mothercare

Annual report and accounts 2005

www.mothercare.com

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

Mothercare at a glance

Breakdown of sales

	£m
Total UK	401.1
Mothercare International	56.1

Stores at 26 March 2005

	Stores	Total selling area (000s sq ft)
Out-of-town	70	1,122
High street	161	736
Total UK stores	**231**	**1,858**
International (franchise stores)*	220	500
Total	**451**	**2,358**

	Europe	Middle East	Far East	Other	Total
*International franchise stores	106	72	40	2	220

Front cover Pink net tutu bridesmaid's dress £34/36 and cream butterfly bridesmaid's dress £34/36, dolly bag £6

Performance highlights

Group sales up 2.3% to £457.2 million (2004 – £446.9 million)

Like-for-like UK store sales up 1.3%. See financial review for definition of like-for-like sales

Final dividend 5.3p (2004 – 4.0p)

Basic earnings per share 16.2p (2004 – 46.5p)

Non-operating exceptional credit of £2.4 million (2004 – 6.6 million)

Gross margin up 0.5 percentage points

Profit before exceptional items and taxation of £19.6 million (2004 – £16.5 million)

Product % of total UK sales

home & travel 47%

clothing 41%

toys 11%

other 1%

Ian Peacock
Chairman

Ben Gordon
Chief executive

Dear shareholder

We are pleased to report another year of encouraging performance. Sales and profits are up in the UK and our international business continues to perform strongly.

We are now two years into our three-year turnaround programme to rebuild Mothercare and we have focused our resources on rebuilding the business through improvements to our customer service, our infrastructure, our stores and our product. We now have a much more stable platform in place to start growing the business through new stores and other routes to market including our direct operations and our international franchises.

The UK business was resilient in the tougher trading environment, particularly in the second half of the year. Throughout the year, we continued to focus on turning the business round and developing the Mothercare brand for the future. We have started to reap some of the rewards from all the work that has been done.

More of our stores are now modern and inviting and we have further improved the design, quality, range and value of our products. We are now well placed to grow our overall market share with improved products and better availability.

We look forward to the opening of our new National Distribution Centre this summer and the opportunities it will bring to lower our distribution costs and to improve the efficiency with which we bring products to our customers.

We have made significant investment in our infrastructure and the systems required to support long-term growth.

£19.6m	5.3p	+1.3%	+0.5
PROFIT BEFORE EXCEPTIONAL ITEMS AND TAXATION	FINAL DIVIDEND	LIKE-FOR-LIKE UK STORE SALES	PERCENTAGE POINTS GROSS MARGIN IMPROVEMENT

We recognise the opportunities we have to gain competitive advantage as a speciality retailer. As the average age of first-time mothers rises we are aware that customers are becoming ever more discerning and demand better advice and support. We have further invested in programmes to underpin the delivery of excellent service. Our employees continue to improve on the specialist advice, help and support they offer to our customers. During the year it was a great accolade to be named by the Sunday Times as one of the Best Big Companies to Work For based on the opinions of our UK employees. We were also highlighted in the 'Making Boards Better' section of the DTI 'Building Better Boards' publication of December 2004.

We are encouraged also by the continued solid growth of our international franchise business, demonstrating the strength of the Mothercare brand worldwide. With almost as many stores outside the UK as within the UK, we are increasingly becoming an international business with a strong multinational brand. We opened 27 stores in countries where we have an existing presence and three stores in new countries. We welcome the three new franchisees who have joined us and look forward to further building our international business, where we see considerable potential for further growth.

We have generated more cash with cash balances standing at £37 million at the year end, having made a special voluntary contribution into the staff pension scheme of £10 million to strengthen its funding position.

We are proud of the progress we have made during the year and recognise that we still have a number of initiatives to complete in the current year. With the turnaround programme well progressed, we have continued to develop and implement plans to drive growth in our business. In doing so, we have identified and analysed what we believe are the principal internal and external risks to our business. These are set out on page 15.

We have reinstated a progressive dividend policy and we are pleased to recommend a final dividend of 5.3p bringing the dividend for the full year to 8.0p – double last year's total dividend.

During the year Angela Heylin OBE retired from the board. We would like to thank Angela for her seven years of excellent counsel, particularly during the time of management transition. We welcome David Williams who joined the board in August 2004, bringing with him a wealth of experience and expertise that will be invaluable for the future. We would also like to thank our employees throughout the business for their continued hard work, enthusiasm and commitment.

Finally, the Mothercare Charitable Foundation received its charitable status during the year and we are proud to serve on the board of trustees. During the year the charitable foundation made donations to a number of good causes and further good causes are being considered for support going forward.

With a resilient business model, the strength of our brand and the specialist nature of our business, Mothercare will be in a strong position to meet the challenges that lie ahead.

Ian Peacock **Ben Gordon**

231	220	+15%	270,000
TOTAL UK STORES	INTERNATIONAL FRANCHISE STORES	TOTAL DIRECT SALES GROWTH	DIRECT CUSTOMERS

Our business

Mothercare was created to provide parents and parents-to-be with a one-stop-shop for the best quality and most innovative products for their children under one roof. This remains the central ethos of the Mothercare business today. For more than 40 years the brand has been part of the process of parenting.

As an established specialist retailer, Mothercare understands the highs and lows of parenting. We strive to make every mother and father the best parent they can be and to give their little ones the best possible start in life.

We aim to offer our customers products with a compelling mix of strong design, exceptional quality and great value for money in the areas of clothing, furniture and home furnishings, bedding, feeding, bathing, travel equipment and toys.

Underpinning this goal lies a commitment to developing the infrastructure that will support the delivery of world-class product. With the latest systems and processes we aim to ensure seamless sourcing and delivery from supplier to customer-focused product specialists.

From pregnancy through to childhood, our experts provide specialist help and advice through stores, the internet, by post and by phone.

OUR MARKETS

The Mothercare brand is universally recognised in the UK and our competitive position is significantly stronger than it was two years ago. Our international brand recognition continues to grow with more stores opening in new markets and in countries where we already have a presence.

In the UK around 83 per cent of pregnant mothers walk through our doors and continue to visit Mothercare as their children grow. Some 75 per cent of mothers with 0-2 year olds and 60 per cent of mothers with 3-6 year olds also visit our stores on a regular basis (source: October 2004 Exit Survey). As our stores, products and customer service continue to improve we are increasingly better placed to leverage the strong brand position that we have.

TURNAROUND

Last year we outlined the second phase of our turnaround programme, identifying the five key projects designed to stabilise our business and to grow both sales and margins. We are pleased with our progress in each of these areas, the details of which are described below.

Customer service

Customer service provides an opportunity for us to gain real competitive advantage in our specialist markets. We have continued to invest in the delivery of excellent customer service, upgrading the quality of service and expertise provided by our store colleagues.

Having thoroughly reviewed the needs of our customers, we have introduced a career development programme to deliver training and support for our experts in specific product categories, such as bra fitting, feeding and car seat fitting. Structured training programmes in product knowledge and commercial selling have also been rolled out. All these initiatives are linked to employee rewards to incentivise employees to build more meaningful relationships with customers. To ensure every member of the company plays their part in delivering excellent customer service, we have also launched a recognition scheme at our Watford office.

We've made more staff available at the times the customers need them most. And we have worked hard on improving back of house processes and stock room management.

We've improved standards throughout our stores. Our visual merchandising, product display, point of sale signage and the quality of our window displays have been transformed.

To measure the success of this investment we have introduced a 'Mystery Shopper' programme to measure employee behaviour, awareness and interaction with customers. We've already seen significant improvement. We use the results to track progress on a store by store basis and help focus on the areas that need further development.

Early results of our customer research suggest that customers are noticing a significant improvement in service levels. Independent customer exit interviews show we are improving in our own right and against the competition.

Store proposition

At the heart of our store proposition is our aim to appeal visually to our customers by displaying our products in a vibrant and interesting way. Our stores are also designed to be convenient and easy to shop. We have been presented with the Tommy's Best Feeding and Changing award for our in-store facilities across the country.

Opposite White kaftan £25 and pink bikini bottoms (part of set) £22 | **Below** (left to right) Our career development framework has been introduced to all stores | White polo shirt £6/7 and jeans £7/8 | Some 75 per cent of mothers with 0-2 year olds visit our stores | Drawing table £70

This year our major high street refurbishment programme has been largely completed. We have now refurbished 100 of our 161 high street stores to the Superlite format, improving both the store environment and the merchandise mix. These stores now contribute about 71 per cent of sales.

Sales growth in the refitted stores is some five per cent above the average of the typical non-refitted high street stores. The cash return on investment on an annualised basis is in excess of 20 per cent. The 35 stores in their second year since refit have maintained the improved sales levels they achieved in their first year.

The remaining 61 high street stores have benefited from the remerchandising that has been introduced across the entire store portfolio. Of these, 30 that do not justify financially a major refit will undergo minor updating with the balance being relocated to stores of a better size or location as appropriate opportunities arise or closed.

Our 70 out-of-town stores continue to perform well. This group of stores has been refurbished more recently than the high street stores. Nevertheless we have trialled refurbishment in a small number of these stores. Results show that the product mix, merchandising and service we provide are more important to customers in these stores than changes to the physical environment.

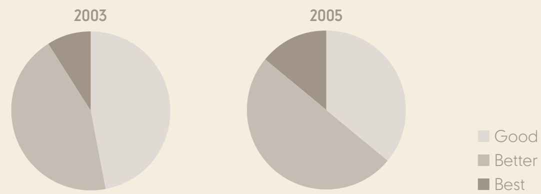
The intention is to undertake only moderate updates to those out-of-town stores that have not benefited from a recent refurbishment, concentrating on improving the customer offer and sales densities thereby maintaining the impact of our brand.

Product and sourcing

We have repositioned our product offer over the past two years by improving design, quality, fashionability and value. Much of this work has been based on developing Mothercare's 'handwriting' which encompasses our in-house look and feel.

Customers are now demanding more high quality, fashionable products. The introduction of the 'good, better, best' product and pricing architecture continues to work well. Our 'good' product is represented by very competitively priced products that protect our margins and still boast good design and quality. In this range we have some keen entry priced products in store.

Growing the proportion of Better and Best product



Our 'best' product ranges demonstrate high quality fashion and choice. In Clothing, customers have responded well to our new ranges. An example of this is our party dresses at £36 which are aspirational, with better fabrication and are great value.

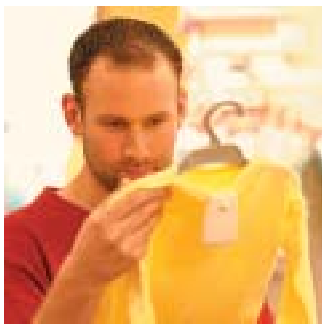
As a result of this clear pricing strategy, our average selling price is up by 3 per cent, despite significant price deflation in our products, particularly in clothing. It also gives us the flexibility to capture a wider range of customers and enables us to react to varying market conditions. Using this approach we can flex the amount of good, better and best product up or down the price chain dependent on customer demand.

During the year we continued to innovate and introduce new product ranges. In our Home and Travel 'better' category, we won the Mother & Baby Awards, Pushchair of the Year category for our own brand Sherpa Extreme for the second year running.

We have launched our new gift range to grow our customer base by appealing to friends and family members looking for the perfect present. We have focused on our core market of birth to age two and these gifts have been extremely well received by our customers. Over 200 gift lines are available on our website, through a dedicated catalogue and in 41 trial stores. Early results are positive and we will extend the business based on the results of the trial.

Our first children's bedroom range, 'First bedrooms', has also been launched on our website, in a dedicated catalogue and in our larger stores. The range takes over where our nursery ranges end, offering fully co-ordinated looks for boys and girls up to the age of eight. Initial customer reaction is good and we will continue to monitor results.

Below (left to right) Gingham light £25 | 3-piece oriental style lounge set £30 | We have improved our product over the past two years | Svan highchair £165



Maternity wear is often a mother's first tangible experience of our brand and as such it continues to provide great potential for Mothercare. We've made tremendous advances in our maternity range, making it more fashionable and providing a wider selection of garments. In response to customer feedback we will re-brand our maternity ranges this autumn with a new sub-brand called Moda Mothercare. In some larger stores we are installing a separately branded women's wear area within the maternity department.

