mothercare

Interim report 2005

www.mothercare.com

Mothercare at a glance

Breakdown of sales

	£m
Total UK	215.9
Mothercare International	34.5
Total	250.4

Stores at 8 October 2005

	Stores	Total selling area (000s sq ft)
Out-of-town	74	1,150
High street	158	720
Total UK stores	**232**	**1,870**
International (franchise stores)*	247	562
Total	**479**	**2,432**

	Europe	Middle East	Far East	Other	Total
*International franchise stores	119	81	44	3	247

Growing through specialism, efficiency and reach.

Product % of total UK sales

home & travel 49%

clothing 39%

toys 11%

other 1%

Chief executive's review

In May 2003 we outlined a three-year turnaround programme, with the objective of stabilising and rebuilding Mothercare, followed by a longer-term growth plan. We have achieved an enormous amount since that time, resulting in significant improvements in sales and gross margins. The achievements of the turnaround programme have provided resilience in the current difficult UK trading environment and enabled the rapid growth of the International business.

Total sales for the first half are up 3.0 per cent, with profit before tax up 4.6 per cent to £11.4 million. The strong growth in profitability of our International business has partly offset a reduction in profit in our UK business. In the UK we have grown sales and gross margins, however whilst we have controlled costs tightly, the growth in costs has been greater than the growth in income leading to a reduction in retail operating profit. The increase in gross margin has been impacted as we have continued to be competitive in our pricing and reacted to the trading environment.

Our product ranges have been revamped to meet the needs and aspirations of today's customers, our stores have been transformed, our infrastructure is now providing real efficiency benefits and our customer service levels have shown a significant improvement. In addition, we are on track and on budget to deliver our new distribution network.

Strategy

The turnaround strategy provided an excellent roadmap to recovery. With three years of stability now under our belt, and strong controls introduced into the business, we are in a much better position to grasp the many opportunities still ahead of us. To this end, we are now looking to growth under a new roadmap, the three key areas of which are specialism, efficiency and reach.

SPECIALISM

Mothercare has a clear customer proposition as a speciality retailer for pregnant women and parents of young children. We will continue to develop this point of differentiation with particular focus on our products, our stores and our customer service.

Product

The improvements we have made to the quality, design and value of our ranges have significantly repositioned our product offer. The 'good, better, best' pricing architecture that we introduced is a key element of this success and has ensured we have competitive entry price points whilst also offering our customers more fashionable product. We are taking product development to a new level with the further expansion of our sub-brands. An example of this is MODA maternity wear store-within-stores. The 12 trial stores have been successful and we plan to roll out to 50 more stores in the next six months. Our gift offer, which focuses on our core market of birth to age two, has been successfully launched and is now available in all our stores. We are now extending this offer to other seasonal events and will have a much stronger Christmas gift range in store this year. These and other opportunities in the product area will continue to build our sales growth.

+3%	£215.9m	+17%
GROUP SALES UP 3% TO £250.4 MILLION (2004: £243.2 MILLION)	UK SALES UP 1% TO £215.9 MILLION (2004: £213.7 MILLION)	INTERNATIONAL SALES UP 17% TO £34.5 MILLION (2004: £29.5 MILLION)

Stores

The ranging and presentation of our stores is an important aspect of our specialism. Our stores need to be accessible and inviting, with the widest offer possible to attract and satisfy our customers.

We have now refitted the majority of our 158 high street stores – improving the customer environment and refocusing the ranges presented. We have also 'web-enabled' all of our stores allowing customers access to our complete catalogue range, regardless of store size.

We are now turning more attention to our 74 out-of-town stores. Whilst these stores are generally in a good physical condition and carry the bulk of our range, we believe there is significant opportunity to extend our customer offer, thereby improving sales densities and profitability. To this end, we are planning to trial a number of formats to make the shopping experience easier and more interesting for our customers.

Service

Given the nature of the products we sell, a high level of customer service is critical to our success. The work we have been doing on specialist staff training has been bedded down and we now have experts in most stores in key areas of our business. Performance is closely measured and linked to staff rewards. The benefits of this training are beginning to show through in the results of our Mystery Shopper programme, which show significant improvements.

