–	–	150	–	–	–	11	1	361	16	38	2
Mark McMenemy	–	245	–	–	–	–	–	339	–	13	–	597	–	63
Chris Martin	–	95	–	–	–	–	–	488	–	4	–	587	–	17
<b>Non-executive directors</b>														
Ian Peacock	100	48	–	–	–	–	–	–	99	–	199	48	–	–
Karren Brady	22	–	–	–	–	–	–	–	–	–	22	–	–	–
Bernard Cragg	32	–	–	–	–	–	–	–	–	–	32	–	–	–
Angela Heylin	31	29	–	–	–	–	–	–	–	–	31	29	–	–
Brian Hardy	7	29	–	–	–	–	–	–	–	–	7	29	–	–
Alan Smith	–	92	–	–	–	–	–	58	–	5	–	155	–	–

<sup>1</sup> Benefits typically comprise, company car, medical, dental insurance and other similar benefits. Ian Peacock's benefits comprise the first tranche of the equity incentive award described on page 25.

### 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:

	Accrued benefits in Mothercare Executive Pension Scheme					Defined benefits for final salary scheme				Money purchase
						Transfer value <sup>1</sup> as at				Company contributions
	At 29 March 2003 £000	Change during year £000	At 27 March 2004 £000	Change during year net of inflation £000	Transfer value of change during year net of inflation £000	29 March 2003 £000	Change during year £000	Director's contributions £000	27 March 2004 £000	
Ben Gordon	1	3	4	3	3	7	22	7	36	57
Steven Glew	–	4	4	4	4	–	26	7	33	34

<sup>1</sup> Calculated in a manner consistent with applicable professional actuarial guidelines of accrued benefit.

The transfer values represent a liability to the Company and not a sum paid or due to be paid to the individual.

## 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 29.

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; state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 27 March 2004 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 27 March 2004 and of the profit 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 LLP*

## Deloitte & Touche LLP

Chartered Accountants and Registered Auditors  
London  
20 May 2004

# Group profit and loss account

For the 52 weeks ended 27 March 2004

	Note	52 weeks ended 27 March 2004			52 weeks ended 29 March 2003		
		Before exceptional items £ million	Exceptional items (note 3) £ million	Total £ million	Before exceptional items £ million	Exceptional items (note 3) £ million	Total £ million
<b>Turnover</b>	2	<b>446.9</b>	<b>–</b>	<b>446.9</b>	431.7	–	431.7
Cost of sales		<b>(400.7)</b>	<b>0.8</b>	<b>(399.9)</b>	(425.9)	(0.9)	(426.8)
Gross profit		<b>46.2</b>	<b>0.8</b>	<b>47.0</b>	5.8	(0.9)	4.9
Administrative expenses		<b>(30.4)</b>	<b>–</b>	<b>(30.4)</b>	(25.5)	(1.9)	(27.4)
<b>Profit/(loss) from retail operations</b>	2	<b>15.8</b>	<b>0.8</b>	<b>16.6</b>	(19.7)	(2.8)	(22.5)
Exceptional items:	3						
Profit/(loss) on disposal of stores		–	<b>4.6</b>	<b>4.6</b>	–	(2.4)	(2.4)
Profit on sale of subsidiary undertaking		–	<b>2.0</b>	<b>2.0</b>	–	–	–
Interest (net)	4	<b>0.7</b>	<b>–</b>	<b>0.7</b>	0.1	–	0.1
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>16.5</b>	<b>7.4</b>	<b>23.9</b>	(19.6)	(5.2)	(24.8)
Taxation	5	<b>–</b>	<b>7.3</b>	<b>7.3</b>	–	10.0	10.0
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>16.5</b>	<b>14.7</b>	<b>31.2</b>	(19.6)	4.8	(14.8)
Dividends proposed	6			<b>(2.7)</b>			–
<b>Retained profit/(loss) for the financial year transferred to reserves</b>				<b>28.5</b>			(14.8)
Earnings/(loss) per share	7			<b>46.5p</b>			(22.0p)
Earnings/(loss) per share diluted	7			<b>45.7p</b>			(22.0p)

All results relate to continuing operations.

# Group statement of total recognised gains and losses

For the 52 weeks ended 27 March 2004

	2004 £ million	2003 restated* £ million
<b>Profit/(loss) on ordinary activities for the financial year being total recognised gains and losses relating to the year</b>	<b>31.2</b>	(14.8)

\*Comparative figures have been restated. The loss on ordinary activities for the 52 weeks ended 29 March 2003, being total recognised gains and losses relating to that year as previously stated, is the same as the restated loss. Details are provided in notes 9 and 16.

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

The accounting policies on pages 33 and 34 and the notes on pages 35 to 46 form an integral part of these statements.