Much of our success in product and pricing has been driven by streamlining our supplier base. We have reduced the number of items within our business to give greater choice with less complexity. We have also reduced our supplier base, sourcing product from better factories and fewer countries. Our more efficient operation has reduced the cost of shipping product.

Currently at 35 per cent, we continue to move closer to our target of sourcing 50 per cent of our clothing directly increasing the benefit to the gross margin over the next three to five years.

Supply chain

We have made significant progress over the past two years with product availability and the efficiency of our current distribution operation. Availability is now around 85 per cent (from 65 per cent two years ago) and distribution costs as a percentage to sales have been reduced to 6.4 per cent (from 8.5 per cent two years ago).

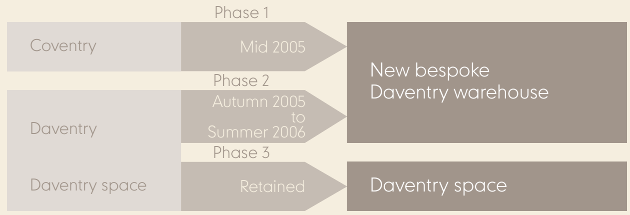
We have reviewed our internal processes and have launched a series of initiatives to improve stock file accuracy, production planning and relationships with suppliers to ensure products flow more efficiently through our warehouses and into our stores to meet customer demand.

Following our announcement in November 2004, we have progressed with our plans to move the bulk of our distribution to a new National Distribution Centre (NDC) which will become the hub of our network.

During the first phase, a project team, led by Mothercare in conjunction with our logistics partner, Exel, has been managing the construction of the purpose built NDC on the same distribution site as our existing Daventry facility (DIDC). The NDC is now complete and we are operating in the new building on schedule and on budget.

We will close our secondary distribution facility in Coventry which handles our 'pick to zero' distribution operation and our returns business. The returns business has already been successfully transferred and the pick to zero operation is on schedule to transfer in June 2005.

Managing the transition



The NDC operational systems have been tested over the past two years both in DIDC and Coventry and it was a deliberate decision to retain existing operational systems to reduce risk. The vast majority of employees from Coventry are transferring to the new NDC.

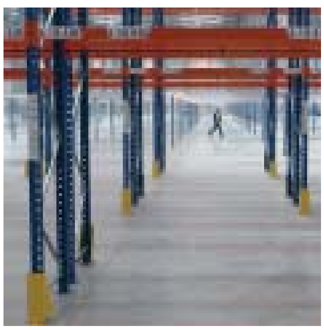
We will retain an area of DIDC, which is ideal for hanging goods, and our existing specialist warehouse for our Direct operation. Subsequent phases over the next 18 months will focus on improvements for the Christmas peak 2005 and for the long-term optimisation of the supply chain.

The costs of establishing the new warehouse at Daventry include £7 million of capital expenditure and £6.5 million of operating exceptional costs. The return on this investment when the new operation is fully in place will be based on our target of 5 per cent distribution costs of sales over the three years from full operation, improved availability and the expected resultant sales increase.

Infrastructure

We have continued our investment in the systems and tools necessary to deliver growth in the business. In 2003 we implemented a modern merchandise planning system and have used it to successfully launch the Spring/Summer 2005 season. The system is performing well, helping to improve availability and margins and reducing markdowns. We will enhance the system with developments to planning and replenishment systems alongside improved working practices.

Below (left to right) Our new maternity brand MODA Mothercare to be introduced this autumn | Shorts £6/7 and hat £5/6 | Our NDC will become the hub of our distribution network | Mothercare and Exel jointly managed the construction of the purpose built NDC



We are continuing the roll out of new EPOS hardware and software systems to all our stores. The new system is Chip and PIN enabled and allows a higher level of customer service through reducing transaction time by a third, improving customer information and increasing financial controls.

75 stores now have the new EPOS system and we expect to complete roll out to all our stores by March 2006.

OUR STRATEGY FOR GROWTH

Having achieved the objectives we set for the second year of our three-year turnaround programme, we are now embarking on our programme for sustainable, long-term growth.

Long-term growth will come from continued improvements to the performance of our existing operations together with the expansion of our International business, new UK stores and extending our Direct operations. We will also continue to monitor closely our service delivery levels and focus the way in which we continue to enhance our relationships with all our customers.

We are taking a balanced approach to our objectives for 2005/06, focusing on further developments for our customers, our people, our process transformation and our financial management. We have identified major growth opportunities in three key areas:

NEW STORE DEVELOPMENT

Following our review of our UK store portfolio, we have identified some 40 high street and 20 out-of-town locations where Mothercare could trade successfully. Our focus will be on obtaining stores in the right locations to achieve our target rates of return. Now, some 70 per cent of the UK population are within a 25 minute drive of a Mothercare store and our growth plans will bring that figure to 80 per cent. These plans will also give us a presence in some of the key areas where we don't currently have stores.

We believe an opening programme of up to ten new stores per year is achievable. We have eight confirmed openings for 2005/06 and have already opened stores in Denton, Manchester and in Harrogate.

INTERNATIONAL

Mothercare International, our overseas franchise business, performed well during the year with franchisee sales growing by 17 per cent based on 10 per cent like-for-like growth together with the addition of 30 new stores. Our sales to franchisees, which include the cost of product together with franchise/royalty fees, increased by 17.3 per cent during the year. This was largely driven by the improvements made to availability, distribution, the Superlite format and product quality in the UK business.

We now trade in 30 countries through 220 stores, 30 of which were opened during the year. We expect the number of international stores to surpass the number of UK stores by Christmas 2005.

International sales and profits

Retail sales (ex vat)	£m	Profit/contribution (ex vat)	£m
2004/05	**119**	**2004/05**	**7.3**
2003/04	101	2003/04	6.1
2002/03	90	2002/03	4.8
2001/02	85	2001/02	4.0

Our international business represents a substantial growth opportunity for Mothercare. Following five years of consistent growth, Mothercare has strong brand awareness overseas and a sustained premium/quality perception.

We have 20 franchise partners, most of whom we have worked with for many years through solid relationships built on the exchange of local knowledge and a strong growth pipeline.

Together with our franchisees, we have analysed opportunities for further growth in this business, taking into account five key factors which contribute to successful trading for Mothercare. They are: market economic growth; market competitive environment; market risk; linkage to our logistics infrastructure and strength of potential franchise partners.

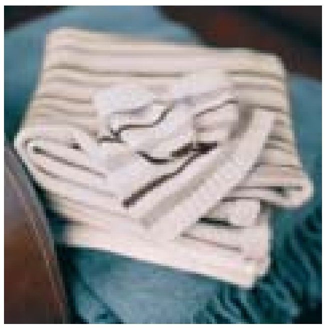
We plan to open around 100 new stores in existing countries and with existing franchisees in the next three years. A significant proportion of these will be in the Middle East, Russia, Turkey and Spain.

The second opportunity is to enter and grow in new countries. An example of this is in Indonesia and Pakistan, where we've opened our first stores in April 2005 and we have plans in place to open more stores in both countries.

To support our planned growth, we have reorganised our international warehouse network. As well as our dedicated UK warehouse, we

Below (left to right) Border print frill t-shirt £7/8 | We have focused our gift range on our core market of birth to age two | Knitted blanket, mitts and hat £25 | Beaded hippy top £25 and white linen trousers £35






operate a hub in Dubai and have opened a new distribution centre in Singapore to distribute product originating in the Far East more efficiently. This has resulted in lower warehousing and transport costs for franchisees and has improved delivery times considerably.

MOTHERCARE DIRECT

Mothercare Direct makes up much of our multi-channel business and comprises our catalogue, phone orders and our established retail website where over 270,000 customers ordered through one or more of these channels last year. Direct had another successful year with sales growing overall by 15 per cent. However the growth of internet ordering in-store had the effect of cannibalising the home shopping sales, such that they were down 5 per cent in the year.

Our multi-channel approach has been designed for the Mothercare customer who is time and convenience pressured and often uses more than one channel to research, test and then buy products. We continually work to ensure that all of our complementary channels work seamlessly for the benefit of our customers.

A key opportunity is to make all our stores web-enabled so that customer orders can be placed online, allowing us to capture orders for products that are either out of stock or not ranged at the store. Some 138 stores are now web-enabled and it is intended that all stores will be web-enabled by the end of 2005/06. Sales growth in our web-enabled stores was 40 per cent during the year. This has impacted on our catalogue and home internet sales but we are pleased with our overall Direct performance.

Our catalogues also provide a strong growth opportunity. 52 per cent of customers who buy in-store have a catalogue with them and last year we printed 30 per cent more to ensure that as many pregnant customers as possible left the store with a catalogue.

This year we will increase the sophistication of our direct mail activity, particularly through range specific catalogues and seasonal marketing. We will also improve the level of in-store messaging about our direct channels and we will integrate our databases so that we can target products and promotions to meet our customers' needs through the journey of parenthood.

Having the channels in place to serve customers with the right product at the right time is the essence of modern retailing and we intend to realise the huge opportunity that this business offers us.

Financial review

RESULTS SUMMARY

Total group sales have increased by 2.3 per cent to £457.2 million (2004 – £446.9 million) with like-for-like UK store sales up by 1.3 per cent. Operating profit before exceptional items improved by 13.3 per cent to £17.9 million from £15.8 million last year.

The results can be summarised as follows:

	2005 £m	2004 £m
Turnover (ex VAT)	**457.2**	446.9
Operating profit (before exceptional operating items)	**17.9**	15.8
Exceptional operating items	**(6.5)**	0.8
Operating profit	**11.4**	16.6
Non-operating exceptional items	**2.4**	6.6
Interest	**1.7**	0.7
Taxation	**(4.4)**	7.3
Profit after tax	**11.1**	31.2
Earnings per share	**16.2p**	46.5p

Group turnover and operating profit before exceptional operating items:

	Turnover		Operating profit	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Total UK	**401.1**	399.1	**10.6**	9.7
Mothercare International	**56.1**	47.8	**7.3**	6.1
Total	**457.2**	446.9	**17.9**	15.8

Divisional performance

UK

Total UK sales increased by 0.5 per cent to £401.1 million. Total UK store sales increased by 0.7 per cent to £384.1 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 1.3 per cent. The sales loss due to net store closures was 0.6 per cent. Three stores were opened during the year and five were closed.

Below (left to right) Nursing chair £280 | Butterfly smock dress £12/13 and easy turn up jean £7/8; flower print top (part of set) £12/13 and stripe trouser £7/8 | Floral swimshort £7/8 | Ballerina t-shirt and shoes £10

Mothercare Direct sales reduced by 4.8 per cent to £17.0 million largely due to cannibalisation from significantly increased sales in our web-enabled stores.

Operating profit before exceptional operating items increased by 9.3 per cent to £10.6 million from £9.7 million last year.

Mothercare International

Mothercare International performed well with sales growing by 17.3 per cent to £56.1 million and operating profit growing 19.7 per cent to £7.3 million. 30 new franchise stores were opened in the year taking the total to 220 at the year end.

Operating profit

Group operating profit, before exceptional operating items increased by 13.3 per cent to £17.9 million (2004 – £15.8 million). The key factors driving this improvement were an increase in sales and gross margin together with a reduction in distribution costs. Taking into account exceptional operating items, group operating profit decreased by 31.3 per cent to £11.4 million (2004 – £16.6 million).

Gross margin increased by 0.5 percentage points due to better product flow through the business which lead to improved availability to customers and allowed for greater full price trading. 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 to 6.4 per cent of sales from 6.5 per cent last year.

The increase in other operating costs was restricted to below 3 per cent as our continued focus on reducing our cost base offset increases in key cost areas such as store payroll and energy.

Operating exceptional items

The operating exceptional charge of £6.5 million relates to the costs associated with the reorganisation of our distribution network as a result of the move to our new NDC.

Non-operating exceptional items

The exceptional credit of £2.4 million relates to the profit on disposal net of costs of a subsidiary undertaking with capital tax losses attached.

Interest and taxation

Net interest income increased to £1.7 million from £0.7 million last year as a result of the higher average cash balances resulting from the positive cash flow of the business.

Due to the tax losses we have brought forward of some £36 million no tax will actually be paid for the year. The tax charge of £4.4 million, representing an effective tax rate of 29 per cent, reflects utilisation of these losses in respect of which a deferred tax asset was established at the end of last year.