EFFICIENCY

Our speciality proposition needs world-class operational support to drive profitability. This is heightened by the current trading environment, with pressure on both customer spending and our cost base in major areas such as payroll, energy and property. With constantly improving direct sourcing, our new supply chain and a more effective infrastructure we can engineer further costs out of the business and run it more efficiently.

Sourcing

A vital element of our plans is to improve the efficiency of our product purchasing processes. This involves sourcing product in the most cost efficient way, whilst shortening order lead times, maintaining product quality and achieving our demanding supplier standards. An important aspect is sourcing product directly from suppliers. We have increased our direct sourcing of our clothing and we are moving towards a level of 40 per cent directly sourced compared to 15 per cent three years ago, and we are on track to achieve a target of 50 per cent direct sourcing within two years.

Supply chain

The programme to transform our distribution network into a world-class supply chain is proceeding to schedule. We have completed the first phases of the plan to time and budget. The new National Distribution Centre now handles 60 per cent of our product by volume and all despatches to stores are from this facility.

+4.6%	11.3p	+5.6%
PROFIT BEFORE TAX UP 4.6% TO £11.4 MILLION (2004: £10.9 MILLION)	EARNINGS PER SHARE UP 1.8% TO 11.3p (2004: 11.1p)	DIVIDEND UP 5.6% TO 2.85p (2004: 2.70p)

The final phase of this programme is the transfer of the balance of our boxed product. This phase is scheduled for completion in the late Summer of 2006. Once this programme is complete it will form the platform for further improvements in our supply chain.

The update of our distribution network is only a stage, albeit a key stage, in the transformation of our supply chain. We have more to do in planning and managing the flow of product through our business, to drive down total supply chain costs, improve availability and reduce total stockholdings.

Our target remains to reduce UK store distribution costs to 6.0 per cent by March 2007 (current 6.4 per cent) with a long term target of 5 per cent which compares with 8.5 per cent three years ago. Our target for availability is to increase the level to 95 per cent (current 88 per cent) compared to 65 per cent three years ago. We also plan to reduce stock levels significantly.

Our International distribution network continues to increase its impact with some 20 per cent of our volume handled through our Dubai distribution centre and some 15 per cent through our Singapore centre.

Infrastructure

We continue to focus on driving down our controllable operating costs to help improve profitability to offset inflationary cost increases particularly in property rental and rates, energy and store labour costs.

An important aspect is the efficiency of our in-store processes, whilst allowing our staff to provide the required customer service levels. A vital element here is our new EPOS system, which is now in 200 stores, covering 90 per cent of our sales. This system has already substantially reduced till service times and back office time. Following completion of the roll out of the base system, due by March 2006, we plan to add additional functionality, which will further improve customer service and store efficiency.

REACH

We will continue to extend our reach to be more accessible to more customers, both in the UK and around the world.

We will achieve this by ensuring our UK stores are the right size and in the right place, that our Direct business fulfils its potential and that our International business continues its strong growth.

UK stores

We have opened nine new stores since August 2004. These have included one new in town store, six new out of town stores and two replacement in town stores, where we have relocated to a preferable size and location. Three months in and the relocated and resized stores are more profitable than they were previously.

We have closed five non-performing stores in the half year and intend to close some five more by the year end.

We continue to see opportunities for a further 50 UK stores.

Mothercare Direct

Our Direct business is central to our multi-channel strategy. This business comprises home shopping (internet at home and telephone catalogue ordering) together with internet in stores (web enabled stores). Direct is already a strong business and we see significant opportunities to extend product ranges and improve on-line shopping. Staff and customers are making better use of our web-in-store, which is now in every store. We are also making better use of speciality catalogues for products such as gift and first bedroom, which have proved very popular. We plan to expand the range available over the internet.

International

Our International business represents a substantial growth opportunity for Mothercare. Our brand has strong awareness internationally and a sustained quality perception. We now trade in 33 countries through 247 stores with 22 franchisee partners. We have long established relationships with the majority of our franchisees.

We see potential for at least another 150 international stores over the next three years. Some 50 of these have opened this year. We will grow through existing franchisees, both in their current countries and in new countries. We are also progressing opportunities to develop in new countries with new franchisees. An example of this is the agreement we have recently signed with Shoppers' Stop to develop a franchise in India, with the first store due to open in March 2006. We have agreed a plan with our new partner to open at least 40 stores over the next four years.