# Group and company balance sheets

As at 27 March 2004

	Note	Group		Company	
		2004 £ million	2003 restated* £ million	2004 £ million	2003 £ million
<b>Fixed assets</b>					
Tangible assets	8	81.3	85.6	–	–
Investments in subsidiary undertakings	9	–	–	113.2	113.2
		<b>81.3</b>	85.6	<b>113.2</b>	113.2
<b>Current assets</b>					
Stocks	10	45.0	48.0	–	–
Debtors	11	34.0	25.6	7.1	7.7
Cash at bank and in hand and time deposits		40.3	7.7	49.9	47.9
		<b>119.3</b>	81.3	<b>57.0</b>	55.6
<b>Creditors</b> – amounts falling due within one year	12	<b>(60.1)</b>	(54.3)	<b>(89.6)</b>	(86.4)
<b>Net current assets/(liabilities)</b>		<b>59.2</b>	27.0	<b>(32.6)</b>	(30.8)
<b>Total assets less current liabilities</b>		<b>140.5</b>	112.6	<b>80.6</b>	82.4
<b>Creditors</b> – amounts falling due after one year	12	<b>(1.2)</b>	(2.2)	–	–
<b>Provisions for liabilities and charges</b>	14	<b>(3.6)</b>	(4.7)	–	–
<b>Net assets</b>		<b>135.7</b>	105.7	<b>80.6</b>	82.4
<b>Capital and reserves attributable to equity interests</b>					
Called up share capital	15	35.5	35.3	35.5	35.3
Share premium account	16	0.6	–	0.6	–
ESOP reserve	16	(4.2)	(4.9)	–	–
Profit and loss account	16	103.8	75.3	44.5	47.1
		<b>135.7</b>	105.7	<b>80.6</b>	82.4

\*Comparative figures have been restated. Details are provided in notes 9 and 16.

Approved by the board on 20 May 2004 and signed on its behalf by:

Ben Gordon  
Steven Glew

## Reconciliation of movement in shareholders' funds

For the 52 weeks ended 27 March 2004

	2004 £ million	2003 restated* £ million
Profit/(loss) for the financial year	31.2	(14.8)
Dividends	(2.7)	–
New share capital subscribed	0.8	–
Acquisition of own shares	(0.2)	–
Cost of employee share schemes charged to profit and loss account	0.9	0.1
<b>Net increase/(decrease) in shareholders' funds</b>	<b>30.0</b>	(14.7)
Shareholders' funds at beginning of the year as previously stated	110.6	125.4
Prior year adjustment	(4.9)	(5.0)
Shareholders' funds at beginning of the year as restated	105.7	120.4
<b>Shareholders' funds at end of the year</b>	<b>135.7</b>	105.7

\*Comparative figures have been restated. Details are provided in notes 9 and 16.

The accounting policies on pages 33 and 34 and the notes on pages 35 to 46 form an integral part of these statements.

# Group cash flow statement

For the 52 weeks ended 27 March 2004

Note	2004		2003	
	£ million	£ million	£ million	£ million
<b>Reconciliation of net cash inflow from operating activities</b>				
Profit/(loss) from retail operations before exceptional items	15.8		(19.7)	
Depreciation	13.0		14.3	
Reversal of past impairment losses	(1.1)		–	
Loss on disposal of tangible fixed assets	0.9		–	
Cost of employee share schemes	0.9		–	
Decrease in stocks	3.0		3.8	
Decrease in debtors	0.1		4.7	
Increase in creditors	4.9		9.0	
Net cash outflow in respect of exceptional items	(0.4)		(3.8)	
<b>Net cash inflow from operating activities</b>		<b>37.1</b>		8.3
<b>Net cash inflow from operating activities</b>				
		<b>37.1</b>		8.3
<b>Returns on investments and servicing of finance</b>				
Interest received	0.9		0.5	
Interest paid	(0.2)		(0.4)	
		<b>0.7</b>		0.1
<b>Capital expenditure</b>				
Purchase of tangible fixed assets	(8.5)		(13.4)	
Sale of tangible fixed assets	1.4		1.4	
		<b>(7.1)</b>		(12.0)
<b>Trading cash inflow/(outflow)</b>		<b>30.7</b>		(3.6)
<b>Acquisitions and disposals</b>				
Sale of subsidiary undertaking		1.3		–
Equity dividends paid		–		(1.0)
Management of liquid resources	a	(30.0)		6.1
<b>Financing</b>				
Issue of ordinary share capital	0.8		–	
Acquisition of own shares	(0.2)		–	
		<b>0.6</b>		–
<b>Increase in cash in the year</b>		<b>2.6</b>		1.5
<b>Reconciliation of net cash flow to movement in net funds</b>				
Increase in cash in the year		2.6		1.5
Cash flow from management of liquid resources	a	30.0		(6.1)
<b>Movement in net funds in the year</b>		<b>32.6</b>		(4.6)
Net cash at the beginning of the year		7.7		12.3
<b>Net cash at the end of the year</b>		<b>40.3</b>		7.7

## Notes to the group cash flow statement

For the 52 weeks ended 27 March 2004

### a Analysis of net cash

	2002 £ million	Cash flow £ million	2003 £ million	Cash flow £ million	2004 £ million
Cash	6.2	1.5	7.7	2.6	10.3
Overdrafts	–	–	–	–	–
<b>Net cash</b>	6.2	1.5	7.7	2.6	10.3
<b>Cash flow from management of liquid resources</b>					
Time deposits*	6.1	(6.1)	–	30.0	30.0
<b>Net cash</b>	12.3	(4.6)	7.7	32.6	40.3

\*Cash on the balance sheet represents the total cash of £10.3 million (2003 – £7.7 million) and time deposits of £30.0 million (2003 – £nil).