Pensions

The total cost of the pension schemes charged to the profit and loss account in the year was £2.4 million (2004 – £2.7 million). The valuation of the schemes under FRS 17 at March 2005 gave rise to a net pension deficit of £15.5 million (2004 – deficit of £15.5 million) after the benefit of potential deferred taxation at 30 per cent amounting to £6.6 million (2004 – £6.7 million). On a FRS 17 basis the net charge to profits would have been £2.8 million (2004 – £3.8 million) after the benefit of net finance income of £1.7 million (2004 – £1.1 million).

Over the last two years we have performed a major review of the structure and levels of benefits of the group's pension schemes. The changes in benefit structure will reduce costs in the long term, however the deficit remains significant and the board concluded that a special voluntary contribution into the scheme of £10 million to strengthen its funding position was necessary and appropriate. This contribution was made in March 2005.

If this contribution had not been made, our pension deficit under FRS 17 would have increased by £10 million mainly due to the impact of allowing for increased mortality rates.

We expect to review the ongoing level of contributions to the scheme when the actuarial valuation as at 31 March 2005 is completed. The investment risk profile of the pension funds has also been reviewed and the level of investment in fixed income and property has been increased to help reduce the likelihood of significant deficits arising in the future.

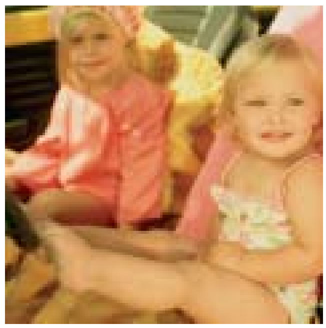
Balance sheet and cash flow

The group had a net cash inflow of £6.7 million before the special pension contribution of £10 million, giving a net cash outflow of £3.3 million in the year, leading to the cash balance at the end of the year of £37.0 million (2004 – £40.3 million).

Capital expenditure for the year was £18.4 million (2004 – £8.5 million), of which the cost of our high street store refurbishment programme was £7.5 million and the cost of new stores was £2.6 million.

Opposite Nordic bed £200, funky animals duvet set £28 and funky animals wall light £30 | **Below** (left to right) 2-piece jersey vest set £16 | Unisex long sleeve top, hat, bootees and fleece blanket £18 | Leaf patterned shirt £10/11 | Beaded pink kaftan £9/10; flower print swimsuit £7/8



Earnings per share and dividend
Basic earnings per share are 16.2p for the year (2004 – 46.5p). Adjusted earnings per share before exceptional items are 19.5p after a tax charge of 9.3p per share (2004 – 24.4p after a tax charge of nil pence per share).

The directors are pleased to recommend a final dividend for the year of 5.3p (2004 – 4.0p). The total dividend for the year is 8.0p compared with 4.0p last year, an increase of 100 per cent.

The final dividend will be payable on 29 July 2005 to shareholders registered on 17 June 2005. The latest date for election to join the dividend re-investment plan is 8 July 2005.

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 12.3 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 £143.5 million, an increase of £7.8 million in the year. This is equivalent to £2.00 per share compared to £1.91 per share at the previous year end.

Accounting policies and standards
The principal accounting policies used by the group are shown on page 35. There have been no material changes to 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 accounts on pages 44 and 45.

For the 53 weeks ending 1 April 2006, the group will adopt International Accounting Standards and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and endorsed by the European Union. Consequently the date of transition to IFRS for the group is 28 March 2004. The group is well advanced in considering the impact that the adoption of IFRS will have on the financial statements. The main areas where the adoption of IFRS will have an impact are expected to be share-based payment accounting, lease accounting and taxation.

The group has elected to apply the exemption to the general principle of retrospective application in relation to financial instruments and therefore there will be no impact on the results for the 52 weeks ended 26 March 2005. In the preparation of the financial statements for the 53 weeks ending 1 April 2006, the group will implement these requirements in full.

The group intends to publish results for the 52 weeks ended 26 March 2005 restated for IFRS, with a reconciliation between its financial statements under UK GAAP and IFRS, with the Annual General Meeting statement in July 2005.

Corporate responsibility
The Company recognises that corporate social responsibility (CSR) is an integral part of its ongoing daily operations. Mothercare is committed to the welfare of its customers, employees, suppliers and the communities in which it operates. Throughout the turnaround programme, we have made further progress in our CSR activities.

PEOPLE
Reward and benefits
The Mothercare web site (www.mothercare.com) includes details of the benefits of working for the Company. These include extensive training and development programmes, bonus and pension schemes, other flexible benefits, work/life balance schemes, mother friendly shifts, career breaks and retirement policies.

Below (left to right) Triangle bikini £8/9 and lightweight skirt £6/7, butterfly beaded vest £5/6 and surf short £7/8 | Captain t-shirt £5/6 and camouflage print short £8/9 | Baby boy gift set £12 | Aqua jersey kaftan £24 and white prairie skirt £28




All Mothercare employees have access to an independent and free helpline offering support on financial, legal and personal issues. During the year a confidential hotline was established so that employees can report concerns about fraud, theft and breaches of security.

We are proud to have been named by the Sunday Times as one of the Best Big Companies to Work For in 2005, based on the opinions of a cross section of our UK employees.

Communication

Employees have been fully engaged in the Company's three year turnaround programme. The Company's short and long term goals have been communicated and discussed through conferences, roadshows, workshops and newsletters.

Towards the year end two employee forums were introduced to provide the framework for consultation in the retail and central support functions. Each forum is comprised of elected employee representatives and management representatives. The first meetings will take place in June 2005.

Customer service

During the year a Career Development Framework (CDF) was introduced to provide a structured career path for all store employees. The framework is supported by new customer-focused training programmes and provides progressive pay bands, rewarding people for reaching agreed levels of service.

Disability

The Company has progressed with its work on the new provisions of the Disability Discrimination Act 2004. Store and website accessibility audits are continuing. Employees have now been trained on identifying and dealing with potential barriers to disabled customers and colleagues.

SUPPLIERS

Ethics

The ongoing appraisal of all our suppliers' factory standards, manufacturing capabilities and overall quality performance has continued. We aim to ensure that our products are made to a consistently high standard and in full compliance with Mothercare's Ethical Code of Practice. To this end we continue to be an active member of the Ethical Trading Initiative (ETI). The ETI is an alliance of businesses, non-governmental organisations and trade unions committed to working together to promote Ethical Trade.

Quality

As year on year customer returns fall, we continue to focus on the safety, quality and legality of all our products. Our ongoing programme to evaluate, update and implement new quality initiatives includes the audit of all factories used to manufacture our Mothercare branded products. We are in the process of establishing an independent supplier welfare committee. This committee will oversee an extensive quality audit programme covering manufacturing controls and processes and the implementation of management systems.

During the year, we have won awards for our products including the Tommy's Parent Friendly Award for best maternity wear, the Baby and Toddler Gear 'On Test' award for the Newbury cot, eight Prima Baby Awards and two Mother & Baby Gold Awards for the Sherpa three-wheeler pushchair and our Mothercare baby wipes.

Use of chemicals and harmful substances

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.

ENVIRONMENT

The Company manages the impact of its business activities on the environment by making efficient use of raw materials, optimising energy consumption and by encouraging recycling and sustainability.

Raw materials/logistics initiatives

We maintain an active interest in the activities and efficiencies of our logistics partners. During the year all inbound import containers have been redirected into the rail head adjacent to our warehouse and store deliveries to Aberdeen transferred from road to rail service. Combined, these initiatives have saved 311,000 miles of road traffic and 723 heavy goods vehicle journeys.

Next year we expect to further reduce the number of our vehicles on the road from 100 to 88, every working day. We will transfer all Scottish store deliveries to rail. This will cut 680,000 miles or 1,369 road journeys and 300,000 litres of fuel.

A new, dynamic transport scheduling tool for our combined collection and delivery fleet will result in 1,300 fewer journeys in 2005/06. We expect a saving of 320,000 miles and 140,000 litres of fuel.

Below (left to right) We are proud to have been named by the Sunday Times as one of the Best Big Companies to Work For in 2005 | Triangle bikini £8/9 and lemon and pink ra-ra skirt (2 pack) £6/8 | Silver plated bubble blower £8 | Ditsy floral print wrap top £14

All delivery drivers are trained in the Government-sponsored safe and efficient driving scheme.

Energy consumption

Energy management systems in all our stores control the time switching of lighting and heating to reduce wastage. An external consultant has been retained to report on efficient energy consumption.

A contract for greener electricity supply was tendered in September 2004. This resulted in a 100 per cent green energy contract, with the prices more than offsetting the reduction in climate change levy.

In line with the introduction of Building Energy Logbooks we are installing additional sub-metering in all new stores on electrical and HVAC circuits to monitor energy consumption against initial design parameters.

Two trials are underway to generate more accurate billing, reducing the large fluctuations that currently result from estimated readings.

Recycling

All packaging from our warehouses is recycled and 50 per cent of cardboard and other waste is recycled where we are responsible for collecting trade waste. We participate in recycling schemes operated by the shopping centres in which we are represented. It is intended that recycling will be increased where opportunities permit and we are currently investigating recycling schemes for our Watford office.

All delivery vehicle oils, batteries and tyres are sent for reprocessing and/or reclamation of materials.

COMMUNITY

Given the Company's focus on the turnaround programme in 2003/04, work on community based activities was limited. During 2004/05 we have taken steps to improve our community programmes, as set out below.

Charitable donations

Following the formation of the Mothercare Charitable Foundation (formerly Mothercare Foundation Limited) last year, charitable status was granted from the Charities Commission on 16 June 2004.

The Foundation's aim is to help parents in the UK and worldwide meet the needs and aspirations for their children and to give their children the very best chance of good health, education, well-being and a secure start in life.

The Foundation welcomes applications from charities and research organisations that are focused on:

- ensuring the good health and well-being of mums-to-be, new mums and their children;
- special baby-care needs and premature births; and
- other parenting initiatives related to family well-being.

The four Foundation trustees, chaired by Karren Brady, meet quarterly to review requests from charities and community groups for funding. It is also the route through which funds raised from employees' charitable activities are channelled to appropriate causes. A Foundation working party oversees the applications presented to the trustees and ensures they are appropriate to our aims and objectives.

The Foundation is funded by donations from group profit and interest on cash balances retained in the Fund account. During the year the Company gave £200,000 to the Foundation. Donations to date total £35,000 to Action Medical Research for its Touching Tiny Lives campaign. A further £20,000 has been authorised for TAMBA and Homestart and we are considering a number of other donations to good causes.

Following the humanitarian disaster caused by the tsunami in the Indian Ocean, the Company donated £50,000 to the British Red Cross. This money was given to charities in Sri Lanka, where we have a strong supplier base, to help with immediate requirements. As the requirements of the region become clearer over time, the Company will consider additional resources it can make available to those in continuing need.

Community activities

To promote the Company's involvement in the community, where possible we provide facilities in stores for national and local self-help groups to carry out parenting, baby and childcare activities and courses.

Mothercare worked with the Department of Health during the year to support National Breastfeeding Awareness Week with in-store seminars in May 2004. During the year we have continued to work closely with National Childbirth Trust, St. John Ambulance and with local special care baby units.

Below (left to right) Sleeveless lemon kaftan £20 | Blackboard easel £70 | Light and sound carousel £13 | Vanity case set £16




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 26 March 2005 with the code provisions set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003, 'FRC 2003 Code'.

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 is key to ensuring that a robust system of internal control is monitored by the business.

The annual review sets out progress against the turnaround strategy previously disclosed and how this strategy will develop into following phases designed to promote the growth of the Mothercare business. The board recognise that there remains a considerable amount of work to be done to complete the re-establishment of the business and achieve the expected rewards from it within the timeframe that the executive committee has set itself. This places continued high demands on the Mothercare team at all levels. In addition, the retail market environment within which the business operates is characterised by a less benign economic retail environment, continued strong 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. It also recognises that there are risks in the failure to deliver the expected benefits of the programmes set out below and that the Company has had a higher risk profile than a number of its peers:

- completion of the build, commissioning and phased transfer of operations to the new warehouse at Daventry and the closure of the existing facility in Coventry;
- leveraging the full benefits of the new business systems infrastructure, particularly EPOS (including chip and pin technology), and merchandise planning systems, introduced last year;
- obtaining the planned further supply chain improvements thereby delivering greater efficiencies, product availability and a lower distribution cost base;
- promoting the quality and value of our merchandise to our customers by highlighting the benefits of sourcing, design and innovation, quality and value;
- re-shaping the store portfolio, leveraging the benefits of the high street and out-of-town store formats and implementing new customer service standards; and
- successfully managing the operational gearing characteristics of the business.