Outlook

During the half we continued to consolidate the improvements made to the business over the past three years. We have continued to rejuvenate our stores and ranges, our new distribution warehouse move is on time and on budget and our customer service programmes are producing results. We are now looking to grow the business with greater focus on our specialism, our efficiency and by expanding our reach through our UK store portfolio, growing our Direct business and continuing our International expansion.

The work we have done to rebuild the business over the past three years means that we are in a stronger position than in the past, despite the trading environment continuing to be tough. We have ensured the business is in good shape and everything within our control is being tightly managed to compete effectively.

Ben Gordon

Ben Gordon
Chief executive

Results summary

Total group sales have increased by 3.0 per cent to £250.4 million (2004: £243.2 million) with like-for-like UK store sales down by 1.0 per cent. Profit from retail operations decreased by 3.2 per cent to £9.0 million (2004: £9.3 million).

The results can be summarised as follows:

	28 weeks to 8 October 2005 £ million	28 weeks to 9 October 2004 £ million
Revenue (ex VAT)	**250.4**	243.2
Profit from retail operations	**9.0**	9.3
Profit on disposal of property interests	**0.7**	–
Profit from operations	**9.7**	9.3
Net interest income	**1.7**	1.6
Profit before tax	**11.4**	10.9
Taxation	**(3.7)**	(3.4)
Profit after tax	**7.7**	7.5
Earnings per share	**11.3p**	11.1p

Group revenue and profit from retail operations:

	Revenue 2005 £ million	Revenue 2004 £ million	Profit from retail operations 2005 £ million	Profit from retail operations 2004 £ million
Total UK	**215.9**	213.7	**4.4**	5.3
Mothercare International	**34.5**	29.5	**4.6**	4.0
Total	**250.4**	243.2	**9.0**	9.3

IFRS ACCOUNTING STANDARDS

The above results have been prepared under International Financial Reporting Standards ('IFRS') and prior year figures have been restated accordingly.

DIVISIONAL PERFORMANCE

UK

Total UK sales increased by 1.0 per cent to £215.9 million. Total UK store sales increased by 0.6 per cent to £205.9 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) decreased by 1.0 per cent. The net sales gain due to store openings and closures was 1.6 per cent. Six stores were opened during the period and five were closed.

Mothercare Direct sales increased by 9.2 per cent to £10.0 million as a result of improved product ranges and improved marketing.

Overall UK gross margins have increased by 0.2 per cent in the period despite the challenging trading environment. Our sourcing strategy has continued to provide gross margin gains, which have been partly offset by a reduction in retail selling prices as we have continued to price our products competitively.

UK profit from retail operations reduced by 17.0 per cent to £4.4 million from £5.3 million last year. The increase in sales and gross margin has been more than offset by the growth of UK operating costs.

The increase in operating costs has been restricted to 2.5 per cent. Significant inflationary increases in property, energy and store payroll (including the investment in upskilling our store teams) have been partly compensated by tight control of other operating costs particularly central costs and store controllable costs. UK store distribution costs have remained at 6.4 per cent of sales, the same level as last year.

UK performance includes an exchange gain of £0.6 million arising from the 'marking to market' of foreign exchange contracts which hedge purchase commitment in foreign currency.

Mothercare International

Mothercare International, our overseas franchise business, performed well with sales growing by 17.0 per cent to £34.5 million and profit from retail operations growing 15.0 per cent to £4.6 million. Overall franchisee sales grew by 25 per cent, based on 8 per cent like-for-like growth together with the addition of 29 new stores, taking the total to 247 at the end of the half.

We have opened stores in five new countries, including Indonesia and Pakistan and now trade in 33 countries. Our franchisees have also refurbished 11 stores as part of their continuing commitment to provide a modern and attractive store environment.

The net margins of our International business for the half year have decreased to 13.3 per cent from 13.6 per cent last year. This is due to higher distribution costs that will be recovered from franchisees in the second half, so we would expect the net margin rate for the full year to be ahead of last year. Our new Far East distribution centre in Singapore is helping to improve the flow of product and improve availability for our franchisees. Some 15 per cent of our International volume is now distributed through this facility.