# Accounting policies

The principal accounting policies are summarised below.

## 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 27 March 2004.

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.

## 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.

## ESOP reserve

The ESOP reserve deducted in arriving at shareholders' funds represents the cost of the Company's own shares acquired by ESOP trusts in connection with the group's employee share schemes.

The accounting policy for own shares held in an ESOP trust has been amended to comply with UITF 38 'Accounting for ESOP trusts'.

## 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.

# Accounting policies

continued

## Turnover

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

Application Note G 'Revenue recognition' to FRS 5 'Reporting the substance of transactions' has been adopted during the year. The adoption had no material impact on the group's results for the 52 weeks ended 27 March 2004 or the preceding financial year.

## Employee share schemes

No cost is recognised in the profit and loss account in respect of awards made under SAYE option schemes.

The cost of awards made under the group's share based compensation schemes is based on the intrinsic value of the awards and is charged to the profit and loss account over the related period of employment.

## 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

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.

Benefits received and receivable as incentives to enter into property leases are spread evenly over the lease term or, if shorter than the full lease term, over the period to the first rent review date on which the rent is expected to be adjusted to the prevailing market rate.

# Notes to the accounts

## 1 Basis of presentation

The Company's accounting period covers the 52 weeks ended 27 March 2004. The comparative period covered the 52 weeks ended 29 March 2003.

## 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:

	2004 £ million	2003 £ million
UK including Channel Islands	<b>399.1</b>	385.5
Rest of Europe	<b>22.6</b>	21.6
Rest of World	<b>25.2</b>	24.6
	<b>446.9</b>	431.7

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

	2004 £ million	2003 £ million
Depreciation of tangible assets	<b>13.0</b>	14.3
Reversal of past impairment losses	<b>(1.1)</b>	–
Net rent of properties	<b>46.0</b>	45.7
Hire of plant and equipment	<b>1.8</b>	0.9
Auditors' remuneration:		
Audit services	<b>0.2</b>	0.2
Further assurance services	<b>0.1</b>	0.1
Tax services	<b>0.7</b>	0.1
Staff costs:		
Wages and salaries (including bonuses)	<b>52.8</b>	47.1
Social security costs	<b>3.0</b>	2.3
Other pension costs	<b>3.0</b>	3.0

The policy for approval of non-audit fees, together with an explanation of the increase in the current year, is set out on page 19.

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:

	2004	2003
Number of employees	<b>5,005</b>	5,032
Full-time equivalents	<b>3,033</b>	3,109

Details of directors' emoluments, share options and beneficial interests are provided within the directors' remuneration report on pages 22 to 27.

## 3 Exceptional items

Profit from retail operations includes an exceptional credit of £0.8 million relating to VAT, principally arising from the successful outcome of an outstanding VAT claim.

Exceptional items credited to profit before taxation amount to £6.6 million and comprise the following three items.

A settlement has been reached for the early surrender of the lease of a vacant property. This resulted in a release in the period, as an exceptional credit to the profit and loss account, of £2.6 million of amounts accrued and provided for within the loss on sale of Bhs in prior years in respect of this onerous lease.

Unconditional agreements have been reached for the sale of the leases of four stores whose disposal was announced in the previous annual report. An exceptional credit of £2.5 million has been recognised in the profit and loss account relating to the lease premiums received and receivable. A further exceptional charge of £0.5 million has been recognised to provide for the loss on disposal of a further two stores which are also not expected to reach acceptable levels of profitability. Actions to close these stores commenced in March 2004.

The group has capital tax losses significantly in excess of likely future requirements. One of the group's subsidiary undertakings with capital tax losses attached has been sold to a third party for £2.0 million net of costs.

# Notes to the accounts

continued

## 3 Exceptional items continued

The tax effect of the above exceptional items is £nil (2003 – £nil).

An exceptional tax asset of £6.4 million has been recognised in the balance sheet in respect of carried forward tax losses following the group's return to profitability. In addition, a brought forward provision for corporation tax of £0.9 million has been released as an exceptional item since the provision is no longer required.

In the 52 weeks ended 29 March 2003, exceptional costs of £2.8 million were charged to loss from retail operations. These costs related to directors and head office staff redundancy costs of £1.9 million, store staff redundancies of £0.1 million and £0.8 million one-off costs incurred in renegotiating the group's warehouse and distribution contract during the year.

In the 52 weeks ended 29 March 2003, an exceptional charge of £3.1 million was recognised to provide for the loss on disposal of stores. This was offset by £0.7 million profit on stores disposed of during the year. The net exceptional cost of £2.4 million was charged to loss before taxation.