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, the programme of specific risk management activity continued during the year with individual stores being tested against a risk assessment model emphasising health and safety, disability discrimination, fire safety and internal process compliance. The internal audit function

Below (left to right) New baby gift hamper £60 | Scooter club woven pyjamas £10/11; car vest pyjamas £8/9 | Nappy stacker gift set £30 | Cuddle 'n' dry hooded towel (3 pack) £13




(a combination of internal resources and external resource provided by PricewaterhouseCoopers LLP) supplements the risk-based approach set out above. Furthermore, the Company has adopted procedures to ensure auditor independence, the details of which are set out in the section below detailing the work of the audit committee.

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

The principles of good governance are briefly commented on below:

The board and directors

The board of Mothercare plc 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.

The non-executive directors are independent and free from any business or other relationship that could interfere materially 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 26 within the 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 20 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 audit, remuneration and nomination committees are comprised of the three non-executive directors. A record of the meetings held during the year, of the board, its committees and the attendance by individual directors is set out on page 19.

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 the major 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 business on any matter of concern to them in respect of their duties. In addition new directors are given appropriate training on appointment to the board. Appropriate time is made during the year for continuing training on relevant topics concerning the functioning of the board and the obligations of directors. 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.

Given the importance of good corporate governance, the board has agreed to establish a corporate governance sub-committee of the audit committee under the chairmanship of Bernard Cragg, the senior non-executive director. This sub-committee, which is comprised of the independent non-executive directors, will provide assistance to the board and its committees by reviewing corporate governance developments and implementing best practice. It will also develop and recommend to the board the adoption of a set of governance principles. As the sub-committee has only recently been constituted, further details of its activities will form part of next year's annual report.

Opposite Hatbox gift set £40 | **Below** (left to right) Girl's provencal dressing table £200 | Crinkle baby doll top £25 and blue jersey skirt £28 | Fabric box set £20 | Beaded hippy top £25 and beaded hippy skirt £30

The remuneration committee, chaired during the year by Angela Heylin until her retirement from the board on 18 November 2004 and subsequently by David Williams, establishes the remuneration policy generally, approves specific arrangements for the executive directors and reviews and comments upon the proposed arrangements for senior executives so as to ensure consistency within the overall remuneration policy. Full disclosure of the Company's remuneration policy and details of the remuneration of each director is set out in the remuneration report on pages 23 to 29. 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 nomination committee, chaired during the year by Ian Peacock, comprises all the non-executive directors. The terms of reference of the committee is set out on the Company's website. 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.

David Williams was appointed as a non-executive director during the year. An external search consultancy was used to identify candidates and David Williams was selected from the candidates put forward. The nomination committee was, when appointing David Williams, and remains of the opinion that his experience both in the UK and international retail environment would be of benefit to the board's review and implementation of the Company's strategy. The board is of the opinion that the remaining directors seeking re-election at the AGM have continued to give effective counsel and commitment to the Company and accordingly should be reappointed.

During the year the board carried out an evaluation of its effectiveness and operation. This evaluation was carried out by an external facilitator and comprised the use of an extensive questionnaire and face to face interviews with individual directors and the company secretary. It was subsequently followed up by a review of the findings by the whole board. The review found that the balance within the board between executive and non-executive directors was appropriate and promoted interaction and debate. The consensus from the review was that the board operated effectively.

A review was held of the effectiveness of the audit committee and the auditors during the year. During the year, the audit committee reviewed and updated its terms of reference following the Smith guidance to audit committees and made changes to its method of operation. Whilst these changes have been embedded for a short time, it was considered that the work of the audit committee during the year was effective measured against its revised terms of reference and general audit committee practice. In respect of the auditor effectiveness review, it was considered that the auditors had carried out their obligations in an effective and appropriate manner.

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 statement at the AGM and post Christmas. During such meetings the board is able to put forward its objectives for the business and discuss performance against those objectives 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) 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. Approximately 100 letters were received and responses sent last year.

The outcome of meetings with major shareholders is reported by the chief executive at board meetings on a periodic basis.

The audit committee

The audit committee was chaired during the year by Bernard Cragg, the senior non-executive director. 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 full terms of reference

Below (left to right) Butterfly tassel bikini £8/9 and lemon and orange vest (2 pack) £4/6; paradise vest and bikini bottoms £7/8 | Bath pillow and eye mask £12 | Floral swimshort £7/8 | Filled laundry bag £30




are set out under the corporate governance section of the website at www.mothercare.com/investorinfo.

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

The committee met four 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 26 March 2005

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 and the auditors is also 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 26 March 2005

		Committee		
Director	Board[1]	Audit	Nomination	Remuneration
Maximum number of meetings	8	4	1	5
Ian Peacock[2]	8	4	1	4
Karren Brady	7	4	1	3
Bernard Cragg	7	4	–	5
Steven Glew[2]	8	4	–	3
Ben Gordon[2]	8	4	–	3
Angela Heylin[3]	3	2	–	3
David Williams[4]	4	3	–	3

Notes:
1. 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.
2. Ian Peacock, Ben Gordon and Steven Glew attend meetings of the audit and remuneration committees upon the invitation of the respective chairmen.
3. Resigned 18 November 2004.
4. Appointed 2 August 2004.

Steven Glew
Finance director

Below (left to right) Hearts pyjamas £14/15; gingham vest pyjamas £12/13 | Boy's 3-piece set £20/22 | Mug and coaster £8 | Lemon and orange vest (2 pack) £4/6 and striped, belted canvas crop trousers £10/11

1 | 2 | 3 | 4 | 5 | 6 |

1 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 48.

2 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, Deputy Chairman of Lombard Risk Management plc and a Trustee of the 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 57.

3 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 45.

4 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), a non-executive director of Channel 4 and of Sport England. Aged 36.

5 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 50.

6 DAVID WILLIAMS ●●○
Non-executive director
Appointed in August 2004. Chairman of Wyevale Garden Centres plc, non-executive director of DX Services plc, Avebury Group Limited and is an Operating Partner of Duke Street Capital. He has also held a number of senior management roles in Diageo plc, PepsiCo Restaurants International and Whitbread plc. Aged 58.

● Audit committee
● Remuneration committee
○ Nomination committee

Business review

The principal companies within the Mothercare group for the period under review were Mothercare plc; (the 'Company') and Mothercare UK Limited. A review of the business strategy and a commentary on the performance of the Mothercare business is set out in the chairman and chief executive's statement and business review on pages 4 to 19.

Dividend

The directors recommend a final dividend of 5.3p per share. An interim dividend of 2.7p was paid in February 2005 making a total of 8.0p per share (2004 – total of 4.0p per share). No interim dividend was paid during 2004.

Substantial shareholdings

As at 18 May 2005, the Company has been advised by the following companies of notifiable interests in its ordinary share capital:

Holder	Number of shares	Percentage of issued capital
M & G Investment Management	8,662,291	12.11%
Fidelity Management Research Co.	8,656,253	12.09%
Morley Fund Management	4,662,650	6.51%

Directors

The following directors served during the 52 weeks ended 26 March 2005.

Name	Appointment
Ian Peacock	Chairman and independent non-executive director, chairman of the nomination committee
Karren Brady	Independent non-executive director
Bernard Cragg	Senior independent non-executive director and chairman of the audit committee
Angela Heylin	Independent non-executive director and chairman of the remuneration committee (resigned 18 November 2004)
Steven Glew	Executive director
Ben Gordon	Executive director
David Williams	Independent non-executive director (appointed 2 August 2004) and (from 18 November 2004) chairman of the remuneration committee

Having been appointed since the last Annual General Meeting, David Williams offers himself for re-election in accordance with the Company's articles of association. Ben Gordon and Steven Glew retire by rotation from the board following the conclusion of the Annual General Meeting (the 'AGM') on 15 July 2005 and stand for re-election at the AGM. Biographical details of the directors, indicating their experience and qualifications, are set out on page 20.

Angela Heylin retired from the board on 18 November 2004 after more than seven years' service. The board wishes to place on record its thanks to Angela for her counsel during her period of service and especially during the period of management change prior to the commencement of the turnaround programme.

Details of directors' service arrangements are set out in the remuneration report on page 27.

A statement of directors' interests in the shares of Mothercare plc and of their remuneration is set out on pages 27 and 28.

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 the company magazine, briefings, bulletins, e-mail and video presentations.

The capabilities of the group's employees are measured, 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 remuneration report. 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

Following the review of its final salary pension arrangements last year, changes came into effect on 28 March 2004 which introduced a new career average pension scheme (known as Pension Builder) for all new members. Those existing members of the final salary scheme that wished to retain that benefit agreed to increase their contributions by 2 per cent.

The pending introduction of International Accounting Standard (IAS) 19, coupled with the changing demographic assumptions used in calculating pension liabilities has had the effect of increasing the cost of pensions to companies. Further details of the pension charge are set out on pages 44 to 45. In order to partially address the pensions deficit in the Mothercare Staff Pension Scheme, the business made a special contribution of £10 million to that scheme on 24 March 2005.

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 (2004 – 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 1 April 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 £14 million.

Corporate citizenship

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

Further details are set out on pages 12 to 14.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing the reappointment of Deloitte & Touche LLP as auditors to the Company will be put to the AGM.

Charitable and political donations

The Mothercare Charitable Foundation (a company limited by guarantee) was constituted during the prior year with a donation of £150,000 from the business. Charitable donations for the 52 weeks ended 26 March 2005 were £250,000. Included within this amount is £200,000 donated to the Foundation and a further £50,000 donated to the British Red Cross Asian Tsunami appeal and allocated by them at the Company's request for work in Sri Lanka.

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

Going concern

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

Annual General Meeting

The 2005 Annual General Meeting will be held on Friday 15 July 2005 at 10.30am at the Hilton National Hotel, Elton Way, Watford WD25 8HA.

The notice of the meeting and a prepaid 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 26 March 2005. 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 5.3p per share, payable 29 July 2005 to those shareholders on the register on 17 June 2005.

Resolution 3: To approve the 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 matters of Special Business:

Resolution 8: Purchase of own shares. The Company was authorised at the 2004 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 or, where appropriate, held in treasury pursuant to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003. 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. Purchase of the Company's shares would only be made if, in the reasonable opinion of the board, it would result in an increase in earnings per share (if acquired shares are cancelled) or otherwise be in the best interests of the Company at the time.

Resolution 9: The Save As You Earn (SAYE) share option scheme operated by the Company was approved in 1995 and the authority expires in June 2005. The directors consider that such schemes are important in aligning employee and shareholder interests and consequently seek shareholder approval to a new SAYE scheme. Full details are set out in the accompanying circular.

By order of the board

Clive E Revett Company secretary
19 May 2005

This report for the 52 weeks ended 26 March 2005 has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the 'Regulations'), the requirements of the Listing Rules of the UK Listing Authority and Schedule B to the Combined Code relating to directors' remuneration. At the AGM on 15 July 2005 shareholders will be asked to approve this report.

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 directors' share options, long-term incentive plan and share matching scheme conditional awards (including the performance criteria set out in Appendix A), 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 is comprised of the independent non-executive directors of the Mothercare plc board. Angela Heylin was chairman of the committee until her retirement on 18 November 2004. David Williams was appointed chairman of the committee on the same day. Karren Brady and Bernard Cragg served throughout the year. Ian Peacock attended meetings at the invitation of the committee.

The committee, which determines the remuneration for the executive directors and approves the pay and benefits of the members of the executive committee, met five times during the year. Its terms of reference are available on the Mothercare website at www.mothercare.com/investorinfo.