PROFIT ON DISPOSAL OF PROPERTY INTERESTS

The operating credit of £0.7 million relates to the net gain on disposal of the leasehold interest of a closed store in the period.

INTEREST

Net interest income increased to £1.7 million from £1.6 million last year. Under IFRS this figure now includes pension scheme investment income and finance costs, before which net interest income decreased to £0.7 million from £0.9 million last year, principally as a result of the lower average cash balances following the £10 million special pension contribution made at the end of the last financial year.

TAXATION

Due to the tax losses we have brought forward of some £23 million, no tax will actually be paid for the half year. The tax charge of £3.7 million, representing an effective tax rate of 32 per cent, reflects utilisation of these losses in respect of which a deferred tax asset existed at the end of last year.

BALANCE SHEET AND CASH FLOW

The group had a net cash outflow of £2.6 million in the period, leading to the cash balance at the end of the half year of £34.4 million (2004: £41.4 million). Cash balances have reduced on last year due to the special pension contribution of £10 million made in March 2005.

An increase in working capital of £7.7 million in the half is principally due to an increase in stock and debtors as a result of our growing International operations.

Capital expenditure for the period was £8.8 million (2004: £10.3 million), of which the cost of new stores was £4 million.

DIVIDEND

The directors are pleased to recommend an interim dividend for the year of 2.85 pence (2004: 2.7 pence) an increase of 5.6 per cent.

The interim dividend will be payable to shareholders registered on Friday 6 January 2006. The latest date for election to join the dividend re-investment plan is Friday 20 January 2006.

PENSIONS

The pension scheme valuation has been updated under IFRS for accounting purposes as at 8 October 2005. This has resulted in an increase in the gross deficit from the year end of £11.2 million to £33.6 million (an increase of £8.3 million to £21.7 million net of deferred tax). This increase in deficit has arisen mainly due to the impact of a lower discount rate offset by an increase in asset values. This movement has been taken through the Statement of Recognised Income and Expense. The board is aware of our long term pension responsibilities and recent pension legislation and as a result is keeping the pension position constantly under review.

Steven Glew
Finance director

Consolidated income statement

For the 28 weeks ended 8 October 2005
(unaudited)

	Note	28 weeks ended 8 October 2005 £ million	28 weeks ended 9 October 2004 £ million	52 weeks ended 26 March 2005 £ million
Revenue		**250.4**	243.2	457.2
Cost of sales		**(225.5)**	(216.7)	(408.1)
Reorganisation of distribution network	2	**–**	–	(6.5)
Gross profit		**24.9**	26.5	42.6
Administrative expenses		**(15.9)**	(17.2)	(32.4)
Profit from retail operations	3	**9.0**	9.3	10.2
Profit on disposal of property interests	4	**0.7**	–	–
Profit from operations		**9.7**	9.3	10.2
Profit on disposal of subsidiary undertaking	5	**–**	–	2.4
Profit before financing and taxation		**9.7**	9.3	12.6
Investment income	6	**6.5**	5.8	10.9
Finance costs	7	**(4.8)**	(4.2)	(8.0)
Profit before taxation		**11.4**	10.9	15.5
Taxation	8	**(3.7)**	(3.4)	(4.2)
Profit for the period attributable to equity holders of the parent		**7.7**	7.5	11.3
Earnings per share				
Basic	10	**11.3p**	11.1p	16.6p
Diluted	10	**11.1p**	10.9p	16.3p

All results relate to continuing operations.

Consolidated statement of recognised income and expense

For the 28 weeks ended 8 October 2005
(unaudited)

	28 weeks ended 8 October 2005 £ million	28 weeks ended 9 October 2004 £ million	52 weeks ended 26 March 2005 £ million
Actuarial losses on defined benefit pension schemes	**(11.0)**	(2.4)	(9.3)
Tax on items taken directly to equity	**3.3**	0.7	3.1
Net expenses recognised directly in equity	**(7.7)**	(1.7)	(6.2)
Profit for the period	**7.7**	7.5	11.3
Total recognised income and expense for the period attributable to equity holders of the parent	**–**	5.8	5.1

Consolidated balance sheet

As at 8 October 2005
(unaudited)