In the 52 weeks ended 29 March 2003, a corporation tax provision of £10.0 million made in a prior year was released 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 were resolved with the Inland Revenue last year.

## 4 Interest (net)

	2004 £ million	2003 £ million
Interest payable and similar charges:		
Bank loans and overdrafts (repayable within five years, not by instalments)	<b>(0.2)</b>	(0.4)
Interest receivable and similar income	<b>0.9</b>	0.5
	<b>0.7</b>	0.1

## 5 Taxation

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

	2004 £ million	2003 £ million
Current tax:		
UK corporation tax at 30% (2003 – 30%)	–	–
Exceptional release of prior year tax provision (note 3)	<b>(0.9)</b>	(10.0)
Deferred tax:		
Exceptional credit for deferred tax (note 3)	<b>(6.4)</b>	–
	<b>(7.3)</b>	(10.0)

## Factors affecting tax charge for the period

	2004 £ million	2003 £ million
Profit/(loss) on ordinary activities before tax	<b>23.9</b>	(24.8)
Profit/(loss) on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2003 – 30%)	<b>7.2</b>	(7.4)
Effects of:		
Expenses not deductible for tax purposes	<b>0.5</b>	1.3
Capital allowances in excess of depreciation	<b>0.3</b>	(0.9)
Utilisation of tax losses	<b>(8.0)</b>	–
Tax losses generated and carried forward to offset future profits	–	7.0
Exceptional release of prior year tax provision (note 3)	<b>(0.9)</b>	(10.0)
	<b>(0.9)</b>	(10.0)

## Factors that may affect future tax charges

The group had tax losses carried forward of approximately £36 million as at 27 March 2004 (2003 – £58 million).

## Deferred tax

A deferred tax asset in respect of tax losses has been recognised to the extent of any deferred tax liabilities. A further tax asset of £6.4 million (2003 – £nil) has been recognised as the directors are of the opinion that it is more likely than not that this will be recoverable. As at 29 March 2003, no further tax asset was recognised for the remaining tax losses of £50 million (after offsets against deferred tax liabilities) as the directors were of the opinion that there was sufficient uncertainty over their recoverability at that time.

Deferred tax therefore comprises:

	2004 £ million	2003 £ million
Accelerated capital allowances	(4.8)	(2.8)
Other timing differences	0.5	0.4
Tax losses	10.7	2.4
	<b>6.4</b>	–

The movement on deferred tax in the balance sheet can be analysed as follows:

	Deferred tax £ million
Balance at 30 March 2003	–
Exceptional recognition of deferred tax asset in respect of carried forward tax losses (note 3)	6.4
<b>Balance at 27 March 2004</b>	<b>6.4</b>

## 6 Dividends

	2004 £ million	2003 £ million
Interim paid of nil pence per ordinary share (2003 – nil pence)	–	–
Final proposed of 4.0 pence per ordinary share (2003 – nil pence)	2.7	–
	<b>2.7</b>	–

## 7 Earnings/(loss) per share

	2004	2003
Weighted average number of shares in issue	<b>67.3m</b>	67.2m
Dilution – option schemes	<b>1.1m</b>	–
<b>Diluted weighted average number of shares in issue</b>	<b>68.4m</b>	67.2m
Profit/(loss) after tax	<b>£31.2m</b>	(£14.8m)
Exceptional items (net of tax)	<b>(£14.7m)</b>	(£4.8m)
Profit/(loss) after tax before exceptional items	<b>£16.5m</b>	(£19.6m)
Basic earnings/(loss) per share	<b>46.5p</b>	(22.0p)
Earnings/(loss) per share before exceptional items	<b>24.4p</b>	(29.2p)
Diluted earnings/(loss) per share	<b>45.7p</b>	(22.0p)

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 was made to diluted EPS for out-of-the-money share options in 2003.

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 Mothercare Employee Trust and by Mothercare Secondary Trust are excluded from the calculation of the weighted average number of shares in issue.

# Notes to the accounts

continued

## 8 Tangible fixed assets

	Properties including fixed equipment		Fixtures, fittings, equipment £ million	Assets in course of construction £ million	Total £ million
	Freehold £ million	Leasehold £ million			
<b>Cost</b>					
Balance at beginning of year	17.9	104.2	141.6	2.2	265.9
Transfers	–	–	2.2	(2.2)	–
Additions	0.4	1.3	4.7	2.1	8.5
Disposals	–	(2.3)	(11.2)	–	(13.5)
<b>Balance at end of year</b>	<b>18.3</b>	<b>103.2</b>	<b>137.3</b>	<b>2.1</b>	<b>260.9</b>
<b>Accumulated depreciation</b>					
Balance at beginning of year	1.8	60.8	117.7	–	180.3
Charge for year	0.1	4.7	8.2	–	13.0
Reversal of past impairment losses	–	(1.1)	–	–	(1.1)
Disposals	–	(2.0)	(10.6)	–	(12.6)
<b>Balance at end of year</b>	<b>1.9</b>	<b>62.4</b>	<b>115.3</b>	<b>–</b>	<b>179.6</b>
<b>Net book value</b>					
Balance at beginning of year	16.1	43.4	23.9	2.2	85.6
<b>Balance at end of year</b>	<b>16.4</b>	<b>40.8</b>	<b>22.0</b>	<b>2.1</b>	<b>81.3</b>