Advisors to the remuneration committee

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

During the year, the committee reviewed its principal remuneration advisor. Four firms were considered for the role, including the incumbent advisor, New Bridge Street Consultants LLP. It was subsequently decided to make a change of advisor and Kepler Associates Limited were appointed. The Company also uses the services of Hyman Associates and DLA LLP as shown below. The remuneration committee consulted both organisations 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 (to January 2005)	Pensions and executive remuneration and incentive scheme design
Kepler Associates Limited (from January 2005)	Pensions and executive remuneration and incentive scheme design
Hyman Associates	Remuneration structure
DLA LLP	Legal services principally 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, 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 aims to balance appropriately the fixed salary and performance related elements of remuneration. The latter element is achieved through an annual bonus scheme and longer-term incentives. The bonus rewards primarily the achievement of Company profit before tax, a measure which the board believes is a suitable measure of annual performance for a retail business. Other measures captured include free cash flow and personal/strategic performance objectives. Longer-term performance remuneration is delivered through equity-based incentives including the long-term incentive plan, share matching scheme and the share option schemes. The performance criteria for the vesting of these equity incentives are detailed in the relevant sections below. In each case the performance criteria are aligned with shareholders' interests.

The committee normally reviews the executive directors' remuneration annually, against a policy that positions base salaries around the median of companies, similar in sector focus, size and complexity. Variable elements of the package, designed to attract and motivate outstanding performance and delivery, give executive directors the opportunity to earn an overall upper quartile total remuneration package, for top quartile performance. Details of the individual executive directors' remuneration, are described below.

In line with the previous year, participants in the long-term incentive plan and share matching schemes have not received further awards under the executive share option schemes during the year. The remuneration committee considers that the long-term incentive plan and share matching scheme are less volatile in nature than the executive share option scheme and are to be preferred for the executive committee as, under the scheme, participants are encouraged to retain shares in the Company.

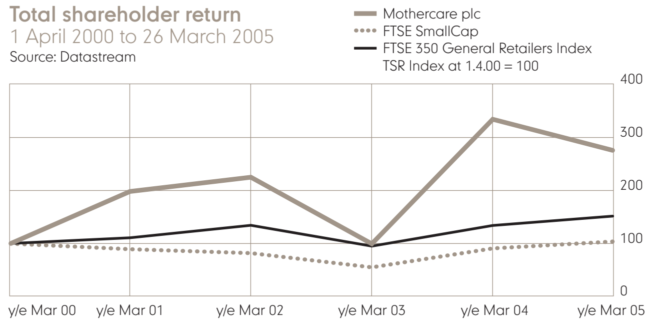
Maintaining the momentum of the development of the Company as it enters the next phase of its development by attracting, retaining and motivating the talent necessary to deliver the strategic objectives is a key priority for the committee. It is the committee's intention therefore to conduct a full review of its executive remuneration during 2005/06 to ensure it reflects shareholder views and developments in market practice as well as the objective set out above.

PERFORMANCE GRAPH

The performance graph overleaf shows the Company's total shareholder return (TSR) against the return achieved by the FTSE SmallCap and the FTSE 350 General Retailers Indices. The graph shows the five financial years to 26 March 2005.

The indices were chosen on the basis that they best matched the Company's peer group.

Total shareholder return
1 April 2000 to 26 March 2005
Source: Datastream



DIRECTORS' REMUNERATION

The executive directors' fixed annual remuneration comprises a base salary, which is normally reviewed in April each year, and benefits. The variable remuneration element is achieved through an annual bonus scheme, participation in the long-term incentive plan and share matching scheme and (prior to 2003) 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. 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 bonus

The annual bonus 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 bonus. The maximum annual bonus that may ordinarily be paid to an executive director is 85 per cent of base salary (100 per cent for the chief executive), although the maximum bonus would be payable only in the event of exceptional performance. For the financial year 2005/06 however, the remuneration committee felt it appropriate to increase the annual bonus opportunity for executive directors by up to 50 per cent subject to the executives deferring any bonus over 25 per cent of salary into Mothercare shares for one to two years. The purpose of this is both to maintain the momentum of the turnaround and to support retention. The 2005/06 long-term incentive awards will be adjusted so that the total fair value of incentives remains unchanged from 2004/05.

Ben Gordon and Steven Glew received performance-related bonuses of £63,180 and £26,265 respectively for the 52 weeks ended 26 March 2005.

Profit share scheme

In addition to the annual bonus scheme, the Company operates a profit share scheme. All group employees (other than participants in the annual bonus scheme) with at least six months' service are eligible to participate in this scheme.

THE LONG TERM INCENTIVE PLAN (LTIP) AND SHARE MATCHING SCHEME (SMS)

The Long Term Incentive Plan

Under the LTIP, conditional awards of shares may be made to executives each year. In 2005/06, the maximum anticipated LTIP award is 67 per cent of salary.

The extent to which awards will vest will depend partly upon the Company's TSR performance relative to all general retailers in the Mid 250 and SmallCap indices, and partly upon the achievement of earnings per share ('EPS') targets shown in the table at the end of this report. The targets are measured over a three-year period. If the performance criteria are not met over the three-year period the award lapses. The performance targets for the awards made to date are shown in the table on the facing page. The committee considers that the criteria applied to date are more challenging than those typically applied. TSR was chosen as it aligns the interests of directors with shareholders by requiring superior TSR performance compared to the Company's competitors. The award is partly based on EPS to ensure there is substantial improvement in the underlying performance of the Company. No part of the award subject to EPS will vest unless the Company's TSR performance is above median relative to general retailers in the Mid 250 and SmallCap indices.

During the transition to International Financial Reporting Standards, EPS growth figures will be calculated on a consistent basis.

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 be invited to invest up to 100 per cent of pre-tax basic salary in any year. This could include up to 50 per cent of pre-tax salary via a payment under the long-term incentive plan. Annual bonus shares deferred may be invested in the Share Matching Scheme.

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 in the table on the facing page) are achieved over a three-year period. The performance targets for matching awards are the same as for the LTIP awards. If the performance criteria are not met over the three-year period the award lapses. The matching ratio is calculated using the pre-tax value of the purchased shares in the case of sums derived from the annual bonus deferred shares or the long-term incentive plan, or the actual value of the shares already owned that were pledged in 2003.

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

Director	21 July 2003	1 June 2004	As at 26 March 2005	Initial share price (p)	Performance period
Ben Gordon	–	103,236	103,236	340.0	27.03.04 – 26.03.07
	402,477	402,477	402,477	161.5	01.04.03 – 31.03.06
Total	402,477	505,713	505,713		
Steven Glew	–	51,500	51,500	340.0	27.03.04 – 26.03.07
	105,264	105,264	105,264	161.5	01.04.03 – 31.03.06
Total	105,264	156,764	156,764		

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

Director	21 July 2003	1 June 2004	As at 26 March 2005	Pledge period
Ben Gordon	–	49,425	49,425	27.03.04 – 26.03.07
	100,619	100,619	100,619	01.04.03 – 31.03.06
Total	100,619	150,044	150,044	
Steven Glew	–	29,714	29,714	27.03.04 – 26.03.07
	60,000	60,000	60,000	01.04.03 – 31.03.06
Total	60,000	89,714	89,714	

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

Director	21 July 2003	1 June 2004	As at 26 March 2005	Performance period
Ben Gordon	–	49,425	49,425	27.03.04 – 26.03.07
	100,619	100,619	100,619	01.04.03 – 31.03.06
Total	100,619	150,044	150,044	
Steven Glew	–	29,714	29,714	27.03.04 – 26.03.07
	60,000	60,000	60,000	01.04.03 – 31.03.06
Total	60,000	89,714	89,714	

EXECUTIVE SHARE OPTION SCHEME

The Company has granted executive share options under two schemes; the Mothercare (formerly Storehouse) plc 1995 Executive Share Option Scheme and the Mothercare plc 2000 Share Option Plan.

The Mothercare plc 2000 Share Option Plan

Options under the Mothercare plc 2000 Share Option Plan are granted at market value. Options may be exercised by participating executives if there is a significant improvement in the Company's underlying performance.

The remuneration committee regularly reviews the performance criteria. For the Mothercare plc 2000 Share Option Plan, the criteria were chosen and agreed following research into similar schemes and discussions between the Company, its advisors and a number of institutional investors. They were set at a level that was intended to balance shareholder and employee interests for the long-term future of the Company. The performance criteria that must be met before an option can be exercised demand that EPS growth over a three-year performance period must equal or exceed the growth in the Retail Prices Index by 9 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. Under the plan rules the normal maximum award is two times salary with any award in excess of this subject to EPS growth exceeding RPI by 20 per cent.

No option grants were made to executive directors during the year. Following the adoption of the LTIP and SMS, no further options will be granted to those participating senior executives under the share option scheme unless there are exceptional circumstances.

The Mothercare plc 1995 Executive Share Option Scheme

No director had an award under this scheme and no further awards are to be made under this scheme. With the exercise of options by various senior employees during the year, there are now no outstanding awards made under this scheme.

DIRECTORS' SHARE OPTIONS

Director	27 March 2004	Granted/(lapsed) during year	Grant/(lapse) date	Exercise price (pence)	First exercise date	Last exercise date	26 March 2005
Ben Gordon	312,500	–	9 December 2002	104.00	9 December 2005	9 December 2012	312,500
	5,951[1]	–	1 December 2003	155.00	1 December 2006	1 December 2009	5,951
Total	318,451	–					318,451
Steven Glew	402,011	–	26 March 2003	99.5	26 March 2006	26 March 2013	402,011
	5,951[1]	–	1 December 2003	155.00	1 December 2006	1 December 2009	5,951
Total	407,962	–					407,962

Notes:
1. Options granted under the three-year SAYE option scheme.
2. The options set out above are granted without payment from a participant.
3. Share price details are shown on page 48.
4. 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.
5. No variations have been made to the terms and conditions of existing options in the current or previous years.
6. 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 described below.

Ian Peacock was awarded 95,694 ordinary shares in the Company which, in aggregate, amounted to £100,000 at the time 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 second tranche vested and was transferred on 19 November 2004. A total of 63,796 shares have now vested with a further 31,898 outstanding. No payment is required from Ian Peacock for 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.

Ben Gordon was awarded 500,000 ordinary shares in the Company, for which no payment is required from him. The award vests 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 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 at least three months. For the remaining two tranches of shares to vest the performance conditions are: profit before tax and exceptional items of £15 million and £30 million 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 that release the entirety of any tranche of shares attached to a performance condition achieved by the fifth anniversary. 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 terminates his employment (other than for cause) or the Company is in fundamental breach of his employment contract. Where any share price or share price performance condition is not met generally within four years, then that element of the award will lapse.

On the first vesting date (2 December 2004) Ben Gordon had met three of the five performance criteria. The table below sets out the shares transferred on 2 December 2004 and transferable to Ben Gordon in the future (subject to, amongst other conditions, his continued employment).

	Award		Number of shares released[1] (on 2 December each year)			
Condition[2]	Met	No. of shares	2004	2005	2006	2007
1.	Yes	100,000	50,000	25,000	15,000	10,000
2.	Yes	100,000	50,000	25,000	15,000	10,000
3.	No	100,000	–	–	–	–
4.	Yes	100,000	25,000	25,000	25,000	25,000
5.	No	100,000	–	–	–	–
Total		500,000	125,000	75,000	55,000	45,000

Notes:
1. For two performance conditions being met, 50 per cent vests on the second anniversary, 25 per cent on the third anniversary, 15 per cent on the fourth anniversary and 10 per cent on the fifth anniversary subject to continued employment at the relevant date.
For any additional performance condition being met, 25 per cent vests at each anniversary, subject to continued employment at the relevant date.
2. Condition 1 – share price must have been above 200p for three months; condition 2 – share price must have been above 300p for three months; condition 3 – share price must have been above 400p for three months; conditions 4 and 5 – profit before tax and exceptional items must be above £15.0 million and £30.0 million respectively by the end of the Company's 2007 financial year.

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

Executive directors

Executive directors' service contracts may be terminated by the Company giving 12 months' notice.

Ben Gordon's previous service contract, which included an extended notice period, has expired. The current service agreement provides for liquidated damages on termination by the Company for 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 described 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.

Non-executive directors

Ian Peacock is entitled to three months' salary on termination of his employment contract dated 31 October 2002 by the Company. Karren Brady, Bernard Cragg and David Williams have service arrangements with the Company that may be terminated upon one month's notice. Their service arrangements were entered into on 29 July 2003, 31 March 2003 and 2 July 2004 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 20. 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 from such a role. 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 by Ben Gordon and Steven Glew are 7 per cent of pensionable salary.