	Note	**8 October 2005 £ million**	9 October 2004 £ million	26 March 2005 £ million
Non-current assets				
Property, plant and equipment		**85.8**	82.5	84.3
Intangible assets – software		**3.2**	2.2	2.7
Deferred tax asset		**13.3**	11.9	13.6
		102.3	96.6	100.6
Current assets				
Inventories		**48.7**	45.9	46.8
Trade and other receivables		**32.4**	30.3	28.8
Cash and cash equivalents		**34.4**	41.4	37.0
		115.5	117.6	112.6
Total assets		**217.8**	214.2	213.2
Current liabilities				
Trade and other payables	11	**(52.8)**	(57.1)	(55.9)
Short term provisions	12	**(4.9)**	(1.8)	(5.1)
		(57.7)	(58.9)	(61.0)
Non-current liabilities				
Trade and other payables	11	**(8.9)**	(8.1)	(7.8)
Retirement benefit obligations		**(33.6)**	(25.3)	(22.4)
Long term provisions	12	**(1.4)**	(0.7)	(3.0)
		(43.9)	(34.1)	(33.2)
Total liabilities		**(101.6)**	(93.0)	(94.2)
Net assets		**116.2**	121.2	119.0
Equity attributable to equity holders of the parent				
Called up share capital		**35.9**	35.8	35.8
Share premium account		**1.4**	1.2	1.3
Own shares		**(4.8)**	(4.6)	(5.5)
Retained earnings		**83.7**	88.8	87.4
Total equity		**116.2**	121.2	119.0

Consolidated cash flow statement

For the 28 weeks ended 8 October 2005
(unaudited)

	28 weeks ended 8 October 2005 £ million	28 weeks ended 9 October 2004 £ million	52 weeks ended 26 March 2005 £ million
Net cash flow from operating activities	**8.5**	11.8	12.5
Cash flows from investing activities			
Interest received	**0.8**	1.0	1.8
Interest paid	**(0.1)**	(0.1)	(0.1)
Purchase of property, plant and equipment	**(8.8)**	(10.3)	(18.4)
Proceeds from sale of property, plant and equipment	**0.4**	–	1.1
Proceeds from sale of subsidiary undertaking	**–**	0.5	3.4
Net cash used in investing activities	**(7.7)**	(8.9)	(12.2)
Cash flows from financing activities			
Equity dividends paid	**(3.6)**	(2.7)	(4.6)
Issue of ordinary share capital	**0.2**	0.9	1.0
Net cash used in financing activities	**(3.4)**	(1.8)	(3.6)
Net (decrease)/increase in cash and cash equivalents	**(2.6)**	1.1	(3.3)
Cash and cash equivalents at beginning of period	**37.0**	40.3	40.3
Cash and cash equivalents at end of period	**34.4**	41.4	37.0

Reconciliation of cash flow from operating activities

For the 28 weeks ended 8 October 2005
(unaudited)

	28 weeks ended 8 October 2005 £ million	28 weeks ended 9 October 2004 £ million	52 weeks ended 26 March 2005 £ million
Profit from retail operations	**9.0**	9.3	10.2
Adjustments for:			
Depreciation of property, plant and equipment	**6.7**	6.4	12.0
Loss on disposal of property, plant and equipment	**0.1**	0.5	0.7
Cost of employee share schemes	**0.7**	0.4	0.8
Charge to profit from operations in respect of costs of reorganisation of distribution network	**–**	–	6.5
Utilisation of provision for costs of reorganisation of distribution network	**(1.3)**	–	(0.9)
Utilisation of property provisions	**(0.2)**	(1.0)	(1.1)
Payments to retirement benefit schemes	**(1.3)**	(1.4)	(12.4)
Charge to profit from operations in respect of the service costs of retirement benefit obligations	**2.5**	2.1	3.9
Operating cash flow before movements in working capital	**16.2**	16.3	19.7
Increase in inventories	**(1.9)**	(0.8)	(1.8)
Increase in receivables	**(3.6)**	(2.7)	(3.3)
Decrease in payables	**(2.2)**	(1.0)	(2.1)
Net cash flow from operating activities	**8.5**	11.8	12.5

Analysis of cash and cash equivalents

As at 8 October 2005
(unaudited)

	8 October 2005 £ million	9 October 2004 £ million	26 March 2005 £ million
Cash at bank and in hand	**34.4**	21.4	37.0
Time deposits	**–**	20.0	–
	34.4	41.4	37.0

Notes

1 GENERAL INFORMATION AND ACCOUNTING POLICIES

a) The next annual financial statements of the Company will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU. The financial information contained in these interim accounts has been prepared on the basis of IFRS that the Company expects to be applicable as at 1 April 2006. IFRS are subject to amendment and interpretation by the International Accounting Standards Board (IASB) and there is an ongoing process of review and endorsement by the European Commission.