As required by FRS 11 'Impairment of fixed assets and goodwill', the provision for the impairment of assets which was charged to the profit and loss account in the 53 weeks ended 1 April 2000 has been reviewed. As a result of improvements in the trading performance of the business which were not foreseen at the time of the original impairment, the estimated future cash flows of certain previously impaired stores have increased. The reversal of the past impairment losses of £1.1 million recognises the resulting increases in the estimated recoverable amounts of these stores' assets.

The net book value of leasehold properties includes £40.6 million (2003 – £43.3 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 have been restated for the adoption of UITF 38 'Accounting for ESOP trusts'. Further details are provided in note 16.

Investments in the group balance sheet as previously stated consisted of the group's interests in its own shares through an ESOP (Employee Share Ownership Plan).

	2004 £ million
Investments in own shares as at 29 March 2003 as previously stated	4.9
Prior year adjustment – UITF 38 (note 16)	(4.9)
Investments in own shares as at 29 March 2003 as restated	–
Investments in own shares as at 27 March 2004	–

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:

	2004 £ million	2003 £ million
Cost of investments (less amounts written off £153.0 million)	<b>43.3</b>	43.3
Loans to subsidiary undertakings	<b>69.9</b>	69.9
	<b>113.2</b>	113.2

## 10 Stocks

	Group		Company	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Finished goods and goods for resale	<b>45.0</b>	48.0	–	–

## 11 Debtors

	Group		Company	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
Trade debtors	<b>10.1</b>	11.9	–	–
Amounts due from subsidiary undertakings	–	–	<b>6.0</b>	7.7
Prepayments and accrued income	<b>11.9</b>	11.5	–	–
Other debtors	<b>5.6</b>	2.2	<b>1.1</b>	–
Deferred tax (note 5)	<b>6.4</b>	–	–	–
	<b>34.0</b>	25.6	<b>7.1</b>	7.7

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

	Group		Company	
	2004 £ million	2003 £ million	2004 £ million	2003 £ million
<b>Amounts falling due within one year</b>				
Trade creditors	<b>25.6</b>	27.8	–	–
Proposed dividend	<b>2.7</b>	–	<b>2.7</b>	–
Corporation tax	–	0.9	–	–
Amounts due to subsidiary undertakings	–	–	<b>86.0</b>	86.4
Payroll and other taxes, including social security	<b>1.2</b>	3.1	–	–
Accruals and deferred income	<b>28.8</b>	20.7	<b>0.9</b>	–
Landlords' contributions	<b>1.0</b>	1.3	–	–
Other creditors	<b>0.8</b>	0.5	–	–
	<b>60.1</b>	54.3	<b>89.6</b>	86.4
<b>Amounts falling due after one year</b>				
Landlords' contributions	<b>1.2</b>	2.2	–	–

## 13 Derivatives and other financial instruments

The disclosures in this note should be read in conjunction with the sections on treasury operations, funding and liquidity, and currency risk included in the financial review on page 14.

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.

# Notes to the accounts

continued

## 13 Derivatives and other financial instruments continued

### 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

During the 52 weeks ended 27 March 2004, cash balances increased primarily as a result of the group's return to profitability. Consequently, the short-term funding flexibility provided by the group's overdraft facilities has not been required since the beginning of the year. Excess cash has been placed on deposit where possible.

During the 52 weeks ended 29 March 2003, the cash balance decreased primarily as a result of the loss from retail operations. The short-term funding flexibility provided by the group's overdraft facilities was required to meet the peak requirements of the group before Christmas and also following Christmas due to the decline in cash balances, 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 £0.2 million includes charges for lending facilities made available to the group but not utilised during the year and consequently cannot be measured as a percentage of the average gross borrowings of £nil. The interest charge for the 52 weeks ended 29 March 2003, excluding interest receivable, of £0.4 million was 7.4 per cent when measured against average gross borrowings of £5.5 million excluding time deposits.

### Foreign currency risk

About 11 per cent of the sales of Mothercare's UK businesses in the 52 weeks ended 27 March 2004 were to franchisees overseas which are all billed in sterling. The group therefore has no currency exposure on these sales. Less than 6 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.

Forward foreign exchange contracts are entered into to provide hedging against transactional exposure and the amount outstanding at 27 March 2004 was £8.7 million (2003 – £7.1 million). The book value of these forward foreign exchange contracts was £nil (2003 – £nil) and their fair value was £8.5 million (2003 – £7.1 million).

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

The group had no outstanding borrowings at 27 March 2004 and 29 March 2003.

### Borrowing facilities

The group had £20.0 million committed borrowing facilities available to it at 27 March 2004 (2003 – £20.0 million). The facility expires on 12 May 2006.