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 30 and 33 per cent respectively. Further pension detail is given in Table 2.

For details of the pension provision within the Company during the year, see the directors' report on page 21.

For further detail on the cost of pensions to the Company, including the statements required by FRS 17, see pages 44 and 45.

EMOLUMENTS AND COMPENSATION PAYMENTS

The emoluments (including pension contributions) in the 52 weeks ended 26 March 2005 are shown overleaf in Table 1A. In addition, the salaries paid to the management level below the board are set out overleaf in Table 1B.

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, share option or other long-term incentives. 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 in the relevant section of this report.

	Interest held at 27 March 2004 (number)	**Interest held at 26 March 2005 (number)**
Ian Peacock	74,564	**120,462**
Ben Gordon	101,998	**231,862**
Steven Glew	60,000	**77,900**
Karren Brady	2,500	**2,500**
Bernard Cragg	20,000	**20,000**
David Williams	–	**3,300**

Ian Peacock and David Williams are shareholders and directors of Mothercare Employees' Share Trustee Limited, which held 13,151 (2004 – 13,151) Mothercare shares in trust on 26 March 2005. A separate trust, Mothercare Employee Trust, held 3,388,902 shares on 26 March 2005 (2004 – 3,545,800).

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

There have been no movements in directors' interests, beneficial or non-beneficial, between 26 March 2005 and 19 May 2005.

Approved by the board on 19 May 2005 and signed on its behalf by:

David Williams Chairman, remuneration committee

TABLE 1A
Directors' emoluments

Total emoluments (including pension contributions) in the 52 weeks ended 26 March 2005 were £1,456,000 (2004 – £1,439,000).

	Salary/fees £000		Incentive scheme vesting £000		Performance bonus £000		Benefits £000		Total remuneration (excluding pensions) £000		Pension contributions £000	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Executive directors												
Ben Gordon	**351**	325	**361**	–	**63**	350	**13**	13	**788**	688	**79**	61
Steven Glew	**206**	200	**–**	–	**26**	150	**11**	11	**243**	361	**39**	38
Non-executive directors												
Ian Peacock	**100**	100	**99**	99	**–**	–	**–**	–	**199**	199	**–**	–
Karren Brady	**30**	22	**–**	–	**–**	–	**–**	–	**30**	22	**–**	–
Bernard Cragg	**35**	32	–	–	**–**	–	**–**	–	**35**	32	**–**	–
Angela Heylin	**25**	31	–	–	**–**	–	**–**	–	**25**	31	**–**	–
David Williams	**18**	–	–	–	**–**	–	**–**	–	**18**	–	**–**	–
Brian Hardy	**–**	7	–	–	**–**	–	**–**	–	**–**	7	**–**	–

Notes:
Benefits typically include a company car, medical and dental insurance and other similar benefits.
The salaries for Ben Gordon and Steven Glew were reviewed with effect from 1 April 2005 and are now £375,000 and £210,120 per annum respectively.

TABLE 1B

The following table sets out the number of individuals within the salary bands for the management level directly below the board.

Salary band	**2004/05**	2003/04
£200,001–250,000	**1**	1
£150,001–200,000	**1**	–
£100,001–150,000	**4**	3
£75,001–100,000	**–**	1
£50,001– 75,000	**–**	1

TABLE 2
Pensions

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

	Defined benefits for Final Salary Scheme									Money purchase
	Accrued benefits in Mothercare Executive Pension Scheme					Transfer value* as at				Company contributions
	At 27 March 2004	Change during year	At 26 March 2005	Change during year net of inflation	Transfer value of change in year net of inflation	27 March 2004	Change during year	Director contributions	26 March 2005	
Ben Gordon	4	4	8	3	22	36	38	11	74	75
Steven Glew	4	3	7	3	19	33	41	11	74	34

*Calculation is 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.

APPENDIX A

Performance criteria for the Long Term Incentive Plan and Share Matching Scheme

The performance targets for the LTIP and SMS schemes granted in 2003 and 2004 in respect of total shareholder return ('TSR') are as follows:

LTIP

Total shareholder return ranking percentage	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

Note:
No part of the awards subject to EPS will vest unless the Company's TSR performance has been above median relative to all general retailers in the FTSE Mid 250 and SmallCap indices.

SMS

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

Note:
No part of the awards subject to EPS will vest unless the Company's TSR performance has been above median relative to all general retailers in the FTSE Mid 250 and SmallCap indices.

The performance targets for the LTIP and SMS schemes granted in 2003 and 2004 in respect of earnings per share (EPS) are as follows:

LTIP

Percentage of award vesting	EPS in 2005/06 for 2003 awards	EPS in 2006/07 for 2004 awards
50%	40p	42.1p
10%	20p	32.3p
10% to 50% (pro rata, on a straight-line basis)	20p to 40p	32.3p to 42.1p
Nil	Below 20p	Below 32.3p

Note:
EPS refers to pre-tax EPS.

SMS

Ratio of award vesting	EPS in 2005/06 for 2003 awards	EPS in 2006/07 for 2004 awards
5:10	40p	42.1p
1:10	20p	32.3p
1:10 to 5:10 (pro rata, on a straight-line basis)	20p to 40p	32.3p to 42.1p
Nil	Below 20p	Below 32.3p

Note:
EPS refers to pre-tax EPS.

Directors' responsibilities for the accounts

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

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

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

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

To the shareholders of Mothercare plc

We have audited the accounts of Mothercare plc for the 52 weeks ended 26 March 2005 which comprise the group profit and loss account, group statement of total recognised gains and losses, balance sheets, reconciliation of movement 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 nine provisions of the July 2003 FRC 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 26 March 2005 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
19 May 2005

Group profit and loss account

For the 52 weeks ended 26 March 2005

	Note	52 weeks ended 26 March 2005 Before exceptional items £ million	Exceptional items (note 3) £ million	Total £ million	52 weeks ended 27 March 2004 Before exceptional items £ million	Exceptional items (note 3) £ million	Total £ million
Turnover	2	457.2	–	457.2	446.9	–	446.9
Cost of sales		(408.0)	(6.5)	(414.5)	(400.7)	0.8	(399.9)
Gross profit		49.2	(6.5)	42.7	46.2	0.8	47.0
Administrative expenses		(31.3)	–	(31.3)	(30.4)	–	(30.4)
Profit from retail operations	2	17.9	(6.5)	11.4	15.8	0.8	16.6
Exceptional items:	3						
Profit on disposal of subsidiary undertaking		–	2.4	2.4	–	2.0	2.0
Profit on disposal of stores		–	–	–	–	4.6	4.6
Interest (net)	4	1.7	–	1.7	0.7	–	0.7
Profit on ordinary activities before taxation		19.6	(4.1)	15.5	16.5	7.4	23.9
Taxation	5	(6.3)	1.9	(4.4)	–	7.3	7.3
Profit on ordinary activities after taxation		13.3	(2.2)	11.1	16.5	14.7	31.2
Dividends	6			(5.5)			(2.7)
Retained profit for the financial year				5.6			28.5
Earnings per share	7			16.2p			46.5p
Earnings per share diluted	7			15.9p			45.7p

All results relate to continuing operations.

Group statement of total recognised gains and losses

For the 52 weeks ended 26 March 2005

	2005 £ million	2004 £ million
Profit for the financial year being total recognised gains and losses relating to the year	11.1	31.2

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

The accounting policies on page 35 and the notes on pages 36 to 46 form an integral part of these statements.

Group and Company balance sheets

As at 26 March 2005

	Note	Group 2005 £ million	Group 2004 £ million	Company 2005 £ million	Company 2004 £ million
Fixed assets					
Tangible assets	8	**87.0**	81.3	**–**	–
Investments in subsidiary undertakings	9	**–**	–	**108.8**	108.8
		87.0	81.3	**108.8**	108.8
Current assets					
Stocks	10	**46.8**	45.0	**–**	–
Debtors	11	**40.8**	34.0	**7.2**	7.1
Cash at bank and in hand and time deposits		**37.0**	40.3	**50.0**	50.1
		124.6	119.3	**57.2**	57.2
Creditors – amounts falling due within one year	12	**(59.5)**	(60.1)	**(90.3)**	(89.6)
Net current assets/(liabilities)		**65.1**	59.2	**(33.1)**	(32.4)
Total assets less current liabilities		**152.1**	140.5	**75.7**	76.4
Creditors – amounts falling due after one year	12	**(0.5)**	(1.2)	**–**	–
Provisions for liabilities and charges	14	**(8.1)**	(3.6)	**–**	–
Net assets		**143.5**	135.7	**75.7**	76.4
Capital and reserves attributable to equity interests					
Called up share capital	15	**35.8**	35.5	**35.8**	35.5
Share premium account	16	**1.3**	0.6	**1.3**	0.6
ESOP reserve	16	**(3.2)**	(4.2)	**(3.2)**	(4.2)
Profit and loss account	16	**109.6**	103.8	**41.8**	44.5
		143.5	135.7	**75.7**	76.4

Approved by the board on 19 May 2005 and signed on its behalf by:

Ben Gordon
Steven Glew

Reconciliation of movement in shareholders' funds

For the 52 weeks ended 26 March 2005

	2005 £ million	2004 £ million
Profit for the financial year	**11.1**	31.2
Dividends	**(5.5)**	(2.7)
New share capital subscribed	**1.0**	0.8
Acquisition of own shares	**–**	(0.2)
Cost of employee share schemes charged to profit and loss account	**1.2**	0.9
Net increase in shareholders' funds	**7.8**	30.0
Shareholders' funds at beginning of the year	**135.7**	105.7
Shareholders' funds at end of the year	**143.5**	135.7

The accounting policies on page 35 and the notes on pages 36 to 46 form an integral part of these statements.

Group cash flow statement

For the 52 weeks ended 26 March 2005

	Note	2005 £ million	2005 £ million	2004 £ million	2004 £ million
Reconciliation of net cash inflow from operating activities					
Profit from retail operations before exceptional items		**17.9**		15.8	
Depreciation		**12.0**		13.0	
Reversal of past impairment losses		**–**		(1.1)	
Loss on disposal of tangible fixed assets		**0.7**		0.9	
Cost of employee share schemes		**1.2**		0.9	
(Increase)/decrease in stocks		**(1.8)**		3.0	
(Increase)/decrease in debtors		**(3.3)**		0.1	
Prepaid special contribution to pension scheme		**(10.0)**		–	
(Decrease)/increase in creditors		**(2.2)**		4.9	
Net cash outflow in respect of exceptional items		**(2.0)**		(0.4)	
Net cash inflow from operating activities			**12.5**		37.1
Net cash inflow from operating activities			**12.5**		37.1
Returns on investments and servicing of finance					
Interest received		**1.8**		0.9	
Interest paid		**(0.1)**		(0.2)	
			1.7		0.7
Capital expenditure					
Purchase of tangible fixed assets		**(18.4)**		(8.5)	
Sale of tangible fixed assets		**1.1**		1.4	
			(17.3)		(7.1)
Trading cash (outflow)/inflow			**(3.1)**		30.7
Acquisitions and disposals					
Sales of subsidiary undertakings			**3.4**		1.3
Equity dividends paid			**(4.6)**		–
Management of liquid resources	a		**30.0**		(30.0)
Financing					
Issue of ordinary share capital		**1.0**		0.8	
Acquisition of own shares		**–**		(0.2)	
			1.0		0.6
Increase in cash in the year			**26.7**		2.6
Reconciliation of net cash flow to movement in net funds					
Increase in cash in the year			**26.7**		2.6
Cash flow from management of liquid resources	a		**(30.0)**		30.0
Movement in net funds in the year			**(3.3)**		32.6
Net cash at the beginning of the year			**40.3**		7.7
Net cash at the end of the year			**37.0**		40.3

Notes to the group cash flow statement

For the 52 weeks ended 26 March 2005

a ANALYSIS OF NET CASH	2003 £ million	Cash flow £ million	2004 £ million	Cash flow £ million	**2005 £ million**
Cash at bank and in hand	7.7	2.6	10.3	26.7	**37.0**
Overdrafts	–	–	–	–	**–**
Net cash at bank and in hand	7.7	2.6	10.3	26.7	**37.0**
Cash flow from management of liquid resources					
Time deposits*	–	30.0	30.0	(30.0)	**–**
Net cash at bank and in hand and time deposits	7.7	32.6	40.3	(3.3)	**37.0**

*Cash on the balance sheet represents the total cash of £37.0 million (2004 – £10.3 million) and time deposits of £nil (2004 – £30.0 million).