The accounting policies followed in the interim financial report are the same as those included within the document 'Adoption of IFRS – Restatement of 2005 financial information' which the Company issued on 15 July 2005 and which is available on the Company's website, www.mothercare.com/investorinfo with the exception of the adoption of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.

The Company has elected to apply the exemption available within IFRS 1 'First-time Adoption of International Financial Reporting Standards' that permits the hedge accounting applied under the previous Generally Accepted Accounting Principles (GAAP) to be used as a comparative for IAS 39. Hence the change in accounting policy has had no impact on the results of the prior period. The impact on the opening balance sheet is set out in note 14.

b) The results for the 28 weeks ended 8 October 2005 are unaudited and were approved by the board of directors on 17 November 2005. The results for the 52 weeks ended 26 March 2005 included in this report do not constitute statutory accounts for the purpose of section 240 of the Companies Act 1985. A copy of the statutory accounts for the 52 weeks ended 26 March 2005 under UK GAAP, on which an unqualified report has been made by the auditors under section 235 of the Companies Act 1985, has been delivered to the Registrar of Companies.

c) Profit from retail operations

Profit from retail operations represents the profit generated from normal retail trading, prior to any gains or losses on property transactions. It also includes the volatility arising from accounting for derivative financial instruments under IAS 39, as the Company has not adopted hedge accounting.

d) Underlying earnings

Certain items do not reflect the underlying trading performance of the Company, principally gains and losses on disposal of property interests, reorganisation costs and other non-operating items, such as the prior year disposal of a subsidiary undertaking with capital tax losses attached. The Company believes that underlying earnings provides additional useful information for shareholders. The term underlying earnings is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. It is not intended to be a substitute for, or superior to, IFRS measures of profit. The adjustments made to reported profit to arrive at underlying earnings are disclosed in note 10.

e) Retirement benefits

In consultation with the independent actuaries to the schemes, the valuation of the pension liability has been updated to reflect current market discount rates, current market values of investments and actual investment returns, and also considering whether there have been any other events that would significantly affect the pension liabilities. The impact of these changes in assumptions and events has been estimated in arriving at the valuation of the pension liability.

2 REORGANISATION OF DISTRIBUTION NETWORK

During the 52 weeks ended 26 March 2005, costs of £6.5 million were charged to gross profit 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.

3 PROFIT FROM RETAIL OPERATIONS

For the 28 weeks ended 8 October 2005, profit from retail operations is stated after crediting a net gain of £0.6 million to cost of sales as a result of the Company's decision not to adopt hedge accounting under IAS 39. As these gains result from the first-time application of IAS 32 and IAS 39, as discussed in notes 1 and 14, there are no comparative figures for the prior periods.

4 PROFIT ON DISPOSAL OF PROPERTY INTERESTS

During the 28 weeks ended 8 October 2005, a credit of £0.7 million has been recognised in profit from operations relating to net disposal proceeds on the disposal of the leasehold interest in a closed store and the release of the related landlord's contribution previously received and held as deferred income.

5 PROFIT ON DISPOSAL OF SUBSIDIARY UNDERTAKING

During the 52 weeks ended 26 March 2005, income of £2.4 million was 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 was sold to a third party for £2.4 million net of costs.