### Currency analysis of net assets

The group's borrowings and net assets (excluding gross borrowings) by currency at 27 March 2004 (29 March 2003) were:

Currency	2004		2003	
	Net assets excluding gross borrowings by currency of operation £ million	Gross borrowings £ million	Net assets excluding gross borrowings by currency of operation £ million	Gross borrowings £ million
Sterling	134.4	–	108.8	–
US dollar	1.3	–	1.7	–
Euro	–	–	0.1	–
	135.7	–	110.6	–

### 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

	2004 £ million	Group 2003 £ million
Property provisions	2.6	4.7
Other provisions	1.0	–
	<b>3.6</b>	4.7

The movement on provisions can be analysed as follows:

	Property provisions £ million	Other provisions £ million	Total £ million
Balance at 30 March 2003	4.7	–	4.7
Transfer from accruals	–	0.5	0.5
Utilised in year	(1.2)	(0.3)	(1.5)
Released in year	(1.4)	–	(1.4)
Charged in year	0.5	0.8	1.3
<b>Balance at 27 March 2004</b>	<b>2.6</b>	<b>1.0</b>	<b>3.6</b>

Property provisions principally represent the costs of store disposals. Property provisions released during the year relate to the early surrender of the lease of a vacant property as disclosed in note 3. Property provisions charged during the year relate to the costs of store closures as disclosed in note 3.

Other provisions principally represent provisions for uninsured losses.

## 15 Called-up share capital

	Number of shares	£ million
<b>Authorised</b>		
Ordinary shares of 50p each:		
Balance at 30 March 2003 and 27 March 2004	95,767,413	47.9
<b>Allotted, called-up and fully paid</b>		
Ordinary shares of 50p each:		
Balance at 30 March 2003	70,684,962	35.3
Issued under the Mothercare 2000 Executive Share Option Plan	376,495	0.2
Issued under the Mothercare Sharesave Scheme	629	–
<b>Balance at 27 March 2004</b>	<b>71,062,086</b>	<b>35.5</b>

Further details of employee and executive share schemes are provided in note 19.

# Notes to the accounts

continued

## 16 Reserves

	Share premium account £ million	ESOP reserve £ million	Group Profit and loss account £ million
As at 29 March 2003 as previously stated	–	–	75.3
Prior year adjustment – UITF 38 (see below)	–	(4.9)	–
As at 29 March 2003 as restated	–	(4.9)	75.3
Net premium on shares issued	0.6	–	–
Purchase of own shares	–	(0.2)	–
Cost of employee share schemes	–	0.9	–
Retained profit for the financial year	–	–	28.5
<b>As at 27 March 2004</b>	<b>0.6</b>	<b>(4.2)</b>	<b>103.8</b>

UITF 38 'Accounting for ESOP trusts' has been adopted during the year. This states that the consideration paid for shares in Mothercare plc, held by an ESOP trust on behalf of the Company, should be accounted for as a reduction in shareholders' funds, the 'ESOP reserve', rather than as a fixed asset investment. Consideration paid for the purchase of own shares represents the cost of the shares purchased by the ESOP trust. UITF 38 requires any compensation expense related to share awards to be based on the intrinsic value of the awards. In the past the compensation expense has been based on the intrinsic value of the shares purchased, which has been equal to the intrinsic value. As a result of the adoption of UITF 38, net assets and shareholders' funds as at 29 March 2003 have decreased by £4.9 million. Comparative figures have been restated accordingly. The adoption had no impact on the group's results in previous accounting periods, but resulted in a £0.1 million decrease in operating profit in the current year.

The ESOP reserve represents the cost to the Mothercare Employee Trust of the Company's shares that it has acquired to meet the expected requirements of the share based payment schemes described in the directors' remuneration report on pages 22 to 27. The total shareholding is 3,558,951 (2003 – 3,536,585) with a market value at 27 March 2004 of £12,598,687.

	Share premium account £ million	Company Profit and loss account £ million
Balance at 30 March 2003	–	47.1
Net premium on shares issued	0.6	–
Retained loss for the financial year	–	(2.6)
<b>Balance at 27 March 2004</b>	<b>0.6</b>	<b>44.5</b>

The Company loss for the financial year was £2.6 million (2003 – profit of £1.7 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 (2003 – £30.1 million). This goodwill arose on acquisitions, net of amounts written back on subsequent disposals.

## 17 Commitments

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

	Buildings		Other	
	2004	2003	2004	2003
	£ million	£ million	£ million	£ million
Leases which expire:				
Within one year	1.6	0.4	0.3	0.3
Between two and five years	6.2	5.2	1.6	0.7
After five years	42.9	42.0	-	-
	<b>50.7</b>	47.6	<b>1.9</b>	1.0

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 2003. The next actuarial valuations will be carried out as at 31 March 2006.