The principal accounting policies are summarised below. They have all been applied consistently throughout the 52 weeks ended 26 March 2005 and the preceding 52 weeks ended 27 March 2004.

Basis of accounting

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

Basis of consolidation

The group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 26 March 2005.

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 and assets in course of construction, 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.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Turnover

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

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.

1 BASIS OF PRESENTATION

The Company's accounting period covers the 52 weeks ended 26 March 2005. The comparative period covered the 52 weeks ended 27 March 2004.

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:

	2005 £ million	2004 £ million
UK including Channel Islands	**401.1**	399.1
Rest of Europe	**28.1**	22.6
Rest of World	**28.0**	25.2
	457.2	446.9

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

	2005 £ million	2004 £ million
Depreciation of tangible assets	**12.0**	13.0
Reversal of past impairment losses	**–**	(1.1)
Net rent of properties	**47.4**	46.0
Hire of plant and equipment	**1.9**	1.8
Auditors' remuneration:		
Audit services	**0.2**	0.2
Further assurance services	**0.1**	0.1
Tax services	**0.3**	0.7
Staff costs (including directors):		
Wages and salaries (including bonuses)	**52.6**	52.8
Social security costs	**3.2**	3.0
Other pension costs	**2.6**	3.0

The policy for approval of non-audit fees, together with an explanation of the services provided, 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:

	2005	2004
Number of employees	**5,149**	5,005
Full time equivalents	**3,051**	3,033

Details of directors' emoluments, share options and beneficial interests are provided within the remuneration report on pages 23 to 29.

3 EXCEPTIONAL ITEMS

Exceptional costs of £6.5 million have been charged to profit from retail operations to provide for the direct revenue costs associated with the reorganisation of the distribution network as a result of the move to the new National Distribution Centre.

Exceptional income of £2.4 million has been credited to profit before taxation relating to the sale of a subsidiary undertaking. The group has capital tax losses significantly in excess of likely future requirements and one of the group's subsidiary undertakings with capital tax losses attached has been sold to a third party for £2.4 million net of costs.

The tax effect of the above exceptional items is £1.9 million credit (2004 – £nil).

In the 52 weeks ended 27 March 2004, profit from retail operations included an exceptional credit of £0.8 million relating to VAT, principally arising from the successful outcome of an outstanding VAT claim.

In the 52 weeks ended 27 March 2004, non-operating exceptional items credited to profit before taxation amounted to £6.6 million and comprised the following three items. The release of a prior year provision of £2.6 million no longer required following the early surrender of the lease of a vacant property. Lease premiums of £2.5 million received and receivable on the sales of the leases of four stores offset by a charge of £0.5 million to provide for the loss on disposal of another two stores. The profit on disposal of one of the group's subsidiary undertakings with capital tax losses attached of £2.0 million.

In the 52 weeks ended 27 March 2004, an exceptional tax asset of £6.4 million was 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 was released as an exceptional item since the provision was no longer required.

4 INTEREST (NET)

	2005 £ million	2004 £ million
Interest payable:		
Bank loans and overdrafts (repayable within five years, not by instalments)	**(0.1)**	(0.2)
Interest receivable and similar income	**1.8**	0.9
	1.7	0.7

5 TAXATION

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

	2005 £ million	2004 £ million
Current tax:		
UK corporation tax at 30% (2004 – 30%)	**–**	–
Exceptional release of prior year tax provision (note 3)	**–**	(0.9)
	–	(0.9)
Deferred tax:		
Reversal of deferred tax asset in respect of tax losses utilised against profits for the year	**4.7**	–
Adjustment in respect of prior years	**(0.3)**	–
Exceptional credit for deferred tax (note 3)	**–**	(6.4)
	4.4	(6.4)
	4.4	(7.3)

5 TAXATION CONTINUED

Factors affecting tax charge for the period

	2005 £ million	2004 £ million
Profit on ordinary activities before tax	**15.5**	23.9
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2004 – 30%)	**4.7**	7.2
Effects of:		
Expenses not deductible for tax purposes	**0.8**	0.5
Capital allowances in excess of depreciation	**(0.5)**	0.3
Utilisation of tax losses	**(4.4)**	(8.0)
Exceptional release of prior year tax provision (note 3)	**–**	(0.9)
Tax relief on special contribution to pension scheme	**(0.8)**	–
Movement in short-term timing differences	**0.2**	–
	–	(0.9)

Factors that may affect future tax charges

The group had tax losses carried forward of approximately £23 million as at 26 March 2005 (2004 – £36 million).

Deferred tax

A net deferred tax asset of £2.0 million (2004 – £6.4 million) has been recognised in respect of trading losses carried forward. The deferred tax asset has been recognised because the directors are of the opinion that it is more likely than not that the asset will be recoverable.

Deferred tax therefore comprises:

	2005 £ million	2004 £ million
Accelerated capital allowances	**(4.7)**	(4.8)
Other timing differences	**(0.1)**	0.5
Tax losses	**6.8**	10.7
	2.0	6.4

The movement on the deferred tax asset can be analysed as follows:

	2005 £ million	2004 £ million
Balance at beginning of year	**6.4**	–
Reversal in respect of tax losses utilised against profits for the year	**(4.7)**	–
Adjustment in respect of prior years	**0.3**	–
Exceptional recognition of deferred tax asset in respect of carried forward losses	**–**	6.4
	2.0	6.4

6 DIVIDENDS

	2005 £ million	2004 £ million
Interim paid of 2.7p per ordinary share (2004 – nil pence)	**1.9**	–
Final proposed of 5.3p per ordinary share (2004 – 4.0p)	**3.6**	2.7
	5.5	2.7

7 EARNINGS PER SHARE

	2005	2004
Weighted average number of shares in issue	**68.0m**	67.3m
Dilution – option schemes	**1.2m**	1.1m
Diluted weighted average number of shares in issue	**69.2m**	68.4m
Profit after tax	**£11.1m**	£31.2m
Exceptional items (net of tax)	**£2.2m**	(£14.7m)
Profit after tax before exceptional items	**£13.3m**	£16.5m
Basic earnings per share	**16.2p**	46.5p
Earnings per share before exceptional items	**19.5p**	24.4p
Diluted earnings per share	**15.9p**	45.7p

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.

8 TANGIBLE FIXED ASSETS

	Properties including fixed equipment				
	Freehold £ million	Leasehold £ million	Fixtures, fittings, equipment £ million	Assets in course of construction £ million	**Total £ million**
Cost					
Balance at beginning of year	18.3	103.2	137.3	2.1	260.9
Transfers	–	–	2.1	(2.1)	–
Additions	0.2	2.9	13.3	2.0	18.4
Disposals	–	(1.1)	(1.5)	–	(2.6)
Balance at end of year	**18.5**	**105.0**	**151.2**	**2.0**	**276.7**
Accumulated depreciation					
Balance at beginning of year	1.9	62.4	115.3	–	179.6
Charge for year	0.1	4.8	7.1	–	12.0
Disposals	–	(0.6)	(1.3)	–	(1.9)
Balance at end of year	**2.0**	**66.6**	**121.1**	**–**	**189.7**
Net book value					
Balance at beginning of year	16.4	40.8	22.0	2.1	81.3
Balance at end of year	**16.5**	**38.4**	**30.1**	**2.0**	**87.0**

The net book value of leasehold properties includes £38.2 million (2004 – £40.6 million) in respect of short leasehold properties.

The Company had no fixed assets at either year end.

9 INVESTMENTS

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:

	2005 £ million	2004 £ million
Cost of investments (less amounts written off £153.0 million)	**43.3**	43.3
Loans to subsidiary undertakings	**65.5**	65.5
	108.8	108.8

Comparative figures have been amended, further details are provided in note 16.

10 STOCKS

	Group		Company	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Finished goods and goods for resale	**46.8**	45.0	**–**	–

11 DEBTORS

	Group		Company	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Trade debtors	**11.9**	10.1	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**7.1**	6.0
Prepayments and accrued income	**13.8**	11.9	**–**	–
Prepaid special contribution to pension scheme	**10.0**	–	**–**	–
Other debtors	**3.1**	5.6	**0.1**	1.1
Deferred tax (note 5)	**2.0**	6.4	**–**	–
	40.8	34.0	**7.2**	7.1

12 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR AND AFTER ONE YEAR

	Group		Company	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Amounts falling due within one year				
Trade creditors	**29.8**	25.6	**–**	–
Proposed dividend	**3.6**	2.7	**3.6**	2.7
Amounts due to subsidiary undertakings	**–**	–	**86.3**	86.0
Payroll and other taxes, including social security	**1.2**	1.2	**–**	–
Accruals and deferred income	**24.2**	28.8	**0.4**	0.9
Landlords' contributions	**0.7**	1.0	**–**	–
Other creditors	**–**	0.8	**–**	–
	59.5	60.1	**90.3**	89.6
Amounts falling due after one year				
Landlords' contributions	**0.5**	1.2	**–**	–

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 business review on page 12.

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

Financial risk management

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

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

Finance and interest rate risk

During the 52 weeks ended 26 March 2005, there was a net cash outflow of £3.3 million. However, before the voluntary special contribution to the pension scheme, the group had a net cash inflow of £6.7 million primarily as a result of the improved trading performance and the sustained profitability of the group. Consequently, the short term funding flexibility provided by the group's overdraft facilities has not been required during the year. Excess cash has been placed on deposit where possible.

During the 52 weeks ended 27 March 2004, the cash balance 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 was not required except at the beginning of the year. Excess cash was placed on deposit where possible.

Cash balances 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 £0.1 million (2004 – £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 (2004 – £nil).

Foreign currency risk

About 12 per cent of the sales of Mothercare's UK businesses in the 52 weeks ended 26 March 2005 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 26 March 2005 was £11.1 million (2004 – £8.7 million). The book value of these forward foreign exchange contracts was £nil (2004 – £nil) and their fair value was £11.3 million (2004 – £8.5 million).

Analysis of borrowing by interest rate, currency and maturity

The group had no outstanding borrowings at 26 March 2005 and 27 March 2004.

Borrowing facilities

The group had £20.0 million committed borrowing facilities available to it at 26 March 2005 (2004 – £20.0 million).

Currency analysis of net assets

The group's borrowings and net assets (excluding gross borrowings) by currency at 26 March 2005 were:

	2005		2004	
Currency	**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	**138.7**	**–**	134.4	–
US dollar	**4.8**	**–**	1.3	–
	143.5	**–**	135.7	–

Fair values

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

14 PROVISIONS FOR LIABILITIES AND CHARGES

	Group 2005 £ million	Group 2004 £ million
Property provisions	**1.5**	2.6
Distribution provisions	**5.6**	–
Other provisions	**1.0**	1.0
	8.1	3.6

The movement on provisions can be analysed as follows:

	Property provisions £ million	Distribution provisions £ million	Other provisions £ million	Total £ million
Balance at 27 March 2004	2.6	–	1.0	3.6
Charged in year	–	6.5	0.3	6.8
Utilised in year	(1.1)	(0.9)	(0.3)	(2.3)
Balance at 26 March 2005	**1.5**	**5.6**	**1.0**	**8.1**

Property provisions principally represent the costs of store disposals. The timing of the utilisation of these provisions is variable dependent upon the lease expiry dates of the properties concerned.

Distribution provisions principally represent the costs of the reorganisation of the distribution network, of which the main components relate to lease provisions on vacant property and start up costs. It is expected that substantially all of the distribution provisions will be utilised by March 2007.

Other provisions principally represent provisions for uninsured losses, hence the timing of the utilisation of these provisions is uncertain.