6 INVESTMENT INCOME

	28 weeks ended 8 October 2005 £ million	28 weeks ended 9 October 2004 £ million	52 weeks ended 26 March 2005 £ million
Interest on bank deposits	**0.8**	1.0	1.8
Retirement benefit schemes	**5.7**	4.8	9.1
Investment income	**6.5**	5.8	10.9

7 FINANCE COSTS

	28 weeks ended 8 October 2005 £ million	28 weeks ended 9 October 2004 £ million	52 weeks ended 26 March 2005 £ million
Interest on bank loans and overdrafts	**0.1**	0.1	0.1
Retirement benefit schemes	**4.7**	4.1	7.9
Finance costs	**4.8**	4.2	8.0

8 TAXATION

	28 weeks ended 8 October 2005 £ million	28 weeks ended 9 October 2004 £ million	52 weeks ended 26 March 2005 £ million
Current tax: UK corporation tax	**–**	–	–
Deferred tax: reversal of deferred tax asset in respect of tax losses utilised against profits for the period	**3.7**	3.4	4.2
	3.7	3.4	4.2

The tax charge comprises entirely of deferred tax and is calculated at 32 per cent (2004: 31 per cent).

A deferred tax asset of £6.8 million was recognised in respect of trading losses carried forward at 26 March 2005, before taking into account any deferred tax liabilities, as the directors were of the opinion that it was probable that the benefit of the tax losses would be realised. This deferred tax asset has reduced to £3.5 million at 8 October 2005 reflecting utilisation of these losses against profits in the period. The group had tax losses carried forward of approximately £11.5 million as at 8 October 2005 (2004: approximately £29 million). The overall deferred tax asset at 8 October 2005 is £13.3 million including £11.9 million of deferred tax assets in relation to retirement benefit obligations.

9 DIVIDENDS

	28 weeks ended 8 October 2005 £ million	28 weeks ended 9 October 2004 £ million	52 weeks ended 26 March 2005 £ million
Amounts recognised as distributions to equity holders in the period			
Final dividend of 5.3 pence per share (2004: 4.0 pence per share)	**3.6**	2.7	2.7
Interim dividend of 2.7 pence per share	**–**	–	1.9
	3.6	2.7	4.6

The proposed interim dividend of 2.85 pence per share for the 28 weeks ended 8 October 2005 was approved by the board after 8 October 2005, on 17 November 2005, and so, in line with the requirements of IAS 10 'Events After the Balance Sheet Date', the related cost of £1.9 million has not been included as a liability as at 8 October 2005. This dividend will be paid on 10 February 2006 to shareholders on the register on 6 January 2006.

10 EARNINGS PER SHARE

	28 weeks ended 8 October 2005 million	28 weeks ended 9 October 2004 million	52 weeks ended 26 March 2005 million
Weighted average number of shares in issue	**68.3**	67.8	68.0
Dilution – option schemes	**1.1**	1.3	1.2
Diluted weighted average number of shares in issue	**69.4**	69.1	69.2
	£ million	£ million	£ million
Earnings for basic and diluted earnings per share	**7.7**	7.5	11.3
Costs of reorganisation of distribution network	**–**	–	6.5
Profit on disposal of property interests	**(0.7)**	–	–
Profit on disposal of subsidiary undertaking	**–**	–	(2.4)
Tax effect of above items	**–**	–	(1.9)
Underlying earnings	**7.0**	7.5	13.5
	pence	pence	pence
Basic earnings per share	**11.3**	11.1	16.6
Basic underlying earnings per share	**10.2**	11.1	19.9
Diluted earnings per share	**11.1**	10.9	16.3
Diluted underlying earnings per share	**10.1**	10.9	19.5

11 TRADE AND OTHER PAYABLES

	8 October 2005 £ million	9 October 2004 £ million	26 March 2005 £ million
Current liabilities			
Trade payables	**28.4**	30.6	29.8
Payroll and other taxes, including social security	**2.2**	2.1	1.2
Accruals and deferred income	**20.7**	23.0	24.2
Lease incentives	**0.8**	0.8	0.7
Currency derivative liabilities	**0.2**	–	–
Other creditors	**0.5**	0.6	–
	52.8	57.1	55.9
Non-current liabilities			
Lease incentives	**8.9**	8.1	7.8