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

Rate of return on investments	6.5–7.0 per cent
Rate of increase in salaries	5.0–6.0 per cent
Rate of increase in pensions	3.0 per cent

The total pension cost to the group is £2.7 million (2003 – £3.0 million). Total contributions made to the pension schemes in the year were £2.7 million and the contribution rate for 2004/05 will be 8.9 per cent of pensionable earnings.

Effective 28 March 2004, the final salary scheme was closed to new entrants and a 'career average' scheme was introduced to replace it. Existing members were asked to either increase their contributions from an average of 4.8 per cent to an average of 6.8 per cent or accrue future benefits on a 'career average' basis.

In the 52 weeks ended 29 March 2003, actuarial advice indicated that the pension surplus on a SSAP 24 basis may have been eliminated. In accordance with SSAP 24, this advice was taken into account when determining the appropriate pension charge for the year. A brought forward pension prepayment of £1.5 million was therefore written off as a result of the actuarial view. In addition, contributions made during the year of £1.5 million were expensed.

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.

# Notes to the accounts

continued

## 18 Pension arrangements continued

### 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 third 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 27 March 2004 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:

	2004	2003	2002
Rate of increase in salaries	<b>4.7 per cent</b>	4.4–5.4 per cent	4.8–5.8 per cent
Rate of increase in pensions in payment	<b>2.7 per cent</b>	2.4 per cent	2.8 per cent
Discount rate	<b>5.5 per cent</b>	5.4 per cent	6.1 per cent
Inflation assumption	<b>2.7 per cent</b>	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:

	2004 per cent	2004 £ million	2003 per cent	2003 £ million	2002 per cent	2002 £ million
Equities	<b>8.5</b>	<b>88.2</b>	9.0	67.7	8.0	98.8
Bonds	<b>5.5</b>	<b>7.0</b>	5.4	8.7	6.1	8.1
Property	<b>7.5</b>	<b>23.1</b>	7.5	20.4	7.5	16.6
Total fair value of assets		<b>118.3</b>		96.8		123.5
Present value of scheme liabilities		<b>(142.4)</b>		(128.5)		(110.0)
(Deficit)/surplus in the schemes		<b>(24.1)</b>		(31.7)		13.5
Related deferred tax asset/(liability)		<b>7.2</b>		9.5		(4.1)
<b>Net pension (liability)/asset</b>		<b>(16.9)</b>		(22.2)		9.4

Movement in the deficit in the schemes during the year:

	£ million
Deficit at 30 March 2003	<b>(31.7)</b>
Operating costs	<b>(4.9)</b>
Contributions	<b>2.7</b>
Other finance income	<b>1.1</b>
Actuarial gain	<b>8.7</b>
<b>Deficit at 27 March 2004</b>	<b>(24.1)</b>

The contribution rate for the 52 weeks ended 27 March 2004 was 11.6 per cent of pensionable earnings and the agreed contribution rate for the next two years is 8.9 per cent of pensionable earnings.

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

	2004 £ million	2003 £ million
Current service cost	<b>4.9</b>	4.1

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

	2004 £ million	2003 £ million
Expected return on pension scheme assets	<b>8.1</b>	9.6
Interest on pension scheme liabilities	<b>(7.0)</b>	(6.7)
	<b>1.1</b>	2.9

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

	2004 £ million	2003 £ million
Actual return less expected return on pension scheme assets	<b>12.8</b>	(36.4)
Experience gains and losses arising on the scheme liabilities	<b>0.2</b>	–
Changes in assumptions underlying the present value of the scheme liabilities	<b>(4.3)</b>	(9.0)
	<b>8.7</b>	(45.4)

History of experience gains and losses:

	2004	2003
Difference between the expected and actual return on scheme assets	<b>£12.8m</b>	(£36.4m)
As a percentage of scheme assets	<b>10.8%</b>	(37.6%)
Experience gains and losses on scheme liabilities	<b>£0.2m</b>	–
As a percentage of the present value of scheme liabilities	<b>0.1%</b>	0.0%
Total actuarial loss recognised in the statement of total recognised gains and losses	<b>£8.7m</b>	(£45.4m)
As a percentage of the present value of scheme liabilities	<b>6.1%</b>	(35.3%)

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

	2004 £ million	Group 2003 £ million
Profit and loss account reserves excluding pension liability	<b>103.8</b>	75.3
Amount relating to defined benefit pension schemes' liability, net of deferred tax	<b>(16.9)</b>	(22.2)
<b>Profit and loss account reserves</b>	<b>86.9</b>	53.1

# Notes to the accounts

continued

## 19 Employee 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 directors' remuneration report on pages 22 to 27. 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 directors' remuneration report on pages 22 to 27.