15 CALLED-UP SHARE CAPITAL

	Number of shares	£ million
Authorised		
Ordinary shares of 50p each:		
Balance at 27 March 2004 and 26 March 2005	95,767,413	47.9
Allotted, called-up and fully paid		
Ordinary shares of 50p each:		
Balance at 27 March 2004	71,062,086	35.5
Issued under the Mothercare 2000 Executive Share Option Plan	327,179	0.2
Issued under the Mothercare Sharesave Scheme	226,472	0.1
Balance at 26 March 2005	71,615,737	35.8

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

16 RESERVES

	Share premium account £ million	ESOP reserve £ million	Profit and loss account £ million
			Group
As at 27 March 2004	**0.6**	**(4.2)**	**103.8**
Net premium on shares issued	**0.7**	**–**	**–**
Cost of employee share schemes	**–**	**1.2**	**–**
Transfer in respect of vested employee share based payment transactions	**–**	**(0.2)**	**0.2**
Retained profit for the financial year	**–**	**–**	**5.6**
As at 26 March 2005	**1.3**	**(3.2)**	**109.6**

The ESOP reserve represents the cost to 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 23 to 29. The total shareholding is 3,402,053 (2004 – 3,558,951) with a market value at 26 March 2005 of £9,423,687.

	Share premium account £ million	ESOP reserve £ million	Profit and loss account £ million
			Company
As at 27 March 2004	**0.6**	**(4.2)**	**44.5**
Net premium on shares issued	**0.7**	**–**	**–**
Cost of employee share schemes	**–**	**1.2**	**–**
Transfer in respect of vested employee share based payment transactions	**–**	**(0.2)**	**0.2**
Retained loss for the financial year	**–**	**–**	**(2.9)**
As at 26 March 2005	**1.3**	**(3.2)**	**41.8**

Following clarification that the Company is the sponsoring company of Mothercare Employee Trust, investments in the Company balance sheet have been amended to show the Company's investment in own shares as a deduction from equity, the ESOP reserve. This had no effect on the Company's result for the period.

The Company loss for the financial year was £2.9 million (2004 – £2.6 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 audit fees for the Company were borne by another group company.

The cumulative amount of goodwill written off against reserves is £30.1 million (2004 – £30.1 million). This goodwill arose on acquisitions, net of amounts written back on subsequent disposals.

17 COMMITMENTS

	Group	
	2005 £ million	2004 £ million
Contracts for capital expenditure	**5.3**	–

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

	Buildings		Other	
	2005 £ million	2004 £ million	**2005 £ million**	2004 £ million
Leases which expire:				
Within one year	**2.4**	1.9	**0.3**	0.3
Between two and five years	**7.0**	6.2	**1.2**	1.6
After five years	**43.8**	42.6	**–**	–
	53.2	50.7	**1.5**	1.9

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 have been brought forward by one year and will now be carried out as at 31 March 2005.

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 £2.4 million (2004 – £2.7 million). Total contributions made to the pension schemes in the year were £12.4 million, including a special contribution of £10 million, and the contribution rate for 2005/06 will be 13 per cent of pensionable earnings. Actuarial advice indicated that the assets of the schemes no longer fully cover the liabilities for benefits accrued to members and, in mitigation, the group made a special contribution of £10 million during the year. In accordance with SSAP 24, this is held as a prepayment of £10 million in the balance sheet as at 26 March 2005 (2004 – £nil).

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.

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

b) FRS 17 disclosures

Additional disclosures regarding the group's defined benefit pension schemes are required under the transitional provisions of FRS 17 'Retirement Benefits' and these are set out below. They provide information which would have been necessary for full implementation of FRS 17 in the 53 weeks ending 1 April 2006; however, due to changes in the regulatory requirements, the Mothercare plc accounts for the 53 weeks ending 1 April 2006 will be prepared in accordance with International Financial Reporting Standards.

The full actuarial valuation described above was updated at 26 March 2005 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:

	2005	2004	2003
Rate of increase in salaries	**4.3 per cent**	4.7 per cent	4.4 – 5.4 per cent
Rate of increase in pensions in payment	**2.8 per cent**	2.7 per cent	2.4 per cent
Discount rate	**5.5 per cent**	5.5 per cent	5.4 per cent
Inflation assumption	**2.8 per cent**	2.7 per cent	2.4 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:

	2005		2004		2003	
	per cent	**£ million**	per cent	£ million	per cent	£ million
Equities	**8.5**	**88.7**	8.5	88.2	9.0	67.7
Bonds	**5.5**	**19.5**	5.5	8.9[1]	5.4	8.7
Property	**7.5**	**25.0**	7.5	23.1	7.5	20.4
Other assets	**4.5**	**0.5**	–	–	–	–
Special contribution[2]	**8.0**	**10.0**	–	–	–	–
Total fair value of assets		**143.7**		120.2		96.8
Present value of scheme liabilities		**(165.8)**		(142.4)		(128.5)
Deficit in the schemes		**(22.1)**		(22.2)		(31.7)
Related deferred tax asset		**6.6**		6.7		9.5
Net pension liability		**(15.5)**		(15.5)		(22.2)

Notes:
1. The information received from the investment manager and supplied to the actuary for the fair value of bonds held by the schemes as at 27 March 2004 was incorrect. Accordingly the comparative figure has been amended from £7.0 million to £8.9 million which has had the effect of reducing the net deficit in the schemes from £16.9 million to £15.5 million.
2. The special contribution of £10 million received from the Company was held in cash at the balance sheet date and has subsequently been invested in line with the scheme's investment asset allocation policy.

Movement in the deficit in the schemes during the year:

	2005 £ million	2004 £ million
Deficit at beginning of year	**(22.2)**	(31.7)
Operating costs	**(4.5)**	(4.9)
Normal contributions	**2.4**	2.7
Special contribution	**10.0**	–
Other finance income	**1.7**	1.1
Actuarial (loss)/gain	**(9.5)**	10.6
Deficit at end of year	**(22.1)**	(22.2)

The contribution rate for the 52 weeks ended 26 March 2005 was 13 per cent of pensionable earnings and the agreed contribution rate for the next year is 13 per cent of pensionable earnings.

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

	2005 £ million	2004 £ million
Current service cost	**4.5**	4.9

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

	2005 £ million	2004 £ million
Expected return on pension scheme assets	**9.6**	8.1
Interest on pension scheme liabilities	**(7.9)**	(7.0)
	1.7	1.1

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

	2005 £ million	2004 £ million
Actual return less expected return on pension scheme assets	**3.2**	14.7
Experience gains and losses arising on the scheme liabilities	**(2.9)**	0.2
Changes in assumptions underlying the present value of the scheme liabilities	**(9.8)**	(4.3)
	(9.5)	10.6

History of experience gains and losses:

	2005	2004	2003
Difference between the expected and actual return on scheme assets	**£3.2m**	£14.7m	(£36.4m)
As a percentage of scheme assets	**2.2%**	12.2%	(37.6%)
Experience gains and losses on scheme liabilities	**(£2.9m)**	£0.2m	–
As a percentage of the present value of scheme liabilities	**(1.8%)**	0.1%	0.0%
Total actuarial (loss)/gain recognised in the statement of total recognised gains and losses	**(£9.5m)**	£10.6m	(£45.4m)
As a percentage of the present value of scheme liabilities	**(5.7%)**	7.4%	(35.3%)

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

	Group	
	2005 £ million	2004 £ million
Profit and loss account reserves excluding pension liability	**109.6**	103.8
Amount relating to defined benefit pension schemes' liability, net of deferred tax	**(15.5)**	(15.5)
Prepaid special contribution to pension scheme, net of deferred tax	**(7.0)**	–
Profit and loss account reserves	**87.1**	88.3

19 EMPLOYEE AND EXECUTIVE SHARE SCHEMES

The Mothercare Sharesave Scheme (SAYE)

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

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

The Mothercare 2000 Executive Share Option Plan

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

Mothercare Employee Trust

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 26 March 2005 under the group's share option schemes were as follows:

	Ordinary shares 2005	Date of grant	Option price (p)
Mothercare 2000 Executive Share Option Plan	**156,101**	May 01	300.00
	25,246	July 01	325.00
	424,272	June 02	207.00
	312,500	Dec 02	104.00
	275,863	Jan 03	87.00
	402,011	Mar 03	99.50
	387,500	June 04	335.00
	20,000	Nov 04	299.00
Mothercare Sharesave Scheme	**2,170**	Dec 00	125.00
	23,135	June 01	255.00
	671,642	Aug 03	155.00
	2,700,440		

Five year record

SUMMARY OF TURNOVER AND PROFIT	**2005 £ million**	2004 £ million	2003 £ million	2002 £ million	2001 £ million
Turnover					
Continuing – Mothercare	**457.2**	446.9	431.7	426.9	419.1
Discontinued	**–**	–	–	–	89.9
Total	**457.2**	446.9	431.7	426.9	509.0
Profit/(loss) from retail operations before exceptional items					
Continuing – Mothercare	**17.9**	15.8	(19.7)	3.0	7.1
Discontinued	**–**	–	–	–	(6.7)
Before exceptional items	**17.9**	15.8	(19.7)	3.0	0.4
Exceptional items	**(4.1)**	7.4	(5.2)	(4.1)	4.9
Interest and other items	**1.7**	0.7	0.1	1.2	3.1
Profit/(loss) before taxation	**15.5**	23.9	(24.8)	0.1	8.4
Taxation	**(4.4)**	7.3	10.0	–	–
Profit/(loss) for the financial year	**11.1**	31.2	(14.8)	0.1	8.4
Earnings/(loss) per share	**16.2p**	46.5p	(22.0p)	0.2p	6.0p
Dividends per share	**8.0p**	4.0p	–	2.5p	1.5p

SUMMARY OF BALANCE SHEETS					
Fixed assets	**87.0**	81.3	85.6	88.6	87.7
Net current assets	**65.1**	59.2	27.0	37.3	41.8
Creditors falling due after one year	**(0.5)**	(1.2)	(2.2)	(2.8)	(2.4)
Provisions for liabilities and charges	**(8.1)**	(3.6)	(4.7)	(2.7)	(4.4)
Total net assets	**143.5**	135.7	105.7	120.4	122.7

OTHER KEY STATISTICS					
Share price at year end (p)	**277.0**	354.0	101.5	232.5	206.75
Net cash/equity (%)	**25.8**	29.7	7.0	9.8	27.4
Capital expenditure	**18.4**	8.5	13.4	10.7	11.2
Depreciation	**12.0**	13.0	11.6	11.6	11.4
Rents	**47.4**	46.0	45.7	44.1	41.3
Number of stores	**231**	233	241	245	252
Net selling space (000's sq ft)	**1,858**	1,863	1,922	1,927	1,980
Average number of employees	**5,149**	5,005	5,032	5,201	5,353
Average number of full time equivalents	**3,051**	3,033	3,109	3,111	3,167

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

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

Shareholder analysis

A summary of holdings as at 12 May 2005 is as follows:

	Mothercare ordinary shares	
	Number of shares million	Number of shareholders
Banks, insurance companies and pension funds	**0.4**	**14**
Nominee companies	**65.8**	**774**
Other corporate holders	**0.5**	**114**
Individuals	**4.9**	**26,547**
	71.6	**27,449**

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	2005	2004
Share price at 24 March 2005 (26 March 2004)	**277.0p**	354.0p
Market capitalisation	**£198.4m**	£251.6m
Share price movement during the year:		
High	**374.0p**	383.0p
Low	**277.0p**	100.0p

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

Financial calendar	2005
Annual General Meeting	15 July
Announcement of interim results	17 November

	2006
Payment of interim dividend	February
Preliminary announcement of results for 53 weeks ending 1 April 2006	end May
Issue of report and accounts	mid June
Annual General Meeting	mid July
Payment of final dividend	mid August

Registered office and head office

Cherry Tree Road, Watford, Hertfordshire WD24 6SH
Telephone 01923 241000
www.mothercare.com
Registered number 1950509

Company secretary

Clive E Revett

Registrars

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

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

Low cost share dealing service

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

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

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. The share transfer form needed to make a donation may be obtained from the Mothercare plc registrars, Lloyds TSB Registrars.

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

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

Stores
UK stores | 231
Europe | 106
Rest of the world | 114

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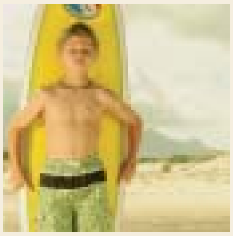






Mothercare plc
Cherry Tree Road
Watford
Hertfordshire
WD24 6SH

T 01923 241000
F 01923 240944
www.mothercare.com

Registered in England number 1950509