12 PROVISIONS

	8 October 2005 £ million	9 October 2004 £ million	26 March 2005 £ million
Current liabilities			
Property provisions	**1.2**	1.5	1.4
Distribution provisions	**3.4**	–	3.4
Other provisions	**0.3**	0.3	0.3
Short term provisions	**4.9**	1.8	5.1
Non-current liabilities			
Property provisions	**0.1**	0.1	0.1
Distribution provisions	**0.9**	–	2.2
Other provisions	**0.4**	0.6	0.7
Long term provisions	**1.4**	0.7	3.0
Property provisions	**1.3**	1.6	1.5
Distribution provisions	**4.3**	–	5.6
Other provisions	**0.7**	0.9	1.0
Total provisions	**6.3**	2.5	8.1

The movement on total provisions is as follows:

	Property provisions £ million	Distribution provisions £ million	Other provisions £ million	Total provisions £ million
Balance at 26 March 2005	1.5	5.6	1.0	8.1
Utilised in period	(0.2)	(1.3)	(0.5)	(2.0)
Charged in period	–	–	0.2	0.2
Balance at 8 October 2005	**1.3**	**4.3**	**0.7**	**6.3**

13 RECONCILIATION OF IFRS COMPARATIVES FROM PREVIOUSLY REPORTED UK GAAP FINANCIAL INFORMATION

Until 26 March 2005, the Company prepared its consolidated financial statements under UK GAAP. With effect from 27 March 2005, the Company is required to prepare its consolidated financial statements in accordance with IFRS.

The comparative figures included in this report for the 28 weeks ended 9 October 2004 and for the 52 weeks ended 26 March 2005 are as restated for IFRS.

Full details of the restatement and reconciliations of the UK GAAP financial information for the 52 weeks ended 26 March 2005 can be obtained from the Company's website www.mothercare.com/investorinfo

14 IAS 39 TRANSITION BALANCE SHEET

The Company adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 27 March 2005. In the preparation of its financial statements in accordance with IFRS for the 52 weeks ended 26 March 2005, the Company continued to apply the hedge accounting rules of UK GAAP, taking advantage of the exemption available within IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

The Company is required to recognise transitional adjustments in accounting for its financial instruments in accordance with the measurement requirements of IAS 39 at 27 March 2005.

Although the Company has taken the decision not to hedge account for its foreign exchange contracts, it is deemed to have hedge accounted under UK GAAP until 26 March 2005 and discontinued hedge accounting prospectively thereafter. IFRS 1 requires the Company to recognise various transitional adjustments to account for those hedging relationships in place on 27 March 2005.

Foreign exchange contracts that were previously accounted for as cash flow hedges of forecasted transactions under UK GAAP were not previously measured at fair value. The difference between the derivative's fair value and its previously reported carrying value has been recognised directly in equity as at 27 March 2005.

Additionally the Company has recognised the fair value of embedded derivatives found within certain of its supply contracts in opening retained earnings.

All derivative instruments will continue to be recognised on the balance sheet at fair value with future gains and losses being recognised immediately in earnings, except when the hedging requirements of IAS 39 are met.

Reconciliation between the IFRS restated balance sheet as at 26 March 2005 applying prior hedge accounting and the balance sheet after the adoption of both IAS 32 and IAS 39

	£ million
Net assets as at 26 March 2005 as per the IFRS restated balance sheet under prior hedge accounting	119.0
Adoption of IAS 32 and IAS 39:	
Currency derivative assets	0.1
Currency derivative liabilities	(0.2)
Net assets as at 27 March 2005 after the adoption of IAS 32 and IAS 39	118.9

Independent review report to Mothercare plc

Introduction

We have been instructed by the Company to review the financial information for the 28 weeks ended 8 October 2005 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes 1 to 14. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

International Financial Reporting Standards

As disclosed in note 1a, the next annual financial statements of the Company will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The accounting policies are consistent with those that the directors intend to use in the annual financial statements.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 28 weeks ended 8 October 2005.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
London
17 November 2005

Shareholder information

Financial calendar	2006
Payment of interim dividend	10 February
Preliminary announcement of results for the 53 weeks ending 1 April 2006	end May
Issue of report and accounts	mid June
Annual General Meeting	end July
Payment of final dividend	mid August
Preliminary announcement of results for the 28 weeks ended 14 October 2006	end November

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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 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 may be obtained from:

Cazenove & Co Ltd
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 via 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 on 020 7337 0501.

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

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Clothes available from Mothercare stores
Knitted jacquard hat and glove set £8

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