### 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 27 March 2004 under the group's share option schemes were as follows:

	Ordinary shares 2004	Date of grant	Option price (p)
Mothercare 1995 Executive Share Option Scheme	<b>185,912</b>	June 00	123.71
Mothercare 2000 Executive Share Option Plan	<b>227,078</b>	May 01	300.00
	<b>31,663</b>	July 01	325.00
	<b>27,778</b>	July 01	324.00
	<b>429,272</b>	June 02	207.00
	<b>312,500</b>	Dec 02	104.00
	<b>275,863</b>	Jan 03	87.00
	<b>402,011</b>	Mar 03	99.50
Mothercare Sharesave Scheme	<b>232,593</b>	Dec 00	125.00
	<b>143,531</b>	June 01	255.00
	<b>774,364</b>	Aug 03	155.00
	<b>3,042,565</b>		



# Five year record

## Summary of turnover and profit

	2004 £ million	2003 £ million	2002 £ million	2001 £ million	2000 £ million
<b>Turnover</b>					
Continuing – Mothercare	446.9	431.7	426.9	419.1	443.7
Discontinued	–	–	–	89.9	822.4
<b>Total</b>	<b>446.9</b>	<b>431.7</b>	<b>426.9</b>	<b>509.0</b>	<b>1,266.1</b>
<b>Profit/(loss) from retail operations before exceptional items</b>					
Continuing – Mothercare	15.8	(19.7)	3.0	7.1	0.4
Discontinued	–	–	–	(6.7)	13.1
Before exceptional items	15.8	(19.7)	3.0	0.4	13.5
Exceptional items	7.4	(5.2)	(4.1)	4.9	(396.4)
Interest and other items	0.7	0.1	1.2	3.1	(6.5)
<b>Profit/(loss) before taxation</b>	<b>23.9</b>	<b>(24.8)</b>	<b>0.1</b>	<b>8.4</b>	<b>(389.4)</b>
Taxation	7.3	10.0	–	–	26.5
<b>Profit/(loss) for the financial year</b>	<b>31.2</b>	<b>(14.8)</b>	<b>0.1</b>	<b>8.4</b>	<b>(362.9)</b>
Earnings/(loss) per share	46.5p	(22.0p)	0.2p	6.0p	(142.2p)
Dividends per share	4.0p	–	2.5p	1.5p	–

## Summary of balance sheets

Fixed assets	81.3	85.6	88.6	87.7	319.6
Net current assets/(liabilities)	59.2	27.0	37.3	41.8	(22.2)
Creditors falling due after one year	(1.2)	(2.2)	(2.8)	(2.4)	(11.6)
Provisions for liabilities and charges	(3.6)	(4.7)	(2.7)	(4.4)	(61.7)
<b>Total net assets</b>	<b>135.7</b>	<b>105.7</b>	<b>120.4</b>	<b>122.7</b>	<b>224.1</b>

## Other key statistics

Share price at year end (p)	354.0	101.5	232.5	206.75	37.0
Net cash (debt)/equity (%)	29.7	7.3	10.2	28.4	(31.0)
Capital expenditure	8.5	13.4	10.7	11.2	92.5
Depreciation	13.0	14.3	11.6	11.4	66.6
Rents	46.0	45.7	44.1	41.3	111.0
Number of stores	233	241	245	252	427
Net selling space (000's sq ft)	1,863	1,922	1,927	1,980	6,423
Average number of employees	5,005	5,032	5,201	5,353	20,130
Average number of full-time equivalents	3,033	3,109	3,111	3,167	10,620

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

Key statistics for 2004, 2003, 2002 and 2001 represent the Mothercare business only and are not comparable with the previous year's statistics which include the results of Bhs, which was sold in May 2000.

The results for 2001 and 2000 have been restated where necessary in accordance with FRS 19 'Deferred tax'.

The net assets for 2003, 2002, 2001 and 2000 have been restated where necessary in accordance with UITF 38 'Accounting for ESOP trusts'.

# Shareholder information

## Shareholder analysis

A summary of holdings as at 18 May 2004 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	0.9	14
Nominee companies	64.2	871
Other corporate holders	0.8	131
Individuals	5.3	27,468
	<b>71.2</b>	<b>28,484</b>

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

	2004	2003
Share price at 26 March 2004 (28 March 2003)	<b>354.0p</b>	101.5p
Market capitalisation	<b>£251.6m</b>	£71.7m
Share price movement during the year		
High	<b>383.0p</b>	265.0p
Low	<b>100.0p</b>	84.5p

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

- the market value on 31 March 1982 of one ordinary share in British Home Stores PLC is 155p and of one ordinary share in Habitat Mothercare PLC is 133p; and
- the market value of each Mothercare plc 50p ordinary share immediately following the reduction of capital and consolidation for the purpose of allocating base cost between such shares and the shares disposed of as a result of the reduction is 135p.

## Registrars and transfer office

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

## Financial calendar

	2004
Annual General Meeting	15 July
Announcement of interim results	18 November
	2005
Payment of interim dividend	February
Preliminary announcement of results for 53 weeks ending 2 April 2005	end May
Issue of report and accounts	mid June
Annual General Meeting	mid July
Payment of final dividend	mid August

## Registered office and head office

Cherry Tree Road, Watford, Hertfordshire WD24 6SH  
 Telephone 01923 241000  
[www.mothercare.com](http://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](http://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  
 20 Moorgate, London EC2R 6DA  
 Telephone 020 7155 5155

[www.mothercare.com](http://www.mothercare.com)

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